

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2008

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Independent auditor's report

To the Shareholders of Šiaulių bankas AB

Report on the financial statements

We have audited the accompanying consolidated financial statements of Šiaulių Bankas AB and its subsidiaries (the "Group") and the financial statements of Šiaulių Bankas AB (the 'Bank') set out in pages 5 – 79 which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.



Report on other legal and regulatory requirements

Furthermore, we have read the Consolidated Annual Report for the year ended 31 December 2008 set out on pages 80 – 121 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2008.

On behalf of PricewaterhouseCoopers UAB

A handwritten signature in black ink, appearing to read 'C. Butler'.

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
17 March 2009

A handwritten signature in black ink, appearing to read 'Rimvydas Jogėla'.

Rimvydas Jogėla
Auditor's Certificate No. 000457

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

THE GROUP'S AND THE BANK'S INCOME STATEMENT

	Notes	Year ended			
		31 December 2008		31 December 2007	
		Group	Bank	Group	Bank
Interest and similar income	1	140,234	134,457	101,641	94,570
Interest expense and similar charges	1	(92,268)	(91,723)	(57,423)	(56,996)
Net interest income		47,966	42,734	44,218	37,574
Fee and commission income	2	14,887	15,221	14,438	14,840
Fee and commission expense	2	(5,366)	(5,247)	(5,499)	(5,404)
Net fee and commission income		9,521	9,974	8,939	9,436
Provision for loan impairment losses	8	(8,802)	(7,748)	(5,918)	(5,108)
Net gain from operations with securities	3	6,009	(1,934)	4,036	532
Gain on disposal of subsidiary	4	-	-	8,525	8,421
Net foreign exchange gain		2,582	2,571	3,435	3,444
Gain from disposal of assets	6	249	8	2,115	26
Other income	7	1,141	559	2,580	499
Administrative and other operating expenses	5	(41,078)	(35,831)	(38,412)	(32,737)
Operating profit		17,588	10,333	29,518	22,087
Dividends from investments in subsidiaries		-	8,797	-	7,114
Profit before income tax		17,588	19,130	29,518	29,201
Income tax expense	9	(1,806)	(1,605)	(3,057)	(1,953)
Profit for the year		15,782	17,525	26,461	27,248
Profit attributable to:					
Equity holders of the Bank		13,341	17,525	24,402	27,248
Minority interest	27	2,441	-	2,059	-
Profit for the year		15,782	17,525	26,461	27,248
Basic and diluted earnings per share (in LTL per share)	10	0.07	0.10	0.16	0.18

The accounting policies and notes on pages 10 to 79 constitute an integral part of these financial statements.

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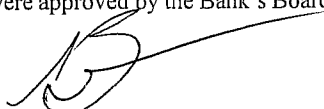
(All amounts are in LTL thousand, unless otherwise stated)

THE GROUP'S AND THE BANK'S BALANCE SHEET

	Notes	31 December 2008		31 December 2007	
		Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	11	142,939	142,927	230,540	230,528
Trading securities	13	3,689	714	18,664	9,539
Due from other banks	12	1,220	1,220	593	593
Loans to customers	15	1,490,014	1,674,541	1,387,434	1,540,637
Finance lease receivables	16	128,836	-	121,605	-
Investment securities:					
- available-for-sale	17	36,860	21,336	24,682	13,726
Investment securities:					
- held-to-maturity	17	150,012	147,038	164,163	164,163
Investments in subsidiaries	18	-	2,135	-	2,135
Intangible assets	19	791	780	1,251	1,227
Tangible fixed assets	20	56,359	46,290	51,279	45,204
Overpaid income tax		1,002	-	2,043	-
Derivative financial instruments		-	-	-	-
Other assets	21	67,852	12,704	49,309	5,394
Total assets		2,079,574	2,049,685	2,051,563	2,013,146
LIABILITIES					
Due to other banks and financial institutions	22	454,835	445,945	463,595	454,671
Due to customers	23	1,259,750	1,259,755	1,217,008	1,216,942
Debt securities in issue	25	24,997	24,997	28,550	28,550
Special and lending funds	24	30,699	30,699	36,550	36,092
Current income tax liabilities		543	526	1,156	930
Deferred income tax liabilities	9	98	98	225	225
Derivative financial instruments		-	-	119	119
Other liabilities	26	14,028	4,784	15,154	6,000
Total liabilities		1,784,950	1,766,804	1,762,357	1,743,529
EQUITY					
Capital and reserves attributable to equity holders of the Bank					
Share capital	28	180,358	180,358	161,033	161,033
Share premium	28	45,681	45,681	65,006	65,006
Reserve capital	28	2,611	2,611	2,611	2,611
Statutory reserve	28	3,683	3,405	1,743	1,445
Financial assets revaluation reserve		(680)	(680)	360	360
Retained earnings		58,004	51,506	49,824	39,162
		289,657	282,881	280,577	269,617
Minority interest	27	4,967	-	8,629	-
Total equity		294,624	282,881	289,206	269,617
Total liabilities and equity		2,079,574	2,049,685	2,051,563	2,013,146

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 17 March 2009 by:

Algirdas Butkus
Chairman of the Board




Vita Adomaitytė
Chief Financial Officer

The accounting policies and notes on pages 10 to 79 constitute an integral part of these financial statements.

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

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Bank						Minority interest	Total equity	
		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings			Total
31 December 2006		109,039	25,000	2,611	-	927	28,419	165,996	21,373	187,369
Dividends	30	-	-	-	-	-	(2,181)	(2,181)	-	(2,181)
Dividends to minority	27	-	-	-	-	-	-	-	(14,229)	(14,229)
Formation of statutory reserve		-	-	-	-	816	(816)	-	-	-
Bonus issue of share capital	28	11,994	(11,994)	-	-	-	-	-	-	-
Issue of share capital	28	40,000	52,000	-	-	-	-	92,000	-	92,000
Revaluation of financial assets		-	-	-	436	-	-	436	-	436
Recognition of deferred income tax		-	-	-	(76)	-	-	(76)	-	(76)
Decrease in share capital of minority shareholders in subsidiaries	27	-	-	-	-	-	-	-	(574)	(574)
Net profit for the year		-	-	-	-	-	24,402	24,402	2,059	26,461
31 December 2007		161,033	65,006	2,611	360	1,743	49,824	280,577	8,629	289,206
Dividends	30	-	-	-	-	-	(3,221)	(3,221)	-	(3,221)
Dividends to minority	27	-	-	-	-	-	-	-	(6,103)	(6,103)
Formation of statutory reserve		-	-	-	-	1,940	(1,940)	-	-	-
Bonus issue of share capital	28	19,325	(19,325)	-	-	-	-	-	-	-
Revaluation of financial assets		-	-	-	(1,118)	-	-	(1,118)	-	(1,118)
Recognition of deferred income tax		-	-	-	78	-	-	78	-	78
Net profit for the year		-	-	-	-	-	13,341	13,341	2,441	15,782
31 December 2008		180,358	45,681	2,611	(680)	3,683	58,004	289,657	4,967	294,624

The accounting policies and notes on pages 10 to 79 constitute an integral part of these financial statements.

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

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
31 December 2006		109,039	25,000	2,611	-	700	14,840	152,190
Dividends	30	-	-	-	-	-	(2,181)	(2,181)
Formation of statutory reserve		-	-	-	-	745	(745)	-
Bonus issue of share capital	28	11,994	(11,994)	-	-	-	-	-
Issue of share capital	28	40,000	52,000	-	-	-	-	92,000
Revaluation of financial assets		-	-	-	436	-	-	436
Recognition of deferred income tax		-	-	-	(76)	-	-	(76)
Net profit for the year		-	-	-	-	-	27,248	27,248
31 December 2007		161,033	65,006	2,611	360	1,445	39,162	269,617
Dividends	30	-	-	-	-	-	(3,221)	(3,221)
Formation of statutory reserve		-	-	-	-	1,960	(1,960)	-
Bonus issue of share capital	28	19,325	(19,325)	-	-	-	-	-
Revaluation of financial assets		-	-	-	(1,118)	-	-	(1,118)
Recognition of deferred income tax		-	-	-	78	-	-	78
Net profit for the year		-	-	-	-	-	17,525	17,525
31 December 2008		180,358	45,681	2,611	(680)	3,405	51,506	282,881

The accounting policies and notes on pages 10 to 79 constitute an integral part of these financial statements.

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THE GROUP'S AND THE BANK'S CASH FLOW STATEMENT

	Notes	Year ended			
		31 December 2008		31 December 2007	
		Group	Bank	Group	Bank
Operating activities					
Interest received		138,355	132,578	97,145	90,367
Interest paid		(90,779)	(90,234)	(50,004)	(49,577)
Fees and commissions received		14,887	15,221	14,438	14,840
Fees and commissions paid		(5,366)	(5,247)	(5,499)	(5,404)
Cash inflows from trade in trading securities		(1,261)	(1,289)	1,860	172
Net income from foreign exchange operations		2,582	2,692	1,991	2,019
Recoveries on loans previously written off		195	82	518	442
Salaries and related payments to and on behalf of employees		(25,088)	(21,936)	(20,745)	(17,908)
Other cash receipts, sale of assets		1,390	567	616	758
Other cash payments		(17,780)	(15,401)	(5,482)	(13,934)
Income tax paid		(1,559)	(2,057)	(9,523)	(1,591)
Net cash flow from operating activities before change in operating assets and liabilities		15,576	14,976	25,315	20,184
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		14,193	8,052	(16,670)	2,916
(Increase)/decrease in loans to credit and financial institutions		2,665	(15,062)	10,736	10,656
(Increase) in loans to customers		(117,302)	(121,688)	(526,072)	(548,618)
(Increase) in other current assets		(14,352)	(5,564)	(5,855)	(653)
Increase in liabilities					
Increase in liabilities to credit and financial institutions		(51,257)	(51,333)	290,596	286,670
Increase in deposits		81,603	75,877	282,358	278,855
Increase in special and lending funds		(5,851)	(5,393)	(6,255)	(5,915)
Increase in other liabilities		(880)	5,515	(4,279)	(1,894)
Change		(91,181)	(109,596)	24,559	22,017
Net cash flow from/ (used in) operating activities		(75,605)	(94,620)	49,874	42,201
Investing activities					
(Purchase) of tangible and intangible fixed assets		(14,525)	(9,500)	(14,892)	(12,133)
Disposal of tangible and intangible fixed assets		6,498	5,970	11,042	276
(Purchase) of held-to-maturity securities		(14,492)	(11,518)	(20,314)	(20,314)
Proceeds from redemption of held-to-maturity securities		28,655	28,655	18,621	18,621
Dividends received		8,040	8,912	2,355	7,360
(Purchase) of available-for-sale securities		(34,060)	(29,491)	(15,186)	(15,186)
Sale of available-for-sale securities		20,764	20,764	2,411	2,411
Proceeds from sale of subsidiary		-	-	12,940	12,940
Net cash flow used in investing activities		880	13,792	(3,023)	(6,025)
Financing activities					
Increase in share capital	28	-	-	92,000	92,000
Dividends paid		(3,220)	(3,220)	(16,412)	(2,183)
Dividends paid to minority shareholders		(6,103)	-	(14,229)	-
Debt securities in issue		55,710	55,710	30,208	30,208
Redemption of debt securities in issue		(59,263)	(59,263)	(29,436)	(47,219)
Net cash flow from financing activities		(12,876)	(6,773)	62,131	72,806
Net increase (decrease) in cash and cash equivalents		(87,601)	(87,601)	108,982	108,982
Cash and cash equivalents at 1 January		230,540	230,528	121,558	121,546
Cash and cash equivalents at 31 December	11	142,939	142,927	230,540	230,528

The accounting policies and notes on pages 10 to 79 constitute an integral part of these financial statements

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

GENERAL INFORMATION

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

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 14 branches and 45 client service units (2007: 14 branches and 37 client service units). As at 31 December 2008 the Bank had 522 employees (31 December 2007: 483). As at 31 December 2008 the Group had 578 employees (31 December 2007: 535 employees).

The Bank accepts deposits, issues loans, makes money transfers and documentary settlements, exchanges currencies for its clients, issues and processes debit and credit cards, is engaged in trade finance and is investing and trading in securities, as well as performs other activities set forth in the Law on Commercial Banks (except for operations with precious metals).

The Bank's shares are listed on the Official List of the Vilnius Stock Exchange – AB NASDAQ OMX Vilnius.

The Bank had the following subsidiaries:

- Šiaulių Banko Lizingas UAB (hereinafter – SB Lizingas, finance and operating lease activities),
- Šiaulių Banko Investicijų Valdymas UAB (hereinafter SB Investicijų Valdymas, investment management activities),
- Šiaulių Banko Turto Fondas UAB (hereinafter – SB Turto Fondas, real estate management activities),
- Pajūrio Alka UAB (hotel services). In April 2007 the Bank sold all shares of Pajurio Alka UAB, for more detailed information on this disposal see Note 4.

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

The Bank's shareholders structure is disclosed in Note 28 *Share capital*.

Recent volatility in financial markets. The last few months have seen sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Group to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in base interest rate is generally not evidence of impairment. Management is unable to estimate effects on the Group's financial position of any further possible deterioration in the financial markets liquidity and increased volatility.

ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

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

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

ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

(a) Amendments to existing standards and interpretations effective in 2008 but not relevant

The following amendments to existing standards and interpretations to published standards as adopted by EU are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Bank's and Group's operations:

Amendment to IAS 39, "Financial instruments: Recognition and measurement", and IFRS 7 "Financial instruments: Disclosures on Reclassification of financial assets". This amendment allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as 'at fair value through profit or loss' under the fair value option are not eligible for this reclassification. This amendment does not have a material impact on the Bank's and Group's financial statements.

IFRIC 11, "IFRS 2 – Group and treasury share transactions". Interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Bank's and Group's financial statements.

IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Bank's and Group's financial statements, as the Group does not any defined benefit plans.

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

The following standards and amendments to existing standards have been published and are mandatory for the Bank's and Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Bank and Group will apply this standard from 1 January 2009.

IAS 1 (Revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Bank and Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

IAS 23 (Revised), Borrowing Costs, including amendment published by IASB in May 2008 as part of annual improvement project (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank and Group will apply IAS 23 from 1 January 2009, however, currently this standard is not applicable to the Bank and Group as there are no qualifying assets.

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

ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Bank and Group will apply the IAS 32 and IAS 1 (Amendment) from 1 January 2009, but is not expected to have any impact on the Bank's and Group's financial statements.

IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the Bank's and Group's financial statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank and Group will apply IFRS 2 (Amendment) from 1 January 2009, but is not expected to have any impact on the Bank's and Group's financial statements.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's and Group's operations, because it does not operate any loyalty programmes.

On the 23 January 2009, the EU endorsed the Improvements to IFRSs standard published in May 2008 which amends 20 existing standards, basis of conclusions and guidance. These improvements include changes in presentation, recognition and measurement as well as terminology and editorial changes. Most of these changes are effective for periods beginning or after 1 January 2009. These amendments are not expected to have significant impact on the Bank's and Group's financial statements.

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

ACCOUNTING POLICIES (continued)

Critical accounting estimates

Impairment losses on loans. The Bank and the Group review their loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on loans in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. To the extent that impairment provision for loan losses differs by +/- 5%, the impact on the provision at the Group and the Bank as at 31 December 2008 would be higher or lower by LTL 575 thousand (2007: LTL 377 thousand) and LTL 563 thousand (2007: LTL 359 thousand) respectively.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

Taxes. The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period from 1998 to 2000). There were no significant remarks or disputes. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Consolidation of subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

Subsidiaries in the stand-alone financial statements are accounted for at cost – that is the income from the investment is recognised only to the extent that the Bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

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

ACCOUNTING POLICIES (continued)

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in the litas, which is the Bank's functional and presentation currency.

(b) Transactions and balances

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

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

Derivative financial instruments

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

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

Off-setting financial instruments

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

Recognition of income and expenses

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

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

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

Dividend income

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

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

ACCOUNTING POLICIES (continued)

Taxation

a) *Income tax*

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2007 period is subject to income tax at a rate of 18%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes. Income tax rate valid for 2006 was 19%. As from 1 January 2008 income tax rate was 15% and as from 1 January 2009 income tax rate is 20%, therefore deferred tax assets and liabilities recognized as at 31 December 2008 are calculated using 20% tax rate. Deferred tax assets and liabilities recognized as at 31 December 2007 were calculated using 15% tax rate.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of securities, difference between net book value and tax base of tangible fixed assets and accrued charges. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

b) *Other taxes*

Real estate tax rate is 1% on the tax value of tangible fixed assets and foreclosed assets. The Bank is also obliged to pay land and land lease taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Bank of Lithuania, treasury bills and other eligible bills, amounts due from banks and financial institutions and short-term government securities.

Financial assets

Financial assets are classified into 4 categories: financial assets at fair value through profit and loss (the Group and the Bank have the only one sub-category here – held for trading), investments held to maturity, loans and receivables, financial assets available for sale. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Trading securities

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

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

Securities available for sale and held to maturity

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss. Management determines the appropriate classification of its investments at the time of the purchase.

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

ACCOUNTING POLICIES (continued)

Securities available for sale and held to maturity (continued)

Available-for-sale securities are measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

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

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

Interest earned whilst holding securities is reported as interest income. Dividends receivable are included separately in dividend income when the Bank's right to receive payments is established

All regular way purchases and sales of securities are recognised at 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.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

Impairment losses on loans, held-to-maturity and available-for-sale investments and provisions for other assets

Losses on loan and held-to-maturity investment impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

ACCOUNTING POLICIES (continued)

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

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

Reverse repurchase transactions

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

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

Intangible assets

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

Tangible fixed assets

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

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the income statement.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Asset maintenance costs are charged to the income statement when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset.

Leases

a) *Group company is the lessee*

Operating leases

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease.

b) *Group company is the lessor*

Operating leases

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

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

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

ACCOUNTING POLICIES (continued)

Assets held for sale (including foreclosed assets) and real estate projects under development

Assets held for sale are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Real estate projects under development are stated at the lower of cost and fair value less expected costs to sell.

Borrowings

Borrowings (including debt securities in issue) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are recognised on the day of settlement.

Provisions

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

Dividends

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

Employee benefits

a) *Social security contributions*

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

b) *Termination benefits*

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

Segment information

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

Fiduciary activities

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

Fair value of assets and liabilities

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

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

FINANCIAL RISK MANAGEMENT

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Strategy in using financial instruments

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

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

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

I. Credit risk

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

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

The Bank takes risks only in the fields, which are well known to it and where it has positive experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the Bank's constant status in the market and would increase the Bank's value.

