



ŠIAULIŲ BANKAS



ANNUAL REPORT 2004

Mission

to stimulate the development of small and medium-size businesses in the country,
to finance municipal and regional projects,
and to provide qualified and comprehensive services to individual customers

Aims

to offer efficient and universal services to the Bank's customers,
to be a generalist bank oriented towards providing comprehensive services to small and medium-sized enterprises and individual customers,
to expand the Bank's network and increase its market share

Principles

attentiveness to the customer,
decision making speed,
flexibility of services by adjusting them to the individual customer's needs,
accessibility of officers on all levels, direct communication with clients,
attention to market changes and orientation towards novelties

BANK RATIOS

| | (LTL thousand) | |
|---------------------------------|----------------|----------------|
| | 2004 m. | 2003 m. |
| Net interest income | 17,903 | 15,347 |
| Net fee and commission income | 5,600 | 5,457 |
| Operational expenses | 17,298 | 15,549 |
| Net profit | 6,513 | 4,154 |
| Return on assets, (ROAA) % | 1.02 | 0.82 |
| Return on equity, (ROAE) % | 11.05 | 8.31 |
| Cost/income ratio, % | 76.03 | 83.04 |
| Interest margin, % | 2.80 | 3.03 |
| Earnings per share (LTL) | 0.12 | 0.09 |
| | | |
| Assets | 704,376 | 572,322 |
| Loans (net value) | 415,688 | 312,144 |
| Investment in debt securities | 111,958 | 88,799 |
| Deposits and letters of credit | 517,204 | 399,255 |
| Shareholders' equity | 67,438 | 55,883 |
| Income yielding assets, % | 85.85 | 81.53 |
| | | |
| Capital adequacy, % | 13.09 | 12.89 |
| Liquidity, % | 43.53 | 51.13 |
| Maximum loan to one customer, % | 21.88 | 21.69 |
| Limit of large loans, % | 267.13 | 288.78 |
| | | |
| Client service centres | 43 | 37 |
| Employees | 384 | 347 |

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STEPS IN 2004

January

Client Service Centres are opened in Druskininkai and Plungė.
A long-term house-hold crediting programme is implemented.

February

Šiaulių bankas joined Visa International organization and started the implementation of Visa microchip cards.

April

The rate of the Bank's share reached the value of two denominations.

June

The Bank's share capital of LTL 52.750 million is registered.
Client Service Centre is opened in Anykščiai.

August

Šiaulių bankas became an indirect member of STEP2 clearing system of the European Bank Association.
New information security and extreme situation management systems were implemented.

September

Client Service Centre is opened in Visaginas. The national network of territorial divisions of Šiaulių bankas covers 25 towns.

November

STARTAS – service package for the starting businesses is developed and its implementation started.

December

The Bank's share capital of LTL 56 million is registered.
Deposits kept with the Bank exceeded half a billion litas.
Šiaulių bankas together with the subsidiary "Šiaulių banko lizingas" UAB issued a leasing card BIS.

THE YEAR OF RAPID GROWTH



Algirdas Butkus, Chairman of the Bank Board

Clearly formulated strategic operational orientation of Šiaulių Bankas (hereinafter "the Bank"), continuous application of the basic operation principles and sensitivity to changes within the market enabled the Bank to achieve its objectives as set for the year 2004. As a universal Bank, which focuses on innovations, provision of complex services, flexibility in meeting the needs of different customer groups and individual customers, the Bank continues developing co-operation with small and medium-size businesses and enhancing its reputation as a partner of small and medium-size business.

The Bank was highly rated by an international banking publication 'The Banker', which published the list of 50 most rapidly developing banks in Central and Eastern Europe. The Bank is in the 19th position of this list, i.e. the highest position among all banks of the Baltic States included in the list.

The year 2004 was a year of successful and dynamic operations for the Bank. All key financial performance indicators of the Bank increased. In the course of the year the Bank increased its assets and net loan portfolio by 23% and 33%, respectively. Deposits and letters of credit increased by 30%. The Bank's number of customers grew up by 25% and reached 70 thousand. The Bank's net profit amounted to LTL 6.513 million, i.e. 57% more as compared to 2003.

Successful performance of the Bank's subsidiaries had a significant impact on the Bank's overall results. All the subsidiaries took advantage of the growing demand for financial services in the market and subsequently expanded the volume of their operations. "Šiaulių banko lizingas" UAB, "Šiaulių banko investicijų valdymas" UAB, "Šiaulių banko faktoringas" UAB, "Šiaulių banko turto fondas" UAB and "Pajūrio Alka" UAB earned to the Bank LTL 3.563 million.

As a result of rapid growth of the Bank's network of regional subdivisions, a more consistent distribution of services rendered by the Bank was achieved in different regions of the country. In 2004, 6 new client service centres were opened. At the year-end, the Bank had 43 subdivisions in 25 cities all over the country. The Bank's share of deposits and credits administered in other than Šiauliai region subdivisions accounted for over 60%.

In its policy of services, the Bank continues to follow its basic operation principles, i.e. to render qualified and complex services to small and medium-size businesses and individual customers. Even 76% of the total credit portfolio represents those granted to small and medium-size businesses. The Bank proceeded with the development of its micro-crediting programme using its own funds and the funds received from the European Bank for Reconstruction and Development. Together with the Nordic Investment Bank and the European Council Development Bank, the Bank successfully implemented the project for financing small and medium-size businesses started by women.

For the purpose of improving the conditions for the starting businesses, the Bank developed an original package of services called STARTAS to enable a company to take advantage of attractive financial instruments.

In 2004, the Bank was actively involved in consultations provided to its customers on such issues as support from EU structural funds.

For the purpose of improving crediting conditions of small and

medium-size businesses, the Bank actively cooperated with institutions and organisations supporting small and medium-size businesses: Investment and Business Guarantees (Investicijų ir Verslo Garantijos UAB) (INVEGA), Agricultural Crediting Guarantee Fund (Žemės Ūkio Paskolų Garantijų Fondas UAB), public institution Lithuanian Environment Protection Investment Fund (Lietuvos Aplinkos Apsaugos Investicijų Fondas).

As a result of expanding the range of bank products and services, the Bank enhanced its position in retail banking market. In 2004, it successfully started the implementation of long-term house-hold crediting programme.

In 2004, the Bank joined Visa International organisation and started the implementation of Visa microchip cards. In co-operation with its subsidiary "Šiaulių Banko Lizingas" UAB, the Bank launched a new product – a leasing card BIS, which enables the customers to take advantage of a more flexible lending system. During the year, the Bank increased the number of valid MasterCard payment cards by 35%.

The Bank focused more on the development and improvement of the entire information system FORPOST and the implementation of new subsystems. As a result of implementation of information security and extreme situation management systems, the reliability of Internet-based banking services improved and the exposure to IS-related crisis risk decreased.

Modernisation of the Bank's Internet banking service system "SB Linija" was continued: the range of services rendered was expanded, additional security measures were implemented. In 2004, more than a half of payment transfer orders were submitted through "SB Linija".

In 2004, the Bank rendered financial support to projects in such fields as culture, sports, ecology and education all over Lithuania for the amount of LTL 288 thousand.

Based on its extensive expertise in co-operation with small and medium-size businesses and state authorities, in 2005 the Bank will further put its efforts in ensuring effective implementation of small and medium-size business financial support projects, in finding additional solutions of financing, which would best meet the needs of businesses and individual customers, and in increasing its current share in ever growing banking market of Lithuania. The Bank is planning to improve its organisational structure, risk management system, develop information system's capacities, improve its security. In 2005, the Bank expects to join Basel II. A better communication between the Bank and the borrowers should ensure a more effective risk management on both sides.

In the beginning of 2005, the European Bank for Reconstruction and Development approved its intentions to invest in the Bank through acquisition of newly issued shares. The EBRD's share in increased share capital of the Bank would represent 16%. This will result in a new stage of development of the Bank, new opportunities for financing small and medium-size businesses, and a wider range and higher quality of services rendered by the Bank.



Arvydas Salda, Chairman of the Bank Council

Algirdas Butkus
Chairman of the Board

SHARE CAPITAL AND SHAREHOLDERS

In order to maintain a rapid growth, the Bank increases the share capital gradually. In 2004, as well as in 2003, the share capital of the Bank was increased two times through the Bank's funds and through additional contributions.

On the decision of the Shareholders' General meeting of 29th March 2004, the share capital was increased by LTL 4,406,060 from the Bank's funds, i.e. from earned profit. Issued shares were divided among the shareholders according to the total nominal value of owned shares at the day of the Shareholders' General meeting. The number of shares, owned by the shareholders, has increased by 9.11%.

On the decision of the Shareholders' Extraordinary General meeting of 20th July 2004, the share capital was increased through additional contributions. 3.25 million ordinary registered shares with the nominal value of 1 LTL per share were issued and distributed at the issue price of LTL 1.70. New shares were disseminated in 2 stages. The first 30 days the shareholders had an opportunity to acquire shares in proportion to the total nominal value of owned shares at the day of the meeting. The second a 15 day dissemination stage was assigned to distribute remaining shares to everyone requesting them. There was a request to acquire shares 5.4 times more than there were shares left after the first dissemination stage, therefore a new issue of shares was disseminated successfully.

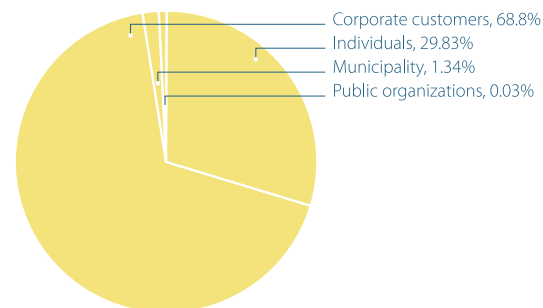
At the end of the year the Bank's share capital was LTL 56 million. It is divided into 56 million ordinary registered shares with the nominal value of 1 LTL per share.

The Bank's shares are traded on Vilnius Stock Exchange. During the year the share rate has increased from LTL 1.10 to LTL 2.17. There were rate fluctuations, but a gradual growth tendency remained. In 2004, 2.5 thousand transactions with the Bank's shares were concluded on the central market of the Stock Exchange, 8.6 million shares were transferred for the total amount of LTL 14.4 million. An increased shareholders' number by 48% in 2004 can only prove a rapid growth of trade in the Bank's shares.

The Structure of Shareholders on 31-12-2004

| | No. of Shareholders |
|----------------------|----------------------------|
| Individuals | 1115 |
| Corporate customers | 95 |
| Municipality | 1 |
| Public organizations | 2 |
| Total | 1213 |

Share Capital Structure as of 31-12-2004



SHARE CAPITAL AND SHAREHOLDERS

During 2004, the share of the Bank's capital owned by non-residents has grown from 9.74% to 10.79%. The bulk of the shares owned by non-residents – 5% of the Bank's share capital – belong to the Swedish Fund *East Capital Asset Management AB*.

In 2004, the Bank allocated shareholders dividends equal to 1% of the nominal share value from its profit of 2003. Shareholders' General meeting of 30th March 2005 approved profit distribution, which foresees to pay out the same amount of dividends for 2004. The shareholders' income from the Bank's shares is not only the dividends of 1% of the nominal share value paid for four years in succession, but also free shares (in 2003 – 14%, in 2004 – 9.11%, in 2005 – 12%).

Ten Largest Shareholders of Šiaulių Bankas AB 31-12-2004

| | | |
|--|--|---------------|
| 1. | "Prekybos namai Aiva" UAB | 9.90% |
| 2. | Gintaras Kateiva | 8.14% |
| 3. | <i>East Capital Asset Management AB</i> (Sweden) | 5.06% |
| 4. | "Alita" AB | 4.96% |
| 5. | "Mintaka" UAB | 4.78% |
| 6. | "Šiaulių titanas" UAB | 4.24% |
| 7. | Darius Vyšniauskas | 3.72% |
| 8. | "Šiaulių plentas" UAB | 3.29% |
| 9. | <i>Hansabank</i> (Estonia) | 3.17% |
| 10. | "Metalo prekyba" UAB | 2.65% |
| The share of ten largest shareholders | | 49.91% |

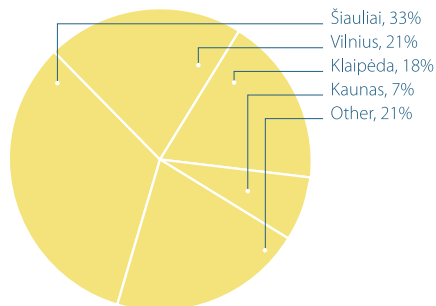
THE BANK'S NETWORK

In 2004, the Bank continued the expansion of Client Service Centres optimising it and distributing territorial subdivisions consistently in different regions of the country that the Bank's customers could have the use of the Bank's provided services in the whole country.

5 of 6 newly established Client Service Centres were opened in the East and South of Lithuania and only 1 in the West of Lithuania where the Bank has already had strong positions. New Client Service Centres have been established in the towns where there were no territorial subdivisions, or in rapidly growing towns where the already operating divisions of the Bank successfully developed their activities.

At the end of the year the Bank was servicing its customers at 43 branches and Client Service Centres operating in 25 towns in all districts of the country.

Assets' breakdown according to regions on 31-12-2004



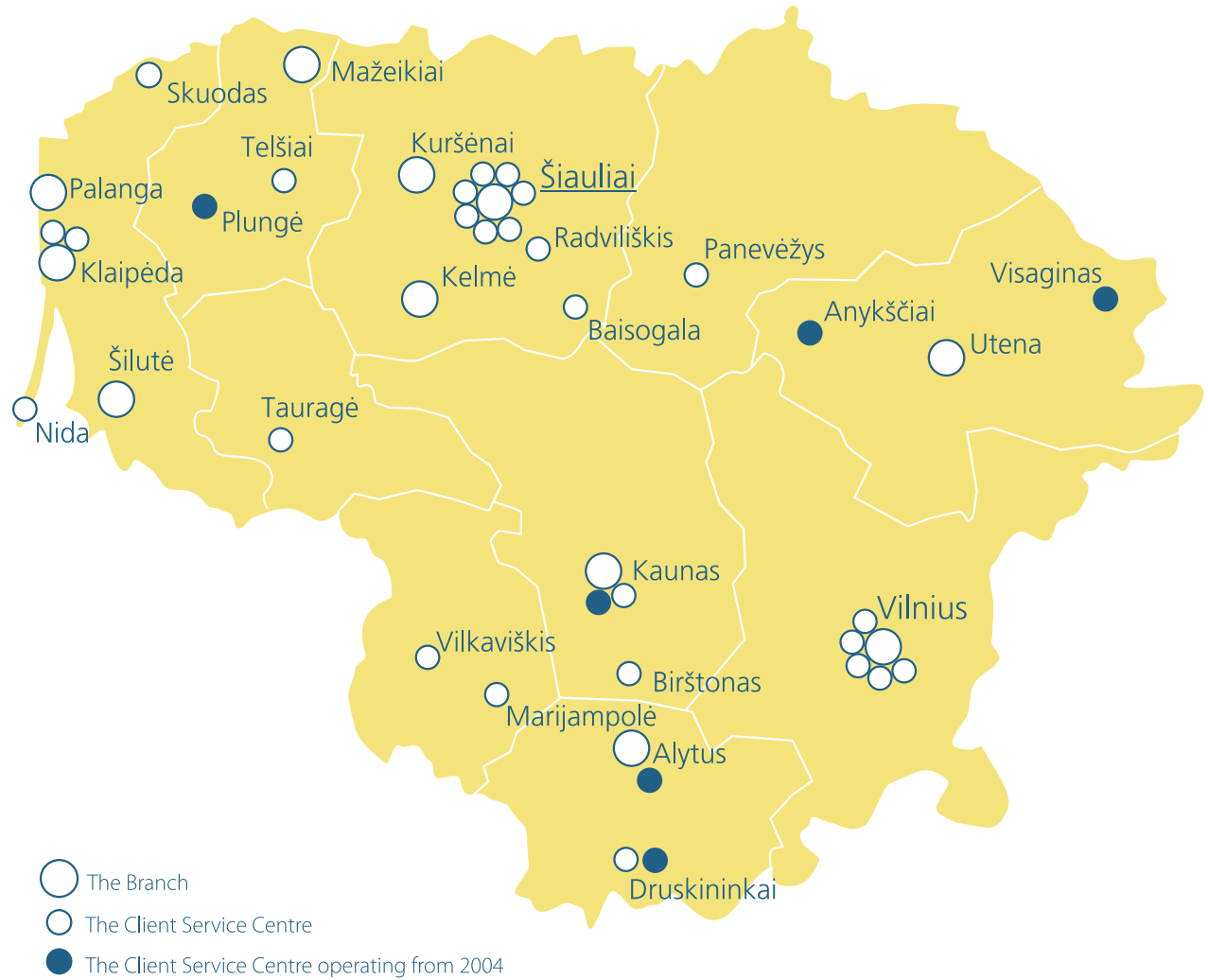
Vienybės aikštės Client Service Centre in Kaunas



Raimundas Strazdas, director of the Client Service Centre in Visaginas

THE BANK'S NETWORK

The Bank's Branches and Client Service Centres



THE BANK'S SERVICES

Šiaulių bankas with an attempt to stimulate the development of small and medium-size businesses in the country, to service individual and corporate customers efficiently continued to improve already provided services, to create the new ones, and together with subsidiaries expanded the range of their services.

