Annual Report 2003

ŠIAULIŲ BANKAS

Mission Aims Principles

*Šiaulių Bankas' **Mission***

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

*Šiaulių Bankas' **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

*Šiaulių Bankas' **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

Arvydas Salda, Chairman of the Bank Council

Rapid development and constant change are daily concerns which business meets in the present-day dynamic Lithuania. Accession to European Union has posed new challenges and offered new opportunities.

We wish the customers of Šiaulių Bankas, the whole Šiaulių Bankas' group sagacity, determination, persistence and, of course, good luck!

Arvydas Salda
Chairman of the Bank Council

Contents

Steps in 2003

January
Šiaulių Bankas together with Nordic Investment Bank and European Council Development Bank stars crediting small and medium businesses run by women entrepreneurs or offering working places for women.
Pašilaičiai Client Service Centre is opened in Vilnius.

March
Šiaulių Bankas is recognised as one of the most efficient banks in the EU accession countries of Central and Eastern Europe in implementing small and medium businesses financing project run by the European Bank for Reconstruction and Development.

April
Fabijoniškės Client Service Centre is opened in Vilnius.

May
A Client Service Centre is opened in Telšiai. The national network of territorial divisions of Šiaulių Bankas covers 20 towns.
Private company "Pajūrio Alka" UAB becomes the fifth subsidiary of the Bank.

June
The share capital is increased by LTL 5.3 million by using the Bank's funds up to LTL 43,343,940.

July
Šiaulių Bankas' assets exceed half a billion litas.
Client Service Centre is opened in Druskininkai.

September
Šiaulių Bankas is granted a credit line from HSH Nordbank AG.
Client Service Centre is opened in Marijampolė.

November
The share capital of the Bank is increased by LTL 5 million by additional contributions up to LTL 48,343,940.
The Bank applied to *Visa International* regarding its joining the organisation.

December
A long-term mortgage program is developed.
Internet banking system "SB linija" is modernised.

Board Report

Šiaulių Bankas has been rapidly growing for the last four years. Last year the Bank has taken another step forward since the goals set have been successfully implemented.

In the course of the year the Bank increased its assets and net loan portfolio by 26% and 25%, respectively. Deposits and letters of credit increased by 37%. The Bank's market share comprises 3% of the rapidly growing Lithuanian banking market. The Bank's number of customers grew up by 37% and reached 56 thousand.

The Bank's net profit amounted to LTL 4.154 million. Its profitability improved as a result of successful development of the Bank, increasing profitability of the Bank's branches and client service centres.

In order to use effectively the Bank's rapidly growing assets and maintain good risk limiting standards, the Bank increased its authorised share capital by 27% up to LTL 48,343,940. In the middle of the year the Bank increased its share capital by more than LTL 5 million through other reserves of the bank, whereas at the end of the year the share capital was increased by LTL 5 million through additional contributions thereto.

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.

Net profit earned to the Bank by "Šiaulių Banko Lizingas" UAB amounted to LTL 1.2 million, "Šiaulių Banko Investicijų Valdymas" UAB LTL 640 thousand, "Šiaulių Banko Faktoringas" UAB LTL 240 thousand, "Šiaulių Banko Turto Fondas" UAB LTL 280 thousand, respectively.

Algirdas Butkus, Chairman of the Bank Board

In 2003, the Bank's network of regional subdivisions was supplemented with 5 new client service centres. Two more centres were ready for opening. At the end of the year, the Bank had 37 subdivisions in 22 cities all over the country: the head office in Šiauliai, 10 branches and 26 client service centres. Significant growth was noted in Vilnius, Kaunas, Alytus, Radviliškis regional subdivisions. Consistent development of operations was noted in Klaipėda, Mažeikiai, and Šilutė branches. As a result of successful development of the network of client service centres, the services rendered by the Bank became more and more available in different regions of the country. The Bank's share of deposits and credits administered in other than Šiauliai region subdivisions accounted for over 60%.

In its services, especially lending policy, the Bank continues to follow its vision as a universal bank which focuses on the whole complex of services rendered to small and medium-size enterprises (SMEs) and individual customers.

In 2003, the Bank proceeded with its micro-crediting programme of small and medium-size enterprises. The Bank together with its subsidiary "Šiaulių Banko Lizingas" UAB financed 330 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 prepared a project for financing small and medium-size businesses started by women. 47 credits were granted. At the end of the year, the second contract was signed with these banks on additional credit line facility of EUR 1 million.

The number of micro credits granted by the Bank to small and medium-size enterprises using different financing sources totalled 600, on average amounting to LTL 43 thousand.

For the purpose of improving crediting conditions of small and medium-size enterprises, 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). The most effective cooperation was noted between the Bank and "Investicijų ir Verslo Garantijos" UAB (INVEGA) – 55% of guarantees of the latter were issued for the credits of the Bank.

Business crediting was further performed using the funds received from the World Bank, PHARE programme, a public institution Lithuanian Environment Protection Investment Fund (Lietuvos Aplinkos Apsaugos Investicijų Fondas), a public institution Central Project Management Agency (Centrinė Projektų Valdymo Agentūra). In September, the Bank received a credit line facility of EUR 3 million from HSH Nordbank AG.


Donatas Savickas, Deputy Chairman of the Bank Board, Bank Board member

During the previous year the Bank also focused on the development of crediting of individual customers. That was the first year when the Bank started rendering consumer-crediting services. The Bank granted 700 consumer credits. Long-term household crediting programme was prepared. The credits through payment cards became more popular.

During the previous year, the Bank increased the number of valid Eurocard/MasterCard and Maestro payment cards by 45% up to 16 thousand. At the end of the year, the Bank applied with request to join *Visa International* organization and expects to start the distribution of *Visa* cards in 2004.

The number of customers using the Bank's Internet banking service "SB Linija" is gradually increasing. Almost 40% of payment transfer orders were submitted on the Internet. The

Board Report

system was substantially modernised, as a result of which its operation improved, the customers are offered a wider range of services, and additional security measures have been installed.

The Bank focused more on the development and improvement of the entire information system FORPOST used by the Bank. The implementation of new subsystems enabled the Bank to supplement the range of services rendered by the Bank and improve its organisational and technical operation systems.

The above-mentioned developments created proper conditions for improving operational risk management procedures. The management of other risks, to which the Bank is exposed, was also subject to improvement. There is still much left to do in this field all the more because regulatory requirements established by supervision authorities for the banks upon Lithuania's accession to the European Union are rising rapidly.

In early 2004, the Bank proceeded with its work started in the previous year and smoothly transited to interbank money transfer system LITAS, started granting long-term household credits, opened new client service centres in Druskininkai and Plungė. In January 2004, an international rating agency Fitch Ratings upgraded the Bank's long-term rating from a stable to positive position. In addition, the Agency reconfirmed long-term foreign currency debt rating at B+, short-term debt rating at B, individual rating at D and support rating at 5 that were previously awarded to the Bank.

The objectives for the year 2004 were established by the Bank with reference to the results achieved and strategic business trends. The Bank will continue strengthening its capital base. For an effective management of operation of the growing Bank, the necessary measures will be taken to develop the Bank's organisational structure, expand the capacity of the Bank's information system, upgrade its security, and improve the Bank's risk management system. As a result of positive changes in this field, it will be possible to use the potential of all Lithuanian regions more effectively and increase the Bank's market share.

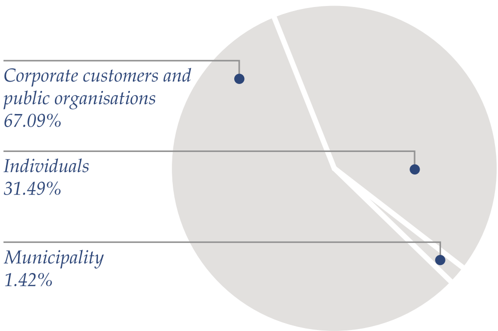
The Bank will work more actively with local self-government authorities and international financial institutions lending funds to finance the projects related to municipal infrastructure. Based on its previous experience in cooperation with small and medium-size enterprises and public authorities, the Bank will make every effort to render effectively its services in relation to financial support provided to different businesses in Lithuania from the EU structural funds. In its operation the Bank will do its best to maintain its status as a business partner of small and medium-size enterprises.

Vita Adomaitytė, Member of the Bank Board, Chief Accountant

Algirdas Butkus
Chairman of the Bank Board

Share Capital and Shareholders

Share Capital Structure as of 31-12-2003



In 2003 Šiaulių Bankas kept increasing its share capital through the Bank's funds and through additional contributions.

On the decision of the Shareholders' General meeting of 27th March 2003, the share capital was increased by LTL 5,322,940 from the Bank's own funds. The nominal value of the share was also changed. Shareholder's one share with the nominal value of 50 Litas "turned" into 57 shares with the nominal value of 1 LTL per share.

On the decision of the Shareholders' Extraordinary General meeting of 3rd September 2003, the share capital was increased by LTL 5 million through additional contributions. 5 million ordinary registered shares with the nominal value of 1 LTL per share were issued and distributed without applying priority right to all the shareholders. All the shares were acquired by 4 investors (2 individuals and 2 legal persons) in accordance with the list confirmed by the Shareholders' General meeting.

At the end of the year the Bank's share capital was LTL 48,343,940. It is divided into 48,343,940 ordinary registered shares with the nominal value of 1 LTL per share.

The Bank's shares are traded on the National Stock Exchange. The trade in the Bank's shares has become more active on the central market of the Stock Exchange since the middle of 2003. The turnover of the transactions made with Šiaulių Bankas shares during the first half of last year reached only LTL 93 thousand, while the turnover of the second half amounted to LTL 2.9 million. In 2004, during the first quarter only, trade turnover reached LTL 4.3 million.

The Structure of Shareholders on 31-12-2003

	No. of Shareholders
Individuals	739
Corporate customers	75
Municipality	1
Public organisations	2
Total	**817**

Share Capital and Shareholders

Ten Largest Shareholders of Šiaulių Bankas AB 31-12-2003

East Capital Asset Management AB	8.49%
"Prekybos Namai Aiva" UAB	7.54%
Gintaras Kateiva	6.12%
UAB "Šiaulių titanas" UAB	4.50%
Medicinos Bankas UAB	4.45%
"Mintaka" UAB	4.42%
"Pozityvios Investicijos" UAB	4.14%
"Optimalus Turto Valdymas" UAB	3.72%
Vincas Montvila	3.70%
"Audėjas" AB	3.45%
Ten largest Shareholders	**50.53%**

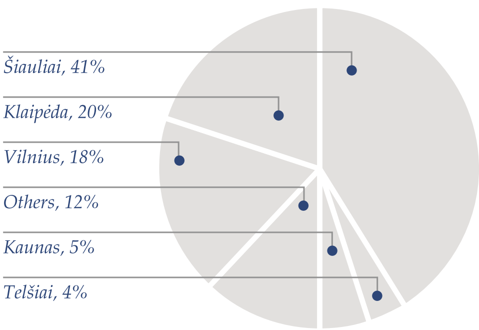
During 2003, the share of the Bank's capital owned by non-residents has grown from 4.57% to 9.74%. The bulk of the shares owned by non-residents – 8.49% of the Bank's share capital – belong to the Swedish Fund East Capital Asset Management AB.

In 2003, on the decision of the Shareholders' General meeting the Bank allocated shareholders dividends equal to 1% of the nominal share value from its profit of 2002.

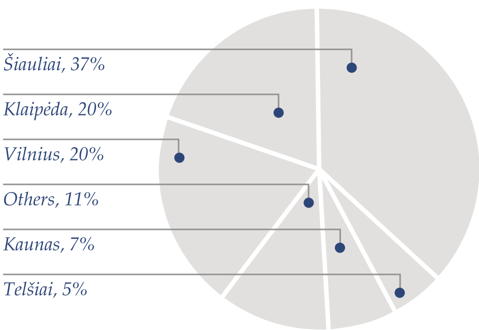
Shareholders' General meeting of the 29th March 2004 approved profit distribution, which foresees to pay out the shareholders the same amount of dividends for 2003. The shareholders' income from the Bank's shares is not only the dividends of 1% of the nominal share value paid for the three years in succession, but also free shares: in 2003 – 14%, in 2004 – 9.11%.