The Bank lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and solid support.

1.1. Credit risk measurement

(a) Loans and advances

Credit risk management process, as any risk incurring in other banking activities, could be divided into the following four stages:

- 1) Risk identification (recognition);
- 2) Risk extent evaluation;
- 3) Risk monitoring;
- 4) Risk control.

The Bank applies credit risk management measures, which could relevantly be divided into two types:

- 1) Measures that help to avoid decisions to grant unsecured loans;
- 2) Measures ensuring the effective monitoring system of the Bank's asset quality.

Measures that help to avoid decisions to grant unwarrantably risky credits include:

- 1) Multi-stage decision-making and its approval system;
- 2) Risk allocation among structural levels – limit establishment;
- 3) Security measures for credit repayment (collateral).

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

It is very important to analyse the credit precisely before granting it. The goal of credit analysis is to do the best in evaluating the customer's status and prospects in the field where he/she provides his/her goods or services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit repayment risks. A security measure is chosen in accordance with the credit type. Providing credit first of all the Bank analyses the borrower's financial capacity and credit repayment possibilities from the borrower's cash flows.

Credit administration and constant credit monitoring is the main principle in the Bank's security and reliability maintenance. The proper credit administration includes the timely updating of the borrower's credit file, providing with the latest financial information, the timely introduction of latest financial information to the database and preparation of the various documents and their amendments.

The Bank establishes and implements the procedures, improves information systems for monitoring separate credits as well as loan portfolio. These procedures include the criteria for early indication of potentially impaired loans and other transactions.

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

FINANCIAL RISK MANAGEMENT (continued)

(b) Debt securities

Credit risk exposures with respect to debt securities are managed by carrying out counterparty analysis when decision for acquisition of securities is made. The concentration risk together with lending exposure arising from debt securities portfolio is analysed and monitored on a regular basis.

(c) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The above guarantees and letters of documentary credit are usually collateralised by clients' funds in the Bank accounts. With regards to commitments to grant credit the Bank is exposed to loss equal to the unused commitment amount.

1.2. Risk limit control and mitigation policies

(a) Concentrations

The Group manages, limits and controls concentration of credit risk – in particular, to individual counterparties and groups of the associated counterparties as well as to economic sectors.

In addition to the Bank of Lithuania requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement, which to a single borrower may not exceed 15 percent of the Bank's capital. The Bank's Council must approve the higher limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent.

The Group also sets limits to industry segments, i.e. a possible concentration in certain industries at the Group's level is restricted by the internal lending limits. The percentage and volume of lending limits are set for individual industries to ensure that the Group is not overly exposed to any particular economic sector in the country.

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed.

Some other specific control and mitigation measures are outlined below.

(b) Collateral

The Group mitigates credit risk by taking security for loans granted. The types of collateral considered by the Group as the most acceptable for loans and advances are the following:

- Real estate (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles);
- Property rights over financial instruments (debt securities, equities);
- Third party guarantees.

Long-term financing and lending to corporate entities are generally secured; revolving facilities and consumer loans to private individuals are generally unsecured. In order to minimize the credit loss as the impairment indicators for the relevant individual loans and advances are noticed the Group seeks for additional collateral from the counterparty.

While calculating a decrease in value for the loan the repayment of which is secured by the collateral, a cash flow from the security measure is also included into the loan cash flow. Taking into consideration the historical data, facts and probability to sell the object of the security measures and the expenses of its sales, the discount ratios applied at the Bank are provided. If several loans are insured with the same security measure (collateral), such security measure (collateral) is divided to every loan pro rata.

Debt securities, treasury and other eligible bills are generally unsecured.

For finance lease receivables the lender remains the owner of the leased object. Therefore, in case of customer's default the lender is able to gain control on the risk mitigation measures and realize them in rather short period.

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

FINANCIAL RISK MANAGEMENT (continued)

1.3. Impairment and provisioning policies

Upon assessing impairment losses on loans, available-for-sale assets and other assets the Group follows the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Impairment losses are recognized for financial reporting purposes only for those losses that have been impaired at the balance sheet date based on objective evidence of impairment.

The Group and the Bank carries out valuation of impaired assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision.

The following loss events are considered by the Group and the Bank when estimating provision for loan impairment. Events that may cause loss in future cannot be recognized as a loss event on the loan evaluation day.

The list of loss events:

- 1) The borrower's financial status is evaluated as poor or bad;
- 2) A borrower is past due with the loan payments (on a principal or interest) for more than 90 days or loan agreement is terminated;
- 3) Proceeds granted to the borrower are used not according to the loan purpose and the implementation terms of investment project are violated;
- 4) Decrease in collateral value, when the repayment terms of the evaluated loans directly depend on the value of the object of security measure;
- 5) Third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
- 6) The borrower's financial status is evaluated as sufficient and the borrower is past due with the loan payments (on a principal or interest) between 31 day and 90 days.

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

FINANCIAL RISK MANAGEMENT (continued)

1.4. Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:	2008		2007	
	Group	Bank	Group	Bank
Cash and balances with central banks	101,823	101,813	187,215	187,205
Loans and advances to banks	1,220	1,220	593	593
Loans and advances to customers:	1,618,850	1,674,541	1,509,039	1,540,637
Loans and advances to financial institutions	24,988	165,065	27,060	149,142
Loans to individuals (Retail):	283,697	267,560	286,936	277,153
- Consumer loans	54,800	54,800	66,455	66,455
- Mortgages	125,176	125,176	120,546	120,546
- Credit cards	24,577	9,959	16,829	7,046
- Other (reverse repurchase agreements, other loans backed by securities, other)	79,144	77,625	83,106	83,106
Loans to business customers:	1,181,329	1,241,916	1,073,438	1,114,342
- Large corporates	171,230	171,230	137,216	136,105
- SME	947,583	1,008,170	904,050	946,065
Central and local authorities, administrative bodies and other	62,516	62,516	32,172	32,172
Finance lease receivables	128,836	-	121,605	-
- Individuals	42,902	-	33,365	-
- Business customers	85,934	-	88,240	-
Trading assets:	3,689	714	18,664	9,539
- Debt securities	2,975	-	12,309	6,363
- Equity securities	714	714	6,355	3,176
Derivative financial instruments	-	-	-	-
Securities available for sale	36,860	21,336	24,682	13,726
- Debt securities	20,608	20,608	12,170	12,170
- Equity securities	16,252	728	12,512	1,556
Investment securities held to maturity	150,012	147,038	164,163	164,163
- Debt securities	150,012	147,038	164,163	164,163
Other financial assets	28,918	7,810	14,236	611
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	68,115	68,115	89,809	89,809
Letters of credit	9,282	9,282	8,387	8,387
Loan commitments and other credit related liabilities	71,156	64,425	118,074	112,868
At 31 December	2,089,925	2,096,294	2,134,862	2,127,538

The table above represents a worst case scenario of credit risk exposure at 31 December 2008 and 2007, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above on net carrying amount as reported in the balance sheet.

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

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FINANCIAL RISK MANAGEMENT (continued)

1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2008

	2008			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,334,135	24,988	1,382,499	165,065
Past due but not impaired	97,659	-	94,209	-
Impaired	44,722	-	44,036	-
Gross	1,476,516	24,988	1,520,744	165,065
Less: allowance for impairment	11,490	-	11,268	-
Net	1,465,026	24,988	1,509,476	165,065

31 December 2007

	2007			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,252,545	27,060	1,286,317	149,142
Past due but not impaired	79,100	-	77,762	-
Impaired	36,275	-	34,586	-
Gross	1,367,920	27,060	1,398,665	149,142
Less: allowance for impairment	7,546	-	7,170	-
Net	1,360,374	27,060	1,391,495	149,142

During the year ended 31 December 2008, the Group's total loans and advances increased by 8%. The Group's total impairment provision for loans and advances is LTL 11,490 thousand (2007: LTL 7,546 thousand) and it accounts for 0.78% of the respective portfolio (2007: 0.55%). The Group's impaired loans and advances to customers comprise 3.0% of the total portfolio (2007: 2.7%).

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

a) Loans and advances neither past due nor impaired

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

31 December 2008

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	45,556	111,861	20,576	68,423	246,416
Watch	-	57	-	274	331
Substandard	-	-	-	107	107
Total	45,556	111,918	20,576	68,804	246,854

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FINANCIAL RISK MANAGEMENT (continued)

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	330,991	108,480	24,988	49,152	513,611
Watch	483,470	62,424	-	12,161	558,055
Substandard	39,812	-	-	791	40,603
Total	854,273	170,904	24,988	62,104	1,112,269

31 December 2007

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	59,587	107,906	14,080	78,926	260,499
Watch	0	0	0	0	0
Substandard	0	0	0	0	0
Total	59,587	107,906	14,080	78,926	260,499

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	587,670	126,720	27,060	30,368	771,818
Watch	210,404	9,747	-	764	220,915
Substandard	26,373	-	-	-	26,373
Total	824,447	136,467	27,060	31,132	1,019,106

31 December 2008

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	45,556	111,861	9,682	66,904	234,003
Watch	-	57	-	274	331
Substandard	-	-	-	107	107
Total	45,556	111,918	9,682	67,285	234,441

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	391,948	108,480	165,065	49,152	714,645
Watch	483,290	62,424	-	12,161	557,875
Substandard	39,812	-	-	791	40,603
Total	915,050	170,904	165,065	62,104	1,313,123

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FINANCIAL RISK MANAGEMENT (continued)

31 December 2007

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	59,587	107,906	6,948	78,926	253,367
Watch	-	-	-	-	-
Substandard	-	-	-	-	-
Total	59,587	107,906	6,948	78,926	253,367

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	629,685	125,609	149,142	30,368	934,804
Watch	210,404	9,747	-	764	220,915
Substandard	26,373	-	-	-	26,373
Total	866,462	135,356	149,142	31,132	1,182,092

Other loans to individuals (retail) are secured loans, which are not classified as consumer or mortgage credits and which are assigned e.g. for various personal expenses of the natural entities, for acquisition of real estate, movables or securities.

Loans and advances neither past due nor impaired are loans which are not impaired and payments of which are not past due.

Standard loan is a loan when its repayment is not past due and the borrower's financial performance is either very good or good. Watch loan is a loan when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard loan is a loan when its repayment is not past due and the borrower's financial performance is poor or bad.

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least quarterly.

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FINANCIAL RISK MANAGEMENT (continued)

b) Loans and advances past due but not impaired

31 December 2008

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	6,170	7,213	2,442	7,961	23,786
Past due 30-60 days	-	2,914	834	1,605	5,353
Past due 60-90 days	-	1,637	431	111	2,179
Past due more than 90 days	-	781	-	533	1,314
Total	6,170	12,545	3,707	10,210	32,632
Fair value of collateral	-	24,476	-	20,058	44,534

	Group loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	38,983	326	252	39,561
Past due 30-60 days	14,331	-	-	14,331
Past due 60-90 days	3,645	-	-	3,645
Past due more than 90 days	7,330	-	160	7,490
Total	64,289	326	412	65,027
Fair value of collateral	120,568	-	336	120,904

31 December 2007

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	2,583	8,847	1,357	2,531	15,318
Past due 30-60 days	14	1,667	-	511	2,192
Past due 60-90 days	8	1,632	-	348	1,988
Past due more than 90 days	0	308	-	352	660
Total	2,605	12,454	1,357	3,742	20,158
Fair value of collateral	-	24,421	-	8,407	32,828

	Group loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	37,262	749	1,040	39,051
Past due 30-60 days	14,341	-	-	14,341
Past due 60-90 days	1,757	-	-	1,757
Past due more than 90 days	3,793	-	-	3,793
Total	57,153	749	1,040	58,942
Fair value of collateral	76,620	630	-	77,250

31 December 2008

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	6,170	7,213	191	7,961	21,535
Past due 30-60 days	-	2,914	57	1,605	4,576
Past due 60-90 days	-	1,637	9	111	1,757
Past due more than 90 days	-	781	-	533	1,314

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FINANCIAL RISK MANAGEMENT (continued)

Total	6,170	12,545	257	10,210	29,182
Fair value of collateral	-	24,476		20,058	44,534

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	38,983	326	252	39,561
Past due 30-60 days	14,331	-	-	14,331
Past due 60-90 days	3,645	-	-	3,645
Past due more than 90 days	7,330	-	160	7,490
Total	64,289	326	412	65,027
Fair value of collateral	120,568	-	336	120,904

31 December 2007

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	2,583	8,847	19	2,531	13,980
Past due 30-60 days	14	1,667	-	511	2,192
Past due 60-90 days	8	1,632	-	348	1,988
Past due more than 90 days	-	308	-	352	660
Total	2,605	12,454	19	3,742	18,820
Fair value of collateral	-	24,421	-	8,407	32,828

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	37,262	749	1,040	39,051
Past due 30-60 days	14,341	-	-	14,341
Past due 60-90 days	1,757	-	-	1,757
Past due more than 90 days	3,793	-	-	3,793
Total	57,153	749	1,040	58,942
Fair value of collateral	76,620	630	-	77,250

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

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FINANCIAL RISK MANAGEMENT (continued)

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security is as follows:

31 December 2008

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Impaired loans	5,332	1,024	720	486	7,562
Fair value of collateral	-	750	-	609	1,359

	Group loans to business customers			Total
	Large corporates	SME	Central and local authorities and other	
Impaired loans	-	37,153	7	37,160
Fair value of collateral	-	43,114	-	43,114

31 December 2007

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Impaired loans	4,964	196	1,931	472	7,563
Fair value of collateral	-	-	-	-	-

	Group loans to business customers			Total
	Large corporates	SME	Central and local authorities and other	
Impaired loans	-	28,703	9	28,712
Fair value of collateral	-	27,657	-	27,657

31 December 2008

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Impaired loans	5,332	1,024	227	486	7,069
Fair value of collateral	-	750	-	609	1,359

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Impaired loans	36,960	-	7	36,967
Fair value of collateral	43,114	-	-	43,114

31 December 2007

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Impaired loans	4,964	196	242	472	5,874
Fair value of collateral	-	-	-	-	-

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FINANCIAL RISK MANAGEMENT (continued)

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Impaired loans	28,703	-	9	28,712
Fair value of collateral	27,657	-	-	27,657

During 2008 the Bank's estimated interest income on impaired loans amounted to LTL 667 thousand (2007: LTL 614 thousand).

d) Loans and advances renegotiated

Loans and advances that were renegotiated during the year and that would otherwise have been past due or impaired as at 31 December 2008 amounted to LTL 31million (2007: LTL 25million).

e) Information about collaterals of loans

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured, as at 31 December 2008 amounted to LTL 264,390 thousand (2007: LTL 248,159 thousand) Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

31 December 2008

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Unsecured loans	57,058	1,895	25,003	17,617	101,573
Loans collateralised by:	-	123,592	-	61,883	185,475
- residential real estate	-	106,085	-	17,427	123,512
- other real estate	-	8,208	-	20,864	29,072
- securities	-	230	-	22,156	22,386
- guarantees	-	8,507	-	-	8,507
- cash deposits	-	562	-	1,212	1,774
- other assets	-	-	-	224	224
Total	57,058	125,487	25,003	79,500	287,048

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Unsecured loans	178,293	73,876	20,317	51,396	323,882
Loans collateralised by:	777,422	97,354	4,671	11,127	890,574
- residential real estate	65,437	1,063	-	3,633	70,133
- other real estate	530,837	43,299	-	3,742	577,878
- securities	18,930	27,988	4,671	-	51,589
- guarantees	97,312	169	-	3,272	100,753
- cash deposits	654	-	-	274	928
- other assets	64,252	24,835	-	206	89,293
Total	955,715	171,230	24,988	62,523	1,214,456

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FINANCIAL RISK MANAGEMENT (continued)

31 December 2007

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Unsecured loans	67,156	2,701	17,368	15,935	103,160
Loans collateralised by:	-	117,855	-	67,205	185,060
- residential real estate	-	104,066	-	18,634	122,700
- other real estate	-	7,428	-	24,034	31,462
- securities	-	246	-	23,312	23,558
- guarantees	-	6,015	-	-	6,015
- cash deposits	-	100	-	749	849
- Other assets	-	-	-	476	476
Total	67,156	120,556	17,368	83,140	288,220

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Unsecured loans	216,311	54,519	9,705	26,729	307,264
Loans collateralised by:	693,992	82,697	17,355	5,452	799,496
- residential real estate	40,974	752	-	1,124	42,850
- other real estate	478,805	29,786	-	1,478	510,069
- securities	8,484	27,755	17,355	-	53,594
- guarantees	93,545	905	-	2,450	96,900
- cash deposits	487	-	-	-	487
- other assets	71,697	23,499	-	400	95,596
Total	910,303	137,216	27,060	32,181	1,106,760

31 December 2008

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Unsecured loans	57,058	1,895	10,166	16,098	85,217
Loans collateralised by:	-	123,592	-	61,883	185,475
- residential real estate	-	106,085	-	17,427	123,512
- other real estate	-	8,208	-	20,864	29,072
- securities	-	230	-	22,156	22,386
- guarantees	-	8,507	-	-	8,507
- cash deposits	-	562	-	1,212	1,774
- other assets	-	-	-	224	224
Total	57,058	125,487	10,166	77,981	270,692

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Unsecured loans	238,877	73,876	160,394	51,396	524,543
Loans collateralised by:	777,422	97,354	4,671	11,127	890,574
- residential real estate	65,437	1,063	-	3,633	70,133
- other real estate	530,837	43,299	-	3,742	577,878
- securities	18,930	27,988	4,671	-	51,589
- guarantees	97,312	169	-	3,272	100,753
- cash deposits	654	-	-	274	928
- other assets	64,252	24,835	-	206	89,293
Total	1,016,299	171,230	165,065	62,523	1,415,117

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FINANCIAL RISK MANAGEMENT (continued)

31 December 2007

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Unsecured loans	67,156	2,701	7,209	15,935	93,001
Loans collateralised by:	-	117,855	-	67,205	185,060
- residential real estate	-	104,066	-	18,634	122,700
- other real estate	-	7,428	-	24,034	31,462
- securities	-	246	-	23,312	23,558
- guarantees	-	6,015	-	-	6,015
- cash deposits	-	100	-	749	849
- other assets	-	-	-	476	476
Total	67,156	120,556	7,209	83,140	278,061

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Unsecured loans	258,326	53,408	131,787	26,729	470,250
Loans collateralised by:	693,992	82,697	17,355	5,452	799,496
- residential real estate	40,974	752	-	1,124	42,850
- other real estate	478,805	29,786	-	1,478	510,069
- securities	8,484	27,755	17,355	-	53,594
- guarantees	93,545	905	-	2,450	96,900
- cash deposits	487	-	-	-	487
- other assets	71,697	23,499	-	400	95,596
Total	952,318	136,105	149,142	32,181	1,269,746

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FINANCIAL RISK MANAGEMENT (continued)

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2008			2007		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	37,046	66,500	103,546	28,065	70,496	98,561
Past due but not impaired	5,371	16,775	22,146	4,425	16,164	20,589
Impaired	1,411	3,392	4,803	1,634	1,944	3,578
Gross	43,828	86,667	130,495	34,124	88,604	122,728
Less: allowance for impairment	926	733	1,659	759	365	1,124
Net	42,902	85,934	128,836	33,365	88,239	121,604

During the year ended 31 December 2008, finance lease receivables portfolio increased by 6.3%. Total impairment provision for finance lease receivables is LTL 1,659 thousand (2007: LTL 1,124 thousand) and it accounts 1.27% for of the respective portfolio (2007: 0.92%).

a) Finance lease receivables neither past due nor impaired

Finance lease receivables from individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored based on their past due status. All loans to individuals, which are neither past due nor impaired are considered as standard loans from credit risk management view.