The structure of loan portfolio of the Bank confirms successful execution of strategic activities' trends, which helps the Bank to maintain its status as a business partner of small and medium-sized enterprises. Even 76% of the total loan portfolio represents those granted to small and medium-size businesses. 65% of the loans do not exceed LTL 100 thousand. Of the total loans granted to private enterprises during 2004, 83% do not exceed LTL 300 thousand, and the average amount of these loans amounted to LTL 84 thousand. In the previous year the Bank granted 602 credits to small and medium-sized enterprises and increased loan portfolio granted to them by more than one third.

Proceeding with the micro-crediting programme, the Bank financed almost 100 projects using the funds from the European Bank for Reconstruction and Development designed to finance the development of small and medium-size businesses.

Together with the Nordic Investment Bank and the European Council Development Bank, the Bank successfully implemented a project for financing small and medium-size businesses started by women.

For the purpose of expanding crediting conditions of small and medium-sized enterprises, the Bank successfully cooperated further with institutions and organizations providing guarantees: Investment and Business Guarantees ("Investicijų ir Verslo Garantijos" UAB) (INVEGA) and Agricultural Crediting Guarantee Fund (Žemės Ūkio Paskolų Garantijų Fondas UAB). At the end of 2004 these institutions issued guarantees to 227 projects credited by the Bank for the total value of LTL 56 million. The guarantees made it possible to increase loan portfolio granted to small and medium-sized enterprises by 18%.

In 2004, the Bank concluded cooperation agreements with Vilnius and Šiauliai municipalities concerning support for small and medium-size businesses. The Bank will participate in the initiative of these cities to create workplaces and to increase active city citizens' employment and enterprise.

At the end of the year the Bank prepared and started implementing the programme called STARTAS: a service package designed for the starting businesses. Taking into consideration problems and needs of starting businesses, the Bank offered especially favourable conditions of crediting, leasing, consultancy and pricing to the newly established enterprises.

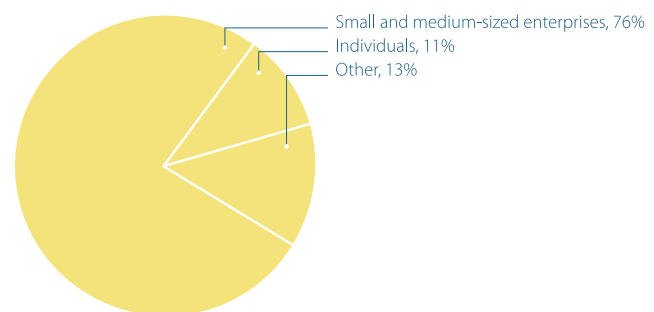
In 2004, the Bank also offered long-term house-hold crediting programme to individual customers. Portfolio of mortgage loans reached LTL 16 million at the end of the year. Portfolio of consumer loans – consumer loans were started to be granted in 2003 – was increased by 80% and exceeded LTL 10 million during the last year.

The Bank joined *Visa International* organization and started the implementation of Visa microchip cards. Together with the subsidiary "Šiaulių banko lizingas" UAB (Šiaulių Bankas' Leasing) the Bank created a new product – a leasing card "BIS" that enables the customers to take advantage of a more flexible crediting system. The Bank increased the number of valid MasterCard payment cards by 35% during the year. The cardholders were offered new, attractive services: standing, revolving credits and credits at no interest. Total turnover of payment cards increased by 26%.

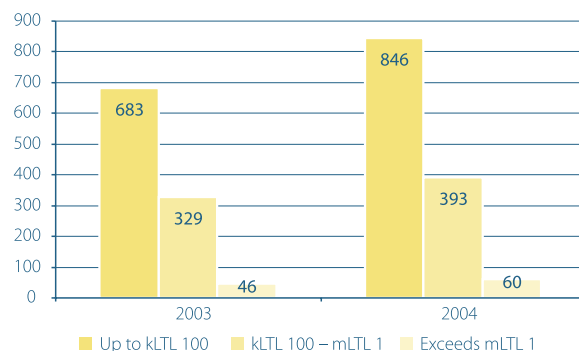
The Bank's Internet banking service "SB linija", which was upgraded last year, is becoming more popular every day. Last year the Bank offered an additional service: an opportunity to declare property and income via the Internet. In 2004 more than a half of payment transfer orders were submitted via the Internet system "SB linija".

The Bank is going to create and develop provided services in a purposeful and systematic way in the future, too. The projected changes of the Bank's organizational structure in 2005 such as establishment of banking products department, development of client servicing system, etc. will contribute to it.

Loans to customers on 31-12-2004



Amount of loans to SME



EMPLOYEES

The expansion of the Bank's activities, 6 newly established Client Service Centres determined the growth of the number of employees: on 31st December 2004, 384 employees worked at Šiaulių bankas, 9% more than in the previous year.

A rather high level of education of the Bank's employees continues to grow. 68% of the Bank staff have a university degree or are studying to get it. As compared to 2003, this ratio has increased by 3%. Those who are still studying are provided with favourable working conditions, have an opportunity to realize acquired knowledge in practice and are offered career opportunities.

Since the competition in the financial market has been increasing and the banks have been modernising the provided services, the human factor continues to be more important: the success of the company directly depends on the employees' skills and qualification. The Bank makes every effort to ensure the high motivation level, initiative and the proper qualification by implementing regular staff certification, organizing in-house trainings and making possible to take part in various courses, seminars and internships.

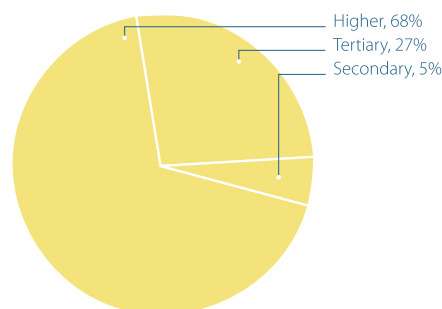
Regular staff certification enables the employees to evaluate their knowledge and skills and provides an opportunity for the best to be promoted.

In 2004 the system of in-house training was implemented. Its aim is to ensure the compulsory qualification of the client servicing staff. Regular internal trainings offer employees an opportunity to update knowledge about the Bank's provided services and products, to master the peculiarities of the new products and their provision. The system of in-house training made it possible to improve the quality of the Bank's client servicing.

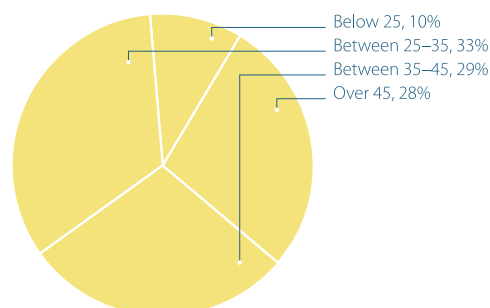
In 2004 more than one fourth of the staff participated in various courses and seminars. The employees usually went to seminars concerning issues such as client servicing, information technologies and security.

In 2005 the Bank is going to pay much attention to the trainings of the staff and improvement of the system of in-house training. The foreseen changes in the organization structure of the Bank will raise new goals for the training of the personnel.

Employees according to education



Employees according to the age



... future employees of the Bank...

FINANCIAL RESULTS OF ACTIVITIES

The Bank accomplished its ambitious plans as set for the year 2004. All major financial indicators of the banking activities grew considerably, ratios of activities efficiency improved, too. The rapid development of the Bank's activities continues for 5 years in succession.

Changes in the structure of assets

During 2004 the Bank's assets increased by 23.1% – to LTL 704.4 million. The assets increased gradually, approximately 4 to 6 percent each quarter.

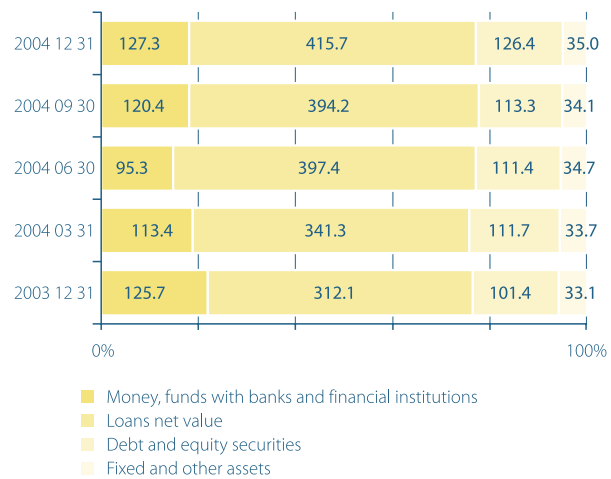
The portfolio of loans including granted overdrafts and factoring services increased to LTL 417.9 million, i.e. by 32.8% during 2004. The ratio between long-term and short-term loans changed considerably. The proportion of long-term loans in the total portfolio of loans increased from 56.2% to 62.4%. The share of short-term loans decreased to 37.6%, respectively.

In 2004 borrowing in litas kept growing, while borrowing in foreign currency kept decreasing. The share of loan portfolio in litas increased from 78.2% at the beginning of the year to 86.7% at the end of the year. The share of loans in euros decreased to 9.9%, while in dollars – to 3.45%. The structure of loan portfolio according to the type of economic activity has changed inconsiderably. The bulk of the loans were granted to the following companies: wholesale and retail trade – 24.7% of the total loans (in 2003 – 27.7%), processing industries – 19.5% (in 2003 – 20.7%), construction – 11.2% (in 2003 – 8.3%).

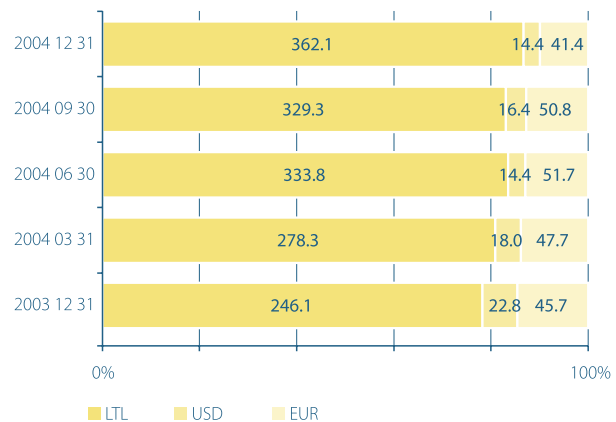
With the rapid growth of portfolio its quality remained good. Provisions for doubtful assets at the end of 2004 made up LTL 2.3 million (in 2003 – LTL 2.8 million). Of the total amount LTL 1.7 million were special provisions for concrete loans and their accrued interest (in 2003 – LTL 1.9 million), LTL 0.6 million were provisions for general loan portfolio risk (in 2003 – LTL 0.6 million) and there were no special provisions left for other doubtful assets (in 2003 – LTL 0.28 million).

Investment in debt securities grew by 26% for two years in succession. Their portfolio increased from LTL 88.8 million to LTL 112 million in 2004. Investment in equity securities grew from LTL 12.6 million to LTL 14.4 million during the year. The value of investment in subsidiaries increased by 29.3% to LTL 11.8 million, share portfolio of private companies increased by 23.8% to LTL 12.2 million. Only share portfolio of financial institutions decreased by 18.9% to LTL 2.2 million.

The structure of assets of Šiaulių bankas AB in 2004, LTL million



Loan portfolio of Šiaulių bankas AB according to currencies in 2004, LTL million



FINANCIAL RESULTS OF ACTIVITIES

Changes in liabilities

Funds from international organizations at the end of 2004 reached LTL 67 million. The Bank is using PHARE line and credit lines as well as loans received from European Bank for Reconstruction and Development, the World Bank, HSH Nordbank, Nordic Investment Bank and from the Council of Europe Development Bank.

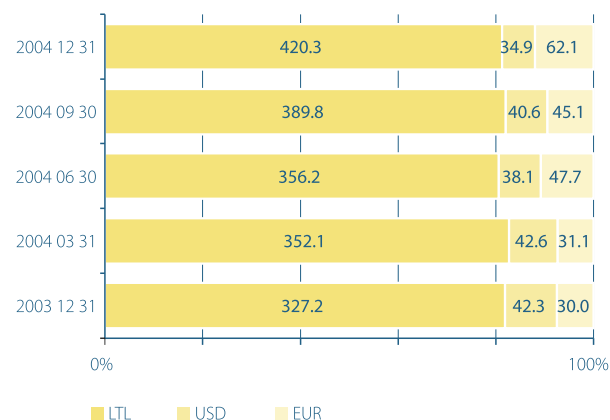
The funds of financial institutions of the country exceeded LTL 29 million. This amount remained almost the same during the year. However, the ratio of term and demand deposits changed the opposite direction. The share of term deposits decreased annually: in 2001 they constituted 94%, in 2002 – 83%, in 2003 – 79%, whereas at the end of 2004 they increased to 84%. Respectively, the share of demand deposits in these funds decreased.

During 2004, like in the previous year, the Bank's deposits grew significantly. At the end of the year they reached LTL 517.2 million, i.e. 29.5% more than in 2003.

Individual customers' deposits kept with the Bank grew even more rapidly. During 2003 they increased by 32.5% – to LTL 240.1 million; in 2004 – by 33.4% and reached LTL 320.2 million. The share of individual customers' deposits in the total deposit portfolio increased from 60.1% to 61.9%. However, the share of corporate customers' deposits in the portfolio of term deposits grew by 0.8% – to 20.6%.

The funds of corporate customers during 2004 grew almost by 24% – to LTL 197 million. The share of term deposits in these funds increased from 32.8% to 36.6% during the year. The decrease tendency of deposits in US dollars remained the same. During the year deposits in US dollars decreased from 10.6% to 6.7%. The share of deposits in litas made up 81.9% at the end of 2003, while in 2004 they decreased to 81.3%. The share of deposits in euros grew from 7.5% to 12%.

Deposits according to currencies in 2004, LTL million

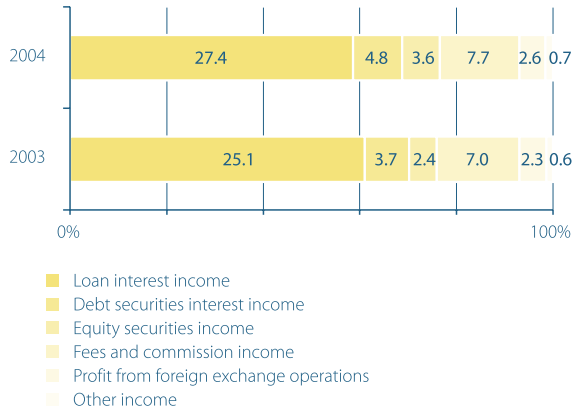


"... growing Bank figures to the left of the comma gratify..."

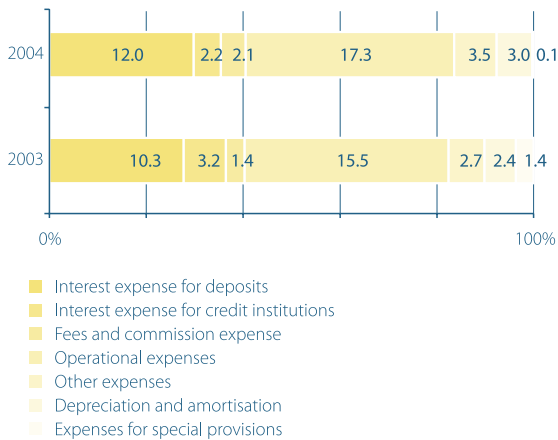
Vita Adomaitytė, Member of the Bank Board,
Chief Accountant

FINANCIAL RESULTS OF ACTIVITIES

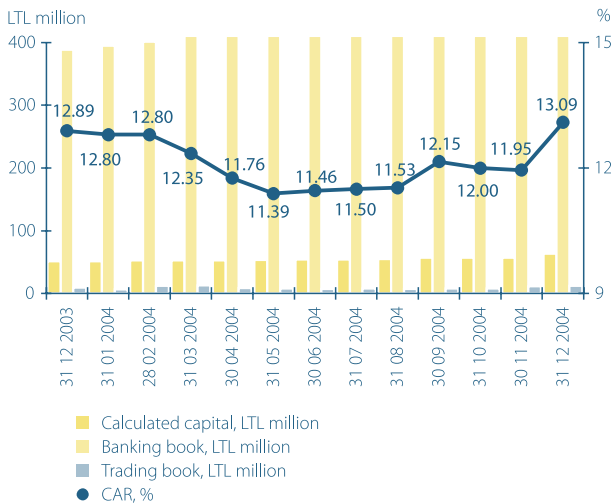
The structure of income, LTL million



The structure of expenses, LTL million



Capital adequacy ratio



Results of banking activities

In 2004, having accomplished the set plans, the Bank earned LTL 6.516 million in net profits.

The Bank's income constituted LTL 46.7 million, i.e. 13.7% more than in 2003. Expenses of the year were LTL 40.2 million, i.e. 8.9% higher than in 2003. Although the lucrativeness of assets bearing income decreased from 5.52% to 5.34%, the value of reserves decreased, too – from 2.84% to 2.54%.

The bulk of the Bank's income is made up of the loan interest income. The Bank's interest income was LTL 27.4 million or 9.1% more in comparison with 2003. The rapid growth of loan portfolio counterbalanced the further decreasing average interest rate from 6.3% in 2003 to 5.5% in 2004. With the rapid growth of other groups of income, the share of interest for loans in the structure of the Bank's income keeps falling down. Last year it decreased from 61.1% to 58.6%.