The Bank's Network

Deposits according to regions on 31-12-2003



Loans according to regions on 31-12-2003

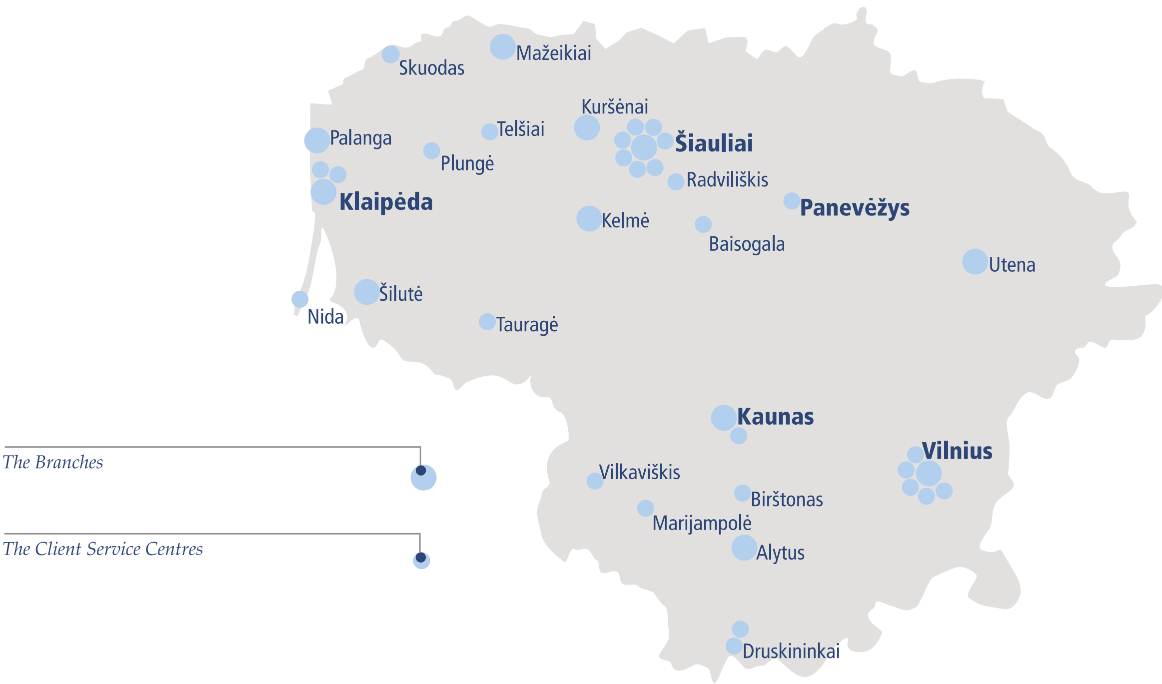


In 2003, Šiaulių Bankas opened 5 new client service centres in Druskininkai, Marijampolė, Telšiai and two in Vilnius. Two more centres in Druskininkai and Plungė were established and prepared for opening.

While creating the national customer service network the Bank founded 29 territorial divisions between 2000 and 2003. Four of them with poor prospects were closed.

On 31st December 2003, 37 divisions of the Bank operated in 22 towns: the Bank's Head Office in Šiauliai, 10 branches and 26 client service centres. The share of the Bank's deposits and loans administered outside the Šiauliai regional divisions exceeded 60%.

The Branches and Client Service Centres



The Bank's Network

Marijampolė Client Service Centre

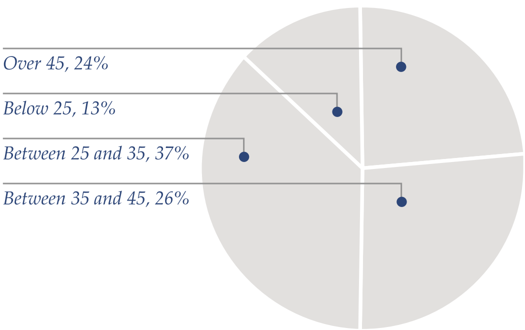

Telšiai Client Service Centre

Žardė Client Service Centre in Klaipėda

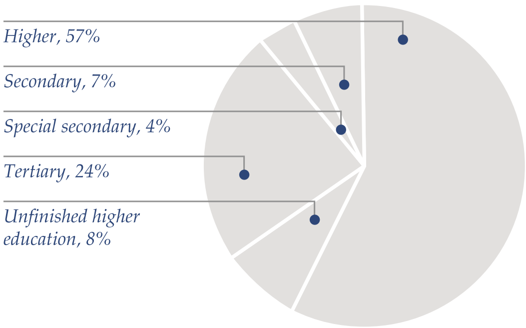
To ensure that the Bank's divisions are equally spread throughout the regions of the country, the Bank intends to open another 6 or 7 new client service centres thus completing the creation of the Bank's national network. In the future the new territorial divisions of the Bank are going to be established only with the arisal of a concrete need in the market. Successful client service centres are going to be commissioned more rights by registering them as branches.

The Bank's employees

Employees according to the age



Employees according to education



On 31st December 2003, 347 employees worked at Šiaulių Bankas, 9% more than in the previous year. The growth in the number of employees was determined by the expansion of the Bank's activities and its client service network.

The level of education of the Bank's employees continues to grow. 65% of the Bank staff have a university degree or are studying to get it. This ratio has increased by 10% during the last four years. More than half of the staff were below 35 years of age. The bank employs more and more university graduates or even undergraduate students. Those who are still studying are provided with favourable working conditions and offered flexible career opportunities.

The strength and reputation of any company in the competitive environment depends on its staff skills, creativity and initiative, that is why Šiaulių Bankas makes every effort to ensure the proper qualification level and motivation of its personnel. One of the ways for all employees to evaluate themselves and to be promoted is regular staff certification. It stimulates the staff to acquire new knowledge and skills.

In 2003 almost one third of the staff participated in various seminars at home and abroad. The system of in-house training has been developed. Its aim is to ensure the compulsory qualification of the client servicing staff, by offering an opportunity to up-date knowledge, to master the peculiarities of the banking services, to improve the skills of providing these services. The system of internal training is aimed at improving the quality of the Bank's client servicing.

The Bank's employees

On Punia mound

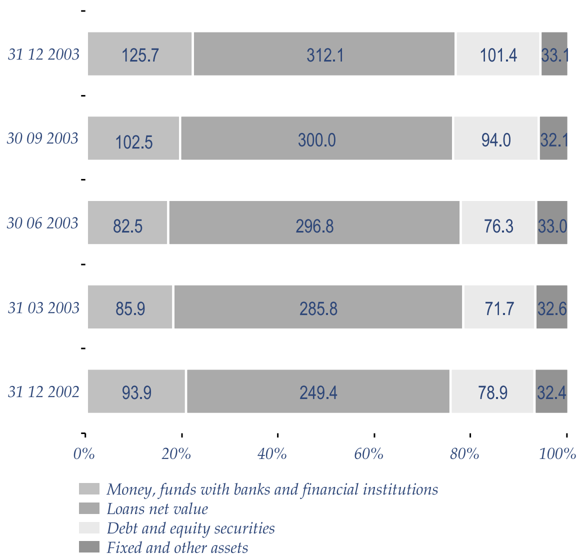
Sports and Joy festival in Vištytis

Christmas Concert at Kaunas Musical Theatre

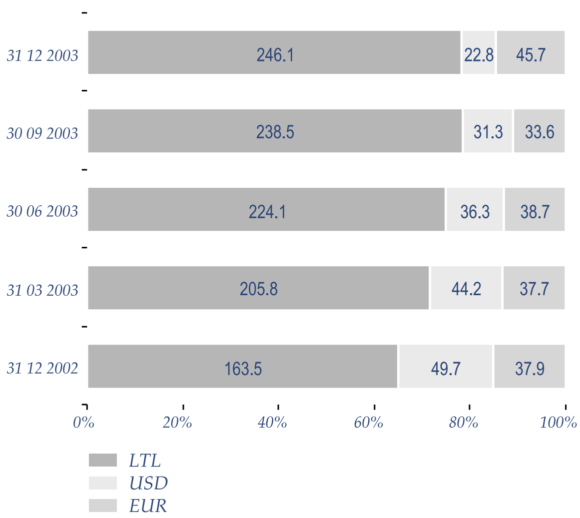
Good results depend not only on the staff qualification, but also on how they feel and the team spirit. The popular "Sports and Joy festival", which has become traditional, and other activities help to maintain warm atmosphere at the Bank. At the end of December all the staff was invited for the Christmas party at Kaunas Musical Theatre.

Financial Results of Activities

The structure of assets in 2003, LTL million



Loan portfolio in 2003, LTL million



Changes in the structure of assets

In 2003 the Bank's rapid growth which started four years ago continued. All major financial indicators of the banking activities exibited growth. The assets increased by 26% during the year. During the first two quarters of 2003 the Bank's assets grew only slightly, 3 to 5 per cent, during the third and fourth quarter they increased by more than 8% each time.

In 2003 the amount of the Bank's compulsory reserves increased by LTL 5.6 million up to LTL 26.4 million. Compulsory reserves in Litas made up LTL 19.9 million (in 2002 they constituted LTL 14.2 million), in foreign currencies – LTL 6.5 million (in 2002 – LTL 6.6 million). The amount of funds with other banks and financial institutions also increased from LTL 61.3 million in 2002 to LTL 64.5 million in 2003.

Although in comparison with the previous year funds invested in debt securities decreased, their portfolio increased by 26.4% – from LTL 70.2 million to LTL 88.8 million during the year. Investment in equity sequirities grew from LTL 8.6 million to LTL 12.6 million: the value of investment in subsidiaries increased by almost 3 times from LTL 3.5 million to LTL 9 million, share portfolio of private companies grew more than twice up to LTL 9.9 million.

The portfolio of loans granted to customers including overdrafts and factoring increased from LTL 251.1 million to LTL 314.7 million, i.e. by 25.3% over the year.

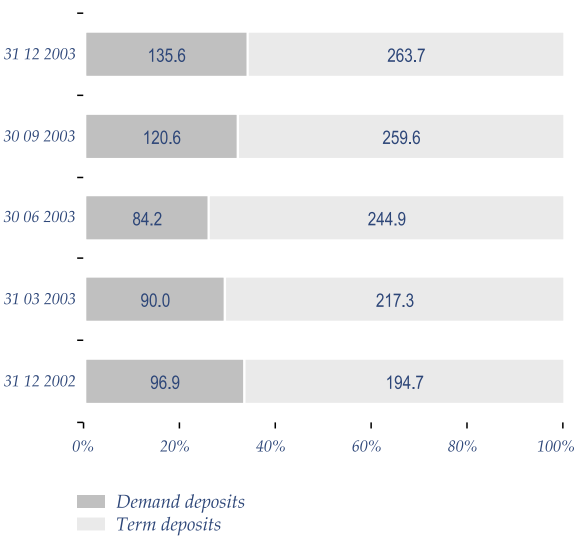
The ratio between long-term and short-term loans changed inconsiderably. The proportion of long-term loans stayed at 53% for 9 months, however, in the last quarter it grew to 56.2%. The share of short-term loans, fluctuating around 47%, decreased to 43.8% during the fourth quarter.

Last year, as well as in 2002, borrowing in foreign currency kept decreasing, while borrowing in litas kept growing.