	2008			2007		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	37,047	53,528	90,575	28,065	50,506	78,571
Watch	-	12,718	12,718	-	19,832	19,832
Substandard	-	254	254	-	158	158
Total	37,047	66,500	103,547	28,065	70,496	98,561

Standard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is either very good or good. Watch lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is poor or bad.

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FINANCIAL RISK MANAGEMENT (continued)

b) Finance lease receivables past due but not impaired

	2008			2007		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	1,105	449	1,554	697	2,547	3,244
Past due 4-40 days	3,238	10,961	14,199	2,920	12,278	15,198
Past due 41-90 days	765	4,667	5,432	808	1,298	2,106
Past due more than 90 days	262	698	960	0	41	41
Total	5,370	16,775	22,145	4,425	16,164	20,589
Fair value of collateral	8,784	25,714	34,498	8,034	23,180	31,214

c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2008			
Individually impaired	1,411	3,135	4,546
Fair value of collateral	1,983	4,904	6,887
31 December 2007			
Individually impaired	1,634	1,944	3,578
Fair value of collateral	2,684	3,099	5,783

d) Information about risk mitigation measures for finance lease receivables

Upon initial recognition of financial lease receivables, the fair value of risk mitigation measures is based on valuation approaches commonly used for the corresponding types of assets. Market values are used for real estate and movable assets serving as risk mitigation measures. In subsequent periods, the fair value of risk mitigation measures is updated based on their depreciation rates.

If exposure is secured by several different types of risk mitigation measures, priority in their recognition is based on their liquidity. Transport vehicles are treated as having highest liquidity followed by residential real estate and then other real estate. Equipment and other assets are treated as having lowest liquidity.

The lender remains the owner of the leased object. Therefore, in case of customer default it is able to gain control on the risk mitigation measures and realize them in rather short period.

	2008			2007		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	2,499	21,880	24,379	2,446	25,369	27,815
- residential real estate	87	22,047	22,134	88	20,569	20,657
- airplanes	0	11,668	11,668	-	11,756	11,756
- production equipment	233	15,807	16,040	164	14,987	15,151
- other equipment	8,155	8,968	17,123	21,287	10,681	31,968
- other assets	32,854	6,297	39,151	10,139	5,243	15,382
Total	43,828	86,667	130,495	34,124	88,605	122,729

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FINANCIAL RISK MANAGEMENT (continued)

1.7. Concentration of risks of financial assets with credit risk exposure

Industry sectors

The Group and the Bank established lending limits to a particular industry (only for loans and advances), which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Bank's Board for 2008 and 2007: wholesale and retail – 26% of the total loan portfolio, loans to individuals – 25%, manufacturing – 20%, construction – 15%, real estate and rent – 15%, agriculture, hunting and forestry – 12%, transport storage and communication – 10%, hotels and restaurants – 7%, health and social work – 5%. As at 31 December 2008 the Group and the Bank were compliant with the above limits.

The following table breaks down the main credit exposures at their carrying amounts, as categorized by the industry sectors of our counterparties.

Bank

	Financial inter-mediation	Wholesale and retail	Manu-fac-turing	Real estate and rent	Construc-tion	Agriculture, hunting and forestry	Hotels and restaurants	Transport, storage and communication	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	101,813	-	-	-	-	-	-	-	-	-	-	101,813
Loans and advances to banks	1,220	-	-	-	-	-	-	-	-	-	-	1,220
Loans and advances to customers:	253,483	210,995	235,490	179,426	109,206	85,611	90,807	28,849	53,200	267,560	159,914	1,674,541
Loans and advances to financial institutions	165,065	-	-	-	-	-	-	-	-	-	-	165,065
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	267,560	-	267,560
- Mortgages	-	-	-	-	-	-	-	-	-	125,176	-	125,176
- Consumer loans	-	-	-	-	-	-	-	-	-	54,800	-	54,800
- Credit cards	-	-	-	-	-	-	-	-	-	9,959	-	9,959
- Other	-	-	-	-	-	-	-	-	-	77,625	-	77,625
Loans to business customers:	88,418	210,995	235,490	179,426	109,206	85,611	90,807	28,849	53,200	-	159,914	1,241,916
- SME	68,811	178,771	186,191	179,426	91,181	85,530	90,050	26,385	10,058	-	91,767	1,008,170
- Large corporates	19,607	32,224	49,299	-	16,669	-	-	2,464	39,376	-	11,591	171,230
- Central and local authorities, administrative bodies and other	-	-	-	-	1,356	81	757	-	3,766	-	56,556	62,516
Trading assets:	121	-	42	-	-	-	-	427	124	-	-	714
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
- Equity securities	121	-	42	-	-	-	-	427	124	-	-	714
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale	16,563	-	500	-	-	-	-	-	-	-	4,273	21,336
- Debt securities	16,335	-	-	-	-	-	-	-	-	-	4,273	20,608
- Equity securities	228	-	500	-	-	-	-	-	-	-	-	728
Investment securities held-to-maturity	3,075	-	689	1,421	-	-	-	1,527	-	-	140,326	147,038
-debt securities	3,075	-	689	1,421	-	-	-	1,527	-	-	140,326	147,038
Other financial assets	3,701	-	-	1,593	-	-	-	-	-	2,516	-	7,810
Credit risk exposures relating to off-balance sheet items are as follows:	12,591	21,924	30,030	2,175	34,539	7,189	6,282	4,344	1,796	11,812	9,140	141,822
Financial guarantees	3,600	10,446	20,861	777	24,789	287	85	2,090	341	70	4,769	68,115
Letters of credit	6,087	-	3,195	-	-	-	-	-	-	-	-	9,282
Loan commitments and other credit related liabilities	2,904	11,478	5,974	1,398	9,750	6,902	6,197	2,254	1,455	11,742	4,371	64,425
At 31 December 2008	392,567	232,919	266,751	184,615	143,745	92,800	97,089	35,147	55,120	281,888	313,653	2,096,294
At 31 December 2007	410,911	270,894	234,426	199,976	183,447	92,222	82,541	51,402	57,555	287,705	256,964	2,128,043

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FINANCIAL RISK MANAGEMENT (continued)

Group

	Financial interme- diation	Wholesale and retail	Manufac- turing	Real estate and rent	Construc- tion	Agricultur e, hunting and forestry	Hotels and restaurants	Transport, storage and communi- cation	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	101,823	-	-	-	-	-	-	-	-	-	-	101,823
Loans and advances to banks	1,220	-	-	-	-	-	-	-	-	-	-	1,220
Loans and advances to customers:	74,241	213,718	235,900	154,212	109,206	86,270	90,807	28,849	53,200	283,697	159,914	1,490,014
Loans and advances to financial institutions	24,988	-	-	-	-	-	-	-	-	-	-	24,988
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	283,697	-	283,697
- Consumer loans	-	-	-	-	-	-	-	-	-	125,176	-	125,176
- Mortgages	-	-	-	-	-	-	-	-	-	54,800	-	54,800
- Credit cards	-	-	-	-	-	-	-	-	-	24,577	-	24,577
- Other	-	-	-	-	-	-	-	-	-	79,144	-	79,144
Loans to business customers:	49,253	213,718	235,900	154,212	109,206	86,270	90,807	28,849	53,200	-	159,914	1,181,321
- SME	29,646	181,494	186,601	154,212	91,181	86,189	90,050	26,385	10,058	-	91,767	947,581
- Large corporates	19,607	32,224	49,299	-	16,669	-	-	2,464	39,376	-	11,591	171,230
- Central and local authorities, administrative bodies and other	-	-	-	-	1,356	81	757	-	3,766	-	56,556	62,511
Finance lease receivables	106	9,553	14,559	3,101	6,218	6,058	816	35,431	5,511	42,902	4,581	128,836
- individuals	-	-	-	-	-	-	-	-	-	42,902	-	42,902
- business customers	106	9,553	14,559	3,101	6,218	6,058	816	35,431	5,511	-	4,581	85,934
Trading assets:	121	-	3,017	-	-	-	-	427	124	-	-	3,689
- Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
- Equity securities	121	-	3,017	-	-	-	-	427	124	-	-	3,689
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale	16,563	-	3,410	12,614	-	-	-	-	-	-	4,273	36,860
- Debt securities	16,335	-	-	-	-	-	-	-	-	-	4,273	20,608
- Equity securities	228	-	3,410	12,614	-	-	-	-	-	-	-	16,252
Investment securities held-to-maturity	3,075	-	3,663	1,421	-	-	-	1,527	-	-	140,326	150,012
- debt securities	3,075	-	3,663	1,421	-	-	-	1,527	-	-	140,326	150,012
Other assets, advance	3,705	31	14,860	5,321	1	-	-	503	1,819	2,525	153	28,918
Credit risk exposures relating to off-balance sheet items are as follows:	11,041	21,924	30,030	1,260	34,539	7,189	6,282	4,344	1,796	21,008	9,140	148,553
Financial guarantees	3,600	10,446	20,861	777	24,789	287	85	2,090	341	70	4,769	68,115
Letters of credit	6,087	-	3,195	-	-	-	-	-	-	-	-	9,282
Loan commitments and other credit related liabilities	1,354	11,478	5,974	483	9,750	6,902	6,197	2,254	1,455	20,938	4,371	71,156
At 31 December 2008	211,895	245,226	305,439	177,929	149,964	99,517	97,905	71,081	62,450	350,132	318,387	2,089,925
At 31 December 2007	269,768	282,744	262,847	188,565	190,826	98,171	83,241	87,938	73,213	305,120	295,013	2,137,446

2. Market risk

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

2.1. Foreign exchange risk

The foreign exchange risk management is regulated by the Procedures for Foreign Exchange Risk Management. They include the list of types of sale and purchase transactions executed by the Group. Also they establish principles which help the Group to minimize the exposure to foreign exchange risk. The Group does not implement any operations which could cause open currency positions expecting to earn due to the currency rate shift. The Bank's Board approves and reviews on a regular basis the maximum limits for open currency positions for the Bank's branches, subsidiaries and the Bank itself. The established limits are lower than those allowed by the Bank of Lithuania. The Bank's Treasury Department is responsible for the Group's compliance with the Procedures for Foreign Exchange Risk Management.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. As at 31 December 2008 the TOP to capital ratio was: Group's - 1.26% (2007: 1.32%), Bank's - 0.41% (2007: 1.40%).

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FINANCIAL RISK MANAGEMENT (continued)

Sensitivity of foreign exchange risk

Foreign exchange (FX) risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss, i.e. open FX position is multiplied by possible FX rate change. The FX risk parameters for the Group (Bank) have been established in view of the impact of economic slowdown and financial crisis on exchange rates in 2008 and forecasts that currency weakening tendencies will remain in 2009.

Currency	Annual reasonable shift, 2009	Annual reasonable shift, 2008
LVL	10%	1%
GBP	10%	1%
DKK	1%	1%
USD	10%	5%
SEK	5%	1%
Other currencies	3%	3%

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

<i>Group</i>	At 31 December 2008		At 31 December 2007	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars	238	238	16	16
GBP	20	20	9	9
DKK	4	4	4	4
SEK	7	7	4	4
LVL	13	13	4	4
Other currencies	7	7	31	31
Total	289	289	68	68

<i>Bank</i>	At 31 December 2008		At 31 December 2007	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollars	65	65	16	16
GBP	20	20	9	9
DKK	4	4	4	4
SEK	7	7	4	4
LVL	13	13	4	4
Other currencies	7	7	31	31
Total	116	116	68	68

The presumable FX rate change creates acceptable impact on the Bank's and the Group's annual profit and makes LTL 289 thousand in 2008 (2007: LTL 68 thousand) higher/lower impact for the Group, LTL 116 thousand in 2008 (2007: LTL 68 thousand) higher/lower impact for the Bank.

The Bank's exposure to foreign currency exchange rate risk is summarised in Note 32. The Note reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and limits all positions with the limits.

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FINANCIAL RISK MANAGEMENT (continued)

2.2. Interest rate risk

An interest rate risk is a risk to incur losses because of the mismatch of re-evaluation possibility between the Bank's assets and liabilities. The risk management is regulated by the Procedures for Interest Rate Risk Management which establish methods of risk measurement and set up measures for risk management. These procedures define that:

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

Sensitivity of interest rate risk

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- monetary	Total
31 December 2008							
Total financial assets	317,917	432,844	654,394	145,790	255,852	272,777	2,079,574
Total financial liabilities	434,488	536,749	259,082	242,791	35,210	571,254	2,079,574
Net interest sensitivity gap at 31 December 2008	(116,571)	(103,905)	395,312	(97,001)	220,642	(298,477)	-
Higher/lower impact on profit from balance sheet assets and liabilities	(1,117)	(866)	2,471	(243)	-	-	245
Higher/lower impact on profit from off-balance sheet liabilities							-
Total higher/lower impact for 2008							245
31 December 2007							
Total financial assets	217,149	434,270	639,114	116,981	292,606	351,443	2,051,563
Total financial liabilities	351,672	417,799	238,358	260,860	60,562	722,312	2,051,563
Net interest sensitivity gap at 31 December 2007	(134,523)	16,471	400,756	(143,879)	232,044	(370,869)	-
Higher/lower impact on profit from balance sheet assets and liabilities	(1,289)	137	2,505	(360)	-	-	993
Higher/lower impact on profit from off-balance sheet liabilities							426
Total higher/lower impact for 2007							1,419

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's annual profit and makes LTL 245 thousand in 2008 (2007: LTL 1,419 thousand) higher/lower impact on profit.

2.4 Equity risk

Equity risk was not assessed due to immaterial volumes.

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FINANCIAL RISK MANAGEMENT (continued)

3. Liquidity risk

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

3.1 Liquidity risk management process

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

Liquidity risk management is regulated by the Procedures for Liquidity Risk Management approved by the Bank's Board where strategic and current liquidity risk management measures are distinguished. Strategic (up to 6 months) liquidity risk is evaluated by analyzing the dynamics of various liquidity ratios. A list of these ratios as well as recommended limits to their change are defined in the above-mentioned procedures. Decisions regarding liquidity management issues are made by the Bank's Risk Management Committee with reference to the information submitted by the Bank's Planning and Financial Risks Department or by the Bank's Board with reference to the information submitted by the Risk Management Committee. Current liquidity (up to 10 days) risk management is based on current cash flow analysis and projections. The Treasury Department is responsible for this.

The Group controls liquidity risk through established ratios and limits. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2008 the Group's ratio was 32.14 (2007: 39.48) and the Bank's 38,75 (2007: 44.03), the Group uses the ratio of liquid assets to the total assets. Liquid assets used in calculation of the above ratio represents funds held at banks and financial institutions with maturity of less than three months, cash, placements with Central Bank and liquid treasury bills. As at 31 December 2008 the above Group's ratio was 14.17 per cent (2007: 20.40 per cent), and the Bank's – 14.38 (2007: 20.80). Recommended lower limit of this ratio is 20 per cent. The main reason for the ratio to fall below recommended limit is related to decrease in deposit amounts at the end of the year due to economic slow-down. The management of the Bank expects this ratio to improve this year as deposit flow is expected to increase.

To follow the solvency status the Group and the Bank monitors availability of liquid funds needed to cover liabilities with a maturity of less than 30 days. Based on the Group's liquidity management policy this ratio (i.e. liquid funds / liabilities of less than 30 days) should not be lower than 100 per cent. As at 31 December 2008 the above ratio on the Group's and the Bank's level was 80.68 (2007: 107.50 per cent) per cent and 80.67 (2007: 110.14 per cent) per cent respectively.

The Group and the Bank also calculates 3-months liquidity ratio to monitor longer term liquidity risk. Based on the Group's liquidity risk management policy the lowest recommended limit of this ratio is 36 per cent. As at 31 December 2008 the Group's and the Bank's ratio was 40.30 per cent (2007: 48.27 per cent) and 59.56 per cent (2007: 58.72 per cent) respectively.

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FINANCIAL RISK MANAGEMENT (continued)

3.2. Non - derivative cash flows

Undiscounted cash flows in the table below describe presumable liability side outflows which are represented by nominal contract amounts together with accrued interest till the end of the contract.