With the successful operations of the Bank's subsidiaries, the Bank's income from equity securities during 2004 was LTL 3.6 million, 52% more in comparison with 2003.

Fees and commission income increased by 9.6%. Much more income was received from the operations of money transfer: in 2003 of the total fees and commission income it constituted 38.5%, in 2004 – even 58%.

In 2004, interest expense for deposits grew by 17% – to LTL 12 million. The part of these expenses in the structure of the Bank's expenses as well as in 2003 slightly increased and reached 29.8%. In the previous years the decrease tendency of these expenses was noticed. The average interest rate in 2004 kept falling down from 3.31% to 3.24% for term deposits and from 1.09% to 0.8% for demand deposits.

Operational expenses made up the largest part of expenses – 43%. In 2004, they grew slower than in the previous years. With the increase of 11.3% they reached LTL 17.3 million. Expenses for salaries, social security and other expenses connected with payment for work in 2004 increased by 17.7% to LTL 11.6 million (in 2003 – increased by 18.8%). The Bank's expansion and increasing number of employees determined this growth.

The Bank's risk limiting normatives

In 2004, Šiaulių bankas operated in compliance with all risk limiting normatives of activities.

In September 2004 the Board of the Bank of Lithuania passed a ruling by which the capital adequacy ratio for the banks was decreased from 10% to 8%.

FINANCIAL RESULTS OF ACTIVITIES

The Bank of Lithuania has established the Bank's liquidity limit not less than 30%.

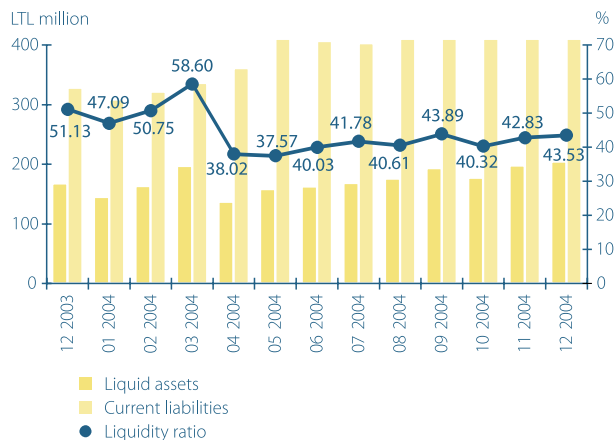
According to the liquidity risk management procedures approved by the Bank Board of Šiaulių bankas on 7th December 2004, 7 liquidity risk indicators are monitored. The Bank makes an effort that its liquidity ratio fluctuated in the limits of 40% – 50% and was not less than 35%.

It was determined by the ruling of the Board of the Bank of Lithuania on 16th December 1999 that the maximum open position of currency and precious metals cannot exceed 25% of the Bank's capital, and the maximum open position of one currency or precious metals cannot exceed 15% of the Bank's capital.

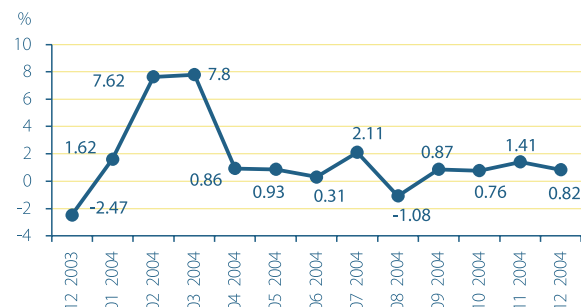
The limit of the maximum loan to one customer cannot exceed 25% of the Bank's capital.

The limit of large loans was 288.78% on 31st December 2003, 267.35% – on 31st December 2004. Under the requirements of the Bank of Lithuania the total amount of granted large loans should not exceed 800% of the Bank's capital.

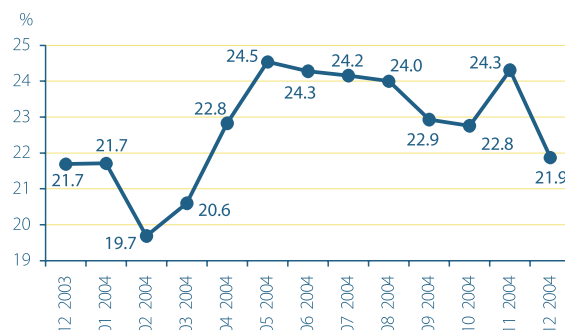
Liquidity ratio, n>30%



The maximum open position of currency and precious metals, n<25%



The maximum loan to one customer, n<25%



SUBSIDIARIES

The year 2004 was the year of further development to the group of Šiaulių bankas' companies. Taking advantage of the growing demand for financial services in the market the subsidiaries operatively reacted to changeable needs of the market, increased the range of its activities and earned LTL 3.563 million to the Bank, 1.5 times more than in 2003.

"Šiaulių banko lizingas" UAB (Šiaulių Bankas' Leasing), having work experience of five years, continued improving the system of customers' servicing, creating new products, upgrading usable information technologies. In November 2004 the company opened a new Representative Office in Alytus, alongside already operating ones in Vilnius, Kaunas and Klaipėda.

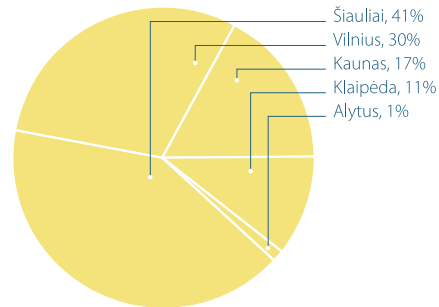
Changes in the business management system "IS Leasing" enabled to increase customer servicing speed and to improve risk management. The Internet system "Sinfo linija" has been established providing customers a possibility to review the position of their liabilities and executed operations constantly. The improvement of the system of Internet leasing "SBL Linija" made it possible to service individuals on-line faster and simpler. Consequently, it helped to expand salespersons' network and increase the number of their concluded agreements. Throughout the year two thirds of all leasing transactions with individual persons were made via the Internet.

In December the company started to provide a new service – a leasing card "BIS", which provided customers a possibility to have the use of wider range of services. In 2004, "Šiaulių banko lizingas" UAB concluded almost 15 thousand agreements the total value of which, if comparing to 2003, increased by 18,6% and exceeded LTL 41 million. The company earned LTL 990 thousand in net profits. During 2005 further growth of the Leasing Company is foreseen by increasing the total portfolio of activities by 15%–20%.

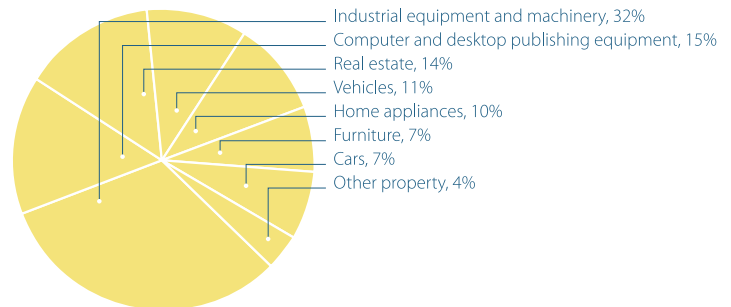
"Šiaulių banko faktoringas" UAB (Šiaulių Bankas' Factoring) was established in summer in 2002 to provide factoring services. With a rapid growth of demand of factoring services and in order to create the most favourable conditions for the development of these services, it was decided that the Bank itself was going to provide factoring services. At the end of 2003 the Factoring Department was founded in the Bank. Last year the activities of the company were transferred gradually to the Bank, the company is being prepared for the liquidation.

"Šiaulių banko investicijų valdymas" UAB (Šiaulių Bankas' Investment Management), operating for five years, kept growing in 2004. The company, which 60.4% of shares belong to the Bank, increased its authorized capital by 33% to LTL 1 million last year. By financing companies autonomously or organizing complex decisions of finance together with the Bank and other subsidiaries, the company took part in various privatisation, restructurisation and

Concluded agreements of "Šiaulių Banko Lizingas" UAB according to regions



Leasing portfolio structure according to the groups of property on 31-12-2004



"...the year 2004 to the Leasing company was the year full of dynamics, intensity and interest..."

Verutė Vitkevičienė, director of "Šiaulių Banko Lizingas" UAB

SUBSIDIARIES

reorganisation projects. By continuing the previous and starting 6 new investment projects, the company has invested over LTL 9 million in real estate, capitals of companies and claims by the end of the year. During the previous year Šiaulių Bankas' Investment Management earned LTL 356 thousand in net profits.

In 2005 "Šiaulių banko investicijų valdymas" UAB foresees to continue investments in medium-sized enterprises, to finance small and medium-size businesses mastering EU structural funds, to take part in privatisation programmes organized by municipalities.

"Šiaulių banko turto fondas" UAB (Šiaulių Bankas' Property Fund) invests in land and other real estate, rents premises and buildings belonging by the right of ownership, provides consultancy services. The company, which started its activities in the second half of the year 2002, operated especially successfully in the previous year. By taking advantages of developing tendencies in the real estate market and realizing several projects of construction and sale of blocks of flats, "Šiaulių banko turto fondas" UAB earned LTL 4.26 million in net profits. The assets of the company have increased by 20.4% and reached LTL 16 million during the year. The company increased its authorized capital to LTL 1 million through LTL 250 thousand additional shareholders' contributions.

In 2005, the company foresees to continue investment projects in major towns of Lithuania, to start construction of new residential and commercial buildings and to provide rental and consultancy services.

"Pajūrio Alka" UAB offers accommodation, real estate rent and consultancy services. In 2004, reconstruction of the hotel "Pajūrio Alka" was carried on further. Carried out works made it possible to increase the range of provided services. The income of the company from its main activities, if comparing to 2003, has increased by 71%. In 2003, due to begun reconstruction works, the company incurred a loss of LTL 193 thousand, whereas in 2004 the company ended with a net profit of LTL 118 thousand. During 2005 after the equipment of a restaurant and wellness complex, the company projects to finish the reconstruction of the hotels' first building.

Successful activities of the subsidiaries in the previous year, carried out technological improvement, started new projects make it possible to expect that the development of the companies of the Bank group will be considerable in 2005, too.



"...I can only rejoice over the fifth year of the company's activities. We grew, became strong and it is proved by the planned and executed investment projects..."

Liudas Navickas, director of "Šiaulių Banko Investicijų Valdymas" UAB



"...results of the year proved prognoses and expectations..."

Ilona Baranauskienė, director of "Šiaulių Banko Turto Fondas" UAB

MAIN CORRESPONDENT BANKS

| Currency | The Bank | City | SWIFT code |
|----------|--|----------------|-------------|
| BYR | BELPROMSTROIBANK | Minsk | BPSBBY2X |
| CAD | BANK OF MONTREAL | Montreal | BOFMCAM2 |
| CHF | CREDIT SUISSE FIRST BOSTON | Zurich | CRESCHZZ80A |
| CZK | COMMERZBANK | Prague | COBACZPX |
| DKK | DANSKE BANK | Copenhagen | DABADKKK |
| EEK | HANSABANK | Tallinn | HABAE2X |
| EUR | DEUTSCHE BANK | Frankfurt | DEUTDEFF |
| | DRESDNER BANK | Frankfurt | DRESDEFF |
| | COMMERZBANK | Frankfurt | COBADEFF |
| | BANCA NAZIONALE DEL LAVORO | Rome | BNLIITRR |
| GBP | NATIONAL WESTMINSTER BANK PLC | London | NWBKGB2L |
| KZT | KAZKOMERTSBANK | Almaty | KZKOKZKX |
| LVL | UNIBANK OF LATVIA | Riga | UNLALV2X |
| PLN | BANK ROZWOJU EXPORTU S.A. | Warsaw | BREXPLPW |
| RUB | INTERNATIONAL MOSCOW BANK | Moscow | IMBKRUUM |
| SEK | SVENSKA HANDELSBANKEN | Stockholm | HANDSESS |
| UAH | PRIVAT BANK | Dnepropetrovsk | PBANUA2X |
| USD | DEUTSCHE BANK TRUST COMPANY AMERICAS, NY | New York | BKTRUS33 |
| | WACHOVIA BANK, NA | New York | PNBPUS3NNYC |

FINANCIAL STATEMENTS

AUDITOR'S REPORT TO THE SHAREHOLDERS OF ŠIAULIŲ BANKAS AB

1. We have audited the accompanying balance sheet of Šiaulių Bankas AB (hereinafter "the Bank") together with its consolidated subsidiaries (hereinafter "the Group") as at 31 December 2004 and the related statements of income, cash flows and changes in shareholder's equity for the year then ended. These financial statements set out on pages 19 – 59 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 read the board report set out on pages 4 – 5 and did not identify material inconsistencies with the audited financial statements. 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 2004 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner



Asta Liepienė
Auditor's Certificate No. 000438

Vilnius, Republic of Lithuania
30 March 2005

THE GROUP'S AND BANK'S INCOME STATEMENT

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

| | Notes | Year ended | | | |
|---|----------|------------------|---------------|------------------|---------------|
| | | 31 December 2004 | | 31 December 2003 | |
| | | Group | Bank | Group | Bank |
| Interest income | | 35,235 | 32,131 | 33,059 | 28,814 |
| Interest expense | | (14,430) | (14,228) | (13,998) | (13,467) |
| Net interest income | 1 | 20,805 | 17,903 | 19,061 | 15,347 |
| Fee and commission income | 2 | 7,478 | 7,668 | 6,700 | 6,878 |
| Fee and commission expense | 2 | (2,100) | (2,068) | (1,431) | (1,421) |
| Net interest, fee and commissions income | | 26,183 | 23,503 | 24,330 | 20,804 |
| Net gain on operations with securities and financial instruments | 3 | 655 | (675) | 391 | (988) |
| Net foreign exchange gain | | 3,318 | 3,306 | 3,310 | 3,337 |
| Operating expenses | 4 | (23,466) | (20,251) | (19,759) | (17,941) |
| Provisions for other assets | 5 | (417) | 101 | 148 | 589 |
| Other income | 6 | 8,047 | 714 | 2,541 | 685 |
| Provisions for loans and accrued interest | 7 | (260) | (232) | (1,951) | (1,948) |
| Other expenses | 8 | (4,438) | (3,516) | (3,719) | (2,725) |
| Operating income | | 9,622 | 2,950 | 28,031 | 25,494 |
| Net gain on investments in subsidiaries accounted for using the equity method | | - | 3,563 | - | 2,341 |
| Profit before tax and minority interest | | 9,622 | 6,513 | 5,291 | 4,154 |
| Income tax | 9 | (1,002) | - | (549) | - |
| Profit after tax before minority interest | | 8,620 | 6,513 | 4,742 | 4,154 |
| Minority interest | 26 | (2,107) | - | (588) | - |
| Net profit | | 6,513 | 6,513 | 4,154 | 4,154 |
| Basic and diluted earnings per share (in LTL per share) | 10 | 0.12 | 0.12 | 0.09 | 0.09 |

THE GROUP'S AND BANK'S BALANCE SHEET

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

| | Notes | 31 December 2004 | | 31 December 2003 | |
|---|-------|------------------|----------------|------------------|----------------|
| | | Group | Bank | Group | Bank |
| Assets | | | | | |
| Cash and balances with central banks | 11 | 52,512 | 52,501 | 61,149 | 61,139 |
| Due from other banks and financial institutions | 12 | 39,744 | 74,797 | 28,773 | 64,517 |
| Trading securities | 13 | 1,813 | 1,813 | 1,933 | 1,933 |
| Derivative financial instruments | 14 | - | - | 12 | 12 |
| Loans | 15 | 401,436 | 415,688 | 306,370 | 312,141 |
| Finance lease receivables | 16 | 38,783 | - | 30,889 | - |
| Investment securities: | | | | | |
| – available-for-sale | 17 | 31,334 | 23,828 | 18,001 | 12,865 |
| – held-to-maturity | 17 | 88,944 | 88,944 | 77,478 | 77,478 |
| Investments in subsidiaries | 18 | - | 11,812 | - | 9,141 |
| Intangible assets | 19 | 2,231 | 2,088 | 2,281 | 2,134 |
| Tangible fixed assets | 20 | 41,041 | 26,138 | 44,843 | 23,214 |
| Other assets | 21 | 18,784 | 6,767 | 20,590 | 7,748 |
| Total assets | | 716,622 | 704,376 | 592,319 | 572,322 |
| Liabilities | | | | | |
| Due to other banks and financial institutions | 22 | 116,418 | 111,960 | 112,356 | 108,545 |
| Derivative financial instruments | 14 | - | - | 79 | 79 |
| Deposits | 23 | 517,140 | 517,204 | 399,228 | 399,255 |
| Special and lending funds | 24 | 298 | 298 | 141 | 141 |
| Current income tax liabilities | 9 | 807 | - | 402 | - |
| Deferred income tax liabilities | 9 | 113 | - | 113 | - |
| Other liabilities | 25 | 10,550 | 7,476 | 22,480 | 8,419 |
| Total liabilities | | 645,326 | 636,938 | 534,799 | 516,439 |
| Minority interest | 26 | 3,858 | - | 1,637 | - |
| Shareholders' equity | | | | | |
| Share capital | 27 | 56,000 | 56,000 | 48,344 | 48,344 |
| Share premium | 27 | 2,275 | 2,275 | - | - |
| Restricted earnings reserve | 27 | - | - | 774 | 774 |
| Reserve capital | 27 | 2,611 | 2,611 | 2,611 | 2,611 |
| Retained earnings | | 6,552 | 6,552 | 4,154 | 4,154 |
| Total shareholders equity | | 67,438 | 67,438 | 55,883 | 55,883 |
| Total liabilities and equity | | 716,622 | 704,376 | 592,319 | 572,322 |

These financial statements have been approved and on behalf of the Board on 21 March 2005 signed by:

Algirdas Butkus
Chairman of the Board



Vita Adomaitytė
Chief Financial Officer



The accounting policies and notes on pages 26 to 59 are an integral part of these financial statements.