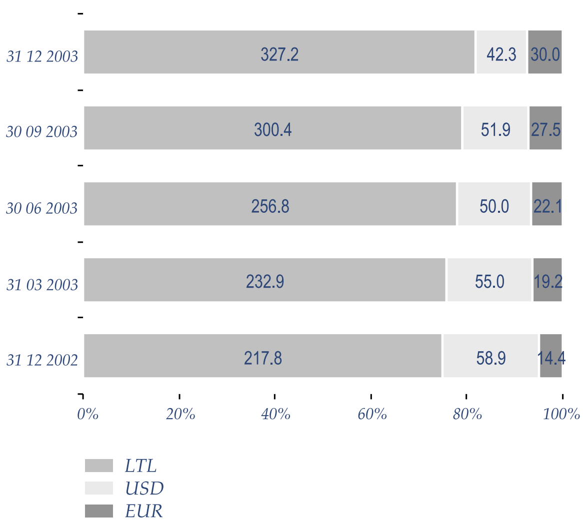
The structure of loan portfolio according to the type of economic activity has changed very little. The bulk of the loans were granted by the Bank to the following companies: wholesale and retail trade – LTL 87 million or 27.6% of all granted loans (in 2002 – 27.1%), processing industries – LTL 65

Financial Results of Activities

Deposits in 2003, LTL million



Deposits according to currencies in 2003, LTL million



million or 20.6% (in 2002 – 21.5%), construction – LTL 26.2 million or 8.3% (in 2002 – 13.2%).

Provisions for doubtful assets at the end of 2003 made up LTL 2.8 million (in 2002 – LTL 2.6 million). Of the total amount LTL 1.9 million were special provisions for concrete loans and their accrued interest (in 2002 – LTL 1.2 million), LTL 0.3 million were special provisions for other doubtful assets (in 2002 – LTL 0.9 million) and LTL 0.6 million were provisions for general loan portfolio risk (in 2002 – LTL 0.6 million).

Changes in liabilities

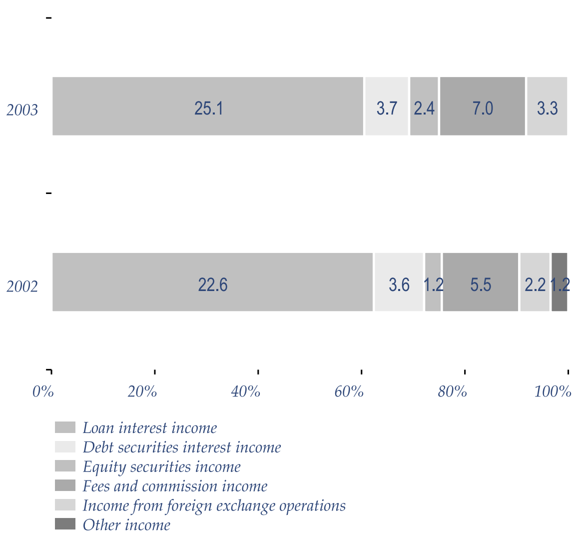
Funds from international organisations at the end of 2003 reached LTL 68.8 million (in 2002 – LTL 65.9 million). The Bank is using PHARE line and credit lines as well as loans received from European Bank for Reconstruction and Development, the World Bank, public companies Central Project Management Agency and Lithuanian Environment Protection Investment Fund. In 2003, HSH Nordbank granted the Bank a credit line of EUR 3 million. At the end of the year Šiaulių Bankas and Nordic Investment Bank together with the Council of Europe Development Bank signed agreements allocating Šiaulių Bankas an extra credit line of EUR 1 million for crediting women's small and medium businesses.

The funds of financial institutions of the country during the last year grew from LTL 15.3 million to LTL 29.4 million. The share of term deposits in these funds decreases annually: in 2001 they constituted 94%, in 2002 – 83%, while in 2003 – 79%. During 2003 the Bank's deposits grew from LTL 291.6 million to LTL 399.3 million or 1.4 times. In 2003 the deposit growth rates remained high although in comparison with 2002 they slowed down from 56.8% to 36.9%.

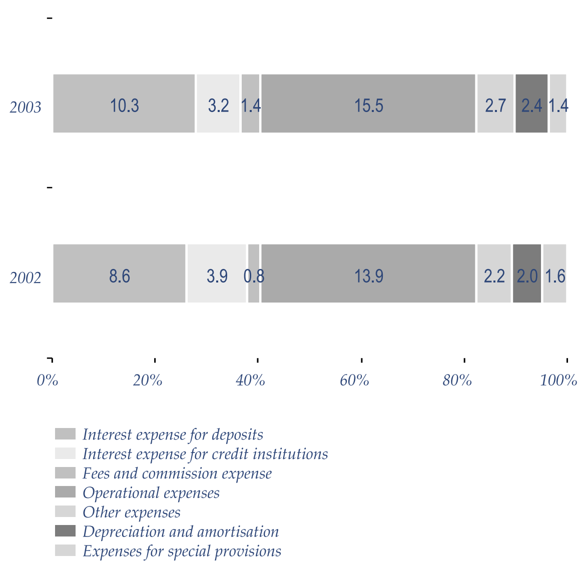
The share of individual customers' deposits in the total deposit portfolio during this year remained almost the same and fluctuated around 60%. Private individuals' deposits' growth rates slightly decreased, however, they remained high. During 2002 they grew by 64.6% – to LTL 181.1 million; in 2003 – by 32.5%, up to LTL 240.1 million. At the end of 2003 of all the funds kept with the bank by private individuals even 88% were term deposits. The funds of corporate customers during the year grew more than twice – from LTL 75.9 million to LTL 159.2 million. The share of term deposits fluctuated around 31%.

Financial Results of Activities

The structure of income, LTL million



The structure of expenses, LTL million



In 2002 when litas was pegged to euro the share of deposits in litas increased considerably. At the end of 2003 they made up 81.9%. The share of deposits in euros increased from 4.95% to 7.5%, while deposits in US dollars decreased from 20.2% to 10.6%.

Results of banking activities

In 2003 the Bank earned LTL 4.154 million in net profits, 20.5% more than in 2002. The income of the year constituted LTL 41 million, while expenses were LTL 36.9 million (in 2002 the Bank's income was LTL 36.3 million, expenses LTL 33 million). The ratio between the Bank's expenses and income shows the efficiency of its activities. During the year this ratio slightly improved, i.e. decreased from 78.46% to 76.49 %.
Net interest margin at the end of the year was 3.03 % (in 2002 it was 3.62%).

55.56 % of all the income of the Bank is made up of the loan interest income.
With the increase of the number of the Bank's subsidiaries and their successful operations the Bank's income from equity securities in comparison with 2002 increased from LTL 1.2 million to LTL 2.3 million.

In 2003the Bank's expenses increased by 11%.
As well as in the previous years, the average interest rates for deposits kept falling down: for term deposits from 4.0% in 2002 to 3.3% in 2003, for demand deposits from 1.5 % to 1.2%. However, interest expenses for deposits with a rapid increase of the deposit portfolio increased by LTL 1.7 million – up to LTL 10.2 million. The share of these expenses in the total expenses of the Bank increased to 27.8%.

The major part in the structure of the Bank's expenses is made up by operational expenses 42.1% (in 2002 the figure stood at 42%). Expenses for salaries, social security and other expenses connected with payment for work in 2003 increased by 18.8% up to LTL 9.8 million. The growth of the operational expenses was determined by the Bank's expansion and increasing number of employees.

The Bank has allocated almost LTL 140 thousand for the second year in a row for various research, arts, sports, social and environmental projects. The bulk of the funds was traditionally given to the long-term support projects – Šiauliai basketball club and Šiauliai University – sponsored since 1998.

Risk Management

One of the main tasks of the Bank is to create a reliable risk management system which would allow reaching an optimal ratio between risk and profit. The constituent parts of this system and principles of their interaction are set in the Bank's Risk Management Policy confirmed by the Bank Board and essentially renewed at the end of 2003.

Risk management system consists of the following:
- risk identification,
- creation and development means of risk management,
- application of risk management means,
- control of the appropriate application of risk management means.

The risk management system is organised and coordinated by Assets' and Liabilities' Management Committee (ALCO). With regard to the specifics and size as well as complexity of activities of Šiaulių Bankas and its subsidiaries, five main types of risk are encountered in ordinary activities:
- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- capital risk.

Kinds of risk encountered by the Bank are interrelated that is why they are centrally managed. To avoid the conflict of interest, the Bank's risk is managed by the departments whose activities are not directly connected with the arisal of various kinds of risk.

Credit Risk Management

Credit risk is a risk to suffer losses because of the Bank's borrowers' inability to meet their financial liabilities towards the Bank as and when they are due. According to their influence on the possible results of the Bank's activities this is the most important kind of risk.

Credit risk management system is designed and developed by Credit Risk Management Department by creating credit risk management means and by preparing their application and control mechanisms. Means of credit risk management employed by the Bank are further subdivided as follows:
- helping to avoid decisions to grant unjustifiably risky credits;
- ensuring effective monitoring of the quality of the Bank's assets.

The first group includes:
- a multi-level system of decision making and confirmation;
- lending limits per borrower, for individuals related to the Bank, for certain kinds of economic activities;
- requirements for credit guarantees.

The main document defining the order of monitoring the quality of the Bank's assets is Rules of Evaluating and Grouping of Doubtful Assets and Making Specific Provisions. According to these rules, doubtful assets are grouped periodically with regard to the borrower's financial situation, meeting the loan-repayment deadlines and other criteria. While grouping the doubtful assets and setting aside specific and general provisions for them, the Bank adheres to the principle of conservativism.

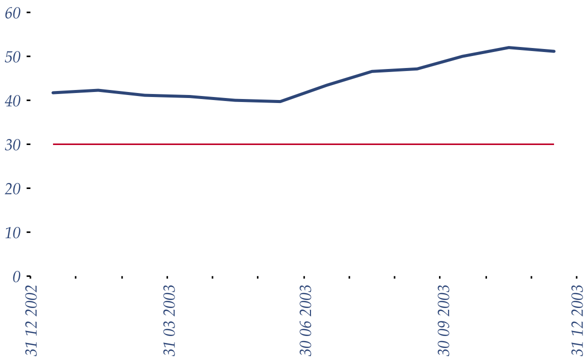
Market Risk Management

Market risk is the risk of suffering loss due to unfavourable market changes in exchange rates, share prices or interest rates. Market risk consists of the following:
- foreign exchange risk,
- interest rate risk,
- securities price risk.

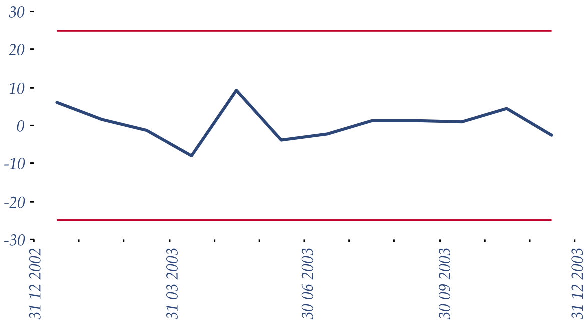
Foreign exchange risk is defined as the danger of suffering loss due to changes in rates between a foreign currency and Litas. It is managed following foreign currency risk management procedures approved by the Bank Board. The procedures enumerate the kinds of foreign currency purchase-sales transactions carried out by the Bank, principles, followed by the Bank in order to minimise the foreign currency exchange risk. The procedures determine the following:
- the Bank does not speculate in foreign currencies and does not carry out operations on its own initiative resulting in open currency positions,
- the Bank's ALCO approves and periodically reviews maximal open foreign currency position limits for the whole Bank and for its separate branches. The limits have to be lower than those maximally allowed by the Bank of Lithuania,
- Foreign Exchange Department is responsible for the compliance with the mentioned procedures

Risk Management

Liquidity indicator, n>30%



Open currency position, n<25%



at the Bank,

- ALCO controls the implementation of the procedures.