Group

31 December 2008	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	101,662	32,219	123,178	186,236	51,327	494,622
Due to customers	-	516,507	282,684	454,295	30,923	391	1,284,800
Debt securities in issue	-	-	-	25,752	-	-	25,752
Special and lending funds	-	1,720	228	2,703	27,121	3,447	35,219
Total liabilities (contractual maturity dates)	-	619,889	315,131	605,928	244,280	55,165	1,840,393

Group

31 December 2007	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	137,451	5,754	125,125	188,596	51,401	508,327
Due to customers	-	510,102	223,815	448,294	56,833	37	1,239,081
Debt securities in issue	-	-	-	29,157	-	-	29,157
Special and lending funds	-	2,087	489	4,127	29,215	5,008	40,926
Total liabilities (contractual maturity dates)	-	649,640	230,058	606,703	274,644	56,446	1,817,491

Bank

31 December 2008	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	101,772	23,152	123,178	186,236	51,327	485,665
Due to customers	-	516,512	282,684	454,295	30,923	391	1,284,805
Debt securities in issue	-	-	-	25,752	-	-	25,752
Special and lending funds	-	1,720	228	2,703	27,121	3,447	35,219
Total liabilities (contractual maturity dates)	-	620,004	306,064	605,928	244,280	55,165	1,831,441

Bank

31 December 2007	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	128,516	5,754	125,125	188,596	51,401	499,392
Due to customers	-	510,098	223,815	448,190	56,833	37	1,238,973
Debt securities in issue	-	-	-	29,157	-	-	29,157
Special and lending funds	-	2,458	489	4,127	29,215	5,008	41,297
Total liabilities (contractual maturity dates)	-	641,172	230,058	606,599	274,644	56,446	1,808,819

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FINANCIAL RISK MANAGEMENT (continued)

3.3. Derivative cash flows

Cash inflows and outflows on derivatives settled on a gross basis are presented below (there are no derivatives settled on a net basis). All of the below cash flows are settled within one month after the year end.

Group and Bank	2008	2007
<i>Foreign exchange derivatives</i>		
Outflow	-	11,786
Inflow	-	11,905

3.4. Off - balance sheet items

Analysis of off-balance sheet items by the remaining maturity is as follows:

Bank	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
At 31 December 2008							
Loan commitments	15,486	9,571	6,839	13,996	17,999	534	64,425
Other commitments	10,363	159	200	-	-	-	10,722
Total	25,849	9,730	7,039	13,996	17,999	534	75,147
At 31 December 2007							
Loan commitments	20,109	15,188	17,250	31,137	22,410	6,489	112,583
Other commitments	13,133	-	-	-	-	-	13,133
Total	33,242	15,188	17,250	31,137	22,410	6,489	125,716
Group							
At 31 December 2008							
Loan commitments	13,021	9,571	6,839	13,996	17,999	534	61,960
Finance lease commitments	9,196	-	-	-	-	-	9,196
Other commitments	25,849	159	200	-	-	-	26,208
Total	48,066	9,730	7,039	13,996	17,999	534	97,364
At 31 December 2007							
Loan commitments	20,906	15,188	17,250	31,137	25,929	6,489	116,899
Finance lease commitments	890	-	-	-	-	-	890
Other commitments	13,133	-	-	-	-	-	13,133
Total	34,929	15,188	17,250	31,137	25,929	6,489	130,922

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FINANCIAL RISK MANAGEMENT (continued)

4. Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Current market interest rates (VILIBOR, EURIBOR or LIBOR) plus or minus current margin for similar products were used for calculation of fair value.

Bank

As at 31 December 2008

	Book value	Fair value
Assets		
Loans	1,674,541	1,564,047
Loans to individuals:	267,560	230,794
- Consumer loans	54,800	49,141
- Mortgages	125,176	98,244
- Credit cards	9,959	9,924
- Other	77,625	73,486
Loans to business customers	1,409,981	1,333,252
- Central and other authorities	62,516	53,421
- Large corporates	171,230	166,283
- SME	1,008,170	949,468
- Loans and advances to financial institutions	165,065	164,080
Investment securities held-to-maturity	147,038	119,590
Liabilities		
Due to other banks and financial institutions	445,945	459,220
Due to customers	1,259,755	1,252,669
Debt securities in issue	24,997	24,997
Special and lending funds	30,699	32,670

As at 31 December 2007

	Balance sheet value	Fair values
Assets		
Loans	1,540,637	1,518,323
Loans to individuals:	277,155	254,189
- Consumer loans	66,455	62,700
- Mortgages	120,546	120,036
- Credit cards	7,047	7,017
- Other	83,107	64,436
Loans to business customers	1,263,482	1,264,134
- Central and other authorities	32,171	31,509
- Large corporates	136,106	136,170
- SME	946,064	947,641
- Loans and advances to financial institutions	149,142	148,813
Investment securities held-to-maturity	164,163	159,608
Liabilities		
Due to other banks and financial institutions	454,671	453,543
Due to customers	1,216,942	1,215,151
Debt securities in issue	28,550	28,550
Special and lending funds	36,092	35,381

Fair value of loans and advances to banks is very close to carrying value because of short maturity of these contracts.

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FINANCIAL RISK MANAGEMENT (continued)

5. Operational risk

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

The operational risk management system at the Bank includes all the significant fields of the banking operations: operations with cash, lending, establishment and application of fees, payments and settlements, IT, accounting, public trading intermediary, etc.

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

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

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

The Bank's operational risk management system is complimented by the Information Security and Emergency Management System created and installed by the IT agency "Blue Bridge", which increased the reliability of e-banking services and reduced the risks that the Bank's activities might be disturbed using the IT. New regulations regarding the secure work with the IT have been established and started to be applied in all the outlets of the Bank and for separate bank officers, which allows significantly mitigate the risks of crisis related to information security.

Taking into consideration the scope of its activities and opportunity to use the historic data related to the operational risk, the Bank has decided to use a basic indicator method to calculate the additional capital requirements.

The requirement regarding the public presentation of information related to operational risk management is stipulated in the Rules on Information Provision to the Public approved by the Board of the Bank. Information disclosed to the public indicates operational risk assessment method, capital requirements for operational risk and major sources of operational risk within the Bank, operational risk mitigation (preventive) measures, other significant information related to operational risk management.

6. Stress tests

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

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FINANCIAL RISK MANAGEMENT (continued)

7. Capital management

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

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

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

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

- 1) minimum level of capital held must be no less than EUR 5 million;
- 2) minimum capital adequacy ratio, calculated as the regulatory capital to the risk-weighted assets, must be no less than 8 per cent.

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

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

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

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

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

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FINANCIAL RISK MANAGEMENT (continued)

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

	Group	2008 Bank	Group	2007 Bank
Tier 1 capital				
Ordinary shares	180,358	180,358	161,033	161,033
Share premium	45,681	45,681	65,006	65,006
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	44,648	33,981	25,422	11,914
Other reserves (statutory reserve)	3,698	3,405	1,667	1,369
Negative financial assets revaluation reserve	(680)	(680)	-	-
Less: Intangible assets	(791)	(780)	(1,251)	(1,227)
Total Tier 1 capital	275,525	264,576	254,488	240,706
Tier 2 capital				
85 % financial assets revaluation reserve	-	-	371	371
Total Tier 2 capital	-	-	371	371
Less Investments in other credit or financial institutions	-	(900)	-	(900)
Total capital	275,525	263 676	254,859	240,177
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	128,359	129,177	117,319	109,920
Debt financial instruments	499	240	702	422
Equity securities	2,025	170	2,262	567
Foreign exchange positions	3,084	2,045	9,702	9,892
Operational risk under the Basic Indicator Approach	10,971	8,217	9,520	6,718
Total capital requirements	144,938	139,849	139,505	127,519
Capital adequacy (solvency) ratio, %	15.21	15.08	14.62	15.07

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SEGMENT INFORMATION

Primary reporting format— business segments

Below, there is a summary of major indicators for the main business segments of the Group included in the balance sheet as at 31 December 2008 and in the income statement for the year then ended:

	Banking	Investment Leasing management	Real estate development	Eliminations	Total Group
Internal	11,403	(8,023)	(1,763)	(1,617)	-
External	31,331	14,368	828	1,439	-
Net interest income	42,734	6,345	(935)	(178)	-
Internal	11,847	(8,465)	(1,764)	(1,618)	-
External	40,861	14,264	894	1,468	-
Net interest, fee and commissions income	52,708	5,799	(870)	(150)	-
Provision expenses	(7,748)	(1,047)	5	(12)	-
Internal	36	(208)	(24)	(29)	225
External	(32,091)	(2,668)	(647)	(1,058)	-
Operating expenses	(32,055)	(2,876)	(671)	(1,087)	225
Amortisation charges	(579)	(14)	-	(3)	-
Depreciation charges	(3,197)	(737)	(20)	(64)	-
Internal	9,037	(15)	-	-	(9,022)
External	964	704	4,058	4,255	-
Net other income	10,001	689	4,058	4,255	(9,022)
Profit before tax	19,130	1,814	2,502	2,939	(8,797)
Income tax	(1,605)	(354)	-	153	-
Profit per segment after tax	17,525	1,460	2,502	3,092	(8,797)
Minority interest	-	-	(991)	(1,450)	-
Profit for the year attributable to equity holders of the Bank	17,525	1,460	1,511	1,642	(8,797)
Total segment assets	2,049,685	159,346	43,112	34,385	(206,954)
Total segment liabilities	1,766,804	156,654	39,199	27,112	(204,819)
Net segment assets (shareholders' equity)	282,881	2,692	3,913	7,273	(2,135)
Acquisitions of non-current assets	9,512	2,921	5	2,099	-

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SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the balance sheet as at 31 December 2007 and in the income statement for the year then ended:

	Banking	Investment Leasing management	Real estate development	Eliminations	Total Group
Internal	6,015	(4,341)	(808)	(866)	-
External	36,595	10,948	179	1,239	-
Net interest income	42,610	6,607	(629)	373	-
Internal	6,488	(4,811)	(809)	(868)	-
External	45,558	10,861	240	1,241	-
Net interest, fee and commissions income	52,046	6,050	(569)	373	-
Provision expenses	(5,108)	(950)	44	96	-
Internal	36	(239)	(25)	(31)	259
External	(34,528)	(2,591)	(858)	(1,324)	-
Operating expenses	(34,492)	(2,830)	(883)	(1,355)	259
Amortisation charges	(617)	(35)	-	(2)	-
Depreciation charges	(2,664)	(650)	(37)	(142)	-
Internal	7,404	(24)	-	(7)	(7,373)
External	12,632	662	3,011	4,679	-
Net other income	20,036	638	3,011	4,672	(7,373)
Profit before tax	29,201	2,223	1,566	3,642	(7,114)
Income tax	(1,953)	(468)	(112)	(524)	-
Profit per segment after tax	27,248	1755	1,454	3,118	(7,114)
Minority interest	-	-	(576)	(1,483)	-
Profit for the year attributable to equity holders of the Bank	27,248	1,755	878	1,635	(7,114)
Total segment assets	2,013,146	143,412	28,614	37,469	(171,078)
Total segment liabilities	1,743,529	140,480	26,003	21,288	(168,943)
Net segment assets (shareholders' equity)	269,617	2,932	2,611	16,181	(2,135)
Acquisitions of non-current assets	12,133	2,730	12	17	-

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SEGMENT INFORMATION (CONTINUED)

Secondary reporting format – geographical segments

Geographical concentrations of the Group and Bank assets were as follows:

	2008		2007	
	Group	Bank	Group	Bank
Lithuania (home country)	2,036,020	2,006,131	1,982,869	1,944,452
Denmark	853	853	971	971
Czech Republic	3,558	3,558	3,548	3,548
Hungary	10,371	10,371	10,336	10,336
Italy	2,251	2,251	2,493	2,493
Latvia	144	144	669	669
Germany	7,225	7,225	16,943	16,943
Russia	1,499	1,499	1,789	1,789
Austria	266	266	1,765	1,765
Poland	8,957	8,957	9,171	9,171
Luxemburg	1,608	1,608	-	-
Netherlands	1,420	1,420	-	-
Estonia	1,590	1,590	-	-
United Kingdom	2,676	2,676	2,081	2,081
France	-	-	962	962
USA	946	946	11,881	11,881
Other foreign countries	190	190	6,085	6,085
Total	2,079,574	2,049,685	2,051,563	2,013,146

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2008		2007	
	Group	Bank	Group	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	6,468	14,491	4,274	8,615
on loans to customers	111,349	111,389	79,010	78,159
on debt securities	9,053	8,577	8,029	7,796
on finance leases	13,364	-	10,328	-
Total interest income	140,234	134,457	101,641	94,570
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(21,829)	(21,284)	(15,373)	(14,944)
on customer deposits and other repayable funds	(62,652)	(62,652)	(35,463)	(35,465)
compulsory insurance of deposits	(6,108)	(6,108)	(5,036)	(5,036)
on debt securities issued	(1,679)	(1,679)	(1,551)	(1,551)
Total interest expense	(92,268)	(91,723)	(57,423)	(56,996)
Net interest income	47,966	42,734	44,218	37,574

NOTE 2 NET FEE AND COMMISSION INCOME

	2008		2007	
	Group	Bank	Group	Bank
Fee and commission income:				
for money transfer operations	8,364	8,510	8,496	8,631
for payment card services	2,495	2,495	2,042	2,047
for base currency exchange	1,568	1,568	1,270	1,272
for operations with securities	278	278	671	671
other fee and commission income	2,182	2,370	1,959	2,219
Total fee and commission income	14,887	15,221	14,438	14,840
Fee and commission expense:				
for payment card services	(3,403)	(3,403)	(3,399)	(3,399)
for money transfer operations	(1,726)	(1,655)	(1,562)	(1,561)
for operations with securities	(171)	(171)	(410)	(410)
for base currency exchange	(4)	(4)	(4)	(4)
other fee and commission expenses	(62)	(14)	(124)	(30)
Total fee and commission expense	(5,366)	(5,247)	(5,499)	(5,404)
Net fee and commission income	9,521	9,974	8,939	9,436

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES

	2008		2007	
	Group	Bank	Group	Bank
Trading securities				
Realised gain on trading equity securities	(2,074)	(2,102)	1,830	435
Unrealised gain on trading equity securities	(661)	(661)	63	63
Realised gain (loss) on trading debt securities	813	813	(30)	(30)
Unrealised (loss) on trading debt securities	(99)	(99)	(182)	(182)
Net gain on trading securities	(2,021)	(2,049)	1,681	286
Realised gain on available-for-sale securities	(10)	-	-	-
Dividend and other income from equity securities held for trading	61	61	216	216
Dividend and other income from available-for-sale equity securities	7,979	54	2,139	30
Total	6,009	(1,934)	4,036	532

NOTE 4 GAIN ON DISPOSAL OF SUBSIDIARY

Based on the agreement signed on 24 April 2007, the Bank sold all its shares previously owned in Pajūrio Alka UAB. For the purpose of consolidated financial statements of the Group for the year 2007, revenue and expenses of the disposed subsidiary were included in the Group's income statement until the date of sale, as follows:

	2007
Sales revenue	272
Operating and administrative expenses	(393)
Tax charge (deferred tax)	107
Result of operations	(14)

Net assets and liabilities of the subsidiary at the time of disposal comprised as follows:

<i>Assets:</i>	
Fixed immovable property	6,177
Other fixed tangible assets	273
Amounts receivable	72
Other assets	39
Cash	16
Total	6,577
<i>Liabilities:</i>	
Short-term borrowings	2,001
Other amounts payable	38
Other liabilities	123
Total	2,162
Total net assets (assets less liabilities)	4,415
Acquisition cost	4,519
Sale proceeds	12,940
Realised gain on disposal (Group)	8,525
Realised gain on disposal (Bank)	8,421

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 5 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2008		2007	
	Group	Bank	Group	Bank
Salaries, social security and other related expenses	24,063	20,992	22,757	19,799
Rent and maintenance of premises	4,053	4,021	4,041	3,097
Office equipment maintenance	985	980	769	752
Depreciation of fixed tangible assets	4,018	3,197	3,494	2,664
Transportation, post and communications expenses	2,137	2,047	2,032	1,669
Amortisation of intangible assets	596	579	654	617
Real estate tax and other taxes	298	213	918	680
Advertising and marketing expenses	517	517	926	757
Training and business trip expenses	182	176	265	183
Charity	219	186	329	292
Service organisation expenses	540	499	461	381
Other operating expenses	3,470	2,424	1,766	1,846
Total	41,078	35,831	38,412	32,737

NOTE 6 GAIN ON DISPOSAL OF ASSETS

In 2008 proceeds from sale of real estate at the Group amounted to LTL 249 thousand. Gain on disposal of assets at the Group level in 2007 includes the total amount of gains of LTL 2,115 thousand on sale of a number of real estate items (land and buildings) to third parties by the Bank's subsidiary Šiaulių Banko Turto Fondas UAB (real estate trading and development company).

NOTE 7 OTHER INCOME

	2008		2007	
	Group	Bank	Group	Bank
Income from lease of assets	806	321	996	389
Other income	335	238	1,584	110
Total	1,141	559	2,580	499

NOTE 8 IMPAIRMENT LOSSES ON LOANS

	2008		2007	
	Group	Bank	Group	Bank
Impairment losses on loans:				
Impairment charge for the year	7,628	7,431	5,776	5,679
Recoveries of loans previously written off	(109)	(83)	(442)	(442)
Total impairment losses on loans	7,519	7,348	5,334	5,237
Impairment losses on finance lease receivables:				
Impairment charge for the year	1,023	-	806	-
Recovered previously written-off finance lease receivables	(86)	-	(76)	-
Total impairment losses on finance lease	937	-	730	-
Expenses for provisions on:				
Other assets	346	400	(146)	(129)
Total	8,802	7,748	5,918	5,108

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 9 INCOME TAX

	2008		2007	
	Group	Bank	Group	Bank
Current tax	2,059	1,671	3,195	1,966
Deferred taxes	(49)	(49)	(94)	13
Adjustments of previous year income tax	(204)	(204)	(44)	(26)
Total	1,806	1,605	3,057	1,953

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

	2008		2007	
	Group	Bank	Group	Bank
Profit before income tax	17,588	19,130	29,518	29,201
Tax calculated at a tax rate of 15% for 2008 (2007: 18%)	2,638	2,870	5,313	5,256
Income not subject to tax	(2,219)	(2,165)	(3,461)	(3,754)
Expenses not deductible for tax purposes	1,725	1,052	1,346	660
Adjustment of previous year income tax	(204)	(17)	(44)	(26)
Utilisation of tax losses for which no deferred tax asset was recognized	-	-	(7)	(97)
Utilisation of tax exemption on dividends	(134)	(134)	(90)	(86)
Income tax charge	1,806	1,605	3,057	1,953

Deferred tax assets

	Group			Bank		
	Revaluation of securities	Accruals	Total	Revaluation of securities	Accruals	Total
At 31 December 2006	-	(217)	(217)	-	(217)	(217)
To be credited/(charged) to net profit	-	(4)	(4)	-	(4)	(4)
At 31 December 2007	-	(221)	(221)	-	(221)	(221)
To be credited/(charged) to net profit	(83)	(146)	(229)	(83)	(146)	(229)
To be credited/ (charged) to equity	(2)	-	(2)	(2)	-	(2)
At 31 December 2008	(85)	(367)	(452)	(85)	(367)	(452)

Deferred tax liabilities

	Group			Bank		
	Revaluation of securities	Fixed assets	Total	Revaluation of securities	Fixed assets	Total
At 31 December 2006	80	380	460	80	273	353
To be credited/(charged) to net profit	(33)	(57)	(90)	(33)	50	(17)
To be credited/ (charged) to equity	76	-	76	76	-	76
At 31 December 2007	123	323	446	123	323	446
To be credited/(charged) to net profit	(47)	227	180	(47)	227	180
To be credited/ (charged) to equity	(76)	-	(76)	(76)	-	(76)
At 31 December 2008	-	550	550	-	550	550

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

	<u>2008</u>		<u>2007</u>	
	Group	Bank	Group	Bank
Deferred tax assets	452	452	221	221
Deferred tax liabilities	(550)	(550)	(446)	(446)
Net deferred tax liability	(98)	(98)	(225)	(225)

NOTE 10 EARNINGS PER SHARE

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

Weighted average number of shares in issue for the year ended 31 December 2008 was 180,358 thousand. Weighted average number of shares for the year ended 31 December 2007 was 150,797 thousand (269 days – 140,358 thousand shares, 95 days – 180,358 thousand shares).