THE GROUP'S AND BANK'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Notes | Registered share capital | Share premium | Revaluation reserve | Restricted earnings reserve | Reserve capital | Retained earnings | Total |
|-------------------------------|-------|--------------------------|---------------|---------------------|-----------------------------|-----------------|-------------------|---------------|
| As at 31 December 2002 | | 38,021 | - | 303 | 774 | 4,314 | 3,696 | 47,108 |
| Dividends | 27 | - | - | - | - | - | (379) | (379) |
| Capitalisation of reserves | | 5,323 | - | (303) | - | (1,703) | (3,317) | - |
| Issue of share capital | 27 | 5,000 | - | - | - | - | - | 5,000 |
| Net profit for the year | | - | - | - | - | - | 4,154 | 4,154 |
| As at 31 December 2003 | | 48,344 | - | - | 774 | 2,611 | 4,154 | 55,883 |
| Dividends | 27 | - | - | - | - | - | (483) | (483) |
| Capitalisation of reserves | | 4,406 | - | - | (774) | - | (3,632) | - |
| Issue of share capital | 27 | 3,250 | 2,275 | - | - | - | - | 5,525 |
| Net profit for the year | | - | - | - | - | - | 6,513 | 6,513 |
| As at 31 December 2004 | 27 | 56,000 | 2,275 | - | - | 2,611 | 6,552 | 67,438 |

THE GROUP'S AND BANK'S CASH FLOW STATEMENT

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

| | Notes | Year ended | | | |
|---|-------|------------------|------------------|------------------|-----------------|
| | | 31 December 2004 | | 31 December 2003 | |
| | | Group | Bank | Group | Bank |
| Operating activities | | | | | |
| Income (expense) | | | | | |
| Interest received | | 36,207 | 32,756 | 33,342 | 29,097 |
| Interest paid | | (14,392) | (14,190) | (14,120) | (13,589) |
| Cash received from collected previously written-off loans | | 326 | 320 | 607 | 607 |
| Cash received from operations in foreign currency | | 3,318 | 3,306 | 2,136 | 2,130 |
| Cash received (paid) from operations in securities | | (163) | (1,151) | 395 | (877) |
| Cash received from service and commission fees | | 5,378 | 5,600 | 4,972 | 5,457 |
| Salaries and related payments to and on behalf of employees | | (13,097) | (11,201) | (10,640) | (9,159) |
| Other payments | | (6,658) | (11,540) | (6,626) | (8,957) |
| Net cash flow from operating profits before changes in operating assets and liabilities | | 10,919 | 3,900 | 10,066 | 4,709 |
| (Increase) decrease in short-term assets: | | | | | |
| (Increase) decrease in compulsory reserves with the central bank | | (699) | (699) | 91 | 91 |
| (Increase) decrease in loans to credit and financial institutions | | 1,569 | 1,569 | (1,926) | (2,976) |
| (Increase) in loans granted | | (95,066) | (103,547) | (48,972) | (63,540) |
| (Increase) decrease in other short-term assets | | (5,643) | 1,628 | 1,170 | 1,161 |
| Change in short-term assets | | (99,839) | (101,049) | (49,637) | (65,264) |
| Increase (decrease) in liabilities | | | | | |
| Increase (decrease) in liabilities to credit and financial institutions | | (1,657) | (1,684) | 5,569 | 1,755 |
| Increase in deposits | | 123,788 | 123,205 | 107,725 | 107,746 |
| Increase (decrease) in other liabilities | | (13,498) | (2,689) | 10,764 | (1,130) |
| Change in liabilities | | 108,633 | 118,832 | 124,058 | 108,371 |
| Net cash flow from operating activities before tax | | 19,713 | 21,683 | 84,487 | 47,816 |
| Income tax (paid)/recovered | | (806) | - | (147) | - |
| Net cash flow from operating activities | | 18,907 | 21,683 | 84,340 | 47,816 |
| Investing activities | | | | | |
| Purchase of tangible and intangible fixed assets | | 3,852 | (2,873) | (25,989) | (3,409) |
| Investments in securities | | (24,679) | (21,422) | (25,377) | (27,984) |
| Dividends received | | 76 | 76 | 32 | 32 |
| Net cash flow from investing activities | | (20,751) | (24,219) | (51,334) | (31,361) |
| Financing activities | | | | | |
| Issue of share capital | | 5,525 | 5,525 | 5,000 | 5,000 |
| Dividends paid | | (477) | (477) | (380) | (380) |
| Net cash flow from financing activities | | 5,048 | 5,048 | 4,620 | 4,620 |
| Net increase in cash and cash equivalents | | 3,204 | 2,512 | 37,626 | 21,075 |
| Cash and cash equivalents at 1 January | | 78,437 | 114,171 | 40,811 | 93,096 |
| Cash and cash equivalents at 31 December | 30 | 81,641 | 116,683 | 78,437 | 114,171 |

The accounting policies and notes on pages 26 to 59 are an integral part of these financial statements.

FINANCIAL RISK MANAGEMENT

(All amounts are in LTL thousand, unless 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, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 10 branches and 32 client service units (2003: 10 branches and 26 client service units). As at 31 December 2004 the Bank had 360 employees (2003: 343). As at 31 December 2004 the Group had 420 employees (2003: 399 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 Current List of the National Stock Exchange of Lithuania (NSEL).

The Bank owns the following subsidiaries:

- "Šiaulių Banko Lizingas" UAB (hereinafter – SB Lizingas, finance and operating leasing activities);
- "Šiaulių Banko Investicijų Valdymas" UAB (hereinafter SB Investicijų Valdymas, investment management activities);
- "Šiaulių Banko Faktoringas" UAB (hereinafter – SB Faktoringas, factoring activities);
- "Šiaulių Banko Turto Fondas" UAB (hereinafter – SB Turto Fondas, real estate management activities);
- "Pajūrio Alka" UAB (hotel services).

Investments in subsidiaries are described in more detail in Note 18 *Investments in subsidiaries*.

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

ACCOUNTING POLICIES

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

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

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, all derivative contracts and revaluation of tangible fixed assets and investment property.

The preparation of financial statements in conformity with International Financial Reporting Standards 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 financial statements have been prepared on the going concern basis, which assumes that the Bank will continue to operate during the coming year.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the parent 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 Euro at a rate of 3.4528 LTL = 1 EUR.

Implementation of new accounting policies as a result of new accounting standards, which came into effect as from 1 January 2005, will not have a significant effect on the consolidated figures of the Group as at 31 December 2004, disclosed in these financial statements

Consolidation of subsidiaries

Subsidiaries are all entities over which the Bank 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 Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for

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

Inter-company transactions, balances and unrealised gains on transactions between 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 by the equity method of accounting. Investments in subsidiaries are recorded in the separate balance sheet line and net gain (loss) in the separate income statement line.

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, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (that is fair value of amount paid or received) and subsequently re-measured at their fair value. 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.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are

ACCOUNTING POLICIES

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

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.

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

Recognition of income and expenses

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

Interest due on non-performing financial instruments is no longer accrued when interest payment elapsed 30 days 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.

Loan origination fees are accounted for as an adjustment to the effective interest rate calculation for each issued loan separately. Other commission fees, certain taxes and other similar income and expenses 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 deferred income (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 deferred expenses (assets).

Taxation

a) Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, the current income tax rate is 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 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. 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.

b) Other taxes

Road tax of 1% is imposed on income from interest margin and on income on other services. Real estate tax rate is 1% on the tax value of real estate amongst fixed tangible assets and foreclosed assets. The Bank and the Group are also obliged to pay land and land lease taxes, payments to guarantee fund and social security contributions. 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 with the maturity term of less than three months.

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 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 dividend income.

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

ACCOUNTING POLICIES

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

Securities available-for-sale and held-to-maturity

Securities of fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. 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.

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 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 interest 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 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 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

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.

Impaired loans, other assets and off-balance sheet commitments are those, which under repayment are subject to customer default, i.e. credit risk.

Loans granted to companies are treated as impaired, when the debtor is late with payment of interest or loan instalments for more than 30 calendar days, also taking into account the financial condition of the debtor. Mortgage and consumer loans granted to individuals are treated as impaired, when the debtor is late with payment of interest or loan instalments for more than 15 calendar days.

Provisions for loan and other assets impairment

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

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 sale 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.

Intangible assets

a) 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.

b) Computer software and licences

Computer software and licences are stated at cost less accumulated amortisation. Computer software and licences are amortised using the straight-line method over their estimated useful life. The estimated useful life established by the Group is between 1 and 9 years. Amortisation expenses are included within the operating expenses in the income statement.

ACCOUNTING POLICIES

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

Tangible fixed assets

Tangible 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. These estimated useful lives are disclosed in the notes to the financial statements.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Construction in progress is transferred to appropriate groups of fixed assets when it is completed and ready for its intended use.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related 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 the investment property reliably on a continuing basis then, the investment property is measured at depreciated acquisition cost and impairment charge.

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

Operating and finance lease

a) *Group company is the lessee*

Operating lease

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases

are charged to the income statement on a straight-line basis over the period of lease.

Finance lease

Leases of fixed tangible assets where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The fixed tangible assets acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term.

b) *Group company is the lessor*

Operating leases

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

Finance leases

Rights and liabilities arising from finance lease activities of a subsidiary company are recognised when the leasing beneficiary pays the first payment of the covered amount and are recorded at the financed value of the assets under finance lease reduced by the amount of the first payment.

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.

Foreclosed assets

Assets foreclosed from defaulted loan customers and other assets kept for sale 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.

ACCOUNTING POLICIES

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

Provisions

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

Dividends

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

Employee benefits

a) *Social security contributions*

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its 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.

b) *Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more

than 12 months after balance sheet date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the balance sheet.

Segment reporting

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

Fiduciary activities

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

Fair value of assets and liabilities

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

Corresponding figures

Where necessary, the corresponding figures have been reclassified to conform to changes in presentation in the current year.

FINANCIAL RISK MANAGEMENT

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

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 lend-

ing 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% up to 1 December 2004 and 8% after this date.

The Group

| | 31 December 2004 | 31 December 2003 |
|--|------------------|------------------|
| Calculated capital | 63,349 | 53,602 |
| Risk weighted assets and off balance sheet items | 483,816 | 420,021 |
| Capital adequacy ratio | 13.09 | 12.76 |

The Bank

| | 31 December 2003 | 31 March 2004 | 30 June 2004 | 30 September 2004 | 31 December 2004 |
|--|------------------|---------------|--------------|-------------------|------------------|
| Calculated capital | 51,279 | 52,895 | 54,122 | 57,043 | 63,349 |
| Risk weighted assets and off balance sheet items | 397,895 | 428,290 | 472,235 | 469,571 | 483,816 |
| Capital adequacy ratio | 12.89 | 12.35 | 11.46 | 12.15 | 13.09 |

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 15 and 16, 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, settle other Group liabilities. 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 31 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 and the Bank's liabilities on demand exceed assets with similar duration. The liquidity of the Group and the Bank at any moment is ensured by the portfolio of the debt securities kept by the Bank, which have liquid secondary market, and which comprise debt securities of the Government of Lithuania (for details see note 17 *Investment securities*).

FINANCIAL RISK MANAGEMENT

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

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 and the Group's exposure to foreign currency exchange rate risk is summarised in Note 32.

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 reprising that may be undertaken. The Group's and the Bank's exposure to interest rate risk is summarised in Note 33.

BUSINESS SEGMENTS

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

The Group and the Bank operate in one geographical area, which is the Republic of Lithuania. The Group's and the Bank's credit risk is concentrated there.

Below, there is a summary of major indicators for the main segments of the Group for the year ended on 31 December 2004:

| | Banking | Leasing | Investment management | Real estate management | Total Group |
|---|--------------|--------------|-----------------------|------------------------|---------------|
| Internal | 2,041 | (1,287) | (344) | (410) | - |
| External | 15,292 | 4,753 | 347 | 413 | 20,805 |
| Net interest income | 17,333 | 3,466 | 3 | 3 | 20,805 |
| Internal | 2,362 | (1,605) | (345) | (412) | - |
| External | 20,246 | 5,063 | 446 | 428 | 26,183 |
| Net commissions income | 22,608 | 3,458 | 101 | 16 | 26,183 |
| Internal | 2,393 | (1,636) | (345) | (412) | - |
| External | 22,814 | 5,139 | 1,630 | 574 | 30,156 |
| Operating income | 25,206 | 3,503 | 1,285 | 162 | 30,156 |
| Provisions expenses | (149) | (74) | (16) | (438) | (677) |
| Internal | 79 | 175 | 26 | 66 | 346 |
| External | (17,331) | (1,541) | (494) | (883) | (20,249) |
| Operating expenses | (17,252) | (1,366) | (468) | (817) | (19,903) |
| Amortisation | (611) | (50) | (2) | (6) | (669) |
| Depreciation | (2,363) | (236) | (48) | (247) | (2,894) |
| Internal | 225 | 121 | 0 | 0 | 346 |
| External | (3,375) | (352) | (9) | 6,999 | 3,263 |
| Net other income | (3,150) | (231) | (9) | 6,999 | 3,609 |
| Profit before tax | 1,681 | 1,546 | 742 | 5,653 | 9,622 |
| Income tax expenses | - | (157) | (15) | (830) | (1,002) |
| Profit after tax | 1,681 | 1,389 | 727 | 4,823 | 8,620 |
| Minority interest | - | - | (141) | (1,966) | (2,107) |
| Net profit | 1,681 | 1,389 | 586 | 2,857 | 6,513 |
| Total segment assets | 636,966 | 43,680 | 10,818 | 25,158 | 716,622 |
| Total segment liabilities | 636,854 | 7,052 | 233 | 1187 | 645,326 |
| Net segment assets (shareholders' equity) | 6,784 | 2,465 | 7 | 13,920 | 23,176 |
| Fixed asset additions | 6,776 | 2,465 | 7 | 13,920 | 23,176 |

BUSINESS SEGMENTS

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

Below, there is a summary of major indicators for the main segments of the Group for the year ended on 31 December 2003:

| | Banking | Leasing | Investment manage- ment | Real estate manage- ment | Total Group |
|---|--------------|--------------|-------------------------------|--------------------------------|---------------|
| Internal | 1,191 | (977) | (212) | (2) | - |
| External | 14,431 | 4,652 | 240 | (262) | 19,061 |
| Net interest income | 15,622 | 3,675 | 28 | (264) | 19,061 |
| Internal | 1,466 | (1,251) | (213) | (2) | - |
| External | 19,530 | 4,720 | 344 | (264) | 24,330 |
| Net commissions income | 20,996 | 3,469 | 131 | (266) | 24,330 |
| Internal | 1,110 | (968) | (213) | 71 | - |
| External | 22,591 | 4,127 | 1,725 | (412) | 28,031 |
| Operating income | 23,701 | 3,159 | 1,512 | (341) | 28,031 |
| Provisions expenses | (1,374) | (403) | (26) | - | (1,803) |
| Internal | (2) | 126 | 26 | 16 | 166 |
| External | (15,614) | (1,146) | (483) | (656) | (17,899) |
| Operating expenses | (15,616) | (1,020) | (457) | (640) | (17,733) |
| Amortisation | (466) | (28) | (2) | 717 | 221 |
| Depreciation | (1,940) | (114) | (47) | (146) | (2,247) |
| Internal | 166 | - | - | - | 166 |
| External | (2,430) | (299) | (512) | 873 | (1,344) |
| Net other income | (2,264) | (299) | (512) | 873 | (1,178) |
| Profit before tax | 2,041 | 1,295 | 1,492 | 463 | 5,291 |
| Income tax expenses | (43) | (224) | (191) | (91) | (549) |
| Profit after tax | 1,998 | 1,071 | 1,301 | 372 | 4,742 |
| Minority interest | - | - | (421) | (167) | (588) |
| Net profit | 1,998 | 1,071 | 880 | 205 | 4,154 |
| Total segment assets | 521,644 | 35,816 | 11,573 | 23,286 | 592,319 |
| Total segment liabilities | 516,447 | 7,176 | 606 | 10,570 | 534,799 |
| Net segment assets (shareholders' equity) | 5,197 | 28,640 | 10,967 | 12,716 | 57,520 |
| Fixed asset additions | 4,580 | 1,263 | 76 | 14,579 | 20,498 |

NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 1 NET INTEREST INCOME

| | 2004 | | 2003 | |
|---|---------------|---------------|---------------|---------------|
| | Group | Bank | Group | Bank |
| Interest income: | | | | |
| on loans to other banks and financial institutions and placements with credit institutions | 584 | 2,081 | 768 | 2,296 |
| on other loans | 24,923 | 25,271 | 23,646 | 22,780 |
| on debt securities acquired | 4,779 | 4,779 | 3,767 | 3,738 |
| on finance leases | 4,949 | - | 4,878 | - |
| Total interest income | 35,235 | 32,131 | 33,059 | 28,814 |
| Interest expense: | | | | |
| on liabilities to central banks | (228) | (228) | (300) | (300) |
| on liabilities to other banks and financial institutions and amounts due to credit institutions | (2,182) | (2,009) | (3,442) | (2,917) |
| on deposits and other repayable funds | (11,991) | (11,991) | (10,250) | (10,250) |
| on finance leases | (16) | - | (6) | - |
| Total interest expense | (14,430) | (14,228) | (13,998) | (13,467) |
| Net interest income | 20,805 | 17,903 | 19,061 | 15,347 |