Interest rate risk arises due to the impossibility of matching the mark to market value of the Bank's assets and liabilities. The interest rate risk is defined by procedures approved by the Bank Board, describing methods of evaluation of this kind of risk and means for its limiting. The procedures set the following:

- the Bank sticks to the principle of avoiding speculation in the future of interest rates,
- the Bank assesses the size of interest rate risk by the method of analysis of interest rate gap (the so-called GAP method),
- ALCO coordinates the principles of setting price of the main interest earning assets and interest bearing liabilities.

Securities' risk is a risk to suffer loss due to the decrease in the fair value of the Bank's owned securities. The risk is managed by adhering to the following principles:

- not to buy securities from unknown markets or issuers
- to set a system of limits defining the competence of individuals and corporate bodies who are making investment decisions.

Implementing these principles the Bank buys only Lithuanian governmental and Lithuanian corporate securities. Decisions to invest in equity securities are made by the Bank Council. The Council has set a limit for the Bank Board, within which the Board or its authorised persons may create equity securities portfolio. The Bank Board has approved the documents setting the order of investment in equity securities for the Bank's subdivisions and subsidiaries. The documents define decision making for securities' purchasing or selling, limits, the decision implementation, as well as the securities' revaluation and re-grouping order. The Bank's investment accounting while buying, selling, revaluating and carrying out other operations with securities are performed by the Bank's Brokerage Department.

Liquidity Risk Management

Liquidity risk is the risk that the Bank will not have the financial resources needed to meet its liabilities in time and will not be able to get them at short notice by borrowing or selling its property.

Risk Management

Liquidity risk is assessed by analysing the dynamics of various liquidity risk indicators. The list of these indicators with recommended limits of fluctuation is defined in the liquidity risk management procedures approved by the Bank Board. Decisions on the issues of liquidity risk management are made by the Bank's ALCO or the Bank Board on the basis of information provided by the Bank's Analysis Department.

Liquidity risk management depends on the following:

- the Bank's ability to finance the shortage of funds by borrowing from the market;
- the liquidity of the market itself.

In managing liquidity risk, the relatively small size of Šiaulių Bankas has its advantages and disadvantages. On the one hand, a potential need for funds in case of liquidity problems, is relatively small in the context of the banking system, that is why it can be easily solved. On the other hand, if there is a liquidity problem, the Bank's possibilities to borrow in the market may decrease dramatically. Because of this, the Bank owns a large portfolio of Lithuanian governmental debt securities which is characterised by high liquidity.

Operational Risk Management

Operational risk is the risk of suffering loss due to the inappropriate or unimplemented internal control processes, due to the mistakes or illegal actions of the employees, break-down of information system or external events. Recently the banks' operational risk management on the international financial market has become very important. On 24th July 2003 the Board of the Bank of Lithuania approved general operational risk management principles at the Bank on the basis of which Šiaulių Bankas organises its operational risk management.

In order to decrease operational risk, it is very important to develop the system of internal control which would ensure a clear division of responsibilities and duties; it is also important to choose properly the Bank's personnel and up-date its qualifications, to ensure physical protection of the bank's assets, to optimise operational procedures, and implement security within information technology systems.

Capital Risk Management

Capital risk is the risk to suffer loss due to the insufficient size of the capital.

The quality of any management of any kind of risk has an influence on the capital. With the capital decrease, the Bank may lose the stability of its activities, because almost all risk assessing indicators set by the Bank of Lithuania are directly connected with the size of the capital. It can be said that capital risk assessment and management generalises all kinds of risk encountered in banking activities.

Capital risk is expressed by the capital adequacy indicator which is the ratio between the Bank's counted capital and assets assessed according to various kinds of risk. At present the minimal capital adequacy indicator allowed by the Bank of Lithuania is 10%, however, Šiaulių Bankas has set a higher limit of 11.5%.

Subsidiaries

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

In 2003, the activities and the integrity of services of Šiaulių Bankas' group strengthened. The Bank's subsidiaries by offering its customers traditional and non-traditional financing services and by creating various combinations of the forms of financing together with the bank, expanded the range of services offered by the group, increased the number of clients and strengthened the Bank's potential by their profitable activities. The subsidiaries have earned the Bank LTL 2.341 million in net profits.

"Šiaulių Banko Investicijų Valdymas" UAB (Šiaulių Bankas' Investment Management) acts as a venture capital company. Looking for the most effective solutions to finance small and medium-size businesses, the company provided them with complex investment offers, which consisted of bank loans, leasing and factoring services, buying out part of the company's shares or real estate, finance management services. The company took part in various privatisation, restructurisation and reorganisation projects. By the end of the year the company has invested LTL 8 million in real estate, claims and capitals of 9 companies. During the previous year Šiaulių Bankas Investment Management earned LTL 1.062 million in net profits (in 2002 m. net profit was LTL 0.214 million).

"Šiaulių banko lizingas" UAB (Šiaulių Bankas' Leasing) in 2003 continued expanding its activities, increasing its efficiency and improving the quality of services.

Veronika Vitkevičienė, director of "Šiaulių Banko Lizingas" UAB

The business management system "IS Leasing" has been introduced. It allowed increasing customer servicing speed and improving risk management.

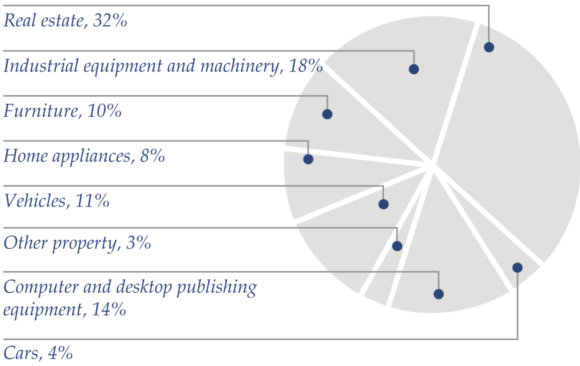
In the middle of the year the system of Internet leasing "SBL Linija" started operating, which made it possible to service individuals on-line. Throughout the year one fourth of all leasing transactions with individual persons were made by the Internet.

In 2003 the company started carrying out the projects of the Lithuanian Environment Protection Investment Fund – it offered favourable leasing conditions for the companies executing environmental projects (up to 7 years, by applying commissions or paid interest subsidies).

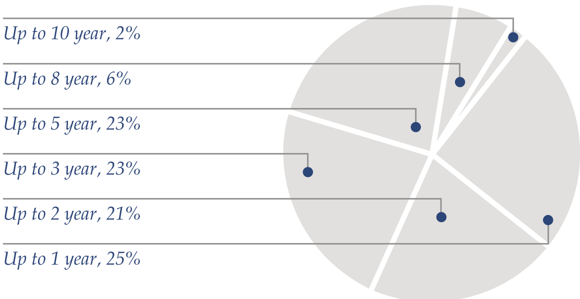
The European Bank for Reconstruction and Development small and medium-size enterprises

Subsidiaries

Leasing portfolio structure according to the groups of property 31-12-2003



Leasing portfolio structure according to the maturity 31-12-2003



financing facility has been successfully continued. In 2003, 129 such projects were signed by allocating them LTL 2.3 million.

The company carried out its activities and serviced its customers not only in its Head Office, but also through its Representative Offices in major towns of Lithuania and the territorial network of Šiaulių Bankas' divisions. 55% of all agreements have been concluded in the Head Office, 20% in Vilnius office, 7% in Kaunas and 18% in Klaipėda.

During 2003 the company has concluded 14,163 agreements with physical and legal persons for the total value of LTL 33.6 million. By the end of the year the total portfolio of Šiaulių Bankas' Leasing was LTL 34.9 million. The company earned LTL 1.2 million in net profits, i.e. 26% more than in 2002.

"Šiaulių Banko Faktoringas" UAB (Šiaulių Bankas' Factoring) was established in July 2002 by handing over the portfolio of factoring agreements accumulated by Šiaulių Bankas Leasing. With a rapid growth of demand of factoring services and in order to create the most favourable conditions for the development of these services, last autumn it was decided that the bank itself was going to provide factoring services. In November the Factoring Department was founded in the Bank and new factoring agreements started to be signed already in the name of Šiaulių Bankas AB.

During the short period of its existence, the company operated successfully. In 2002 it earned LTL 62 thousand, while last year LTL 240 thousand in net profits. Factoring portfolio has increased by more than 10% in 2003, and annual factoring turnover by 38%. At the beginning of the year an agreement with "Lietuvos draudimo kreditų draudimas" UAB (Loan insurance of Lithuanian Insurance) was signed, which enabled providing the clients with factoring services without the right of regress.

"Šiaulių Banko Turto Fondas" UAB (Šiaulių Bankas' Property Fund) was founded in August 2002. The main activities of the company are as follows: long-term investment in land and other real estate, renting premises and buildings belonging by the right of ownership, consultancy services. During the first year of the activities of the company the main geographical segments of activities became clear – these are Vilnius,

Subsidiaries

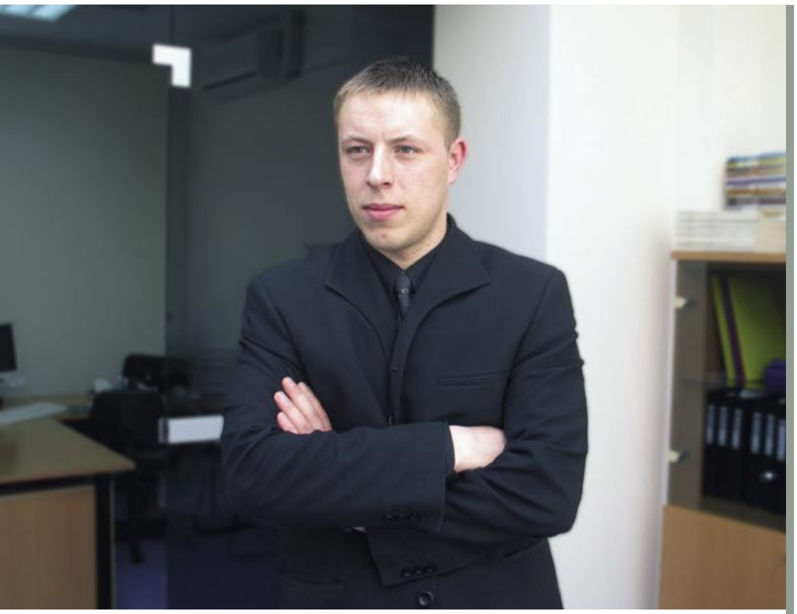
Daiva Kiburienė, director of "Pajūrio Alka" UAB

Klaipėda and Šiauliai cities, also seaside spas of the country.

During 2003 the company increased its authorised capital from LTL 0.5 million to LTL 0.75 million. The assets of the company have increased by 89% and reached LTL 13.3 million. The net annual profit of the company is LTL 547 thousand (in 2002 the net profit was LTL 137 thousand).

"Pajūrio Alka" UAB. In May 2003, when Šiaulių Bankas acquired 90% of the company's shares, "Pajūrio Alka" became the fifth subsidiary of the Bank. The company offers accommodation, rental and consultancy services. In 2003, the first stage of reconstruction of the "Pajūrio Alka" hotel with the value of over LTL 2.3 million was carried out. In 2005 – 2006 the second stage of hotel reconstruction is planned. The subsidiary ended the year with a loss of LTL 193 thousand.

The plans for 2004 of Šiaulių Bankas group include further expansion of activities, attention to small and medium-size enterprises, mediation for the small and medium-size businesses in mastering EU structural funds, i.e. consulting and financing companies, search for investors and partners.