Earnings per share

Group	<u>2008</u>	<u>2007</u>
Net profit (in LTL thousand)	13,341	24,402
Weighted average number of shares in issue during the period (thousand units)	180,358	150,797
Earnings per share (LTL per share)	<u>0.07</u>	<u>0.16</u>

Bank	<u>2008</u>	<u>2007</u>
Net profit (in LTL thousand)	17,525	27,248
Weighted average number of shares in issue during the period (thousand units)	180,358	150,797
Earnings per share (LTL per share)	<u>0.10</u>	<u>0.18</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 11 CASH AND CASH EQUIVALENTS

	2008		2007	
	Group	Bank	Group	Bank
Cash and other valuables	41,116	41,114	43,325	43,323
Balances in bank deposit accounts	35,135	35,125	12,574	12,564
Balances in bank correspondent accounts	19,866	19,866	26,727	26,727
Placements with Central Bank:				
Correspondent account with Central Bank	-	-	73,426	73,426
Mandatory reserves in national currency	46,822	46,822	74,488	74,488
Total placements with Central Bank	46,822	46,822	147,914	147,914
Total	142,939	142,927	230,540	230,528

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

NOTE 12 AMOUNTS DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2008		2007	
	Group	Bank	Group	Bank
Balances in bank deposit accounts	1,220	1,220	593	593

NOTE 13 TRADING SECURITIES

	2008		2007	
	Group	Bank	Group	Bank
Debt securities:				
Government bonds	-	-	6,363	6,363
Corporate bonds	2,975	-	5,946	-
Total debt securities	2,975	-	12,309	6,363
Equity securities:				
Listed	551	551	393	393
Unlisted	42	42	3,218	39
Units of investment funds	121	121	2,744	2,744
Total equity securities	714	714	6,355	3,176
Total	3,689	714	18,664	9,539
Breakdown of securities by their maturity:				
Short-term (up to 1 year)	3,689	714	6,355	3,176
Long-term (over 1 year)	-	-	12,309	6,363
Total	3,689	714	18,664	9,539

Trading securities have not been pledged as at 31 December 2007 and 2008.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

Breakdown of the Bank's trading securities as at 31 December 2008 and 2007:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2008	2007	2008	2007	2008	2007	2007	2007
From A- to A+		6,363	-	-	-	-	-	-
No rating		-	-	-	593	432	121	2,744
Total		6,363	-	-	593	432	121	2,744

Breakdown of the Group's trading securities as at 31 December 2008 and 2007:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2008	2007	2008	2007	2008	2007	2008	2007
From A- to A+		6,363	-	-	-	-	-	-
No rating		-	2,975	5,946	593	3,611	121	2,744
Total		6,363	2,975	5,946	593	3,611	121	2,744

NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into transactions involving currency forwards and foreign exchange swap deals.

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 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 foreign exchange derivatives contracts (forwards and swaps) entered into as at 31 December 2007 and settled on a gross (the Bank has no derivative financial instruments settled on a net basis) basis (all settlements will take place within one month) are set out in the following table:

Group (Bank)	2008	2007
Contractual amount		
Purchase	-	11,786
Sale	-	11,905
Fair values:		
Assets (liabilities)	-	(119)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 15 LOANS TO CUSTOMERS

	2008		2007	
	Group	Bank	Group	Bank
Gross loans to customers	1,501,504	1,685,809	1,394,980	1,547,807
Allowance for loan impairment	(11,490)	(11,268)	7,546	7,170
Net loans to customers	1,490,014	1,674,541	1,387,434	1,540,637
			Group	Bank
Allowance for loan impairment as at 31 December 2006			2,053	1,774
Allowance for impairment of loans written off during the year as uncollectible			(259)	(259)
Currency translation differences and other adjustments			(24)	(24)
Increase in allowance for loan impairment (Note 8)			5,776	5,679
Allowance for loan impairment as at 31 December 2007			7,546	7,170
Allowance for impairment of loans written off during the year as uncollectible			(3,665)	(3,313)
Currency translation differences and other adjustments			(19)	(19)
Increase in allowance for loan impairment (Note 8)			7,628	7,430
Allowance for loan impairment as at 31 December 2008			11,490	11,268

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

31 December 2008

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2008	701	10	539	34	1,284
Change in allowance for loan impairment	1,924	301	(104)	322	2,443
Loans written off during the year	(367)	-	(9)	-	(376)
As at 31 Dec 2008	2,258	311	426	356	3,351

	Group loans to business customers				Total
	Large corporates	SME	Central and local authorities and other		
As at 1 Jan 2008	-	6,253	9		6,262
Change in allowance for loan impairment	-	5,187	(2)		5,185
Loans written off during the year	-	(3,289)	-		(3,289)
Influence of FX rate shift	-	(19)	-		(19)
As at 31 Dec 2008	-	8,132	7		8,139

31 December 2007

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2007	227	-	307	3	537
Change in allowance for loan impairment	474	10	232	31	747
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2007	701	10	539	34	1,284

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31 December 2007

	Group loans to business customers			Total
	Large corporates	SME	Central and local authorities and other	
As at 1 Jan 2007	-	1,479	37	1,516
Change in allowance for loan impairment	-	5,029	-	5,029
Loans written off during the year as uncollectible	-	(231)	(28)	(259)
Influence of FX rate shift	-	(24)	-	(24)
As at 31 Dec 2007	-	6,253	9	6,262

31 December 2008

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
As at 1 Jan 2008	701	10	163	34	908
Change in allowance for loan impairment	1,572	301	53	322	2,248
Loans written off during the year	(15)	-	(9)	-	(24)
As at 31 Dec 2008	2,258	311	207	356	3,132

	Bank loans to business customers			Total
	Large corporates	SME	Central and local authorities and other	
As at 1 Jan 2008	-	6,253	9	6,262
Change in allowance for loan impairment	-	5,187	(2)	5,185
Loans written off during the year	-	(3,289)	-	(3,289)
	-	(19)	-	(19)
As at 31 Dec 2008	-	8,132	7	8,139

31 December 2007

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
As at 1 Jan 2007	227	-	70	3	300
Change in allowance for loan impairment	474	10	93	31	608
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2007	701	10	163	34	908

	Bank loans to business customers			Total
	Large corporates	SME	Central and local authorities and other	
As at 1 Jan 2007	-	1,437	37	1,474
Change in allowance for loan impairment	-	5,071	-	5,071
Loans written off during the year	-	(231)	(28)	(259)
	-	(24)	-	(24)
As at 31 Dec 2007	-	6,253	9	6,262

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 16 FINANCE LEASE RECEIVABLES

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2007	55,992	66,038	21,685	143,715
Change during 2008	8,562	2,792	(595)	10,759
Balance at 31 December 2008	64,554	68,830	21,090	154,474
Unearned finance income on finance leases:				
Balance at 31 December 2007	7,494	11,139	2,353	20,986
Change during 2008	640	1,456	897	2,993
Balance at 31 December 2008	8,134	12,595	3,250	23,979
Net investments in leasing before provisions:				
At 31 December 2007	48,498	54,899	19,332	122,729
At 31 December 2008	56,420	56,235	17,840	130,495
Changes in provisions:				
Balance as at 31 December 2007	-	1,124	-	1,124
Additional provisions charged	-	1,023	-	1,023
Provisions for finance lease debts written off	-	(488)	-	(488)
Balance at 31 December 2008	-	1,659	-	1,659
Net investments in leasing after provisions:				
At 31 December 2007	48,498	53,775	19,332	121,605
At 31 December 2008	56,420	54,576	17,840	128,836

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

	2008			2007		
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	758	366	1,124	613	46	659
Change in allowance for finance lease impairment	656	367	1,023	486	320	806
Amounts written off during the year	(488)	-	(488)	(341)	-	(341)
As at 31 December	926	733	1,659	758	366	1,124

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NOTE 17 INVESTMENT SECURITIES

	2008		2007	
	Group	Bank	Group	Bank
Securities available for sale:				
Equity securities:				
Unlisted equity securities	16,039	515	11,471	515
Investment fund units	213	213	1,041	1,041
Total	16,252	728	12,512	1,556
Debt securities:				
Local government bonds	4,273	4,273	-	-
Local corporate debt securities	16,335	16,335	-	-
Treasury debt securities of foreign countries	-	-	12,170	12,170
Total	20,608	20,608	12,170	12,170
Total securities available for sale	36,860	21,336	24,682	13,726

Breakdown of the Bank's securities available for sale as at 31 December 2008 and 2007:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2008	2007	2008	2007	2008	2007	2007	2007
AAA	-	12,170	-	-	-	-	-	-
From A- to A+	-	-	16,335	-	-	-	-	-
Below A-	4,273	-	-	-	-	-	-	-
No rating	-	-	-	-	515	515	213	1,041
Total	4,273	12,170	16,335	-	515	515	213	1,041

Breakdown of the Group's securities available for sale as at 31 December 2008 and 2007:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2008	2007	2008	2007	2008	2007	2008	2007
AAA	-	12,170	-	-	-	-	-	-
From A- to A+	-	-	16,335	-	-	-	-	-
Below A-	4,273	-	-	-	-	-	-	-
No rating	-	-	-	-	16,039	11,471	213	1,041
Total	4,273	12,170	16,335	-	16,039	11,471	213	1,041

	2008		2007	
	Group	Bank	Group	Bank
Held-to-maturity securities:				
Local government bonds	115,424	115,424	120,728	120,728
Local corporate bonds	4,629	1,655	11,648	11,648
Foreign government bonds	23,482	23,482	23,429	23,429
Foreign corporate bonds	6,477	6,477	8,358	8,358
Total held-to-maturity securities	150,012	147,038	164,163	164,163

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The cash flows of held-to-maturity securities:

	2008	2007
As at 1 January	164,163	162,470
Acquisitions	-	7,659
Redemptions	17,855	5,398
Accrued interest	7,112	7,288
Received coupon payment	7,882	7,856
Reclassifications	1,500	-
Disposals	-	-
Foreign currency exchange rate impact	-	-
As at 31 December	147,038	164,163

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

	2008		2007	
	Fair value	Carrying amount	Fair value	Carrying amount
Local government bonds	91,466	115,424	117,352	120,728
Local corporate bonds	1,570	1,655	11,556	11,648
Foreign government bonds	21,128	23,482	22,781	23,429
Foreign corporate bonds	5,426	6,477	7,919	8,358
Total held-to-maturity securities	119,590	147,038	159,608	164,163

No investment securities were pledged as at 31 December 2008 and 2007.

Breakdown of the Bank's held-to-maturity securities as at 31 December 2008 and 2007:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
	2008	2007	2008	2007	2008	2007
Bank						
From A- to A+	12,378	143,413	-	-	1,655	2,681
Below A-	125,795	-	733	744	6,477	6,532
No rating	-	-	-	-	-	10,793
Total	138,173	143,413	733	744	8,132	20,006

Breakdown of the Group's held-to-maturity securities as at 31 December 2008 and 2007:

Rating	Treasury bills		Municipality debt securities		Corporate debt securities	
	2008	2007	2008	2007	2008	2007
Group						
From A- to A+	12,378	143,413	-	-	1,655	2,681
Below A-	125,795	-	733	744	6,477	6,532
No rating	-	-	-	-	2,974	10,793
Total	138,173	143,413	733	744	11,106	20,006

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NOTE 18 INVESTMENTS IN SUBSIDIARIES

Bank	2008			2007		
	Share in equity	Acquisition cost	Carrying amount	Share in equity	Acquisition cost	Carrying amount
Investments in consolidated subsidiaries:						
ŠB Lizingas UAB	100.0%	1,000	1,000	100.0%	1,000	1,000
ŠB Investicijų Valdymas UAB	60.4%	604	604	60.4%	604	604
ŠB Turto Fondas UAB	53.1%	531	531	53.1%	531	531
Pajūrio Alka UAB	-	-	-	-	-	-
Total			2,135			2,135

On 31 May 2007, the shares of Pajūrio Alka UAB were sold. Profit earned amounted to LTL 8,421 thousand.

NOTE 19 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	Software and licences
<u>As at 31 December 2006:</u>		
Cost	5,269	4,960
Accumulated amortisation	(3,669)	(3,421)
Net book value	1,600	1,539
<u>Year ended 31 December 2007:</u>		
Net book value at 1 January	1,600	1,539
Acquisitions	313	305
Write-offs	(8)	-
Amortisation charge	(654)	(617)
Net book value at 31 December	1,251	1,227
<u>As at 31 December 2007:</u>		
Cost	5,516	5,265
Accumulated amortisation	(4,265)	(4,038)
Net book value	1,251	1,227
<u>Year ended 31 December 2008:</u>		
Net book value at 1 January	1,251	1,227
Acquisitions	137	132
Write-offs	(1)	-
Amortisation charge	(596)	(579)
Net book value at 31 December	791	780
<u>As at 31 December 2008:</u>		
Cost	5,649	5,395
Accumulated amortisation	(4,858)	(4,615)
Net book value	791	780
Economic life (in years)	3 - 9	3 - 9

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2006:					
Cost/revalued amount	41,022	6,123	14,640	1,197	62,982
Accumulated depreciation	(4,787)	(1,197)	(8,544)	-	(14,528)
Net book value	36,235	4,926	6,096	1,197	48,454
Year ended 31 December 2007:					
Net book value at 1 January	36,235	4,926	6,096	1,197	48,454
Acquisitions	4,149	1,509	3,627	5,294	14,579
Disposals and write-offs	(7,667)	(330)	(263)	-	(8,260)
Reclassification	2,813	3	(1,039)	(1,777)	-
Depreciation charge	(704)	(846)	(1,944)	-	(3,494)
Net book value at 31 December	34,826	5,262	6,477	4,714	51,279
As at 31 December 2007:					
Cost/revalued amount	38,172	6,897	14,959	4,714	64,742
Accumulated depreciation	(3,346)	(1,635)	(8,482)	-	(13,463)
Net book value	34,826	5,262	6,477	4,714	51,279
Year ended 31 December 2008:					
Net book value at 1 January	34,826	5,262	6,477	4,714	51,279
Acquisitions	6,995	3,371	3,800	234	14,400
Disposals and write-offs	(1)	(153)	(200)	(4,948)	(5,302)
Depreciation charge	(867)	(898)	(2,253)	-	(4,018)
Net book value at 31 December	40,953	7,582	7,824	-	56,359
As at 31 December 2008:					
Cost	45,167	9,873	17,596	-	72,636
Accumulated depreciation	(4,214)	(2,291)	(9,772)	-	(16,277)
Net book value	40,953	7,582	7,824	-	56,359
Economic life (in years)	15-50	5-12	3-20	-	

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2008, as follows:

Group	Buildings and premises	Vehicles	Equipment	Total
<u>As at 31 December 2006:</u>				
Cost	1,036	2,464	269	3,769
Accumulated depreciation	(115)	(412)	(99)	(626)
Net book value	921	2,052	170	3,143
<u>Year ended 31 December 2007:</u>				
Net book value at 1 January	921	2,052	170	3,143
Acquisitions	-	1,332	24	1,356
Disposals and write-offs	-	(63)	(91)	(154)
Depreciation charge	(77)	(347)	1	(423)
Net book value at 31 December	844	2,974	104	3,922
<u>As at 31 December 2007:</u>				
Cost	1,036	3,733	202	4,971
Accumulated depreciation	(192)	(759)	(98)	(1,049)
Net book value	844	2,974	104	3,922
<u>Year ended 31 December 2008:</u>				
Net book value at 1 January	844	2,974	104	3,922
Acquisitions	2,177	203	-	2,380
Disposals and write-offs	-	(121)	(55)	(176)
Reclassification	3,802	-	19	3,821
Other changes	418	-	-	418
Depreciation charge	(169)	(440)	(53)	(662)
Net book value at 31 December	7,072	2,616	15	9,703
<u>As at 31 December 2008:</u>				
Cost	7,526	3,742	43	11,311
Accumulated depreciation	(454)	(1,126)	(28)	(1,608)
Net book value	7,072	2,616	15	9,703
Economic life (in years)	15	6-12	3-5	

As at 31 December 2008 and 31 December 2007, there were no tangible fixed assets pledged to third parties.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 20 TANGIBLE FIXED ASSETS (CONTINUED)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2006:					
Cost/revalued amount	31,210	3,015	11,748	1,197	47,170
Accumulated depreciation	(2,578)	(658)	(7,577)	-	(10,813)
Net book value	28,632	2,357	4,171	1,197	36,357
Year ended 31 December 2007:					
Net book value at 1 January	28,632	2,357	4,171	1,197	36,357
Acquisitions	3,393	979	2,162	5,294	11,828
Disposals and write-offs	-	(298)	(19)	-	(317)
Reclassifications	1,777	3	(3)	(1,777)	-
Depreciation charge	(563)	(547)	(1,554)	-	(2,664)
Net book value at 31 December	33,239	2,494	4,757	4,714	45,204
As at 31 December 2007:					
Cost/revalued amount	36,380	3,358	12,530	4,714	56,982
Accumulated depreciation	(3,141)	(864)	(7,773)	-	(11,778)
Net book value	33,239	2,494	4,757	4,714	45,204
Year ended 31 December 2008:					
Net book value at 1 January	33,239	2,494	4,757	4,714	45,204
Acquisitions	4,902	664	3,580	234	9,380
Disposals and write-offs	(1)	(129)	(19)	(4,948)	(5,097)
Depreciation charge	(739)	(591)	(1,867)	-	(3,197)
Net book value at 31 December	37,401	2,438	6,451	-	46,290
As at 31 December 2008:					
Cost	41,282	3,729	15,371	-	60,382
Accumulated depreciation	(3,881)	(1,291)	(8,920)	-	(14,092)
Net book value	37,401	2,438	6,451	-	46,290
Economic life (in years)	20-50	5-6	3-20	-	

NOTE 21 OTHER ASSETS

	2008		2007	
	Group	Bank	Group	Bank
Financial assets:				
Amounts receivable	28,918	7,810	14,236	611
Non-financial assets:				
Assets held for sale	24,797	-	25,632	-
Deferred charges	3,509	3,401	3,378	3,337
Prepayments	8,644	809	4,699	1,021
Other	1,984	684	1,364	425
Total	67,852	12,704	49,309	5,394

Assets held for sale relate to real estate projects under development by the Bank's subsidiaries Šiaulių Banko Turto Fondas UAB and Šiaulių Banko Investicijų Valdymas UAB.