NOTE 2 NET FEE AND COMMISSION INCOME

| | 2004 | | 2003 | |
|--|--------------|--------------|--------------|--------------|
| | Group | Bank | Group | Bank |
| Fee and commission income: | | | | |
| for money transfer operations | 4,360 | 4,446 | 2,612 | 2,694 |
| for payment card services | 791 | 791 | 716 | 716 |
| for exchange of base currency | 594 | 595 | 561 | 561 |
| for operations with securities | 278 | 278 | 168 | 168 |
| other fee and commission income | 1,455 | 1,558 | 2,643 | 2,739 |
| Total fee and commission income | 7,478 | 7,668 | 6,700 | 6,878 |
| Fee and commission expense: | | | | |
| for payment card services | 1,086 | 1,083 | 734 | 734 |
| for money transfer operations | 719 | 718 | 310 | 308 |
| for operations with securities | 238 | 237 | 133 | 128 |
| for exchange of base currency | 8 | 8 | 21 | 21 |
| other fee and commission expenses | 49 | 22 | 233 | 230 |
| Total fee and commission expense | 2,100 | 2,068 | 1,431 | 1,421 |
| Net fee and commission income | 5,378 | 5,600 | 5,269 | 5,457 |

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

NOTE 3 NET GAIN ON OPERATIONS WITH SECURITIES AND FINANCIAL INSTRUMENTS

| | 2004 | | 2003 | |
|---|------------|--------------|------------|--------------|
| | Group | Bank | Group | Bank |
| Gain (loss) from trading securities: | | | | |
| Realised gain on trading equity securities | 320 | 320 | 186 | 186 |
| Unrealised gain on trading debt securities | 311 | 311 | (221) | (221) |
| Unrealised gain on trading equity securities | 22 | 22 | 59 | 59 |
| Realised gain on trading equity securities | - | - | 471 | 471 |
| Net gain from trading securities | 653 | 653 | 495 | 495 |
| Gain (loss) from available-for-sale securities: | | | | |
| Unrealised gain on trading debt securities | 920 | (68) | 864 | (408) |
| Unrealised gain on trading equity securities | 342 | - | 167 | 60 |
| Net gain (loss) from available-for-sale securities: | 1,262 | (68) | 1,031 | (348) |
| Dividend and other income from equity securities | 76 | 76 | 51 | 51 |
| Net (loss) from foreign exchange derivative financial instruments | (1,336) | (1,336) | (1,186) | (1,186) |
| Total | 655 | (675) | 391 | (988) |

NOTE 4 OPERATING EXPENSES

| | 2004 | | 2003 | |
|---|---------------|---------------|---------------|---------------|
| | Group | Bank | Group | Bank |
| Salaries, social insurance and other related expenses | 13,460 | 11,564 | 11,305 | 9,824 |
| Depreciation of fixed assets | 2,894 | 2,357 | 2,247 | 1,934 |
| Rent of premises and maintenance expenses | 2,881 | 2,659 | 2,811 | 2,617 |
| Transportation, post and communications expenses | 1,951 | 1,685 | 1,788 | 1,633 |
| Amortisation of intangible assets | 669 | 596 | 500 | 458 |
| Advertising and marketing expenses | 424 | 350 | 403 | 360 |
| Training and business trip expenses | 179 | 160 | 323 | 227 |
| Other operating expenses | 1,008 | 880 | 1,103 | 888 |
| Amortisation of negative goodwill | - | - | (721) | - |
| Total | 23,466 | 20,251 | 19,759 | 17,941 |

The average number of staff employed by the Group as at 31 December 2004 totalled 420 (2003: 399). The average number of staff employed by the Bank as at 31 December 2004 totalled 360 (2003: 343).

NOTE 5 PROVISIONS FOR OTHER ASSETS

| | 2004 | | 2003 | |
|---|--------------|------------|--------------|--------------|
| | Group | Bank | Group | Bank |
| Expenses for (release of) provisions on: | | | | |
| foreclosed assets and investment properties | 101 | 101 | (555) | (555) |
| receivables for sold foreclosed assets | - | - | (34) | (34) |
| finance lease receivable | (80) | - | 403 | - |
| other doubtful assets | (438) | - | 38 | - |
| Total | (417) | 101 | (148) | (589) |

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

NOTE 6 OTHER INCOME

| | 2004 | | 2003 | |
|---------------------------------------|--------------|------------|--------------|------------|
| | Group | Bank | Group | Bank |
| Gain on sale of fixed tangible assets | 6,294 | 122 | 1,009 | - |
| Assets lease income | 936 | 297 | 721 | 120 |
| Other income | 817 | 295 | 811 | 565 |
| Total | 8,047 | 714 | 2,541 | 685 |

NOTE 7 EXPENSES FOR PROVISIONS FOR LOANS AND ACCRUED INTEREST

| Group | For loans | For accrued interest | For off balance sheet items | Total |
|--|--------------|----------------------|-----------------------------|--------------|
| Increase (decrease) of provisions, net | 2,457 | 1 | 100 | 2,558 |
| Recovered written off loans | (607) | - | - | (607) |
| Expenses for provisions in 2003 | 1,850 | 1 | 100 | 1,951 |
| Increase (decrease) of provisions, net | 611 | 1 | (26) | 586 |
| Recovered written off loans | (326) | - | - | (326) |
| Expenses for provisions in 2004 | 285 | 1 | (26) | 260 |

| Bank | For loans | For accrued interest | For off balance sheet items | Total |
|--|--------------|----------------------|-----------------------------|--------------|
| Increase (decrease) of provisions, net | 2,454 | 1 | 100 | 2,555 |
| Recovered written off loans | (607) | - | - | (607) |
| Expenses for provisions in 2003 | 1,847 | 1 | 100 | 1,948 |
| Increase (decrease) of provisions, net | 565 | 13 | (26) | 552 |
| Recovered written off loans | (320) | - | - | (320) |
| Expenses for provisions in 2004 | 245 | 13 | (26) | 232 |

NOTE 8 OTHER EXPENSES

| | 2004 | | 2003 | |
|--|--------------|--------------|--------------|--------------|
| | Group | Bank | Group | Bank |
| Fees for compulsory insurance of individual deposits | 2,134 | 2,134 | 1,644 | 1,644 |
| Road, property and other taxes | 935 | 435 | 578 | 304 |
| Charity | 293 | 288 | 139 | 139 |
| Other expenses | 1,076 | 659 | 1,358 | 638 |
| Total | 4,438 | 3,516 | 3,719 | 2,725 |

NOTE 9 INCOME TAX

| | 2004 | | 2003 | |
|--------------------------------------|--------------|----------|------------|----------|
| | Group | Bank | Group | Bank |
| Current tax for the year (see below) | 1,002 | - | 662 | - |
| Deferred tax | - | - | (113) | - |
| Total | 1,002 | - | 549 | - |

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

NOTE 9 INCOME TAX

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

| | 2004 | | 2003 | |
|---|--------------|----------|------------|----------|
| | Group | Bank | Group | Bank |
| Profit before tax | 9,622 | 6,513 | 5,291 | 4,154 |
| Tax calculated at a tax rate of 15% | 1,443 | 977 | 794 | 623 |
| Income not subject to tax | (1,056) | (1,341) | (942) | (1,116) |
| Expenses not deductible for tax purposes | 327 | 98 | 333 | 232 |
| Valuation allowance for deferred tax assets | 288 | 266 | 364 | 261 |
| Tax charge | 1,002 | - | 549 | - |
| Movement in deferred tax liabilities | | | | |
| At the beginning of the year | 113 | - | 226 | - |
| Income statement credit (charge) | - | - | (113) | - |
| At the end of the year | 113 | - | 113 | - |

The movement in deferred tax assets and liabilities of the Group (prior to offsetting of balances) during the period is as follows:

Group – deferred tax liabilities

| | Securities revaluation | Buildings revaluation | Total |
|-----------------------------------|------------------------|-----------------------|------------|
| As at 1 January 2004 | 317 | 115 | 432 |
| Charged/ (credited) to net profit | 288 | (2) | 286 |
| As at 31 December 2004 | 605 | 113 | 718 |

Group – deferred tax assets

| | Tax losses | Accrued expenses/ deferred income | Total |
|-----------------------------|------------|-----------------------------------|-------|
| As at 1 January 2004 | | | |
| Deferred tax assets, gross | 704 | 150 | 854 |
| Valuation allowance | (385) | (150) | (535) |
| As at 1 January 2004 | 319 | - | 319 |
| Credited to net profit | 286 | - | 286 |
| As at 31 December 2004 | 605 | - | 605 |
| As at 31 December 2004 | | | |
| Deferred tax assets, gross | 965 | 184 | 1,149 |
| Valuation allowance | (360) | (184) | (544) |
| As at 31 December 2004, net | 605 | - | 605 |

Deferred income tax assets are recognised for tax loss carried forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group's tax losses carried forward expire as follows:

| Year of expiry | 2004 |
|----------------|--------------|
| 2005 | 125 |
| 2006 | 215 |
| 2007 | 1,312 |
| 2008 | 1,741 |
| 2009 | 1,130 |
| Total | 4,523 |

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

NOTE 9 INCOME TAX

The movement in deferred tax assets and liabilities of the Bank (prior to offsetting of balances) during the period is as follows:

Bank – deferred tax liabilities

| | Securities revaluation |
|-------------------------------|---------------------------|
| As at 1 January 2004 | 305 |
| Charged to net profit | 228 |
| As at 31 December 2004 | 533 |

Bank – deferred tax assets

| | Tax losses | Accrued expenses/ deferred income | Total |
|-----------------------------------|---------------|--|-------|
| As at 1 January 2004 | | | |
| Deferred tax assets, gross | 675 | 91 | 766 |
| Valuation allowance | (370) | (91) | (461) |
| As at 1 January 2004, net | 305 | - | 305 |
| Credited/ (charged) to net profit | 228 | - | 228 |
| As at 31 December 2004, net | 533 | - | 533 |
| As at 31 December 2004 | | | |
| Deferred tax assets, gross | 936 | 184 | 1,120 |
| Valuation allowance | (403) | (184) | (587) |
| As at 31 December 2004, net | 533 | - | 533 |

Deferred income tax assets are recognised for tax loss carried forwards to the extent that realisation of the related tax benefit through future taxable profits is probable. The Bank's tax losses carried forward expire as follows:

NotE 9 Income TAX (continued)

| Year of expiry | 2004 |
|----------------|--------------|
| 2005 | 125 |
| 2006 | 215 |
| 2007 | 1,234 |
| 2008 | 1,741 |
| 2009 | 1,130 |
| Total | 4,445 |

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:

| | | 2004 | | 2003 | |
|----------------------------|--------------|----------|--------------|----------|------|
| | | Group | Bank | Group | Bank |
| Deferred tax assets | | | | | |
| Deferred tax assets | 605 | 533 | 319 | 305 | |
| Deferred tax liabilities | (718) | (533) | (432) | (305) | |
| | (113) | - | (113) | - | |

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

NOTE 10 EARNINGS PER SHARE

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

Weighted average number of shares in issue (thousands) for year ended 31 December 2004: 52,848 thousand shares (356

days – 52,750 thousand shares and 35 days – 56,000 thousand shares). Weighted average number of shares for the year ended 31 December 2003 was – 48,242 thousand (330 days – 47,750 thousand shares and 35 days – 52,750 thousand shares). In year 2003, following the decision of the Bank's shareholders the nominal value of shares was decreased from LTL 50 to LTL 1.

| Group (Bank) | 2004 | 2003 |
|---|-------------|-------------|
| Net profit | 6,513 | 4,154 |
| Weighted average number of issued shares (thousand units) | 52,848 | 48,242 |
| Earnings per share (in LTL) | 0.12 | 0.09 |

NOTE 11 CASH AND BALANCES WITH CENTRAL BANK

| | 2004 | | 2003 | |
|---|---------------|---------------|---------------|---------------|
| | Group | Bank | Group | Bank |
| Cash and other valuables | 18,815 | 18,804 | 14,542 | 14,532 |
| Placements with Central Bank: | | | | |
| Correspondent account with central bank | 824 | 824 | 20,218 | 20,218 |
| Mandatory reserves in national currency | 25,676 | 25,676 | 19,891 | 19,891 |
| Mandatory reserves in foreign currency | 7,197 | 7,197 | 6,498 | 6,498 |
| Total placements with Central Bank | 33,697 | 33,697 | 46,607 | 46,607 |
| Total | 52,512 | 52,501 | 61,149 | 61,139 |

Mandatory reserves comprise the funds calculated on a monthly basis as a 6% share of the average balance of deposits of the previous month. The mandatory reserves are held with the Bank of Lithuania in the form of 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 12 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

| | 2003 | | 2002 | |
|---|---------------|---------------|---------------|---------------|
| | Group | Bank | Group | Bank |
| Due from banks and financial institutions: | | | | |
| Correspondent bank accounts | 8,295 | 8,295 | 6,963 | 6,963 |
| Time deposits with banks | 25,449 | 25,449 | 10,135 | 10,135 |
| Total due from banks and financial institutions | 33,744 | 33,744 | 17,098 | 17,098 |
| Loans granted to financial institutions | 6,000 | 41,053 | 11,675 | 47,419 |
| Total | 39,744 | 74,797 | 28,773 | 64,517 |

The loans granted to financial institutions consisted of the following (principals outstanding):

- Loans to "Šiaulių Banko Lizingas" UAB amounting to LTL 34,333 thousand at 4.5% annual interest rate (2003: LTL 26,304 thousand, at 3.3% annual interest rate);

- Loan to "Šiaulių Banko Faktoringas" UAB amounting to LTL 720 thousand at 4.5% annual interest rate (2003: LTL 9,440 thousand at 3.3% annual interest rate);
- Loan to "Ūkio Banko Lizingas" UAB amounting to LTL 6,000 thousand at 4.8% annual interest rate (2003: LTL 3,000 thousand at 4.6% annual interest rate).

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

NOTE 13 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 14 DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative financial 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.

The fair values of derivative instruments (foreign exchange forwards and swaps) held as at 31 December are set out in the following table (there were no foreign exchange forwards and swaps as at 31 December 2004):

| Group (Bank) | 2004 | 2003 |
|----------------|------|----------|
| Nominal amount | | |
| Purchase | - | 14,428 |
| Sale | - | (14,501) |
| Fair values: | | |
| Assets | - | 12 |
| Liabilities | - | (79) |

NOTE 15 LOANS

The loans are originated by the Bank, "Šiaulių Banko Turto Fondas" UAB (LTL 6,000 thousand), "Šiaulių banko Lizingas" UAB (LTL 172 thousand), "Šiaulių Banko Investicijų Valdymas" UAB (LTL 37 thousand) and "Šiaulių Banko Faktoringas" UAB (LTL 666 thousand).

| | 2003 | | 2002 | |
|-----------------------------|----------------|----------------|----------------|----------------|
| | Group | Bank | Group | Bank |
| Loans to corporate entities | 356,647 | 370,994 | 269,482 | 275,222 |
| Loans to individuals | 47,115 | 46,943 | 39,431 | 39,431 |
| Gross loans granted | 403,762 | 417,937 | 308,913 | 314,653 |
| Total provisions | (2,326) | (2,249) | (2,543) | (2,512) |
| Total | 404,436 | 415,688 | 306,370 | 312,141 |

Impairment of loans

Value of collateral pledged against the loans granted amounted to LTL 970,574 thousand as at 31 December 2004 (2003: LTL 657,421 thousand).

Impaired loans amounted to LTL 11,305 thousand at 31 December 2004 (2003: LTL 9,722 thousand). Value of collateral

pledged against these loans amounted to LTL 36,282 thousand of which LTL 5,066 thousand were applied as a deduction from principal outstanding in calculation of specific provisions (2003: LTL 27,105 thousand and LTL 3,460 thousand, respectively). The interest accrued on impaired loans as at 31 December 2004 amounted to LTL 61 thousand (31 December 2003: LTL 11 thousand).