Vidmantas Bundzinskas, director of "Šiaulių Banko Faktoringas" 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	HABAEE2X
EUR	DEUTSCHE BANK	Frankfurt	DEUTDEFF
EUR	DRESDNER BANK	Frankfurt	DRESDEFF
EUR	COMMERZBANK	Frankfurt	COBADEFF
EUR	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	IMBKRUMM
RUB	ALFA BANK	Moscow	ALFARUMM
SEK	SVENSKA HANDELSBANKEN	Stockholm	HANDSESS
UAH	PRIVAT BANK	Dnepropetrovsk	PBANUA2X
USD	DEUTSCHE BANK TRUST COMPANY AMERICAS	New York	BKTRUS33
USD	WACHOVIA BANK, NA	New York	PNBPUS3NNYC

Financial statements

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Auditor's report to the shareholders of AB Šiaulių bankas

1. We have audited the accompanying balance sheet of AB Šiaulių bankas (hereinafter "the Bank") together with its consolidated subsidiaries (hereinafter "the Group") as at 31 December 2003 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2003 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	Asta Liepienė
Partner	Auditor's Certificate No.000438

Vilnius, Republic of Lithuania
25 March 2004

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

The group and bank income statement

		Year ended			
		31 December 2003		31 December 2002	
	Notes	Group	Bank	Group	Bank
Interest income		33,059	28,814	28,450	26,248
Interest expense		(13,998)	(13,467)	(12,467)	(12,504)
Net interest income	1	**19,061**	**15,347**	**15,983**	**13,744**
Provisions for loans and accrued interest	2	(1,951)	(1,948)	(1,283)	(1,275)
Net interest income after provisions		**17,110**	**13,399**	**14,700**	**12,469**
Fee and commission income		7,064	6,998	6,330	5,478
Fee and commission expense		(1,431)	(1,421)	(817)	(815)
Net interest, fee and commissions income		**22,743**	**18,976**	**20,213**	**17,132**
Net gain on operations with securities and financial instruments	3	391	1,353	(90)	764
Net foreign exchange gain		3,310	3,337	3,049	3,136
Operating income		**26,444**	**23,666**	**23,172**	**21,032**
Operating expenses	4	(19,759)	(17,941)	(16,990)	(15,847)
Provisions for other assets	5	148	589	(243)	111
Other income		2,177	565	687	267
Other expenses	6	(3,719)	(2,725)	(2,850)	(2,223)
Profit before tax and minority interest		**5,291**	**4,154**	**3,776**	**3,340**
Income tax	7	(549)	-	(182)	106
Profit after tax before minority interest		**4,742**	**4,154**	**3,594**	**3,446**
Minority interest		(588)	-	(148)	-
Net profit		**4,154**	**4,154**	**3,446**	**3,446**
Earnings per share (in LTL per share)	8	0.09	0.09	0.09	0.09

The accounting policies and notes on pages 32 to 58 are an integral part of these financial statements.

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

The group and bank balance sheet

		Year ended			
		31 December 2003		31 December 2002	
	Notes	Group	Bank	Group	Bank
Assets					
Cash and balances with central banks	9	61,149	61,139	32,602	32,599
Due from other banks and financial institutions	10	28,773	64,517	10,089	61,327
Trading securities	11	1,933	1,933	4,320	4,320
Derivative financial instruments	12	12	12	88	88
Loans	13	306,370	312,141	258,195	249,372
Leasing	14	30,889	-	30,312	-
Investment securities:					
– available-for-sale	15	18,001	12,865	23,307	21,219
– held-to-maturity	15	77,478	77,478	50,264	49,824
Investments in subsidiaries and associates	16	-	9,141	1,914	3,499
Goodwill and other intangible assets	17	2,281	2,134	1,396	2,095
Tangible fixed assets	18	44,843	23,214	23,956	21,659
Other assets	19	20,632	7,748	22,420	8,509
Total assets		**592,361**	**572,322**	**458,863**	**454,511**
Liabilities					
Due to other banks and financial institutions	20	112,356	108,545	106,787	106,790
Derivative financial instruments	12	79	79	48	48
Deposits	21	399,228	399,255	291,584	291,590
Special and lending funds	22	141	141	60	60
Other liabilities	23	23,037	8,419	12,339	8,915
Total liabilities		**534,841**	**516,439**	**410,818**	**407,403**
Minority interest		**1,637**	**-**	**937**	**-**
Shareholders' equity					
Share capital	24	48,344	48,344	38,021	38,021
Fixed asset revaluation reserve		-	-	303	303
Restricted earnings reserve		774	774	774	774
Other reserves		2,611	2,611	4,314	4,314
Retained earnings		4,154	4,154	3,696	3,696
Total shareholders' equity		55,883	55,883	47,108	47,108
Total liabilities and equity		592,361	572,322	458,863	454,511

These financial statements have been approved by the Board on 25 March 2004 and signed on its behalf by:

Algirdas Butkus
Chairman of the Board

Vita Adomaitytė
Chief Financial Officer

The accounting policies and notes on pages 32 to 58 are an integral part of these financial statements.

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

The group and bank statement of changes in shareholders' equity

	Notes	Registered share capital	Treasury shares	Fixed asset revaluation reserve	Restricted earnings reserve	Reserve capital	Retained earnings	Total
As at 31 December 2001		**34,021**	**(671)**	**303**	**803**	**1,326**	**3,571**	**39,353**
Dividends		-	-	-	-	-	(333)	(333)
Transfer to restricted earnings reserve						2,988	(2,988)	-
Issue of share capital		4,000	-	-	-	-	-	4,000
Treasury share net sale at nominal value		-	671	-	-	-	-	671
Net premium paid on transactions with treasury shares		-	(29)	-	-	-	-	(29)
Transfer from restricted earnings reserve		-	29	-	(29)	-	-	-
Net profit for the year		-	-	-	-	-	3,446	3,446
As at 31 December 2002		**38,021**	**-**	**303**	**774**	**4,314**	**3,696**	**47,108**
Dividends	24	-	-	-	-	-	(379)	(379)
Capitalisation of reserves		5,323	-	(303)	-	(1,703)	(3,317)	-
Issue of share capital	24	5,000	-	-	-	-	-	5,000
Net profit for the year		-	-	-	-	-	4,154	4,154
As at 31 December 2003	24	**48,344**	**-**	**-**	**774**	**2,611**	**4,154**	**55,883**

The accounting policies and notes on pages 32 to 58 are an integral part of these financial statements.

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

The group and bank cash flow statement

		Year ended			
		31 December 2003		31 December 2002	
	Notes	Group	Bank	Group	Bank
Operating activities					
Income (expense)					
Interest income		33,342	29,097	27,522	25,631
Interest expense		(14,120)	(13,589)	(12,631)	(12,669)
Collected previously written-off loans		607	607	426	426
Net income from operations in foreign currency		2,136	2,130	2,367	2,363
Net income (expense) from operations in securities		395	(877)	1118	719
Net income from service and commission fees		5,633	5,577	6,127	4,663
Salaries and related expenses		(10,640)	(9,159)	(9,168)	(8,270)
Other expenses		(7,287)	(9,077)	(7,881)	(6,716)
Operating result		10,066	4,709	7,880	6,147
(Increase) decrease in short-term assets					
(Increase) decrease in compulsory reserves with the central bank		91	91	(1,640)	(1,640)
(Increase) decrease in loans to credit and financial institutions		(17,649)	(2,155)	2,939	(29,367)
(Increase) in loans granted		(48,972)	(63,540)	(107,017)	(87,352)
(Increase) decrease in other short-term assets		1,170	1,161	(18,013)	(271)
Change in short-term assets		(65,360)	(64,443)	(123,731)	(118,630)
Increase (decrease) in liabilities					
Increase in liabilities to credit and financial institutions		5,569	1,755	29,833	29,734
Increase in deposits and letters of credit		107,725	107,746	105,593	105,593
Increase in other liabilities		10,764	(1,130)	2,637	1,081
Change in liabilities		124,058	108,371	138,063	136,408
Net cash flow from operating activities before tax		**68,764**	**48,637**	**22,212**	**23,925**
Tax (paid) recovered		(147)	-	-	-
Net cash flow from operating activities		**68,617**	**48,637**	**22,212**	**23,925**
Investing activities					
Purchase of tangible and intangible fixed assets		(25,989)	(3,409)	(6,706)	(6,034)
Investments in securities		(25,377)	(27,984)	(32,151)	(34,534)
Dividends received		32	32	10	10
Net cash flow from investing activities		**(51,334)**	**(31,361)**	**(38,847)**	**(40,558)**
Financing activities					
Issue of share capital		5,000	5,000	4,000	4,000
Net purchase of treasury shares		-	-	642	642
Dividends paid		(380)	(380)	(333)	(333)
Net cash flow from financing activities		**4,620**	**4,620**	**4,309**	**4,309**
Net increase (decrease) in cash and cash equivalents		**21,903**	**21,896**	**(12,326)**	**(12,324)**
Cash and cash equivalents at 1 January		39,711	39,708	52,037	52,032
Cash and cash equivalents at 31 December	26	**61,614**	**61,604**	**39,711**	**39,708**

The accounting policies and notes on pages 32 to 58 are an integral part of these financial statements.

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

General background

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

The Head Office of the Bank is located in Šiauliai. At the end of the reporting period the Bank had 10 branches and 26 client service units.

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

The Bank owns the following subsidiaries:

- "Šiaulių Banko Lizingas" UAB,
- "Šiaulių Banko Investicijų Valdymas" UAB,
- "Šiaulių Banko Faktoringas" UAB,
- "Šiaulių Banko Turto Fondas" UAB
- "Pajūrio Alka" UAB.

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

Accounting policies

Basis of preparation

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

The preparation of financial statements in conformity with 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.

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

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Bank will continue to operate during the coming year.

Consolidation

These financial statements include consolidated statements of the Bank and its subsidiaries. Assets and liabilities of the subsidiaries are consolidated on a line-by-line basis, following the elimination of inter-group balances.

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

Associated companies

Investments in associates are accounted for by the equity method of accounting. Under this method, the Group's share of the profits or losses of associates is recognised in the income statement.

<u>Financing of acquisitions of shares by strategic investors</u>

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

Foreign currency translation

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

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

Derivative financial instruments

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

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

Changes in the fair value of derivatives held for trading are included in net trading income.

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

Recognition of income and expenses

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

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

Taxation

<u>Profit tax</u>

In accordance with the Lithuanian Law on Corporate Profit Tax, the current profit tax rate is 15% (2002: 15%) on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation.
Deferred taxation is provided on all temporary differences between the accounting and taxation treatment of income and expenses. Where an overall deferred taxation asset arises, this is only recognised in the financial statements to the extent that its recoverability can be foreseen by the management as being probable.

<u>Other taxes</u>

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

Cash and cash equivalents

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

Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value, which is based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in Other income from equity securities.

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

Investment securities

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

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of investment securities classified as available-for-sale are recognised as they arise in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

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

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

Originated loans and provisions for loan impairment

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

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

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

Amounts receivable from finance lease

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

The present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Intangible assets

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

Goodwill

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

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

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

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. Revaluation of tangible fixed assets was performed by indexation of cost of tangible fixed assets and accumulated depreciation and by recording the change in the revaluation reserves using the revaluation indices for the different asset categories set by the Government in 1993 to 1995.

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

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

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

Leases

Group company is the lessee

The leases entered by the Group are operating lease. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease.

Group company is the lessor

Operating leases

Assets leased out under operating leases are included in 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.

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.

Foreclosed assets

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

Borrowings

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

Dividends

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

Treasury shares

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

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 with changes in presentation in the current year.

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

Financial risk management

Strategy in using financial instruments

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

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

Capital adequacy

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

	Group					Bank
	31 December 2003	31 December 2002	31 March 2003	30 June 2003	30 September 2003	31 December 2003
Calculated capital	53,602	41,866	43,875	44,884	44,721	51,279
Risk weighted assets and off balance sheet items	420,021	349,444	361,393	368,547	372,800	397,895
Capital adequacy ratio	12.76	11.98	12.14	12.18	12.00	12.89

Credit risk

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

Credit related commitments

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

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

Liquidity risk

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

To maintain sufficient cash and to monitor liquidity risk the Bank performs daily cash flow forecasts.