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NOTE 22 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2008		2007	
	Group	Bank	Group	Bank
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	17,771	17,881	89,938	90,014
Time deposits	96,802	96,802	65,437	65,437
Total correspondent accounts and deposits of other banks and financial institutions	114,573	114,683	155,375	155,451
Loans received from:				
Other banks	266,532	257,532	223,837	214,837
International organisations	73,730	73,730	84,383	84,383
Total loans received	340,262	331,262	308,220	299,220
Total	454,835	445,945	463,595	454,671

NOTE 23 DUE TO CUSTOMERS

	2008		2007	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	3,039	3,039	3,571	3,571
Local government institutions	26,039	26,039	24,579	24,579
Governmental and municipal companies	2,154	2,154	5,856	5,856
Corporate entities	88,397	88,416	136,984	137,022
Non-profit organisations	6,379	6,379	7,583	7,583
Individuals	98,914	98,914	117,239	117,239
Unallocated amounts due to customers	5,907	5,907	11,033	11,033
Total demand deposits	230,829	230,848	306,845	306,883
Time deposits:				
National government institutions	646	646	15,378	15,378
Local government institutions	5,003	5,003	9,606	9,606
Governmental and municipality companies	85,951	85,951	86,499	86,499
Corporate entities	126,577	126,563	113,588	113,484
Non-profit organisations	4,738	4,738	4,875	4,875
Individuals	806,006	806,006	680,217	680,217
Total time deposits	1,028,921	1,028,907	910,163	910,059
Total	1,259,750	1,259,755	1,217,008	1,216,942

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 24 SPECIAL AND LENDING FUNDS

	2008		2007	
	Group	Bank	Group	Bank
Special funds	386	386	217	217
Lending funds	30,313	30,313	36,333	35,875
Total	30,699	30,699	36,550	36,092

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

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

NOTE 25 DEBT SECURITIES IN ISSUE

On 19 May 2008, the Bank issued 373-day bonds in the amount of EUR 8 million with par value of EUR 100 each and interest rate of 7.50 per cent. Maturity date is 27 May 2009.

	2008		2007	
	Group	Bank	Group	Bank
373 day bonds denominated in EUR with discount rate of 7.5 %, maturity date 27 May 2009	24,997	24,997	-	-
370 day bonds denominated in LTL with discount rate of 5.2 %, maturity date 5 August 2008	-	-	9,382	9,382
372 bonds denominated in EUR with coupon rate of 4.6 %, maturity date 17 May 2008	-	-	19,168	19,168
Total	24,997	24,997	28,550	28,550

NOTE 26 OTHER LIABILITIES

	2008		2007	
	Group	Bank	Group	Bank
Financial liabilities:				
Finance lease liabilities	3,845	-	4,977	0
Advance amounts received from the buyers of assets	2,016	-	3,180	0
Non-financial liabilities:				
Accrued charges	4,113	3,696	4,922	4,422
Deferred income	1,646	485	1,636	437
Other liabilities	2,408	603	439	1,141
Total	14,028	4,784	15,154	6,000

NOTE 27 MINORITY INTEREST

	2008	2007
	Group	Group
Balance at 1 January		
Profit for the accounting period	8,629	21,373
Effect of dividends paid	2,441	2,059
Increase (decrease) in minority interest	(6,103)	(14,229)
	-	(574)
Balance at 31 December	4,967	8,629

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 28 SHARE CAPITAL

As at 31 December 2008, the Bank's share capital comprised 180,357,533 ordinary registered shares with par value of LTL 1 each.

On 14 May 2008, the Bank has registered the amendments to the Bank's Bylaws with the Register of Legal Entities regarding the increase of the Bank's authorised share capital by LTL 19,325 thousand by bonus issue of share capital. 19,325 new shares have been issued with a par value of LTL 1 each and distributed free of charge proportionally to all shareholders based on their number of shares held.

As of 31 December 2008, the shareholders holding over 5% of the Bank's shares are listed in the table below:

Shareholders	Share of the authorized capital held, %
European Bank for Reconstruction and Development	16.06
Gintaras Kateiva	5.86
SLEZVB UAB	5.65
Šiaulių komercija UAB	5.32
Total	32.89

Another 17 shareholders had less than 5% but more than 1% of the Bank's share capital. The remaining shareholders on an individual basis had less than 1% of the Bank's shares and voting rights.

Seven shareholders of the Bank – European Bank for Reconstruction and Development, Trading House Aiva UAB, Mintaka UAB, Alita AB, Algirdas Butkus, Gintaras Kateiva and Arvydas Salda – acting jointly in accordance with the Agreement of Shareholders, together with related persons at the end of the year held 39.87 per cent of the Bank's shares and voting rights. Based on its Resolution No. 103 dated 23 June 2005, the Bank of Lithuania gave its consent for this group of shareholders to acquire a qualified share of the authorised share capital and voting rights. According to the shareholders' contract 34% of the total shares of the Bank held by above seven shareholders are locked and can not be sold.

As at 31 December 2008, the Bank had 3,549 shareholders (31 December 2007: 2,495).

Share premium

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

Reserve capital

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

Statutory reserve

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

NOTE 29 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2008 and as at 31 December 2007 no provisions were established for possible costs related to off-balance sheet commitments.

Contingent tax liabilities

The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2001 to 2008. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

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

	2008		2007	
	Group	Bank	Group	Bank
Financial guarantees issued	68,115	68,115	89,809	89,809
Letters of credit	9,282	9,282	8,387	8,387
Commitments to grant loans	71,156	64,425	116,899	112,583
Commitments to grant finance lease and acquire assets	0	0	890	-
Other commitments	10,722	10,722	13,133	13,133
Total	159,275	152,544	229,118	223,912

NOTE 30 DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. In March 2008, the annual general meeting of shareholders decided to pay dividends of LTL 3,221 thousand (2007: LTL 2,181 thousand) or LTL 0.02 per share (2007: LTL 0.02 per share) to the holders of ordinary shares, which have been fully paid in the same reporting period as announced. There were LTL 70 thousand of dividends payable as at 31 December 2008 (2007 – LTL 69 thousand).

NOTE 31 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2008 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and cash equivalents	107,814	35,125	-	-	-	-	-	-	142,939
Due from other banks	-	-	215	982	-	-	-	23	1,220
Trading securities	-	-	-	-	2,975	-	-	714	3,689
Loans granted to customers, finance lease receivables	29,063	128,864	104,696	174,053	223,031	521,543	437,600	-	1,618,850
Investment securities									
- available-for-sale securities	-	13,735	-	-	721	6,152	-	16,252	36,860
- held-to-maturity securities	-	3,409	-	-	2,974	9,711	133,918	-	150,012
Intangible assets	-	-	-	-	-	-	-	791	791
Tangible fixed assets	-	-	-	-	-	-	-	56,359	56,359
Other assets	234	1,824	3,910	1,324	15,697	21,842	581	23,442	68,854
Total assets	137,111	182,957	108,821	176,359	245,398	559,248	572,099	97,581	2,079,574
Liabilities and equity									
Due to other banks and financial institutions	32,774	68,716	29,214	71,249	42,703	133,802	76,377	-	454,835
Due to customers	231,506	282,563	274,864	218,864	226,215	31,825	24,612	-	1,290,449
Debt securities in issue	-	-	-	24,997	-	-	-	-	24,997
Other liabilities	2,266	7,909	458	453	1,280	312	35	1,956	14,669
Shareholders' equity	-	-	-	-	-	-	-	294,624	294,624
Total liabilities and shareholders' equity	266,546	359,188	304,536	315,563	270,198	165,939	101,024	296,580	2,079,574
Net liquidity gap	(129,435)	(176,231)	(195,715)	(139,204)	(24,800)	393,309	471,075	(198,999)	-

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NOTES TO THE FINANCIAL STATEMENTS (continued)

The structure of the Group's assets and liabilities by maturity as at 31 December 2007 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	235,181	114,262	145,746	131,667	225,894	533,404	576,409	89,000	2,051,563
Total liabilities and shareholders' equity	400,086	256,548	223,792	270,976	316,793	187,557	104,997	290,814	2,051,563
Net liquidity gap	(164,905)	(142,286)	(78,046)	(139,309)	(90,899)	345,847	471,412	(201,814)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2008 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and cash equivalents	107,802	35,125	-	-	-	-	-	-	142,927
Due from other banks	-	-	215	982	-	-	-	23	1,220
Trading securities	-	-	-	-	-	-	-	714	714
Loans granted to customers, finance lease receivables	27,714	269,918	146,904	155,505	196,686	476,470	401,344	-	1,674,541
Investment securities									
- available-for-sale securities	-	13,735	-	-	721	6,152	-	728	21,336
- held-to-maturity securities	-	3,409	-	-	-	9,711	133,918	-	147,038
Investments in subsidiaries	-	-	-	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	-	-	-	780	780
Tangible fixed assets	-	-	-	-	-	-	-	46,290	46,290
Other assets	234	1,039	3,803	1,222	482	658	574	4,692	12,704
Total assets	135,750	323,226	150,922	157,709	197,889	492,991	535,836	55,362	2,049,685
Liabilities and shareholders' equity									
Due to other banks and financial institutions	32,884	68,716	20,214	71,249	42,703	133,802	76,377	-	445,945
Due to customers	231,511	282,563	274,864	218,864	226,215	31,825	24,612	-	1,290,454
Debt securities in issue	-	-	-	24,997	-	-	-	-	24,997
Other liabilities	204	1,973	149	160	796	159	31	1,936	5,408
Shareholders' equity	-	-	-	-	-	-	-	282,881	282,881
Total liabilities and shareholders' equity	264,599	353,252	295,227	315,270	269,714	165,786	101,020	284,817	2,049,685
Net liquidity gap	(128,849)	(30,026)	(144,305)	(157,561)	(71,825)	327,205	434,816	(229,455)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2007 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	232,201	180,793	174,093	157,590	190,589	484,606	539,191	54,083	2,013,146
Total liabilities and shareholders' equity	397,792	241,343	224,031	220,495	366,200	186,682	105,437	271,166	2,013,146
Net open position	(165,591)	(60,550)	(49,938)	(62,905)	(175,611)	297,924	433,754	(217,083)	-

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NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2008 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	16,506	1,801	18,307	51,209	73,423	142,939
Due from other banks	-	-	-	1,197	23	1,220
Trading securities	-	-	-	3,035	654	3,689
Loans granted to customers, finance lease receivables	29,632	-	29,632	466,606	1,122,612	1,618,850
Investment securities						
- available-for-sale securities	-	-	-	129	36,731	36,860
- held-to-maturity securities	-	-	-	75,478	74,534	150,012
Investments in subsidiaries	-	-	-	-	-	-
Intangible assets	-	-	-	-	791	791
Tangible fixed assets	-	-	-	-	56,359	56,359
Other assets	3,048	1	3,049	6,845	58,960	68,854
Total assets	49,186	1,802	50,988	604,499	1,424,087	2,079,574
Liabilities and shareholders' equity						
Due to other banks and financial institutions	201	-	201	352,349	102,285	454,835
Due to customers	46,453	706	47,159	266,472	946,119	1,259,750
Special and lending funds	-	-	-	9,753	20,946	30,699
Held-to-maturity investment securities	-	-	-	24,997	-	24,997
Other liabilities	148	9	157	45	14,467	14,669
Shareholders' equity	-	-	-	(217)	294,841	294,624
Total liabilities and shareholders' equity	46,802	715	47,517	653,399	1,378,658	2,079,574
Net balance sheet position	2,384	1,087	3,471	(48,900)	45,429	-
Open currency exchange transactions	-	-	-	10,358	(10,358)	-
Net open position	2,384	1,087	3,471	(38,542)	35,071	-

The Group's open positions of prevailing currencies as at 31 December 2007 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Assets	34,188	5,917	40,105	414,688	1,596,770	2,051,563
Liabilities and shareholders' equity	45,342	2,551	47,893	536,595	1,467,075	2,051,563
Net balance sheet position	(11,154)	3,366	(7,788)	(121,907)	129,695	-
Open currency exchange transactions	10,843	-	10,843	940	(11,905)	(122)
Net open position	(311)	3,366	3,055	(120,967)	117,790	(122)

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The Bank's open positions of prevailing currencies as at 31 December 2008 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	16,506	1,801	18,307	51,209	73,411	142,927
Due from other banks	-	-	-	1,197	23	1,220
Trading securities	-	-	-	60	654	714
Loans granted to customers, finance lease receivables	29,632	-	29,632	486,187	1,158,722	1,674,541
Investment securities						
- available-for-sale securities	-	-	-	129	21,207	21,336
- held-to-maturity securities	-	-	-	72,504	74,534	147,038
Investments in subsidiaries	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	780	780
Tangible fixed assets	-	-	-	-	46,290	46,290
Other assets	10	1	11	6,844	5,849	12,704
Total assets	46,148	1,802	47,950	618,130	1,383,605	2,049,685
Liabilities and shareholders' equity						
Due to other banks and financial institutions	201	-	201	352,349	93,395	445,945
Due to customers	46,453	706	47,159	266,472	946,124	1,259,755
Special and lending funds	-	-	-	9,753	20,946	30,699
Held-to-maturity investment securities	-	-	-	24,997	-	24,997
Other liabilities	148	9	157	45	5,206	5,408
Shareholders' equity	-	-	-	(217)	283,098	282,881
Total liabilities and shareholders' equity	46,802	715	47,517	653,399	1,348,769	2,049,685
Net balance sheet position	(654)	1,087	433	(35,269)	34,836	-
Open currency exchange transactions	-	-	-	10,358	(10,358)	-
Net open position	(654)	1,087	433	(24,911)	24,478	-

The Bank's open positions of prevailing currencies as at 31 December 2007 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	34,187	5,917	40,104	412,316	1,560,726	2,013,146
Liabilities and shareholders' equity	45,342	2,551	47,893	536,595	1,428,658	2,013,146
Net balance sheet position	(11,155)	3,366	(7,789)	(124,279)	132,068	-
Open currency exchange transactions	10,843	-	10,843	940	(11,905)	(122)
Net open position	(312)	3,366	3,054	(123,339)	120,163	(122)

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

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

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NOTE 33 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2008. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates. Details of the Group's interest rate risk as at 31 December 2008 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Assets							
Cash and cash equivalents	35,125	-	-	-	-	107,814	142,939
Due from other banks	-	215	982	-	-	23	1,220
Trading securities	-	-	-	2,975	-	714	3,689
Loans granted to customers, finance lease receivables	281,037	424,098	650,363	137,251	104,131	21,970	1,618,850
Investment securities							
- available-for-sale securities	-	8,531	3,049	936	8,092	16,252	36,860
- held-to-maturity securities	1,755	-	-	4,628	143,629	-	150,012
Intangible assets	-	-	-	-	-	791	791
Tangible fixed assets	-	-	-	-	-	56,359	56,359
Other assets	-	-	-	-	-	68,854	68,854
Total assets	317,917	432,844	654,394	145,790	255,852	272,777	2,079,574
Due to other banks and financial institutions	144,043	247,840	20,279	19,150	2,000	21,523	454,835
Due to customers	290,445	288,909	213,806	223,641	33,210	240,438	1,290,449
Held-to-maturity investment securities	-	-	24,997	-	-	-	24,997
Other liabilities	-	-	-	-	-	14,028	14,028
Shareholders' equity	-	-	-	-	-	294,624	294,624
Total liabilities and shareholders' equity	434,488	536,749	259,082	242,791	35,210	571,254	2,079,574
Interest rate sensitivity gap	(116,571)	(103,905)	395,312	(97,001)	220,642	(298,477)	-

Details of the Group's interest rate risk as at 31 December 2007 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Total assets	217,149	434,270	639,114	116,981	292,606	351,443	2,051,563
Total liabilities and shareholders' equity	351,672	417,799	238,358	260,860	60,562	722,312	2,051,563
Interest rate sensitivity gap	(134,523)	16,471	400,756	(143,879)	232,044	(370,869)	-

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Details of the Bank's interest rate risk as at 31 December 2008 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Assets							
Cash and cash equivalents	35,125	-	-	-	-	107,802	142,927
Due from other banks	-	215	982	-	-	23	1,220
Trading securities	-	-	-	-	-	714	714
Loans granted to customers, finance lease receivables	423,644	431,598	609,808	103,190	89,599	16,702	1,674,541
Investment securities							
- available-for-sale securities	-	8,531	3,049	936	8,092	728	21,336
- held-to-maturity securities	1,755	-	-	1,654	143,629	-	147,038
Investments in subsidiaries	-	-	-	-	-	2,135	2,135
Intangible assets	-	-	-	-	-	780	780
Tangible fixed assets	-	-	-	-	-	46,290	46,290
Other assets	-	-	-	-	-	12,704	12,704
Total assets	460,524	440,344	613,839	105,780	241,320	187,878	2,049,685
Due to other banks and financial institutions	144,153	238,840	20,279	19,150	2,000	21,523	445,945
Due to customers	290,464	288,909	213,806	223,641	33,210	240,424	1,290,454
Held-to-maturity investment securities	-	-	24,997	-	-	-	24,997
Other liabilities	-	-	-	-	-	5,408	5,408
Shareholders' equity	-	-	-	-	-	282,881	282,881
Total liabilities and shareholders' equity	434,617	527,749	259,082	242,791	35,210	550,236	2,049,685
Interest rate sensitivity gap	25,907	(87,405)	354,757	(137,011)	206,110	(362,358)	-

Details of the Bank's interest rate risk as at 31 December 2007 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Total assets	287,337	432,711	653,183	76,313	280,063	283,539	2,013,146
Total liabilities and shareholders' equity	342,672	417,799	238,358	260,756	60,562	692,999	2,013,146
Interest rate sensitivity gap	(55,335)	14,912	414,825	(184,443)	219,501	(409,460)	

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

%	31 December 2008			31 December 2007		
	LTL	EUR	USD	LTL	EUR	USD
Assets						
Due from other banks and financial institutions	7.52	4.66	0.29	5.08	3.33	0.47
Debt securities	4.78	4.35	-	4.76	4.64	4.95
Finance lease receivables	14.44	7.29	-	8.00	6.80	-
Loans granted (before provisions)	8.69	6.22	5.10	7.31	6.42	6.22
Liabilities						
Due to other banks and financial institutions	7.47	4.97	0.68	4.54	5.58	0.5
Deposits	6.07	5.78	4.26	3.76	4.36	4.42

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NOTE 34 RELATED-PARTY TRANSACTIONS

Related parties with the Bank include the members of the Bank's Supervisory Council and Board, shareholders acting jointly in accordance with the Agreement of Shareholders (see Note 27), the close family members of these related parties, legal entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entities resides with the above mentioned related parties and subsidiary companies of the Bank.