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

NOTE 15 LOANS

As at 31 December 2004, the outstanding principal amount of loans on which interest income is no longer accrued amounted to LTL 3,967 thousand (2003: LTL 3,852 thousand). Movement in provisions for impairment is as follows:

| | Group | Bank |
|---------------------------------------|--------------|--------------|
| Balance sheet | | |
| Provisions at 31 December 2002 | 1,746 | 1,741 |
| Provisions for loans written-off | (1,550) | (1,573) |
| Exchange rate and other adjustments | (110) | (110) |
| Increase in provisions (see Note 7) | 2,457 | 2,454 |
| Provisions at 31 December 2003 | 2,543 | 2,512 |
| Provisions for loans written-off | (813) | (813) |
| Exchange rate and other adjustments | (15) | (15) |
| Increase in provisions (see Note 7) | 611 | 565 |
| Provisions at 31 December 2004 | 2,326 | 2,249 |

Segment information is presented below:

| Bank | Group | | Bank | |
|--|----------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Gross loans granted to corporate entities by industry sectors: | | | | |
| Trading | 103,849 | 93,703 | 103,353 | 86,994 |
| Manufacturing | 81,680 | 66,706 | 81,539 | 64,952 |
| Construction | 46,955 | 26,503 | 46,939 | 26,168 |
| Real estate, rent | 30,089 | 14,649 | 24,088 | 14,632 |
| Agriculture, hunting and forestry | 28,725 | 18,275 | 28,725 | 18,275 |
| Transportation | 17,630 | 15,350 | 17,618 | 14,364 |
| State governance and compulsory social security | 9,941 | 9,748 | 14,841 | 14,109 |
| Utilities | 5,704 | 2,477 | 5,704 | 2,477 |
| Other industry sectors | 32,074 | 22,071 | 48,187 | 33,251 |
| Total gross loans to corporate entities | 356,647 | 269,482 | 370,994 | 275,222 |
| Loans to individuals | 47,115 | 39,431 | 46,943 | 39,431 |
| Total | 403,762 | 308,913 | 417,937 | 314,653 |

As at 31 December 2004 the Bank had loans granted to individuals amount to LTL 46,943 thousand (long-term – LTL 35,267 thousand, included within these are loans to non-residents of LTL 75 thousand; short-term – LTL 11,676 thousand, included within these are reverse repurchase transactions of LTL 25 thousand). As at 31 December 2004 the Group had loans granted to individuals amount to LTL 47,115 thousand, included within these were

LTL 35,439 thousand long-term loans and LTL 11,676 thousand short-term loans. In 2003 the Bank and the Group had loans granted to individuals amounted to LTL 39,431 thousand (long-term – LTL 25,073 thousand, short-term – LTL 14,358 thousand, included within these were reverse repurchase transactions of LTL 42 thousand to residents and LTL 97 thousand to non-residents).

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

NOTE 16 FINANCE LEASE RECEIVABLES

| | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---------------|-------------------|--------------|---------------|
| Gross investments in leasing: | | | | |
| Balance at 31 December 2003 | 20,356 | 14,707 | - | 35,063 |
| Change during 2004 | 6,846 | 625 | 330 | 7,801 |
| Balance at 31 December 2004 | 27,202 | 15,332 | 330 | 42,864 |
| Unearned finance income on finance leases: | | | | |
| Balance at 31 December 2003 | 2,039 | 1,385 | - | 3,424 |
| Change during 2004 | 217 | (366) | 34 | (115) |
| Balance at 31 December 2004 | 2,256 | 1,019 | 34 | 3,309 |
| Net investments in leasing before provisions: | | | | |
| At 31 December 2003 | 18,317 | 13,322 | - | 31,639 |
| At 31 December 2004 | 24,946 | 14,313 | 296 | 39,555 |
| Changes in provisions: | | | | |
| Balance as at 31 December 2003 | - | 750 | - | 750 |
| Additional provisions charged in 2004 | - | 80 | - | 80 |
| Provisions for debts written off in 2004 | - | (121) | - | (121) |
| Balance as at 31 December 2004 | - | 709 | - | 709 |
| Net investments in leasing after provisions: | | | | |
| At 31 December 2003 | 18,317 | 12,572 | - | 30,889 |
| At 31 December 2004 | 24,946 | 13,604 | 296 | 38,846 |
| | 2004 | 2003 | | |
| By type of lessees: | | | | |
| Legal entities | 22,159 | 17,748 | | |
| Individuals | 17,396 | 13,891 | | |
| Net investments before provisions | 39,555 | 31,639 | | |
| By type of assets: | | | | |
| Equipment | 15,229 | 4,974 | | |
| Computers and computer equipment | 5,924 | 4,304 | | |
| Commercial premises | 5,030 | 7,371 | | |
| Cargo vehicles | 4,505 | 2,873 | | |
| Plastic windows and show-cases | 3,182 | 4,850 | | |
| Automobiles | 2,825 | 1,358 | | |
| Television and audio devices | 347 | 470 | | |
| Software | 28 | 98 | | |
| Other | 2,485 | 5,341 | | |
| Net investments before provisions | 39,555 | 31,639 | | |

All lessees operate in Lithuania.

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

NOTE 17 INVESTMENT SECURITIES

| | 2004 | | 2003 | |
|---------------------------------------|----------------|----------------|---------------|---------------|
| | Group | Bank | Group | Bank |
| Securities available-for-sale: | | | | |
| Lithuanian Government bonds | 23,014 | 23,014 | 11,321 | 11,321 |
| Unlisted equity securities | 8,320 | 814 | 6,680 | 1,544 |
| Total securities available-for-sale | 31,334 | 23,828 | 18,001 | 12,865 |
| Securities held-to-maturity: | | | | |
| Lithuanian Government debt securities | 88,944 | 88,944 | 77,478 | 77,478 |
| Total securities held-to-maturity | 88,944 | 88,944 | 77,478 | 77,478 |
| Total investment securities | 120,278 | 112,772 | 95,479 | 90,343 |

NOTE 18 INVESTMENTS IN SUBSIDIARIES

| Bank | 2004 | | | 2003 | | |
|---|-----------------|------------------|----------------|-----------------|------------------|----------------|
| | Share in equity | Acquisition cost | Carrying value | Share in equity | Acquisition cost | Carrying value |
| Investments in consolidated subsidiaries: | | | | | | |
| "Šiaulių Banko Lizingas" UAB | 100.0% | 1,000 | 2,222 | 100.0% | 1,000 | 2,432 |
| "Šiaulių Banko Investicijų Valdymas" UAB | 60.4% | 604 | 1,816 | 60.4% | 453 | 1,450 |
| "Šiaulių Banko Faktoringas" UAB | 100.0% | 10 | 1 | 100.0% | 10 | 312 |
| "Šiaulių Banko Turto Fondas" UAB | 53.07% | 531 | 3,138 | 53.07% | 398 | 762 |
| "Pajūrio Alka" UAB | 99.85% | 4,519 | 4,635 | 90.4% | 4,204 | 4,185 |
| Total | | | 11,812 | | | 9,141 |

In 2004, the Bank acquired 9.35% of "Pajūrio Alka" UAB shares from "Šiaulių Banko Turto Fondas" UAB for LTL 300 thousand (31 December 2003: 90.4% of shares for LTL 4,200 thousand). As at 31 December 2003, "Šiaulių Banko Turto Fondas" UAB directly owned 9.35% of shares of "Pajūrio Alka" UAB. The management of the Group foresees to liquidate the business of "Šiaulių Banko Faktoringas" UAB in 2005. All assets and liabilities of this subsidiary shall be undertaken by the Bank.

NOTE 19 INTANGIBLE ASSETS

| | Group | | Bank | |
|---------------------------------|-------------------|-----------------------|--------------|-----------------------|
| | Negative goodwill | Software and licences | Total | Software and licences |
| 31 December 2003: | | | | |
| Cost | (983) | 3,863 | 2,880 | 3,641 |
| Accumulated amortisation | 983 | (1,582) | (599) | (1,507) |
| Net book value | - | 2,281 | 2,281 | 2,134 |
| Year ended on 31 December 2004: | | | | |
| Net book value at 1 January | - | 2,281 | 2,281 | 2,134 |
| Acquisitions | - | 619 | 619 | 550 |
| Amortisation charge | - | (669) | (669) | (596) |
| Net book value at 31 December | - | 2,231 | 2,231 | 2,088 |
| 31 December 2004: | | | | |
| Cost | - | 4,481 | 4,481 | 4,191 |
| Accumulated amortisation | - | (2,250) | (2,250) | (2,103) |
| Net book value | - | 2,231 | 2,231 | 2,088 |
| Economic useful life (in years) | 1 | 1-9 | - | 3-9 |

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

NOTE 20 TANGIBLE FIXED ASSETS

| Group | Buildings and premises | Vehicles | Office equipment | Construction in progress | Total |
|---------------------------------|------------------------|--------------|------------------|--------------------------|---------------|
| 31 December 2003: | | | | | |
| Cost/valuation | 31,225 | 2,519 | 10,508 | 8,812 | 53,064 |
| Accumulated depreciation | (3,001) | (507) | (4,713) | - | (8,221) |
| Net book value | 28,224 | 2,012 | 5,795 | 8,812 | 44,843 |
| Year ended on 31 December 2004: | | | | | |
| Net book value at 1 January | 28,224 | 2,012 | 5,795 | 8,812 | 44,843 |
| Acquisitions | 8,355 | 2,628 | 1,684 | 9,889 | 22,556 |
| Disposals and write-offs | (4,790) | (116) | (108) | (18,450) | (23,464) |
| Depreciation charge | (606) | (447) | (1,841) | - | (2,894) |
| Net book value at 31 December | 31,183 | 4,077 | 5,530 | 251 | 41,041 |
| 31 December 2004: | | | | | |
| Cost/valuation | 34,668 | 4,930 | 11,669 | 251 | 51,518 |
| Accumulated depreciation | (3,485) | (853) | (6,139) | - | (10,477) |
| Net book value | 31,183 | 4,077 | 5,530 | 251 | 41,041 |
| Economic useful life (in years) | 20-80 | 5-6 | 3-20 | - | |

| Bank | Buildings and premises | Vehicles | Office equipment | Construction in progress | Total |
|---------------------------------|------------------------|--------------|------------------|--------------------------|---------------|
| 31 December 2003: | | | | | |
| Cost/valuation | 18,265 | 1,640 | 9,312 | - | 29,217 |
| Accumulated depreciation | (1,215) | (430) | (4,358) | - | 6,003 |
| Net book value | 17,050 | 1,210 | 4,954 | - | 23,214 |
| Year ended on 31 December 2004: | | | | | |
| Net book value at 1 January | 17,050 | 1,210 | 4,954 | - | 23,214 |
| Acquisitions | 3,501 | 368 | 1,473 | 884 | 6,226 |
| Disposals and write-offs | (66) | (76) | (80) | (723) | (945) |
| Depreciation charge | (404) | (293) | (1,660) | - | (2,357) |
| Net book value at 31 December | 20,081 | 1,209 | 4,687 | 161 | 26,138 |
| 31 December 2004: | | | | | |
| Cost/valuation | 21,700 | 1,835 | 10,302 | 161 | 33,998 |
| Accumulated depreciation | (1,619) | (626) | (5,615) | - | (7,860) |
| Net book value | 17,050 | 1,210 | 4,954 | - | 23,214 |
| Economic useful life (in years) | 20-70 | 6 | 3-20 | - | |

As at 31 December 2004 the Bank and the Group accounted for investment properties within the buildings and premises at the fair value of LTL 2,848 thousand (2003: LTL 2,861 thousand). Investment properties are stated at fair value, which is determined by professional independent valuers, based on expected unforced sales price of the property in the short

or medium term. During 2004 the Bank and the Group accounted for LTL 173 thousand of lease revenues from these investment properties (2003: LTL 152 thousand).

As at 31 December 2004 and 31 December 2003, there were no tangible fixed assets pledged to third parties.

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

NOTE 21 OTHER ASSETS

| | 2004 | | 2003 | |
|--|---------------|--------------|---------------|--------------|
| | Group | Bank | Group | Bank |
| Amounts receivable for assets disposed | 9,741 | 2,432 | 6,839 | 2,906 |
| Other receivables from customers | 3,070 | - | 3,070 | - |
| Accrued interest income, net of provisions | 2,263 | 2,175 | 3,567 | 1,559 |
| Deferred expenses | 1,422 | 1,340 | 868 | 608 |
| Transit accounts | 413 | 413 | 372 | 372 |
| Prepayments | 259 | - | 1,897 | 774 |
| Foreclosed assets | 76 | 76 | 860 | 860 |
| Other assets | 1,540 | 331 | 3,117 | 669 |
| Total | 18,784 | 6,767 | 20,590 | 7,748 |

NOTE 22 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

| | 2004 | | 2003 | |
|---|----------------|----------------|----------------|----------------|
| | Group | Bank | Group | Bank |
| Correspondent accounts and deposits of banks and other financial institutions: | | | | |
| Correspondent accounts and demand deposits | 5,026 | 5,038 | 6,419 | 6,458 |
| Time deposits | 39,962 | 39,962 | 33,321 | 33,321 |
| Total correspondent accounts and deposits of banks and other financial institutions | 44,988 | 45,000 | 39,740 | 39,779 |
| Loans received: | | | | |
| Loans from other banks | 13,358 | 10,358 | 13,358 | 10,358 |
| Loans from finance institutions | 36,849 | 35,379 | 31,130 | 30,280 |
| Loans from international organisations | 15,538 | 15,538 | 22,443 | 22,443 |
| Loan from the Bank of Lithuania | 5,685 | 5,685 | 5,685 | 5,685 |
| Total loans received | 71,430 | 66,960 | 72,616 | 68,766 |
| Total | 116,418 | 111,960 | 112,356 | 108,545 |

Loans received from other banks comprise:

- Loan received from HSH Nord Bank branch office in Copenhagen to finance business projects, with annual interest rate of 3.046%.

Loans received from finance institutions comprise loans received from:

- the Lithuanian Environment Investment Fund to finance environmental projects with annual interest rate of 1.5%;
- the Central Project Management Agency to finance the projects related to renovation of social purpose buildings and development of engineering infrastructure with annual interest rate from 2.3% to 3%;

- the World Bank to finance enterprises, financial sector's projects, as well as private agricultural development projects, with annual interest rate from 3.28% to 4.21%;

Loans received from international organisations comprise loans received from:

- the European Bank for Reconstruction and Development to finance small and medium-size business projects with annual interest rate of 4.946%;
- the Council of Europe Development Bank and Nordic Investment Bank to finance businesses started by women with annual interest rate from 2.607% to 3.01%.

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

NOTE 23 DEPOSITS

| | 2004 | | 2003 | |
|---|----------------|----------------|----------------|----------------|
| | Group | Bank | Group | Bank |
| Demand deposits: | | | | |
| National government institutions | 5,685 | 5,685 | 6,318 | 6,318 |
| Local government institutions | 29,542 | 29,542 | 17,252 | 17,252 |
| Governmental and municipal companies | 2,327 | 2,327 | 7,518 | 7,518 |
| Corporate entities | 82,030 | 82,094 | 72,724 | 72,751 |
| Non-profit organisations | 5,201 | 5,201 | 3,066 | 3,066 |
| Individuals | 42,045 | 42,045 | 28,691 | 28,691 |
| Total demand deposits | 166,830 | 166,894 | 135,569 | 135,596 |
| Time deposits: | | | | |
| National government institutions | 8,663 | 8,663 | 9,928 | 9,928 |
| Local government institutions | 1,839 | 1,839 | 3 | 3 |
| Governmental and municipality companies | 6,649 | 6,649 | 2,137 | 2,137 |
| Corporate entities | 51,800 | 51,800 | 37,097 | 37,097 |
| Non-profit organisations | 3,208 | 3,208 | 3,091 | 3,091 |
| Individuals | 278,151 | 278,151 | 211,403 | 211,403 |
| Total time deposits | 350,310 | 350,310 | 263,659 | 263,659 |
| Total | 517,140 | 517,204 | 399,228 | 399,255 |

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

NOTE 24 SPECIAL AND LENDING FUNDS

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

NOTE 25 OTHER LIABILITIES

| | 2004 | | 2003 | |
|---|---------------|--------------|---------------|--------------|
| | Group | Bank | Group | Bank |
| Transit accounts | 3,337 | 3,337 | 6,084 | 6,058 |
| Accrued charges | 2,340 | 2,137 | 4,264 | 1,681 |
| Deferred income | 1,682 | 1,341 | 179 | 3 |
| Advances received from real estate customers | 212 | - | 6,927 | - |
| Liabilities to suppliers of construction services | 26 | - | 2,227 | - |
| Other | 2,953 | 661 | 2,799 | 677 |
| Total | 10,550 | 7,476 | 22,480 | 8,419 |

NOTE 26 MINORITY INTEREST

| | 2004 | 2003 |
|---|--------------|--------------|
| | Group | Group |
| Balance at 1 January | 1,637 | 937 |
| Share of profit for the reporting period | 2,107 | 588 |
| Increase of share capital in subsidiary companies | 114 | 216 |
| Acquisition of additional share in authorised share capital | - | (104) |
| Balance at 31 December | 3,858 | 1,637 |

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

NOTE 27 SHARE CAPITAL

As at 31 December 2004, the Bank's share capital comprised 56,000,000 ordinary registered shares with par value of LTL 1 each.

In 2004, the share capital was increased twice: increased by LTL 4,406,060 through appropriation of retained earnings, and increased by LTL 5,520 thousand by way of issue

of 3,250 thousand ordinary registered shares, and thereby receiving additional contributions from the shareholders. Nominal value of this share issue amounted to LTL 1, and the price of share issue amounted to LTL 1.70. Increased share capital was registered on 10 June 2004 and 21 December 2004, respectively. As at 31 December 2004, all shares were fully paid.

As of 31 December 2004, the shareholders holding over 4% of the Bank's shares are listed in the table below:

| Shareholders | Number of shares | % |
|---|-------------------|---------------|
| "Prekybos namai Aiva" UAB and related parties | 5,541,379 | 9.895 |
| G. Kateiva | 4,560,486 | 8.144 |
| Clients of Skandinaviska Enskilda Banken (East Capital Asset Management AB) | 2,833,440 | 5.060 |
| "Alita" AB | 2,779,307 | 4.963 |
| "Mintaka" UAB | 2,674,361 | 4.776 |
| "Šiaulių Titanas" AB | 2,376,346 | 4.244 |
| Total | 20,765,319 | 37.068 |

Another 3 shareholders had more than 3% of the Bank's share capital. The remaining shareholders on an individual basis had less than 3% of the Bank's share capital.