Note 27 analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's (Bank's) liabilities on demand exceed assets with similar duration, however, the Bank's liquidity ratio, calculated using the methodology approved by the Bank of Lithuania, is 51.13% (2002: 44.61%). The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. In the opinion of the management of the Bank, the Group and Bank's liquidity is sufficient to meet its operating needs.

Currency risk

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

Interest rate risk

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

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

Business segments

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

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

	Retail banking	Business banking	Other	Total banking	Leasing	Factoring	Investment management	Real estate management	Total Group
Interest income	2,464	20,316	4,506	27,286	4,852	821	54	46	33,059
Interest expense	(7,374)	(2,876)	(1,899)	(12,149)	(1,177)	(336)	(26)	(310)	(13,998)
Net interest income	(4,910)	17,440	2,607	15,137	3,675	485	28	(264)	19,061
Net interest income after provisions	(4,977)	15,688	2,478	13,189	3,675	485	25	(264)	17,110
Net interest and commissions income	(3,891)	20,139	2,308	18,556	3,618	485	350	(266)	22,743
Operating income	(4,019)	21,721	2,093	21,354	3,308	392	1,731	(341)	26,444
Amortisation of intangible assets				(458)	(28)	(8)	(2)	717	221
Depreciation				(1,934)	(114)	(6)	(47)	(146)	(2,247)
Other income				523	115	-	427	1,112	2,177
Other expenses				(17,651)	(1,986)	(171)	(617)	(879)	(21,304)
Profit before tax				1,834	1,295	207	1,492	463	5,291
Income tax (expense)				-	(224)	(43)	(191)	(91)	(549)
Segment's profit after tax				1,834	1,071	164	1,301	372	4,742
Minority interest				-	-	-	(421)	(167)	(588)
Net profit				1,834	1,071	164	880	205	4,154
Total assets of the segment				511,832	35,816	9,812	11,615	23,286	592,361
Total liabilities of segment				516,366	7,176	81	648	10,570	534,841
Capital additions:				4,540	1,263	40	76	14,579	20,498

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

Notes to the financial statements

Note 1 *Net interest income*

	2003		2002	
	Group	Bank	Group	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	768	2,296	411	1,910
on other loans	23,646	22,780	21,311	20,694
on debt securities acquired	3,767	3,738	3,702	3,644
on lease	4,878	-	3,026	-
Total interest income	33,059	28,814	28,450	26,248
Interest expense:				
on liabilities to central banks	(300)	(300)	(388)	(388)
on liabilities to other banks and financial institutions and amounts due to credit institutions	(3,442)	(2,917)	(3,497)	(3,534)
on deposits and other repayable funds	(10,250)	(10,250)	(8,582)	(8,582)
on lease	(6)	-	-	-
Total interest expense	(13,998)	(13,467)	(12,467)	(12,504)
Net interest income	**19,061**	**15,347**	**15,983**	**13,744**

Note 2 *Expenses for provisions for loans and accrued interest*

Group	For loans	For accrued interest	Total
Increase (decrease) of specific provisions, net	2,428	1	2,429
Increase of general provisions	129	-	129
Recovered written off loans	(607)	-	(607)
Expenses for provisions in 2003	**1,950**	**1**	**1,951**
Increase of specific provisions, net	1,468	(9)	1,459
Increase of general provisions	250	-	250
Recovered written off loans	(426)	-	(426)
Expenses for provisions in 2002	**1,292**	**(9)**	**1,283**

Bank	For loans	For accrued interest	Total
Increase (decrease) of specific provisions, net	2,425	1	2,426
Increase of general provisions	129	-	129
Recovered written off loans	(607)	-	(607)
Expenses for provisions in 2003	**1,947**	**1**	**1,948**
Increase of specific provisions, net	1,460	(9)	1,451
Increase of general provisions	250	-	250
Recovered written off loans	(426)	-	(426)
Expenses for provisions in 2002	**1,284**	**(9)**	**1,275**

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

Note 3 *Net gain on operations with securities and financial instruments*

	2003		2002	
	Group	Bank	Group	Bank
Debt securities, including treasury bills:				
Realised gain	471	471	852	850
Unrealised gain (loss)	(221)	(221)	(1)	(1)
Net income from debt securities	250	250	851	849
Equity securities:				
Realised gain (loss)	1,050	(222)	266	(131)
Unrealised gain (loss)	226	119	(252)	(228)
Other income from equity securities	51	51	10	10
Net income from equity securities	1,327	(52)	24	(349)
Net income from other financial instruments	(1,186)	(1,186)	(965)	(965)
Associated companies:				
Revaluation of investments in associated companies	-	2,341	-	1,229
Total	**391**	**1,353**	**(90)**	**764**

Note 4 *Operating expenses*

	2003		2002	
	Group	Bank	Group	Bank
Salaries, social insurance and other related expenses	11,305	9,824	9,168	8,270
Rent of premises and maintenance expenses	2,811	2,617	2,318	2,255
Transportation, post and communications expenses	1,788	1,633	1,603	1,499
Advertising and marketing expenses	403	360	278	258
Training and business trip expenses	323	227	242	140
Other operating expenses	1,103	888	1,511	1,431
Amortisation of negative goodwill	(721)	-	(262)	-
Amortisation of other intangible assets	500	458	501	487
Depreciation of fixed assets	2,247	1,934	1,631	1,507
Total	**19,759**	**17,941**	**16,990**	**15,847**

The average number of staff employed by the Group as at 31 December 2003 totalled 399 (2002: 333). The average number of staff employed by the Bank as at 31 December 2003 totalled 343 (2002: 291).

Note 5 *Provisions for other assets*

	2003		2002	
	Group	Bank	Group	Bank
Expenses for (release of) provisions on:				
foreclosed assets and investment properties	(555)	(555)	(232)	(232)
receivables for sold foreclosed assets	(34)	(34)	121	121
finance lease receivable	403	-	354	-
other doubtful assets	38	-	-	-
Total	**(148)**	**(589)**	**243**	**(111)**

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

Note 6 *Other expenses*

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Fees for compulsory insurance of individual deposits	1,644	1,644	1,107	1,107
Road, property and other taxes	578	304	570	383
Charity	139	139	141	141
Insurance expenses	341	-	339	-
Other expenses	**1,017**	**638**	**693**	**592**
Total	**3,719**	**2,725**	**2,850**	**2,223**

Note 7 *Income tax*

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Current tax for the year (see below)	662	-	293	-
Change in deferred tax asset (see below)	(113)	-	(111)	(106)
Total	**549**	**-**	**182**	**(106)**

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:

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Profit before tax	5,291	4,154	3,776	3,340
Tax calculated at a tax rate of 15%	794	623	566	501
Income not subject to tax	(942)	(1,095)	(847)	(818)
Expenses not deductible for tax purposes	440	163	338	158
Temporary differences in calculation of income tax	(107)	(55)	(43)	(36)
Provision for deferred tax assets	113	-	111	106
Recognition /utilisation of previously unrecognised tax losses	251	364	57	(17)
Tax charge/(credit)	549	-	182	(106)
Movement in deferred taxes				
At the beginning of the year	115	-	106	106
Deferred tax liability after acquisition of "Pajūrio Alka" UAB	-	-	120	-
Income statement credit (charge)	(113)	-	(111)	(106)
At the end of the year	2	-	115	-

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

	Buildings revaluation
As at 1 January 2003	228
Charged/ (credited) to net profit	(226)
As at 31 December 2003	2

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

Group – deferred tax assets

	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2003	113	-	113
Unrecognised deferred tax asset	311	43	354
Charged/ (credited) to net profit	280	107	387
Provision for deferred tax assets	(704)	(150)	(854)
As at 31 December 2003	-	-	-

Deferred income tax assets are recognised for tax loss carry 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	Amount
2005	163
2006	1,025
2007	1,299
2008	2,204
	4,691

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 assets

	Tax losses	Accrued expenses	Total
As at 1 January 2003	-	-	-
Unrecognised deferred tax asset	311	36	347
Charged/ (credited) to net profit	364	55	419
Provision for deferred tax assets	(675)	(91)	(766)
As at 31 December 2003	-	-	-

There were no temporary differences resulting in deferred tax liabilities in the Bank.

Deferred income tax assets are recognised for tax loss carry 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:

Year of expiry	Amount
2005	162
2006	938
2007	1,197
2008	2,204
	4,501

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.

	2003		2002	
Deferred tax assets	Group	Bank	Group	Bank
Deferred tax assets	-	-	113	-
Deferred tax liabilities	(2)	-	(228)	-
	(2)	-	(115)	-

Note 8 *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 2003: 41,359 (330 days - 38,021 shares and 35 days – 48,344). Weighted average number of shares for the year ended 31 December 2002 was – 669 thousand. In year 2003, following the decision of the Bank's shareholders the nominal value of shares was decreased from LTL 50 to LTL 1. This decrease is reflected in financial statements by recalculating the weighted average number of shares in year 2002:

Group (Bank)	**2003**	**2002**
Net profit	4,154	3,446
Weighted average number of issued shares (thousand units)	43,823	38,085
Earnings per share (in LTL)	**0.09**	**0.09**

Note 9 *Cash and balances with central bank*

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	14,542	14,532	11,787	11,784
Placements with Central Bank:				
Correspondent account with central bank	20,218	20,218	-	-
Mandatory reserves in national currency	19,891	19,891	14,226	14,226
Mandatory reserves in foreign currency	6,498	6,498	6,589	6,589
Total placements with Central Bank	46,607	46,607	20,815	20,815
Total	**61,149**	**61,139**	**32,602**	**32,599**

Mandatory reserves comprise the funds calculated on a monthly basis as an 6% (till 2002 April: 8%) share of the average balance of deposits of the previous month. The mandatory reserves are held with the Bank of Lithuania in the form of non-interest bearing deposits under the Bank of Lithuania's regulations. Mandatory reserves in foreign currency are not available to finance the Bank's day-to-day operations.

Note 10 *Due from other banks and financial institutions*

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Due from banks and financial institutions:				
Correspondent bank accounts	6,963	6,963	5,928	5,928
Time deposits with banks	10,135	10,135	1,561	1,511
Total due from banks and financial institutions	17,098	17,098	7,489	7,439
Loans granted to financial institutions	11,675	47,419	2,600	53,888
Total	**28,773**	**64,517**	**10,089**	**61,327**

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

- Loans to "Šiaulių Banko Lizingas" UAB, amounting to LTL 26,304 thousand falling due for repayment in 2004;
- Loan to "Šiaulių Banko Faktoringas" UAB amounting to LTL 9,440 thousand falling due for repayment in 2004;
- Loan to "Ūkio Banko Lizingas" UAB amounting to LTL 3,000 thousand and falling due for repayment in 2005;
- Loan to "Pozityvios Investicijos" UAB amounting to LTL 1,000 thousand falling due for repayment in 2004;
- Loan to "Finansų Spektras" UAB amounting to LTL 2,400 thousand falling due for repayment in 2004;
- Repurchase transactions concluded with "FMĮ Finasta" AB and "Pozityvios Investicijos" UAB, amounting to LTL 4,275 thousand and LTL 1,000 thousand respectively, repurchase terms in 2004.

Note 11 *Trading securities*

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

Note 12 *De vative 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:

Group (Bank)	**2003**	**2002**
Nominal amount		
Purchase	14,428	18,829
Sale	(14,501)	(18,789)
Fair values:		
Assets	12	88
Liabilities	(79)	(48)

Note 13 *Loans*

All loans are originated by the Bank.