In the ordinary course of business the Bank performs banking transactions with major shareholders, members of the Council and the Board, as well as with the subsidiaries.

During 2008, a certain number of banking transactions were entered into with related parties in the ordinary course of business. These transactions include settlements, loans, deposits and foreign currency transactions.

The year-end balances of loans granted to and deposits accepted from the Bank's related parties, except for subsidiaries, and their average annual interest rates (calculated as weighted average) were as follows:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2008	31 December 2007	2008	2007	31 December 2008	31 December 2007	2008	2007
Members of the Council and the Board	4,503	3,058	7.16	4.18	2,892	3,204	8.65	6.55
Other related parties (excluding subsidiaries of the Bank)	5,276	3,073	4.67	1.49	207,340	134,311	7.26	6.83

Transactions with EBRD:

The Bank received a syndicated loan from the EBRD with its balance as at 31 December 2008 amounting to LTL 73,730 thousand (2007: LTL 84,383 thousand) of which EBRD's share as at 31 December 2008 was LTL 30,372 thousand (2007: LTL 34,804 thousand). Loan related interest and other expenses for year 2008 amounted to LTL 5,189 thousand (2007: LTL 3,845 thousand).

Balances of transactions with the subsidiaries are given below:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2008	31 December 2007	2008	2007	31 December 2008	31 December 2007	2008	2007
Non-financial institutions	19	38	0.00	0.00	64,569	46,694	7.59	5.93
Financial institutions	110	76	0.00	0.00	140,077	122,082	7.14	5.10

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank's holding is 53.10%, LTL 531 thousand), Pajūrio Alka UAB (the Bank's holding is 99.85%, LTL 4,519 thousand – sold in May 2007), Šiaulių banko investicijų valdymas UAB (the Bank's holding is 60.40%, LTL 604 thousand), Šiaulių banko lizingas UAB (the Bank's holding is 100%, LTL 1,000 thousand).

	2008	2007
Assets		
Demand deposits		-
Loans	204,646	168,776
Other assets	44	41
Liabilities and shareholders' equity		
Demand deposits	129	114
Bank's investment	2,135	2,135

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Income and expenses arising from transactions with subsidiaries:

	2008	2007
Income		
Interest	11,403	6,017
Commission income	444	473
Income from foreign exchange operations	15	31
Other income	225	295
Expenses		
Interest	-	2
Commission charges	-	-
Operating expenses	36	-

Remuneration of the management of the Bank

During 2008, the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 2,363 thousand (2007: LTL 1,898 thousand). The total amount of payments to the Bank's Supervisory Council members was LTL 624 thousand (2007: LTL 450 thousand).

NOTE 35 CONCENTRATION EXPOSURE

As at 31 December 2008, the largest single exposure comprising loans to several related borrowers treated as a single borrower not secured by the Lithuanian Government guarantees, amounted to LTL 56.2 million (the whole amount represents commitments to provide credit facilities), i.e. 21.3% of the Bank's calculated capital (2007: LTL 31.9 million and 13.29 % of the Bank's calculated capital).

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NOTE 36 FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to prepare financial group consolidated financial statements. Financial group includes the Bank and its leasing subsidiary. Financial group consolidated financial statements are presented in this note below:

BALANCE SHEET

	31 December 2008		31 December 2007	
	Fin. group	Bank	Fin. group	Bank
ASSETS				
Cash and cash equivalents	142,939	142,927	230,538	230,528
Due from other banks	1,220	1,220	593	593
Trading securities	714	714	9,539	9,539
Derivative financial instruments	-	-	-	-
Loans to customers	1,549,082	1,674,541	1,428,350	1,540,637
Finance lease receivables	128,836	-	121,605	-
Investment securities:				
- available-for-sale	21,336	21,336	13,726	13,726
- held to maturity	147,038	147,038	164,163	164,163
Investments in subsidiarines	1,135	2,135	1,135	2,135
Intangible assets	786	780	1,243	1,227
Tangible fixed assets	54,036	46,290	50,962	45,204
Other assets	20,682	12,704	11,509	5,394
Total assets	2,067,804	2,049,685	2,033,363	2,013,146
LIABILITIES				
Due to other banks and financial institutions	454,835	445,945	463,595	454,671
Due to customers	1,259,755	1,259,755	1,216,942	1,216,942
Special and lending funds	30,699	30,699	36,550	36,092
Debt securities in issue	24,997	24,997	28,550	28,550
Current incom tax liabilities	543	526	1,156	930
Deferred income tax liabilities	98	98	225	225
Derivative financial instruments	-	-	119	119
Other liabilities	12,304	4,784	14,677	6,000
Total liabilities	1,783,231	1,766,804	1,761,814	1,743,529
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	180,358	180,358	161,033	161,033
Share Premium	45,681	45,681	65,006	65,006
Reserve capital	2,611	2,611	2,611	2,611
Statutory rezerve	3,505	3,405	1,545	1,445
Financial assets revaluation rezerve	(680)	(680)	360	360
Retained earnings	53,098	51,506	40,994	39,162
Total equity	284,573	282,881	271,549	269,617
Total liabilities and equity	2,067,804	2,049,685	2,033,363	2,013,146

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2008

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCOME STATEMENT

	2008		2007	
	Fin. group	Bank	Fin. group	Bank
Interest and similar income	141,347	134,457	101,606	94,570
Interest expense and similar charges	(92,268)	(91,723)	(57,425)	(56,996)
Net interest income	49,079	42,734	44,181	37,574
Fee and commission income	14,789	15,221	14,378	14,840
Fee and commission expense	(5,361)	(5,247)	(5,499)	(5,404)
Net fee and commission income	9,428	9,974	8,879	9,436
Provision for loan impairment losses	(8,795)	(7,748)	(6,058)	(5,108)
Net gain from operations with securities	(1,934)	(1,934)	428	532
Gain on disposal of subsidiary	-	-	8,421	8,421
Net foreign exchange gain	2,583	2,571	3,431	3,444
Gain from disposal of assets	(25)	8	41	26
Other income	1,093	559	1,029	499
Administrative and other operating expenses	(39,282)	(35,831)	(36,042)	(32,737)
Operating profit	12,147	10,333	24,310	22,087
Dividends from investments in subsidiaries	7,097	8,797	5,914	7,114
Profit before income tax	19,244	19,130	30,224	29,201
Income tax expense	(1,959)	(1,605)	(2,421)	(1,953)
Profit for the year	17,285	17,525	27,803	27,248
Profit attributable to:				
Equity holders of the Bank	17,285	17,525	27,803	27,248
Minority interest	-	-	-	-
Profit for the year	17,285	17,525	27,803	27,248
Basic and diluted earnings per share (in LTL per share)	0.10	0.10	0.18	0.18

ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2008

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOW STATEMENT

	Notes	Year ended			
		31 December 2008		31 December 2007	
		Fin. group	Bank	Fin.group	Bank
Operating activities					
Interest received		139,468	132,578	105,950	90,367
Interest paid		(90,779)	(90,234)	(54,099)	(49,577)
Fees and commissions received		14,789	15,221	14,378	14,840
Fees and commissions paid		(5,361)	(5,247)	(5,499)	(5,404)
Cash inflows from trade in trading securities		(1,289)	(1,289)	172	172
Net income from foreign exchange operations		2,583	2,692	1,998	2,019
Recoveries on loans previously written off		195	82	518	442
Salaries and related payments to and on behalf of employees		(23,680)	(21,936)	(19,550)	(17,908)
Other cash receipts, sale of assets		1,068	567	1,199	758
Other cash payments		(17,330)	(15,401)	(15,176)	(13,934)
Income tax paid		(2,620)	(2,057)	(2,049)	(1,591)
Net cash flow from operating activities before change in operating assets and liabilities		17,044	14,976	27,842	20,184
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		8,052	8,052	2,916	2,916
(Increase)/decrease in loans to credit and financial institutions		2,665	(15,062)	4,085	10,656
(Increase) in loans to customers		(133,852)	(121,688)	(550,853)	(548,618)
(Increase) in other current assets		(7,369)	(5,564)	(5,432)	(653)
Increase in liabilities					
Increase/(decrease) in liabilities to credit and financial institutions		(51,257)	(51,333)	291,672	286,670
Increase in deposits		81,674	75,877	281,872	278,855
Increase/(decrease) in special and lending funds		(5,851)	(5,393)	(6,255)	(5,915)
Increase/(decrease) in other liabilities		(1,555)	5,515	293	(1,894)
Change		(107,493)	(109,596)	18,298	22,017
Net cash flow from/ (used in) operating activities		(90,449)	(94,620)	46,140	42,201
Investing activities					
(Purchase) of tangible and intangible fixed assets		(12,433)	(9,500)	(14,863)	(12,133)
Disposal of tangible and intangible fixed assets		6,434	5,970	276	276
(Purchase) of held-to-maturity securities		(11,518)	(11,518)	(20,314)	(20,314)
Proceeds from redemption of held-to-maturity securities		28,655	28,655	18,621	18,621
Dividends received		7,212	8,912	6,160	7,360
(Purchase) of available-for-sale securities		(29,491)	(29,491)	(15,186)	(15,186)
Sale of available-for-sale securities		20,764	20,764	2,411	2,411
Proceeds from sale of subsidiary		-	-	12,940	12,940
Net cash flow used in investing activities		9,623	13,792	(9,955)	(6,025)
Financing activities					
Increase in share capital	28	-	-	92,000	92,000
Dividends paid		(3,220)	(3,220)	(2,183)	(2,183)
Debt securities in issue		55,710	55,710	30,208	30,208
Redemption of debt securities in issue		(59,263)	(59,263)	(47,219)	(47,219)
Net cash flow from financing activities		(6,773)	(6,773)	72,806	72,806
Net increase in cash and cash equivalents		(87,599)	(87,601)	108,991	108,982
Cash and cash equivalents at 1 January		230,538	230,528	121,547	121,546
Cash and cash equivalents at 31 December	10	142,939	142,927	230,538	230,528

ŠIAULIŲ BANKAS AB
 FINANCIAL STATEMENTS
 31 DECEMBER 2008

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Retained earnings	Total
31 December 2006		109,039	25,000	2,611	-	800	16,117	153,567
Dividends	30	-	-	-	-	-	(2,181)	(2,181)
Formation of statutory reserve		-	-	-	-	745	(745)	-
Bonus issue of share capital	28	11,994	(11,994)	-	-	-	-	-
Issue of share capital	28	40,000	52,000	-	-	-	-	92,000
Net profit for the year		-	-	-	-	-	27,803	27,803
31 December 2007		161,033	65,006	2,611	360	1,545	40,994	271,549
Dividends	30	-	-	-	-	-	(3,221)	(3,221)
Formation of statutory reserve		-	-	-	-	1,960	(1,960)	-
Bonus issue of share capital	28	19,325	(19,325)	-	-	-	-	-
Revaluation of financial assets		-	-	-	(1,118)	-	-	(1,118)
Recognition of deferred income tax		-	-	-	78	-	-	78
Net profit for the year		-	-	-	-	-	17,285	17,285
31 December 2008		180,358	45,681	2,611	(680)	3,505	53,098	284,573

ŠIAULIŲ  BANKAS

**ŠIAULIŲ BANKAS AB
CONSOLIDATED ANNUAL REPORT
2008**

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1. Accounting period covered in the Consolidated Annual Report

The Consolidated Annual Report of Šiaulių bankas AB covers a period beginning on January 1st 2008 and ending on December 31st 2008.

2. Contacts of Šiaulių bankas AB

Name – Šiaulių bankas AB
 Legal form – public limited company
 Date of registration – February 4th 1992
 Manager of register – State enterprise Centre of Registers
 Company's code – 112025254
 Domicile address – Tilžės st. 149, LT-76348 Šiauliai
 Telephone: + 370 41 522 117, 595 602, 595 653
 Authorized capital – LTL 109 039 200
 Fax + 370 41 430 774
 E-mail info@sb.lt
 Internet website www.sb.lt

3. Contacts of Šiaulių bankas' Group

Šiaulių bankas AB has three subsidiaries: “Šiaulių banko lizingas” UAB, “Šiaulių banko turto fondas” UAB and “Šiaulių banko investicijų valdymas” UAB.

Name – “Šiaulių banko lizingas” UAB
 Legal form – private limited company
 Date of registration – August 16th 1999
 Manager of register – State enterprise Centre of Registers
 Company's code – 145569548
 Domicile address – Vilniaus str.167, LT-76352 Šiauliai
 Telephone: + 370 41 420 855, 502 990
 Fax + 370 41 423 437
 E-mail lizingas@sb.lt
 Internet website www.sblizingas.lt

Name – “Šiaulių banko turto fondas” UAB
 Legal form – private limited company
 Date of registration – August 13th 2002
 Manager of register – State enterprise Centre of Registers
 Company's code – 1455855439
 Domicile address – Vilniaus str.167, LT-76352 Šiauliai
 Telephone + 370 41 525 322
 Fax + 370 41 525 321
 E-mail turtofondas@sb.lt
 Internet website www.sbturtofondas.lt

Name – “Šiaulių banko investicijų valdymas” UAB
 Legal form – private limited company
 Date of registration – August 31st 2000
 Manager of register – State enterprise Centre of Registers

Company's code – 1455855439
 Domicile address – Vilniaus str.167, LT-76352 Šiauliai
 Telephone + 370 41 429 227
 Fax + 370 41 525 285
 E-mail valdymas@sb.lt
 Internet website www.sбив.lt

4. Nature of Šiaulių bankas' main business

Šiaulių bankas is a universal bank rendering all banking services and operating on national scale. The clients of Šiaulių bankas are both – private and corporate customers using the banking services rendered by the bank and performing relevant financial operations.

The turmoil in the international finance market in 2008 made an impact on Lithuanian economy as well. However, even in terms of economic difficulties Šiaulių bankas remained consistent and faithful to its mission as funding of small and medium-sized business is still one of underlying trends in the bank's activities. Seeking to assist the rapidly growing enterprises of small and medium-scope the bank fostered development of the innovative companies, expanded the range of banking services and granted credits to regional projects. During the accounting year the bank operated in compliance with its major business principles – attention to clients, expedition of decisions, flexibility of services, adjustment to changing markets – and coherently pursued the set goals, i.e. worked profitably, developed the servicing network and focused on rendering complex services.

The Bank performs the following operations in compliance with the law and legal acts of the Republic of Lithuania and the Charter:

- accepts deposits and other returnable funds into accounts opened by the customers and manages them;
- grants and takes loans;
- issues monetary warranties, guarantees and other warranty liabilities;
- issues and performs operations with payable documents (cheques, letters of credits, bills of exchange, etc.);
- performs operations with securities (shares, bonds, etc.);
- performs operations in foreign currency;
- takes customers' valuables for safeguarding and rents safes located at the bank's vault to safeguard valuables and documents;
- provides services and consultations regarding banking activities, finance and customers' investment management issues;
- issues and manages monetary instruments of credit;
- performs other operations in compliance with nature of business of credit institutions defined in the legal acts of the Bank of Lithuania.

5. Group of Šiaulių bankas' subsidiaries

As of December 31st 2008 Šiaulių bankas AB Group consisted of Šiaulių bankas AB and three subsidiary companies:

“Šiaulių banko lizingas” UAB:

- assets – LTL 159.35 million;
- share of the capital managed by the bank – 100 per cent;
- nature of business – financial and operational lease.

“Šiaulių banko turto fondas” UAB:

- assets – LTL 34.39 million;
- share of the capital managed by the bank – 53.10 per cent;
- nature of business – long-term investments into land, change of its purpose and way of usage, preparation of infrastructure, investments into other real estate, purchase of constructions and buildings, reconstruction, change of their purpose, organization of construction of the own objects, rent of buildings, premises and land, consultations regarding the implementation of the long-term investment projects and monitoring issues.

“Šiaulių banko investicijų valdymas” UAB:

- assets – LTL 43.11 million;
- share of the capital managed by the bank – 60.40 per cent;
- nature of business – privatization of companies, restructuring and funding of reorganization projects, investments into debt and equity securities as well as into small and medium-sized business, rendering of financial management experience.

During the accounting period the servicing network of Šiaulių bankas AB that belongs to Šiaulių bankas AB Group consisted of 59 territorial outlets.