As at 31 December 2004, the Company's shareholders were 1,213 legal entities and individuals (2003: 817).

As at 31 December 2004, the shares of 3 subsidiaries of the Bank were held by individuals related to the shareholders of the Bank (nominal value of the shares of "Šiaulių Banko Investicijų Valdymas" UAB was LTL 100, and nominal value of the shares of "Šiaulių Banko Turto Fondas" UAB and "Pajūrio Alka" UAB was LTL 10):

| Shareholders | Related to the shareholder of the Bank | UAB Šiaulių banko investicijų valdymas | | UAB Šiaulių banko turto fondas | | UAB Pajūrio Alka | |
|-------------------|---|---|--------------|--|--------------|--|---------------|
| | | Number of shares (nominal value: LTL 100) | % | Number of shares (nominal value: LTL 10) | % | Number of shares (nominal value: LTL 10) | % |
| A. Butkus | "Prekybos namai Aiva" UAB | 5,776 | 5.78 | 445 | 4.45 | - | - |
| S. Valius | "Šiaulių titanas" AB | 1,980 | 1.98 | 445 | 4.45 | - | - |
| K. J. Vyšniauskas | D. Vyšniauskas | 5,776 | 5.78 | 445 | 4.45 | - | - |
| V. Junevičius | "Alita" AB | 5,776 | 5.78 | 445 | 4.45 | - | - |
| S. Baguckas | "Namų statyba" AB | 5,776 | 5.78 | 445 | 4.45 | - | - |
| A. Salda | "Šiaulių LEZ valdymo bendrovė" UAB | 5,776 | 5.78 | 685 | 6.85 | - | - |
| R. Valskis | "Šiaulių vandenys" UAB | 5,776 | 5.78 | 445 | 4.45 | - | - |
| A. Armalas | "Šiaulių plentas" AB | - | - | 445 | 4.45 | - | - |
| G. Kateiva | Litagros chemija | - | - | 445 | 4.45 | - | - |
| D. Vyšniauskas | K. J. Vyšniauskas | - | - | 445 | 4.45 | - | - |
| Subtotal | | 36,636 | 36.64 | 4,690 | 46.90 | - | - |
| | "Liudo Navicko ir jo partnerių JFK Investicija" TŪB | 2,964 | 2.96 | - | - | - | - |
| | Unrelated individuals | - | - | - | - | 459 | 0.15 |
| | Šiaulių Bankas AB | 60,400 | 60.4 | 5,310 | 53.10 | 314,469 | 99.85 |
| Total | | 100,000 | 100.0 | 10,000 | 100.0 | 314,928 | 100.00 |

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

NOTE 27 SHARE CAPITAL

As at 31 December 2003, the shares of 3 subsidiaries of the Bank were held by individuals related to the shareholders of the Bank:

| Shareholders | Related to the shareholder of the Bank | "Šiaulių banko investicijų valdymas" UAB | | "Šiaulių banko turto fondas" UAB | | "Pajūrio Alka" UAB | |
|-------------------|---|---|--------------|--|--------------|--|--------------|
| | | Number of shares (nominal value: LTL 100) | % | Number of shares (nominal value: LTL 10) | % | Number of shares (nominal value: LTL 10) | % |
| A. Butkus | "Prekybos namai Aiva" UAB | 4,332 | 5.8 | 334 | 4.453 | - | - |
| A. Armalas | "Šiaulių plentas" AB | - | - | 334 | 4.453 | - | - |
| S. Valius | "Šiaulių titanas" AB | 1,485 | 2.0 | 334 | 4.453 | - | - |
| K. J. Vyšniauskas | D. Vyšniauskas | 4,332 | 5.8 | 334 | 4.453 | - | - |
| V. Junevičius | "Alita" AB | 4,332 | 5.8 | 334 | 4.453 | - | - |
| S. Baguckas | "Namų statyba" AB | 4,332 | 5.8 | 334 | 4.453 | - | - |
| A. Salda | "Šiaulių LEZ valdymo bendrovė" UAB | 4,332 | 5.8 | 514 | 6.853 | - | - |
| R. Valskis | "Šiaulių vandenys" UAB | 4,332 | 5.8 | 334 | 4.453 | - | - |
| G. Kateiva | Litagros chemija | - | - | 334 | 4.453 | - | - |
| D. Vyšniauskas | K. J. Vyšniauskas | - | - | 334 | 4.453 | - | - |
| Subtotal | | 27,477 | 36.6 | 3,520 | 46.93 | - | - |
| | "Liudo Navicko ir jo partnerių JFK Investicija" TŪB | 2,223 | 3.0 | - | - | - | - |
| | "Šiaulių banko turto fondas" UAB | - | - | - | - | 29,461 | 9.35 |
| | "Šiaulių Bankas" AB | 45,300 | 60.4 | 3,980 | 53.07 | 283,573 | 90.04 |
| Total | | 75,000 | 100.0 | 7,500 | 100.0 | 313,034 | 99.39 |

Share premium

The share premium represents the difference between the emission price and par value of the shares issued by the Bank. Share premium can be used to increase the Bank's authorised share capital or cover losses.

Restricted earnings reserve

The restricted earnings reserve was formed for the purchase of treasury shares of the Bank.

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 the losses incurred.

Dividends

In 2004, the annual general meeting of shareholders decided to pay 1% dividends to the holders of ordinary shares (2003: 1%).

NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims

As at 31 December 2004, the Bank was involved in pending court proceedings. The amount of legal claim was approximately LTL 86 thousand. In the Bank's management opinion, the claim was not grounded. Šiauliai District Court cancelled the decision of Mažeikiai Local Court and passed a new ruling to reject the claim. The management of the Group estimate no loss to be incurred on this legal claim.

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

As at 31 December 2004, the Bank had outstanding guarantees, letters of credit and commitments to grant loans amounting to LTL 23,413 thousand, LTL 1,654 thousand and LTL 48,036 thousand, respectively (2003: LTL 18,895 thousand, LTL 1,515 thousand and LTL 45,636 thousand, respectively). In addition, as at 31 December 2004, the Bank had an agreement on purchase of computer software. The

commitment under this agreement amounted to LTL 118 thousand (2003: LTL 103 thousand under the corresponding agreement). No provisions were established for these commitments as at 31 December 2004 (similarly as in 2003). As of 31 December 2004 the Bank and the Group established provisions of LTL 74 thousand for off-balance liabilities (2003: LTL 100 thousand). According to effective operating lease agreements the Bank was obliged to pay instalments of LTL 1,125 thousand during one year (2003 – LTL 952 thousand) and LTL 1,853 thousand during two to five years (2003 – LTL 1,954 thousand).

Borrowing agreements

As of 31 December 2004 the Bank and the Group had entered into borrowing agreement under which the amount of LTL 8 million (2003: LTL 11 million) could be borrowed with the foreclosure of part of securities portfolio. As of 31 December 2004 (same in 2003) neither the Bank nor the Group

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

NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS

had used any funds from such borrowing agreements.

Commitments to grant finance lease and acquire assets

As at 31 December 2004, "Šiaulių Banko Lizingas" UAB had effective agreements signed with the suppliers regarding assets

meant for finance lease for the total amount of LTL 673 thousand (2003: LTL 1,521 thousand). Furthermore, as at 31 December 2004, "Šiaulių Banko Lizingas" UAB had not yet transferred assets to the clients according to some lease agreements in effect. The total value of such lease agreements amounted to LTL 605 thousand (2003: LTL 601 thousand).

NOTE 29 DIVIDENDS PER SHARE

Dividends are not recognised until the moment they are approved by the annual general meeting of shareholders. Dividends per share are calculated as the ratio of dividends declared to the actual number of authorised ordinary shares at the date of dividend approval. During the annual general meeting of shareholders to be held on 30 March 2005, dividends of LTL 0.01 per share will be proposed for payment for the year 2004 (2003: dividends of LTL 0.01 per share). In total,

dividends of LTL 560 thousand will be proposed for payment (2003: LTL 483 thousand). The effect of this decision is not reflected in the financial statements as at 31 December 2004, and by the amount of dividends for 2004 retained result for the year ending 31 December 2005 will be reduced. The payment of dividends has no impact on income tax liabilities of the Bank and the Group.

NOTE 30 CASH AND CASH EQUIVALENTS

| | 2004 | | 2003 | |
|--|---------------|----------------|---------------|----------------|
| | Group | Bank | Group | Bank |
| Cash | 18,811 | 18,800 | 14,538 | 14,528 |
| Other valuables | 4 | 4 | 4 | 4 |
| Correspondent accounts with other banks | 8,295 | 8,295 | 6,963 | 6,963 |
| Correspondent accounts with the Central Bank | 25,676 | 25,676 | 20,218 | 20,218 |
| Compulsory reserves with the Bank of Lithuania | 824 | 824 | 19,891 | 19,891 |
| Due from other banks and financial institutions (up to 3 months) | 28,031 | 63,084 | 16,823 | 52,567 |
| Total | 81,641 | 116,683 | 78,437 | 114,171 |

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

NOTE 31 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2004 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 balances with central banks | 45,315 | - | - | - | - | - | - | 7,197 | 52,512 |
| Due from other banks and financial institutions | 8,295 | 25,031 | 3,000 | 80 | 3,200 | 120 | - | 18 | 39,744 |
| Trading securities | - | - | - | - | - | - | - | 1,813 | 1,813 |
| Loans granted | - | 15,673 | 42,193 | 53,108 | 100,934 | 119,400 | 68,709 | 1,419 | 401,436 |
| Finance lease receivables | - | 3,101 | 5,266 | 6,667 | 9,123 | 11,356 | 2,166 | 1,104 | 38,783 |
| Investment securities | | | | | | | | | |
| – available-for-sale securities | - | - | - | 1,651 | - | 6,105 | 15,258 | 8,320 | 31,334 |
| – held-to-maturity securities | - | - | - | 482 | 2,021 | 11,397 | 75,044 | - | 88,944 |
| Intangible assets and negative goodwill | - | - | - | - | - | - | - | 2,231 | 2,231 |
| Tangible fixed assets | - | - | - | - | - | - | - | 41,041 | 41,041 |
| Other assets | 680 | 2,490 | 7,624 | 527 | 881 | 1,835 | 623 | 4,124 | 18,784 |
| Total assets | 54,290 | 46,295 | 58,083 | 62,515 | 116,159 | 150,213 | 161,800 | 67,267 | 716,622 |
| Liabilities and shareholders' equity | | | | | | | | | |
| Due to other banks and financial institutions | 5,026 | 18,811 | 7,908 | 18,286 | 25,672 | 21,008 | 19,630 | 5 | 116,418 |
| Deposits | 166,863 | 59,082 | 81,067 | 83,547 | 91,290 | 21,943 | 13,348 | - | 517,140 |
| Special and lending funds | 298 | - | - | - | - | - | - | - | 298 |
| Income tax liabilities | - | - | - | - | 807 | - | - | - | 807 |
| Deferred income tax liabilities | - | - | - | - | - | - | - | 113 | 113 |
| Other liabilities | 1,973 | 5,414 | 424 | 354 | 487 | 561 | 218 | 1,119 | 10,550 |
| Shareholders' equity | | | | | | | | 67,438 | 67,438 |
| Minority interest | | | | | | | | 3,858 | 3,858 |
| Total liabilities and shareholders' equity | 174,160 | 83,307 | 89,399 | 102,187 | 118,256 | 43,584 | 33,196 | 72,533 | 716,622 |
| Net liquidity gap | (119,870)* | (37,012) | (31,316) | (39,672) | (2,097) | 106,629 | 128,604 | (5,266) | - |

*The liquidity gap may be covered by selling the portfolio of investment securities of LTL 111,958 thousand, which comprise debt securities issued by the Government of Lithuania, and which are liquid on the secondary market.

The structure of the Group's assets and liabilities by maturity as at 31 December 2003 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 | 62,301 | 34,529 | 50,607 | 61,396 | 93,869 | 117,984 | 87,233 | 84,442 | 592,361 |
| Total liabilities and shareholders' equity | 146,008 | 62,871 | 70,394 | 85,367 | 92,553 | 43,634 | 32,856 | 58,678 | 592,361 |
| Net liquidity gap | (83,707) | (28,342) | (19,787) | (23,971) | 1,316 | 74,350 | 54,377 | 25,764 | - |

The structure of the Bank's assets and liabilities by maturity as at 31 December 2004 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 balances with central banks | 45,304 | - | - | - | - | - | - | 7,197 | 52,501 |
| Due from other banks and financial institutions | 8,295 | 38,410 | 24,674 | 80 | 3,200 | 120 | - | 18 | 74,797 |
| Trading securities | - | - | - | - | - | - | - | 1,813 | 1,813 |
| Loans granted | - | 22,936 | 55,746 | 52,717 | 100,934 | 113,228 | 68,709 | 1,418 | 415,688 |

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

NOTE 31 LIQUIDITY RISK

| | 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 |
|---|-------------------|-------------------|----------------|-----------------|-----------------|----------------|-------------------|--------------------|----------------|
| Investment securities | | | | | | | | | |
| – available-for-sale securities | - | - | - | 1,651 | - | 6,105 | 15,258 | 814 | 23,828 |
| – held-to-maturity securities | - | - | - | 482 | 2,021 | 11,397 | 75,044 | | 88,944 |
| Investments in subsidiaries | - | - | - | - | - | - | - | 11,812 | 11,812 |
| Intangible assets and negative goodwill | - | - | - | - | - | - | - | 2,088 | 2,088 |
| Tangible fixed assets | - | - | - | - | - | - | - | 26,138 | 26,138 |
| Other assets | 680 | 2,252 | 351 | 402 | 607 | 1,425 | 623 | 427 | 6,767 |
| Total assets | 54,279 | 63,598 | 80,771 | 55,332 | 106,762 | 132,275 | 159,634 | 51,725 | 704,376 |
| Liabilities and shareholders' equity | | | | | | | | | |
| Due to other banks and financial institutions | 5,038 | 18,791 | 4,851 | 18,201 | 25,502 | 19,942 | 19,630 | 5 | 111,960 |
| Deposits | 166,927 | 59,082 | 81,067 | 83,547 | 91,290 | 21,943 | 13,348 | - | 517,204 |
| Special and lending funds | 298 | - | - | - | - | - | - | - | 298 |
| Other liabilities | 1,943 | 2,954 | 284 | 261 | 268 | 394 | 218 | 1,154 | 7,476 |
| Shareholders' equity | - | - | - | - | - | - | - | 67,438 | 67,438 |
| Total liabilities and shareholders' equity | 174,206 | 80,827 | 86,202 | 102,009 | 117,060 | 42,279 | 33,196 | 68,597 | 704,376 |
| Net liquidity gap | (119,927)* | (17,229) | (5,431) | (46,677) | (10,298) | 89,996 | 126,438 | (16,872) | - |

*The liquidity gap may be covered by selling the portfolio of investment securities of LTL 111,958 thousand, which comprise debt securities issued by the Government of Lithuania, and which are liquid on the secondary market.