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Gross loans granted	308,913	314,653	259,941	251,113
Specific provisions	(1,941)	(1,933)	(1,196)	(1,191)
General provisions	(602)	(579)	(550)	(550)
Total	**306,370**	**312,141**	**258,195**	**249,372**

Impairment of loans

As at 31 December 2003, the outstanding principal amount of loans on which interest income is no longer accrued amounted to LTL 3,852 thousand (2002: LTL 4,956 thousand). The interest accrued on impaired loans as at 31 December 2003 amounted to LTL 11 thousand (31 December 2002: LTL 31 thousand).

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

Note 13 *Loans*

Movement in provisions for impairment is as follows:

	Bank
Balance sheet	
Provisions at 31 December 2001	3,291
Provisions for loans written-off	(3,223)
Exchange rate and other adjustments	(37)
Increase in specific provisions (see Note 2)	1,460
Increase in general provisions (see Note 2)	250
Provisions at 31 December 2002	**1,741**
Provisions for loans written-off	(1,573)
Exchange rate and other adjustments	(110)
Increase in specific provisions (see Note 2)	2,425
Increase in general provisions (see Note 2)	29
Provisions at 31 December 2003	**2,512**

Segment information

Bank	**2003**	**2002**
Gross loans granted to corporate entities by industry sectors:		
Agriculture, hunting and forestry	18,275	12,495
Manufacturing	64,952	54,002
Utilities	2,477	5,143
Construction	26,168	33,189
Trading	86,994	67,941
Transportation	14,364	19,492
Real estate, rent	14,632	14,003
State governance and compulsory social security	14,109	9,084
Other industry sectors	33,251	15,994
Total gross loans to corporate entities	275,222	231,343
Loans to individuals	39,431	19,770
Total	**314,653**	**251,113**

Gross loans amounting to LTL 314,556 thousand at 31 December 2003 (in 2002: LTL 251,113 thousand) were granted to corporates and individuals located in Lithuania and gross loans of LTL 97 thousand were granted to non-residents. There were no loans granted to non-residents in 2002.

Note 14 *Leasing*

	Up to one year	**From 1 to 5 years**	**Total**
Gross investments in leasing:			
Balance at 31 December 2002	25,981	8,345	34,326
Change during 2003	(5,625)	6,362	737
Balance at 31 December 2003	20,356	14,707	35,063
Unearned finance income on finance leases:			
Balance at 31 December 2002	2,391	1,197	3,588
Change during 2003	(352)	188	(164)
Balance at 31 December 2003	2,039	1,385	3,424
Net investments in leasing before provisions:			
At 31 December 2002	23,590	7,148	30,738
At 31 December 2003	18,317	13,322	31,639

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

	Up to one year	From 1 to 5 years	Total
Changes in provisions:			
Balance as at 31 December 2001			80
Increase (decrease) in provisions			346
Balance as at 31 December 2002			426
Increase in provisions			324
Balance as at 31 December 2003			750
Net investments in leasing after provisions:			
At 31 December 2002			30,312
At 31 December 2003			30,889

Segment information	2003	2002
By type of lessees:		
Individuals	13,891	14,353
Corporate entities	17,748	16,385
Net investments before provisions	31,639	30,738
By type of assets:		
Computers and computer equipment	4,304	6,834
Cargo vehicles	2,873	3,347
Equipment	4,974	6,641
Automobiles	1,358	2,889
Television and audio devices	470	4,950
Software	98	1,064
Plastic windows	4,850	1,500
Commercial premises	7,371	1,764
Other	5,341	1,749
Net investments before provisions	31,639	30,738

All lessees operate in Lithuania.

Note **15** *Investment securities*

	2003		2002	
	Group	Bank	Group	Bank
Securities available-for-sale:				
Government bonds of the Republic of Lithuania	11,321	11,321	20,405	20,405
Unlisted equity securities	6,680	1,544	2,902	814
Total securities available-for-sale	18,001	12,865	23,307	21,219
Securities held-to-maturity:				
Debt securities of the Republic of Lithuania	77,478	77,478	50,264	49,824
Unlisted corporate bonds	-	-	-	-
Total securities held-to-maturity	77,478	77,478	50,264	49,824
Total investment securities	**95,479**	**90,343**	**73,571**	**71,043**

Debt securities held-to-maturity amounting to LTL 14,558 thousand, were pledged to Vilnaus Bankas AB on loan received.

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

Note 16 *Investments in subsidiaries and associates*

Group

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

Bank	2003			2002		
	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	2,432	100.0%	1,000	2,232
"Šiaulių Banko Investicijų Valdymas" UAB	60.4%	453	1,450	60.4%	453	810
"Šiaulių Banko Faktoringas" UAB	100.0%	10	312	100.0%	10	72
"Šiaulių Banko Turto Fondas" UAB	53.07%	398	762	60.4%	302	385
"Pajūrio Alka" UAB	90.04%	4,204	4,185	-	-	-
Total			**9,141**			**3,499**

In 2003, the Bank acquired 90.04% of "Pajūrio Alka" UAB shares from "Šiaulių Banko Turto Fondas" UAB 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.

Note 17 *Negative goodwill and other intangible assets*

	Group			Bank
	Negative goodwill	Software and licences	Total	Software and licences
31 December 2002:				
Cost	(983)	3,199	2,216	3,144
Accumulated amortisation	262	(1,082)	(820)	(1,049)
Net book value	**(721)**	**2,117**	**1,396**	**2,095**
Year ended on 31 December 2003:				
Net book value at 1 January	(721)	2,117	1,396	2,095
Acquisitions	-	664	664	497
Amortisation charge	721	(500)	221	(458)
Net book value at 31 December	-	2,281	2,281	2,134
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**
Economic life (in years)	1-5	1-5		3-5

Note 18 *Tangible fixed assets*

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
31 December 2002:					
Cost/valuation	18,910	1,685	8,206	-	28,801
Accumulated depreciation	(1,042)	(439)	(3,364)	-	(4,845)
Net book value	**17,868**	**1,246**	**4,842**	**-**	**23,956**

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

Group	**Buildings and premises**	**Vehicles**	**Office equipment**	**Construction in progress**	**Total**
Year ended on 31 December 2003:					
Net book value at 1 January	17,868	1,246	4,842	-	23,956
Acquisitions	8,178	1,197	2,719	7,740	19,834
Disposals and write-offs	(1,664)	(95)	(271)	(1,354)	(3,384)
Reclassifications from other assets	4,295	-	43	2,426	6,764
Impairment charge	(80)	-	-	-	(80)
Depreciation charge	(373)	(336)	(1,538)	-	(2,247)
Net book value at 31 December	28,224	2,012	5,795	8,812	44,843
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**
Economic life (in years)	5-80	5-6	3-20	-	
Bank					
31 December 2002:					
Cost/valuation	16,939	1,383	7,983	-	26,305
Accumulated depreciation	(1,004)	(379)	(3,263)	-	(4,646)
Net book value	**15,935**	**1,004**	**4,720**	**-**	**21,659**
Year ended on 31 December 2003:					
Net book value at 1 January	15,935	1,004	4,720	-	21,659
Acquisitions	1,607	513	1,923	-	4,043
Disposals and write-offs	(254)	(37)	(263)	-	(554)
Depreciation charge	(238)	(270)	(1,426)	-	(1,934)
Net book value at 31 December	17,050	1,210	4,954	-	23,214
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**
Economic life (in years)	5-70	6	3-20	-	

As at 31 December 2003 and 31 December 2002, there were no tangible fixed assets pledged to third parties.

Note **19** *Other assets*

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Amounts receivable for disposed assets	6,839	2,906	7,037	2,669
Accrued interest income, net of provisions	3,567	1,559	1,891	1,803
Claim right	3,070	-	-	-
Prepayments	1,897	774	593	307
Deferred expenses	868	608	828	713
Foreclosed assets, other than investment properties	860	860	930	930
Investment properties (see table below)	-	-	6,152	1,087
Real estate projects under development	-	-	2,426	-

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

Note 19 *Other assets*

	2003		2002	
	Group	Bank	Group	Bank
Investment financing receivables	-	-	1,441	-
Other assets	3,531	1,041	1,122	1,000
Total	**20,632**	**7,748**	**22,420**	**8,509**

Investment properties

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

Movement of investment properties in 2003 is as follows:

	Group	Bank
At 31 December 2002	6,152	1,087
Sale of investment properties in 2003	(1,857)	(1,087)
Reclassifications to tangible fixed assets	(4,295)	-
At 31 December 2003	-	-

Note 20 *Due to other banks and financial institutions*

	2003		2002	
	Group	Bank	Group	Bank
Funds of credit and financial institutions:				
Correspondent accounts and demand deposits	6,419	6,458	9,293	9,296
Time deposits	33,321	33,321	31,599	31,599
Other liabilities	30,280	30,280	35,520	35,520
Total funds of credit and financial institutions	70,020	70,059	76,412	76,415
Loans received:				
Loans from international organisations	22,443	22,443	17,264	17,264
Loan from the Bank of Lithuania	5,685	5,685	9,658	9,658
Loan from other banks	14,208	10,358	3,453	3,453
Total loans from banks	42,336	38,486	30,375	30,375
Total	**112,356**	**108,545**	**106,787**	**106,790**

Loans received comprise loans received from:

- the World Bank to finance enterprises, financial sector's projects, as well as private agricultural development projects, with annual interest rate from 2.55% to 4.64%;
- the European Bank for Reconstruction and Development to finance small and medium-size business projects with annual interest rate of 4.985%;
- 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 3.4% to 5.5%;
- the Council of Europe Development Bank and Nordic Investment Bank to finance businesses started by women, with annual interest rate from 2.552% to 2.989%.

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

Note 21 *Deposits*

	2003		2002	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	6,318	6,318	1,237	1,237
Local government institutions	17,252	17,252	11,315	11,315
Governmental and municipality companies	7,518	7,518	8,188	8,188
Corporate entities	72,724	72,751	52,893	52,899
Non-profit organisations	3,066	3,066	2,389	2,389
Individuals	28,691	28,691	20,843	20,843
Total demand deposits	135,569	135,596	96,865	96,871
Term deposits:				
National government institutions	9,928	9,928	8,536	8,536
Local government institutions	3	3	503	503
Governmental and municipality companies	2,137	2,137	1,788	1,788
Corporate entities	37,097	37,097	23,153	23,153
Non-profit organisations	3,091	3,091	406	406
Individuals	211,403	211,403	160,333	160,333
Total term deposits	263,659	263,659	194,719	194,719
Total	**399,228**	**399,255**	**291,584**	**291,590**

Note 22 *Special and lending funds*

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

Note 23 *Other liabilities*

	2003		2002	
	Group	Bank	Group	Bank
Accrued expenses	4,264	1,681	1,784	1,472
Deferred income	179	3	226	6
Deferred tax liabilities (Note 7)	2	-	115	-
Other	18,592	6,735	10,214	7,437
Total	**23,037**	**8,419**	**12,339**	**8,915**

Note 24 *Share capital*

The share capital of the Bank is divided into 48,343,940 ordinary shares with the nominal value of LTL 1 each as at 31 December 2003 (2002: LTL 50).

In 2003, the share capital was increased by allocating LTL 5,020 thousand transfer from retained earnings and LTL 303 thousand transfer from revaluation reserve. In addition, in 2003 the Bank issued 5,000 thousand new shares at a nominal and sales price of LTL 1. The increased share capital was registered on 18 June 2003 and 26 November 2003 respectively. As at 31 December 2003 all shares were fully paid.

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

Note 24 *Share capital*

As of 31 December 2003 the shareholders holding over 4% of the Bank's shares are listed in the table below:

Shareholders	Number of shares	%
Clients of Skandinaviska Enskilda Banken (East Capital Asset Management AB)	4,103,024	8.487
"Prekybos namai Aiva" UAB and related parties	3,686,437	7.625
"Šiaulių titanas" AB and related parties	3,108,287	6.430
G. Kateiva	2,960,111	6.123
"FMĮ Finasta" AB and related parties	2,576,947	5.330
"Šiaulių plentas" AB and related parties	2,391,093	4.946
D. Vyšniauskas and related parties	2,354,271	4.870
Medicinos Bankas UAB	2,149,102	4.445
"Mintaka" UAB	2,138,681	4.424
"Šiaulių LEZ valdymo bendrovė" UAB and related parties	1,985,531	4.107
Total	**27,453,484**	**56.788**

Another 4 shareholders or shareholder groups each had more than 3% of the Bank's share capital. As at 31 December 2003, there were 817 shareholders of the Bank (2002: 760).