The structure of the Bank's assets and liabilities by maturity as at 31 December 2003 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 un-defi-ned | Total |
|--------------------------------------|-----------------|-------------------|---------------|-----------------|----------------|---------------|-------------------|----------------------|----------|
| Assets | 62,291 | 46,123 | 71,240 | 55,214 | 82,937 | 107,622 | 84,716 | 62,179 | 572,322 |
| Liabilities and shareholders' equity | 146,074 | 59,555 | 67,380 | 85,346 | 83,186 | 41,734 | 32,006 | 57,041 | 572,322 |
| Net liquidity gap | (83,783) | (13,432) | 3,860 | (30,132) | (249) | 65,888 | 52,710 | 5,138 | - |

The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. The Bank's liquidity ratios calculated using the regulations approved by the Bank of Lithuania were as follows at the end of each month:

| | Liquid assets | Current liabilities | Liquidity ratio (per cent) |
|-------------------|---------------|---------------------|----------------------------|
| 31 December 2003 | 168,065 | 328,712 | 51.13 |
| 31 January 2004 | 145,415 | 308,809 | 47.09 |
| 28 February 2004 | 163,366 | 321,915 | 50.75 |
| 31 March 2004 | 197,331 | 336,752 | 58.60 |
| 30 April 2004 | 137,427 | 361,440 | 38.02 |
| 31 May 2004 | 158,670 | 422,350 | 37.57 |
| 30 June 2004 | 162,738 | 406,585 | 40.03 |
| 31 July 2004 | 168,643 | 403,648 | 41.78 |
| 31 August 2004 | 176,035 | 433,505 | 40.61 |
| 30 September 2004 | 193,235 | 440,270 | 43.89 |
| 31 October 2004 | 177,393 | 439,947 | 40.32 |
| 30 November 2004 | 197,745 | 461,648 | 42.83 |
| 31 December 2004 | 204,594 | 470,054 | 43.53 |

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

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2004 were as follows:

| | USD | Other currencies | Total currencies* | EUR | LTL | Total |
|---|---------------|------------------|-------------------|----------------|----------------|----------------|
| Assets | | | | | | |
| Cash and balances with central banks | 10,192 | 1,051 | 11,243 | 5,205 | 36,064 | 52,512 |
| Due from other banks and financial institutions | 13,905 | 627 | 14,532 | 17,194 | 8,018 | 39,744 |
| Trading securities | - | - | - | - | 1,813 | 1,813 |
| Loans granted | 14,132 | - | 14,132 | 41,075 | 346,229 | 401,436 |
| Finance lease receivables | 675 | - | 675 | 1,029 | 37,079 | 38,783 |
| Investment securities | | | | | | |
| – available-for-sale securities | - | - | - | 3,763 | 27,571 | 31,334 |
| – held-to-maturity securities | - | - | - | 25,688 | 63,256 | 88,944 |
| Intangible assets and negative goodwill | - | - | - | - | 2,231 | 2,231 |
| Tangible fixed assets | - | - | - | - | 41,041 | 41,041 |
| Other assets | 146 | 1 | 147 | 523 | 18,114 | 18,784 |
| Total assets | 39,050 | 1,679 | 40,729 | 94,477 | 581,416 | 716,622 |
| Liabilities and shareholders' equity | | | | | | |
| Due to other banks and financial institutions | 4,706 | - | 4,706 | 31,666 | 80,046 | 116,418 |
| Deposits | 33,924 | 735 | 34,659 | 62,260 | 420,221 | 517,140 |
| Special and lending funds | - | - | - | - | 298 | 298 |
| Income tax liabilities | - | - | - | - | 807 | 807 |
| Deferred income tax liabilities | - | - | - | - | 113 | 113 |
| Other liabilities | 811 | 49 | 860 | 1,359 | 8,331 | 10,550 |
| Shareholders' equity | - | - | - | - | 67,438 | 67,438 |
| Minority interest | - | - | - | - | 3,858 | 3,858 |
| Total liabilities and shareholders' equity | 39,441 | 784 | 40,225 | 95,285 | 581,112 | 716,622 |
| Net balance sheet position | (391) | 895 | 504 | (808) | 304 | - |
| Off-balance sheet position | 381 | (386) | (5) | (399) | 404 | - |
| Net open position | (10) | 509 | 499 | (1,207) | 708 | - |

The Group's open positions of prevailing currencies as at 31 December 2003 were as follows:

| | USD | Other currencies | Total currencies* | EUR | LTL | Total |
|--|---------|------------------|-------------------|--------|---------|---------|
| Total assets | 40,454 | 2,153 | 42,607 | 71,432 | 478,322 | 592,361 |
| Total liabilities and shareholders' equity | 48,655 | 743 | 49,398 | 72,105 | 470,858 | 592,361 |
| Net balance sheet position | (8,201) | 1,410 | (6,791) | (673) | 7,464 | - |
| Off-balance sheet position | 8,148 | (485) | 7,663 | 550 | (8,213) | - |
| Net open position | (53) | 925 | 872 | (123) | (749) | - |

The Bank's open positions of prevailing currencies as at 31 December 2004 were as follows:

| | USD | Other currencies | Total currencies* | EUR | LTL | Total |
|---|--------|------------------|-------------------|--------|---------|---------|
| Assets | | | | | | |
| Cash and balances with central banks | 10,192 | 1,051 | 11,243 | 5,205 | 36,053 | 52,501 |
| Due from other banks and financial institutions | 14,580 | 627 | 15,207 | 18,223 | 41,367 | 74,797 |
| Trading securities | - | - | - | - | 1,813 | 1,813 |
| Loans granted (before provisions) | 14,132 | - | 14,132 | 41,075 | 360,481 | 415,688 |
| Investment securities | | | | | | |
| – available-for-sale securities | - | - | - | 3,763 | 20,065 | 23,828 |
| – held-to-maturity securities | - | - | - | 25,688 | 63,256 | 88,944 |
| Investments in subsidiaries | - | - | - | - | 11,812 | 11,812 |

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

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

| | USD | Other currencies | Total currencies* | EUR | LTL | Total |
|--|--------|------------------|-------------------|---------|---------|---------|
| Intangible assets and negative goodwill | - | - | - | - | 2,088 | 2,088 |
| Tangible fixed assets | - | - | - | - | 26,138 | 26,138 |
| Other assets | 148 | 1 | 149 | 526 | 6,092 | 6,767 |
| Total assets | 39,052 | 1,679 | 40,731 | 94,480 | 569,165 | 704,376 |
| Liabilities and shareholders' equity | | | | | | |
| Due to other banks | 4,706 | | 4,706 | 31,666 | 75,588 | 111,960 |
| Deposits | 33,924 | 735 | 34,659 | 62,260 | 420,285 | 517,204 |
| Special and lending funds | - | - | - | - | 298 | 298 |
| Other liabilities | 811 | 49 | 860 | 1,359 | 5,257 | 7,476 |
| Shareholders' equity | - | - | - | - | 67,438 | 67,438 |
| Total liabilities and shareholders' equity | 39,441 | 784 | 40,225 | 95,285 | 568,866 | 704,376 |
| Net balance sheet position | (389) | 895 | (506) | (805) | 299 | - |
| Off-balance sheet position | 381 | (386) | (5) | (399) | 404 | - |
| Net open position | (8) | 509 | 501 | (1,204) | 703 | - |

The Bank's open positions of prevailing currencies as at 31 December 2003 were as follows:

| | USD | Other currencies | Total currencies* | EUR | LTL | Total |
|--------------------------------------|---------|------------------|-------------------|---------|---------|---------|
| Assets | 40,188 | 2,141 | 42,329 | 70,607 | 459,386 | 572,322 |
| Liabilities and shareholders' equity | 48,655 | 762 | 49,417 | 72,105 | 450,800 | 572,322 |
| Net balance sheet position | (8,467) | 1,379 | (7,088) | (1,498) | 8,586 | |
| Off-balance sheet position | 8,148 | (485) | 7,663 | 550 | - | - |
| Net position | (319) | 894 | (575) | (948) | - | - |

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

The Bank has also 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.

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

NOTE 33 INTEREST RATE RISK

The table below summarizes the Group's interest rate risks as at 31 December 2004. The Group's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual reprising 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 | - | - | - | - | - | 52,512 | 52,512 |
| Due from other banks and financial institutions | 21,578 | 3,000 | 80 | 3,200 | 120 | 11,766 | 39,744 |
| Trading securities | - | - | - | - | - | 1,813 | 1,813 |
| Loans granted | 44,665 | 68,657 | 172,240 | 68,034 | 39,876 | 7,964 | 401,436 |
| Finance lease receivables | 3,101 | 5,266 | 6,667 | 9,123 | 13,522 | 1,104 | 38,783 |
| Investment securities | - | - | - | - | - | - | - |
| – available-for-sale securities | - | - | 1,651 | - | 21,363 | 8,320 | 31,334 |
| – held-to-maturity securities | - | - | 482 | 2,021 | 86,441 | - | 88,944 |
| Intangible assets and negative goodwill | - | - | - | - | - | 2,231 | 2,231 |
| Tangible fixed assets | - | - | - | - | - | 41,041 | 41,041 |
| Other assets | - | - | - | - | - | 18,784 | 18,784 |
| Total assets | 69,344 | 76,923 | 181,120 | 82,378 | 161,322 | 145,535 | 716,622 |
| Liabilities and shareholders' equity | | | | | | | |
| Due to other banks and financial institutions | 42,527 | 14,814 | 17,317 | 17,075 | 19,654 | 5,031 | 116,418 |
| Deposits and special and lending funds | 63,376 | 83,495 | 94,033 | 105,651 | 3,722 | 167,161 | 517,438 |
| Income tax liabilities | - | - | - | - | - | 807 | 807 |
| Deferred income tax liabilities | - | - | - | - | - | 113 | 113 |
| Other liabilities | - | - | - | - | - | 10,550 | 10,550 |
| Shareholders' equity | - | - | - | - | - | 67,438 | 67,438 |
| Minority interest | - | - | - | - | - | 3,858 | 3,858 |
| Total liabilities and shareholders' equity | 105,903 | 98,309 | 111,350 | 122,726 | 23,376 | 254,958 | 716,622 |
| Interest rate sensitivity gap | (36,559) | (21,386) | 69,770 | (40,348) | 137,946 | (109,423) | - |

The table below summarizes the Group's interest rate risks as at 31 December 2003:

| | 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 | 52,917 | 38,507 | 145,201 | 71,194 | 120,618 | 163,924 | 592,361 |
| Total liabilities and shareholders' equity | 73,397 | 79,776 | 105,463 | 87,387 | 23,562 | 222,776 | 592,361 |
| Interest rate sensitivity gap | (20,480) | (41,269) | 39,738 | (16,193) | 97,056 | (58,852) | |

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

At 31 December 2004

| | USD | EUR | LTL |
|---|------|------|------|
| Assets | | | |
| Due from other banks and financial institutions | 2.21 | 1.70 | 4.42 |
| Investment securities | - | 4.34 | 4.82 |
| Finance lease receivables | 8.00 | 6.40 | 9.00 |
| Loans granted | 5.95 | 6.05 | 5.86 |
| Liabilities | | | |
| Due to other banks | 3.15 | 3.60 | 2.68 |
| Deposits and special lending funds | 1.49 | 2.97 | 2.45 |

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

NOTE 33 INTEREST RATE RISK

The table below summarizes the Bank's interest rate risks as at 31 December 2004. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual reprising 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 | - | - | - | - | - | 52,501 | 52,501 |
| Due from other banks and financial institutions | 34,956 | 24,675 | 80 | 3,200 | 120 | 11,766 | 74,797 |
| Trading securities | - | - | - | - | - | 1,813 | 1,813 |
| Loans granted (before provisions) | 51,928 | 82,209 | 171,849 | 68,034 | 39,704 | 1,964 | 415,688 |
| Available-for-sale securities | - | - | 1,651 | - | 21,363 | 814 | 23,828 |
| Held-to-maturity securities | - | - | 482 | 2,021 | 86,441 | - | 88,944 |
| Investments in subsidiaries | - | - | - | - | - | 11,812 | 11,812 |
| Intangible assets and negative goodwill | - | - | - | - | - | 2,088 | 2,088 |
| Tangible fixed assets | - | - | - | - | - | 26,138 | 26,138 |
| Other assets (before provisions) | - | - | - | - | - | 6,767 | 6,767 |
| Total assets | 86,884 | 106,884 | 174,062 | 73,255 | 147,628 | 115,663 | 704,376 |
| Liabilities and shareholders' equity | | | | | | | |
| Due to other banks and financial institutions | 42,507 | 11,757 | 17,232 | 16,905 | 18,516 | 5,043 | 111,960 |
| Deposits and special and lending funds | 63,376 | 83,495 | 94,033 | 105,651 | 3,722 | 167,225 | 517,502 |
| Other liabilities | - | - | - | - | - | 7,476 | 7,476 |
| Shareholders' equity | - | - | - | - | - | 67,438 | 67,438 |
| Total liabilities and shareholders' equity | 105,883 | 95,252 | 111,265 | 122,556 | 22,238 | 247,182 | 704,376 |
| Interest rate sensitivity gap | (18,999) | 11,632 | 62,797 | (49,301) | 125,390 | (131,519) | |

The table below summarizes the Bank's interest rate risks as at 31 December 2003:

| | 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 | | | | | | | |
| Assets | 67,985 | 59,635 | 139,995 | 64,389 | 107,709 | 132,609 | 572,322 |
| Liabilities and shareholders' equity | 73,397 | 76,776 | 105,463 | 87,387 | 22,712 | 206,587 | 572,322 |
| Interest rate sensitivity gap | (5,412) | (17,141) | 34,532 | (22,998) | 84,997 | (73,978) | |

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

At 31 December 2003

| | USD | EUR | LTL |
|---|------|------|-------|
| Assets | | | |
| Due from other banks and financial institutions | 1.05 | 0.95 | 2.93 |
| Investment securities | - | 4.54 | 5.08 |
| Finance lease receivables | 8.00 | 7.50 | 10.60 |
| Loans granted | 5.81 | 6.53 | 6.30 |
| Liabilities | | | |
| Due to other banks | 2.55 | 3.98 | 3.75 |
| Deposits and special lending funds | 1.55 | 2.72 | 2.71 |

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

NOTE 34 RELATED PARTY TRANSACTIONS

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

During 2004, a number of banking transactions were entered into with related parties in the ordinary course of business (large shareholders, members of the Council and the Board, as well as with the subsidiaries). These transactions include settlements, loans, deposits and foreign currency transactions.

In accordance with the Lithuanian Law on Commercial Banks, related parties are defined as:

1) owners of qualified portion of the Bank's authorised share capital and/or voting rights; qualified portion of authorised

share capital is defined as the portion of share capital or voting rights, under which the person holds 10 or more per cent of share capital or (and) voting rights, may induce changes of 1/3 of the main management body (e.g. the Board), or may have decisive influence upon the operations of the Bank or the decisions of the management bodies.

2) legal entities, in which the Bank holds the qualified portion of authorised share capital and/or voting rights;

3) management and persons having close family or in-law relations with management of legal entities specified in points 1 and 2;

4) individuals having close family or in-law relations with individuals specified in point 1;

5) entities controlled by those specified in point 1;

6) Members of Management Board, Council and other related parties.

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

| | Principal of loans outstanding | | Average annual interest rates | |
|---|--------------------------------|---------------|-------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Legal entities, in which the Bank holds the qualified portion of authorised share capital and/or voting rights | 21,502 | 21,188 | 4.50 | 4.50 |
| Management and persons having close family and in-law relations with management of legal entities mentioned above | 318 | 144 | 4.94 | 4.85 |
| Members of the Council and Board and other related parties | 20,812 | 12,302 | 5.21 | 5.45 |
| Total | 42,632 | 33,634 | 4.85 | 4.85 |

The balances of deposits granted by the related parties to the Bank and the Group, except for subsidiaries, and their average annual interest rates (calculated as weighted average) were as follows:

| | Principal of loans outstanding | | Average annual interest rates | |
|--|--------------------------------|--------------|-------------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| Legal entities, in which the Bank holds the qualified portion of authorised share capital and/or voting rights | 65 | 27 | - | - |
| Management and persons having close family and in-law relations with management of legal entities | 1,613 | 28 | 3.30 | 3.70 |
| Members of the Council and Board and other related parties | 8,783 | 7,400 | 1.88 | 1.61 |
| Total | 10,461 | 7,455 | 2.09 | 1.61 |

As at 31 December 2004 and during the year then ended deposits from related parties were accepted on an arm's length basis.

In 2004 the amount of salaries and bonuses to three Board members of the Bank totalled LTL 737 thousand (2003: LTL 593 thousand). Social security payments related to this amount equalled to LTL 228 thousand, and the guarantee

fund payments equalled to LTL 1 thousand (2003: social security payments – LTL 184 thousand, guarantee fund payments – LTL 1 thousand). Social security payments related to this amount equalled to LTL 327 thousand, and the guarantee fund payments equalled to LTL 2 thousand (2003: social security payments – LTL 283 thousand, guarantee fund payments – LTL 2 thousand).

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

NOTE 35 CONCENTRATION EXPOSURE

As at 31 December 2004, 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 13.9 million (the whole amount rep-

resents commitments to provide credit facilities), i.e. 21.87% of the Bank's calculated capital (2003: LTL 11.2 million and 21.8% of the Bank's calculated capital).

NOTE 36 STOCK BROKERAGE DEPARTMENT ACTIVITIES

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

| | 2004 | 2003 |
|---|------|------|
| Number of contracts for managing securities accounts and for transactions | 405 | 333 |
| Total value of transactions concluded on stock exchange, in LTL million | 117 | 103 |
| Number of issuers, whose securities are accounted by the brokerage department | 14 | 11 |

As at 31 December, the size of the portfolio managed by Stock Brokerage Department was as follows:

| | 2004 | 2003 |
|--|----------------|---------------|
| Bank's: | | |
| Government securities | 92,975 | 51,843 |
| Equity securities | 8,584 | 12,846 |
| Total Bank's | 101,559 | 64,689 |
| On behalf of clients: | | |
| Government securities | 2,691 | 4,045 |
| Equity securities | 103,477 | 38,992 |
| Equity securities of issuers represented by Stock Brokerage Department | 235,953 | 53,776 |
| Total on behalf of clients | 342,121 | 96,813 |

Income that is allocated to the Stock Brokerage Department was as follows:

| | 2004 | 2003 |
|---|--------------|--------------|
| Interest income on debt securities acquired | 4,753 | 3,738 |
| Gain (loss) on trade in equity securities | 252 | (222) |
| Commission charged on clients | 226 | 142 |
| Income from distribution of savings bonds of the government | - | 5 |
| Other income from transactions with securities | 45 | 19 |
| Dividends received | 64 | 50 |
| Consulting | 7 | 1 |
| Gain (loss) on trade in debt securities | - | 471 |
| Total income | 5,347 | 4,204 |
| Expenses allocated to Stock Brokerage Department | 238 | 128 |

NOTE 37 POST BALANCE SHEET EVENTS

On 28 February 2005, the European Bank for Reconstruction and Development (EBRD) approved its intentions to invest in the Bank through acquisition of newly issued shares. The EBRD's share in increased share capital of the Bank would represent 16%. The issue of new shares and the share pur-

chase by EBRD were not executed as at the date of the issue of these financial statements. On 5 April 2005 the management board of EBRD shall be discussing the issue of the Bank shares.