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

		UAB Šiaulių banko investicijų valdymas		UAB Šiaulių banko turto fondas		UAB Pajūrio Alka	
Shareholders	**Related shareholder of the Bank**	**Number of shares (nominal value: LTL 100)**	**%**	**Number of shares (nominal value: LTL 100)**	**%**	**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	-	-
G. Kateiva	G. Kateiva	-	-	334	4.453	-	-
D. Vyšniauskas	K. J. Vyšniauskas	-	-	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	-	-
Subtotal		**27,477**	**36.6**	**3,520**	**46.93**	**-**	**-**
"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**

Reserve capital

The purpose of the reserve capital is ensure the financial stability of the Bank. The shareholders may decide to use the reserve capital to reduce the retained losses.

Dividends

In 2003, the annual general meeting decided to pay 1% dividends to the holders of the ordinary shares (2002: 1%).

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

Note 25 *Contingent liabilities and commitments*

Legal claims. As at 31 December 2003, contingent liabilities that may arise as a result of pending court proceedings in which the Bank would appear as a respondent amounted to LTL 1,086 thousand. As at 31 December 2003 no provisions against potential losses in relation to the outcome of legal claims were established as in the opinion of the management, the claims are not grounded and will not require outflow of resources to settle them.

Guarantees, letters of credit, commitments to grant loans and other commitments. As at 31 December 2003 the Bank had outstanding guarantees, letters of credit and commitments to grant loans amounting to LTL 18,895 thousand, LTL 1,515 thousand and LTL 45,636 thousand, respectively. No provisions were established for these commitments as at 31 December 2003.

Commitments to grant finance lease and acquire assets. As at 31 December 2003, the leasing subsidiary had effective agreements signed with sellers regarding assets meant for finance lease for the total amount of LTL 1,521 thousand (in 2002: LTL 360 thousand). Furthermore, as at 31 December 2003, the leasing subsidiary had not yet transferred assets to the clients according to some leasing agreements in effect. The total value of such leasing agreements amounted to LTL 601 thousand (in 2002: LTL 266 thousand).

Note 26 *Cash and cash equivalents*

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Cash	14,538	14,528	11,784	11,781
Other valuables	4	4	3	3
Correspondent accounts with other banks	6,963	6,963	5,928	5,928
Correspondent accounts with the central bank	20,218	20,218	-	-
Compulsory reserves with central bank	19,891	19,891	14,226	14,226
Short term treasury bills	-	-	7,770	7,770
Total	**61,614**	**61,604**	**39,711**	**39,708**

Note 27 *Liquidity risk*

The structure of the Bank's assets and liabilities by maturity as at 31 December 2003 is as follows:

	On demand	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 3 years**	**More than 3 years**	**Maturity undefined**	**Total**
Assets									
Cash and balances with central banks	54,641	-	-	-	-	-	-	6,498	61,139
Due from other banks	6,963	30,176	22,391	2,576	2,400	-	-	11	64,517
Trading securities	-	-	-	-	-	-	-	1,933	1,933
Derivative financial instruments	-	12	-	-	-	-	-	-	12
Loans	-	12,394	48,659	51,005	75,103	91,458	31,905	1,617	312,141
Investment securities									
– available-for-sale	-	-	-	558	-	5,906	4,857	1,544	12,865
– held-to-maturity	-	1,792	-	145	4,966	8,379	47,638	14,558	77,478
Investments in associates	-	-	-	-	-	-	-	9,141	9,141
Intangible assets	-	-	-	-	-	-	-	2,134	2,134
Tangible fixed assets	-	-	-	-	-	-	-	23,214	23,214
Other assets	687	1,749	190	930	468	1,879	316	1,529	7,748
Total assets	**62,291**	**46,123**	**71,240**	**55,214**	**82,937**	**107,622**	**84,716**	**62,179**	**572,322**

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

Note 27 *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
Due to other banks	6,458	11,051	484	10,447	28,308	28,011	23,781	5	108,545
Derivative financial instruments	-	79	-	-	-	-	-	-	79
Deposits	135,596	45,420	66,827	74,582	54,876	13,723	8,225	6	399,255
Special and lending funds	141	-	-	-	-	-	-	-	141
Other liabilities	3,879	3,005	69	317	2	-	-	1,147	8,419
Shareholders' equity	-	-	-	-	-	-	-	55,883	55,883
Total liabilities and shareholders' equity	**146,074**	**59,555**	**67,380**	**85,346**	**83,186**	**41,734**	**32,006**	**57,041**	**572,322**

The structure of the Bank's assets and liabilities by maturity as at 31 December 2002 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	32,674	36,902	55,736	38,268	86,993	88,130	60,578	55,230	454,511
Liabilities and shareholders' equity	104,257	59,720	57,811	52,353	54,345	54,033	24,727	47,265	454,511

The Bank's liquidity ratios calculated using the rules 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 2002	115,639	259,195	44.16
31 January 2003	104,570	250,596	41.73
28 February 2003	106,838	253,441	42.15
31 March 2003	109,530	267,025	41.02
30 April 2003	114,839	281,134	40.85
31 May 2003	112,675	281,073	40.09
30 June 2003	106,563	268,295	39.72
31 July 2003	121,716	279,541	43.54
31 August 2003	142,126	305,555	46.51
30 September 2003	143,234	303,708	47.16
31 October 2003	155,050	310,287	49.97
30 November 2003	164,808	316,790	52.02
31 December 2003	168,065	328,712	51.13

Note 28 *Foreign exchange transactions and open positions*

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

	EUR	USD	Other currencies	Total currencies	LTL	Total
Assets						
Cash and balances with central banks	2,709	8,149	833	11,691	49,448	61,139
Due from other banks	3,037	9,796	1,308	14,141	50,376	64,517

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

	EUR	USD	Other currencies	Total currencies	LTL	Total
Trading securities	-	-	-	-	1,933	1,933
Derivative financial instruments	-	-	-	-	12	12
Loans, gross	45,715	22,844	-	68,559	246,094	314,653
Investment securities						-
– available-for-sale	-	-	-	-	12,865	12,865
– held-to-maturity	18,898	-	-	18,898	58,580	77,478
Investments in associates	-	-	-	-	9,141	9,141
Intangible assets	-	-	-	-	2,134	2,134
Tangible fixed assets	-	-	-	-	23,214	23,214
Provisions	(234)	(791)	-	(1,025)	(1,767)	(2,792)
Other assets, gross	482	190	-	672	7,356	8,028
Total assets	**70,607**	**40,188**	**2,141**	**112,936**	**459,386**	**572,322**
Liabilities and shareholders' equity						
Due to other banks	38,761	5,137	19	43,917	64,628	108,545
Derivative financial instruments	-	-	-	-	79	79
Deposits	29,968	42,297	731	72,996	326,259	399,255
Special and lending funds	-	-	-	-	141	141
Other liabilities	3,376	1,221	12	4,609	3,810	8,419
Shareholders' equity	-	-	-	-	55,883	55,883
Total liabilities and shareholders' equity	**72,105**	**48,655**	**762**	**121,522**	**450,800**	**572,322**
Net balance sheet position	**(1,498)**	**(8,467)**	**1,379**	**(8,586)**	**8,586**	
Off-balance sheet position	**550**	**8,148**	**(485)**	**8,213**		
Net open position	**(948)**	**(319)**	**894**	**(373)**		

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

	EUR	USD	Other currencies	Total currencies	LTL	Total
Assets	43,112	64,009	1,258	108,379	346,132	454,511
Liabilities and shareholders' equity	46,583	77,670	635	124,888	329,623	454,511
Net balance sheet position	**(3,471)**	**(13,661)**	**623**	**(16,509)**	**16,509**	**-**
Off balance position	2	13,677	(141)	13,538		
Net position	**(3,469)**	**16**	**482**	**(2,971)**		

According to the regulations approved by the Bank of Lithuania, the overall open position should not exceed 25% of the bank's capital and the open position of each individual foreign currency should not exceed 15% of the bank's capital.

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

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

Note **29** *Interest rate risk*

The table below summarizes the Bank's interest rate risks as at 31 December 2003. 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	-	-	-	-	-	61,139	61,139
Due from other banks	32,389	22,478	276	2,400	-	6,974	64,517
Trading securities	-	-	-	-	-	1,933	1,933
Derivative financial instruments	-	-	-	-	-	12	12
Loans, gross	33,804	37,157	139,016	57,023	26,371	21,282	314,653
Investment securities							-
– available-for-sale	-	-	558	-	10,763	1,544	12,865
– held-to-maturity	1,792	-	145	4,966	70,575	-	77,478
Investments in associates	-	-	-	-	-	9,141	9,141
Intangible assets	-	-	-	-	-	2,134	2,134
Tangible fixed assets	-	-	-	-	-	23,214	23,214
Other assets, gross						5,236	5,236
Total assets	**67,985**	**59,635**	**139,995**	**64,389**	**107,709**	**132,609**	**572,322**
Liabilities and shareholders' equity							
Due to other banks	25,391	7,663	25,295	23,992	19,740	6,464	108,545
Derivative financial instruments	-	-	-	-	-	79	79
Deposits and special and lending funds	48,006	69,113	80,168	63,395	2,972	135,742	399,396
Other liabilities	-	-	-	-	-	8,419	8,419
Shareholders' equity	-	-	-	-	-	55,883	55,883
Total 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 Bank's interest rate risks as at 31 December 2002:

	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	52,253	53,288	90,272	74,334	102,830	81,534	454,511
Liabilities and shareholders' equity	81,589	55,112	75,248	67,521	18,435	156,606	454,511
Interest rate sensitivity gap	(29,336)	(1,824)	15,024	6,813	84,395	(75,072)	

Note **30** *Related party transactions*

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

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

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

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

	Principal of loans outstanding		Average annual interest rates	
	31 December 2003	31 December 2002	2003	2002
Shareholders	33,592	27,881	5.31	6.4
Members of the Council and Board and other related parties	3,145	-	5.61	-
	36,737	27,881		

As at 31 December 2003 and during the year deposits from related parties were accepted on an arm's length principle.

In 2003 the amount of salaries and bonuses to three Board members of the Bank totalled LTL 544 thousand (2002: LTL 593 thousand).

Note **31** *Concentration exposure*

As at 31 December 2003, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, amounted to LTL 11,2 million (all amount represents commitments to provide credit facilities), which is 21.8% of the Bank's calculated capital.

Note **32** *Stock brokerage department activities*

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

	2003	2002
Number of contracts for managing securities accounts and for transactions	333	144
Total value of transactions in the NSEL	103	99
Number of issuers, whose securities are accounted by the department	11	4

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

	2003	2002
Bank's:		
Treasury bills and government bonds	51,843	52,494
Equity securities	12,846	2,894
Total Bank's	64,689	55,388
On behalf of clients:		
Treasury bills and government bonds	4,045	4,558
Equity securities	38,992	23,651
Equity securities of issuers	53,776	7,673
Equity securities of the Bank	-	8,992
Total on behalf of clients	**96,813**	**44,874**

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

Note 32 *Stock brokerage department activities*

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

	2003	2002
Interest income for Lithuanian treasury bills and government bonds	3,738	3,644
Income from debt securities	471	850
Income from debt securities	194	42
Commission charged	139	71
Income for distribution of Savings bonds of the government	5	22
Dividends received	50	10
Other income	18	20
Total income	**4,615**	**4,659**