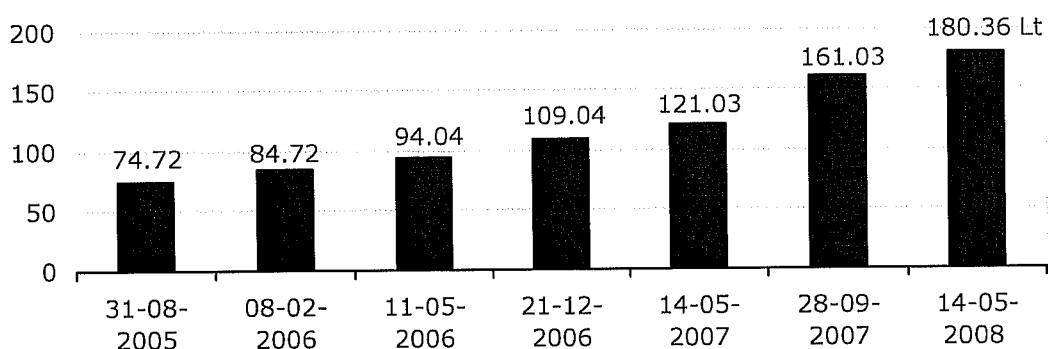
6. Bank's authorized capital

During the accounting period of 2008 the Bank's authorized capital had increased by LTL 19 million or by 12 per cent. On May 14th 2008 the amended Charter of Šiaulių bankas AB with the authorized capital increased up to LTL 180,357,533 was registered in the Register of Legal Entities. 75.83 per cent of the authorized capital of Šiaulių bankas are owned by the enterprises and private entities registered in Lithuania. The biggest shareholder of the Bank is the European Bank for Reconstruction and Development (EBRD), which owns 16.06 per cent of shares.

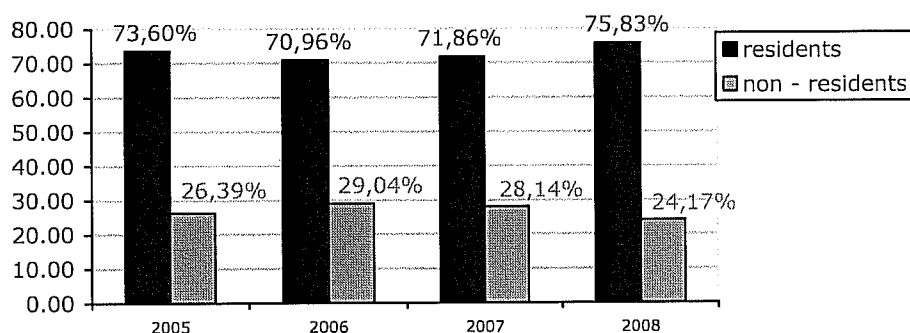
Structure of the Bank's authorized capital:

Type of shares	Number of shares, unt.	Par value, LTL	Total par value, LTL
Ordinary registered shares ISIN LT0000102253	180,357,533	1	180,357,533

Growth of the bank's authorized capital since 2005 (in LTL million):



The shareholders by the place of residence:



The bank's shareholders are entitled to the following rights:

- to receive the share of the bank's profit (dividend);
- to receive the share of assets of the liquidated bank;
- to receive the bank's shares free of charge in case the bank's authorized capital is increased from the bank's own funds except the cases defined in the laws;
- when the shareholder is a natural entity – to bequeath the entire shares or a portion of them to one or several people;
- to sell or otherwise transfer the entire shares or the portion of them to the ownership of other people in compliance with the applicable law;
- to acquire the shares and converted bonds issued by the bank exercising the pre-emptive right except the cases when the Meeting makes a resolution to revoke this right from all the shareholders in compliance with the applicable law;
- to credit the bank in compliance with the applicable law, however, the bank borrowing from its shareholders has no right to pledge its assets to the shareholders. When the bank is borrowing from its shareholder the interest cannot exceed the average interest rate applied in the commercial banks located in the lender's residential place or business place at the moment of the conclusion of agreement. In such case the bank and the shareholders are not allowed to agree about the higher rate of interest;
- other rights in compliance with the applicable law.

The bank's shareholders are entitled to the following non-property rights:

- to participate in meetings;
- to vote in meeting according to the rights granted by the owned shares;
- to receive information about the bank defined in the Law on Public Limited Liability Companies;
- to address the court with the claim requiring to compensate the damage done to the bank because of the Bank's Chief Executive Officer's or the member of the Bank's Board failure to fulfill the duties or inappropriate fulfillment of duties in accordance with the applicable law or the Bank's Charter as well as in other cases defined in the law;
- other non-property rights in compliance with the applicable law.

A person acquires all the rights and commitments granted by the portion of the owned bank's authorized capital and (or) voting rights: in case of capital increase – from the day of registration of the Charter, the amendments of which are related to the increase of the authorized capital and (or) voting rights; in other cases – from the origin of the ownership rights to the bank's authorized capital and (or) voting rights.

7. Information about trading in shares of the subsidiaries belonging to the Group in regulated markets

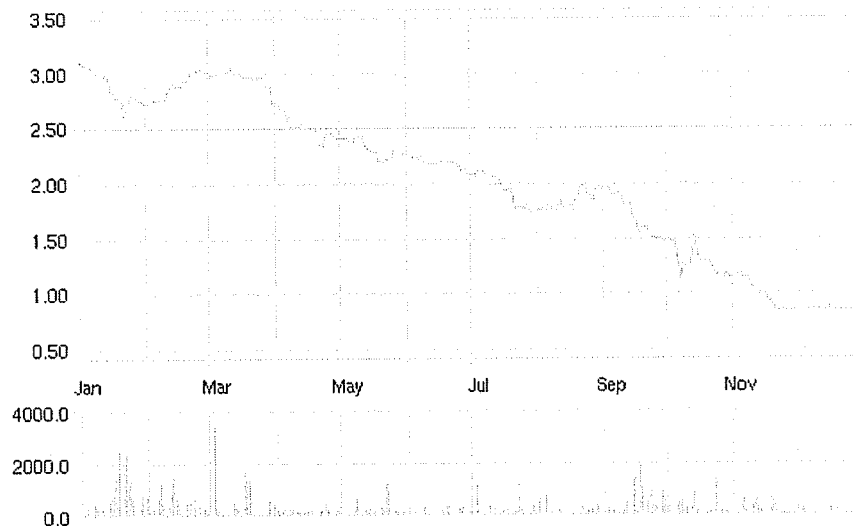
Only the shares of Šiaulių bankas AB are quoted on the Main List of Vilnius Stock Exchange (AN NASDAQ OMX Vilnius). ISIN code LT0000102253, number of shares – 180,357,533. The shares of the bank's subsidiaries are issued for non-public trading.

The shares issued by Šiaulių bankas AB are enrolled into comparative index OMX Baltic Benchmark of the securities market of OMX Baltics, which consists of the shares of the most liquid companies with the biggest capitalization, and into the trading index OMX Baltics 10, which consists of the shares of the 10 most liquid companies of the Baltic states in the stock exchanges of the Baltic states. Besides, the shares issued by the bank are included into Dow Jones STOXX Eastern Europe TMI, Dow Jones STOXX Eastern Europe TMI Small and Dow Jones STOXX EU Enlarged TMI indexes.

In the course of 2008 the biggest trading in bank's shares was registered during the trading session on September 18th 2008, when 1,270,304 units of shares had been purchased/sold. The biggest trading in money was reached on March 3rd 2008 when 84 transactions in bank's shares were registered in total amount of LTL 3.40 million. The highest price per share was registered on January 2nd 2008, i.e. LTL 3.50, while the lowest – in December 2008, i.e. LTL 0.81.

Below we provide the graphs indicating the bank's share price and trading which are placed on the website of AN NASDAQ OMX Vilnius:

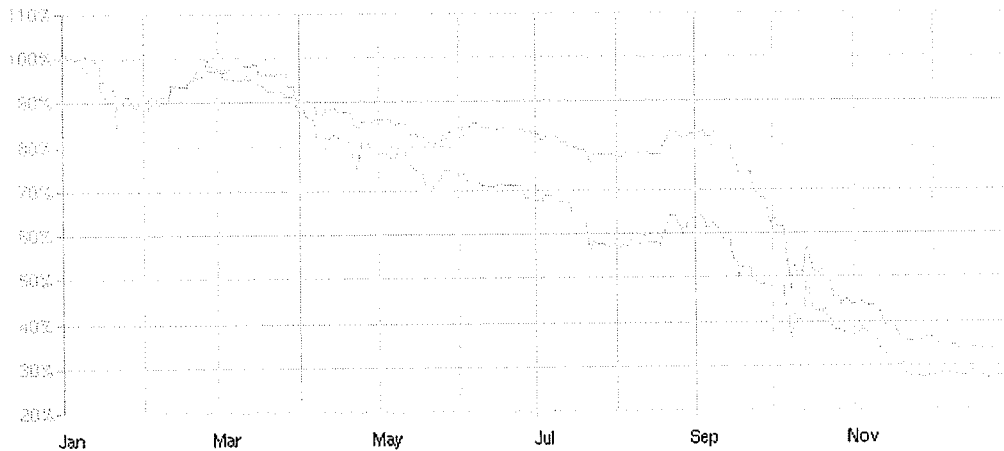
http://www.nasdaqomxbaltic.com/market/?start_d=1&start_m=1&start_y=2008&end_d=31&end_m=12&end_y=2008&instrument=LT0000102253&list=2&pg=details&tab=historical¤cy=0&date=&lang=en



The graphs below show changes in share price of OMX Vilnius index and Šiaulių bankas AB during 2008. The information is taken from the website of the AN NASDAQ OMX Vilnius:

http://www.nasdaqomxbaltic.com/market/?pg=charts&lang=lt&idx_main%5B%5D=OMXV&add_index=OMX BBPI&add_equity=LT0000118655&idx_equity%5B%5D=LT0000102253&period=other&start_d=1&start_m=1&start_y=2008&end_d=31&end_m=12&end_y=2008

A. Baltic market indexes



Data of the graph:

Index/shares	01.01.2008	31.12.2008	+/-%
OMX Vilnius	514.23	179.25	-65.14
SAB1L	LTL 3.08	LTL 0.93	-69.81

As of December 31st capitalization of the bank's shares was LTL 167.73 million (EUR 48.58 million) while at the same period last year it was LTL 555.57 million (EUR 160.90 million).

Below we provide the capitalization of Šiaulių bankas' shares and total capitalization of AN NASDAQ OMX Vilnius trading on the last trading day in 2008 and 2007. The information is taken from the website of the AN NASDAQ OMX Vilnius:

http://www.nasdaqomxbaltic.com/market/?pg=capital¤cy=0&market=XVSE&stocktype%5B%5D=main&period=other&start_d=28&start_m=12&start_y=2007&end_d=30&end_m=12&end_y=2008

List of Baltic shares	28.12.2007	30.12.2008	Change
<u>SAB1L</u>	EUR 160,902,924.93	EUR 48,578,691.65	-69.81%
Vilnius market, total	EUR 6,891,845,928.85	EUR 2,607,846,138.47	-62.16%

Late in 2008 the bonds issued by the bank ISIN LT1000401059 were listed on Debt securities list of Vilnius Stock Exchange. The amount of issue – EUR 8 million, interest – 7.50 per cent, redemption day – May 27th 2009. 1,948 units of bonds were purchased/sold in the course of 2008. Yield – 7.20 per cent.

8. Information about agreements entered with public trading intermediaries

Šiaulių bankas has entered into agreements with the following intermediaries engaged in public trading of securities regarding securities accounting (custody) and acceptance and performance of transfers:

- AB FMI "Finasta";
- Danske bank A/S Lithuanian branch;
- DnB NORD bank;
- AB bankas "Snoras" ;
- AB bankas "Hansabankas";

- AB SEB bankas.

9. Acquisition of own shares

During the accounting period there were no shares of the bank belonging to the bank itself, its subsidiaries or entities acting on behalf of subsidiaries. The bank has not acquired its own shares and has not transferred them to others.

10. Shareholders

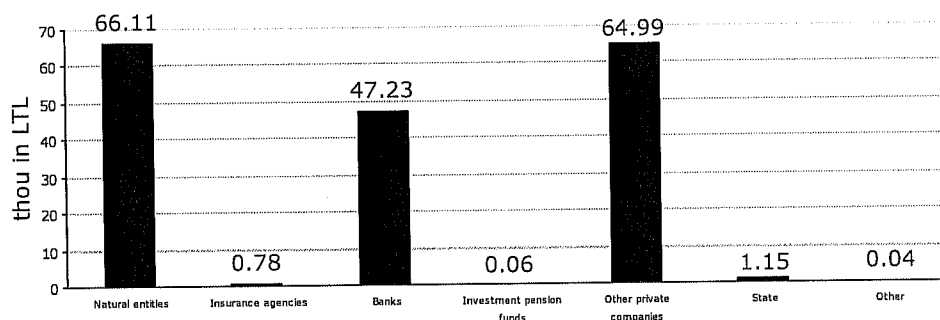
As of December 31st 2008 the total number of shareholders comprised 3,549 while in 2007 it was 3,495. The holders of all issued shares are entitled to equal rights in compliance with the Law on Public Limited Liability Companies of the Republic of Lithuania and the Charter of the Bank.

Shareholders, who owned more than 5 per cent of the bank's capital under right of ownership as of December 31st 2008:

No	Shareholder	Number of shares under the right of ownership	Share of the authorized capital under right of ownership, %	Share of votes under right of ownership, %	Share of votes together with related persons, %
1.	European Bank for Reconstruction and Development (EBRD) addr. One Exchange Square, London EC2A 2JN, Great Britain	28,965,834	16.06	16.06	39.87
2.	Gintaras Kateiva	10,561,509	5.86	5.86	39.87
3.	„SLEZVB“ UAB addr. Vilniaus str. 167, Šiauliai	10,192,834	5.65	4.25	4.25
4.	„Šiaulių komercija“ AB addr. Vytauto str. 149, Šiauliai	9,593,039	5.32	4.00	4.00

The Bank's shareholders such as the European Bank for Reconstruction and Development, Trade House "Aiva" UAB, "Mintaka" UAB, "Alita" AB, Algirdas Butkus, Gintaras Kateiva and Arvydas Salda operating together form the Group. As of December 31st 2008 this Group owned 39.87 per cent of the Bank's authorized capital and votes.

Allocation of the authorized capital by the type of shareholders is revealed in the scheme below:



There are no restrictions to securities transfer. The shareholders are entitled to property and non-property rights and have their duties foreseen by the Law on Public Limited Liability Companies of the Republic of Lithuania.

Shareholders, having special control rights and description of these rights. The shareholders control the bank through the elected Supervisory Council. Its functions are defined by the Law on Public Limited Liability Companies of the Republic of Lithuania.

Restrictions to voting rights. All the bank's shares granting a voting right are of the equal par value and each share gives one vote in the general shareholders' meeting.

A shareholder has no right to vote in making decisions regarding the pre-emptive right to acquire the shares issued by the bank or regarding the recall of the converted bonds, in case the agenda of the general shareholders' meeting foresees that such a right to acquire these securities is to be granted to him, his close relative, shareholder's spouse or to cohabitant, when the partnership is registered under the applicable law, and to the spouse's close relative, in case the shareholders is a natural entity, as well as to the shareholder's parent company or shareholder's subsidiary, in case the shareholders is a legal entity.

An entity wishing to acquire $\frac{1}{10}$ of the bank's authorized capital and (or) such a share of the voting rights or to increase it to the extent when the share of the possessed authorized capital and (or) of voting rights would comprise $\frac{1}{5}$, $\frac{1}{3}$, $\frac{1}{2}$ or to the extent the bank would become controlled by him, should receive the consent from the Bank of Lithuania in advance. In case the entity acquires $\frac{1}{10}$ of the bank's authorized capital and (or) such a share of the voting rights without a supervisory consent from the Bank of Lithuania when such a consent is necessary or when the supervisory institution comes to the resolution to cancel the right to use voting rights, then all the possessed share of the authorized capital and (or) such a share of the voting rights lose the voting right in the general shareholders' meeting.

11. Information regarding compliance with the prudential requirements set to the bank

During 2008 Šiaulių bankas operated in compliance with all prudential requirements set by the Bank of Lithuania.

12. Risk management

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

The Risk Management Policy approved by the Bank Board as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Group. The goal of the risk management policy is to identify the risks as well as their management principles in the bank's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Arrangement and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

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

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

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

13. Ratings provided by the International rating agencies and their amendments

The financial stability and strength of Šiaulių bankas AB have been favourably assessed by the independent experts – on October 31st 2008 the international rating agency “Moody's Investors Service” reviewed the ratings given to Šiaulių bankas:

- long-term deposit rating – Ba2;
- financial strength rating – D;
- short-term deposit rating – NP;
- long-term rating outlook – negative.

The change of the long-term deposit rating and financial strength rating outlook from stable to negative was based on the slowing down growth of Lithuanian economy.

14. Information about activity results

In terms of financial turmoil and economic recession all over the world the growth of Lithuanian economy also deteriorated into slowing down phase in 2008. The changes in financial markets impacted Šiaulių bankas AB, a partner of small and medium-sized business, as well.

Though the financial results of Šiaulių bankas AB as well as the entire business sector were negatively influenced by the unfavorable situation in the country in 2008, however, according to the audited data the bank's activities were profitable in 2008 – the bank earned LTL 17.53 million in net profit. Excluding the profit gained in 2007 through the onetime transaction, which the bank generated selling the shares of its subsidiary, the result of the financial activities of Šiaulių bankas in 2008 was by 7 per cent lower comparing to 2007 (when the bank's net profit reached LTL 18.83 million).

In 2008 due to the economic recession the bank had formed the bigger amount of special provisions, which reached LTL 7.75 million and incurred the loss from the operations with securities amounting in LTL 1.93 million, therefore the reviewed profit plan of LTL 19-20 million had not been achieved.

The financial year of 2008 indicate that the subsidiaries of Šiaulių bankas worked fairly successfully: Šiaulių banko investicijų valdymas UAB earned LTL 2.50 million in net profit and the profit of this subsidiary increased by 72 per cent in comparison with 2007, the profit of Šiaulių banko turto fondas UAB reached LTL 3.09 million and was only by 2 per cent smaller than in 2007, while the net profit of “Šiaulių banko lizingas” UAB comprised LTL 1.46 million and was by 17 per cent smaller than in 2007.

The entire Group of Šiaulių bankas AB earned LTL 15.78 million during the accounting year. The assets managed by Šiaulių bankas AB Group comprised LTL 2,080 million as of December 31st 2008 and had grown by 1.37 per cent or by LTL 28.01 million in the course of the year. The loan portfolio managed by the Group of Šiaulių bankas AB reached LTL 1,490.01 million at the end of the accounting year, i.e. by 7.39 per cent more than at the same time in 2007 when the clients were granted more than LTL 1,387.43 million in loans.

The equity of the Bank's Group shareholders reached LTL 289.66 million late in 2008, i.e. it had grown by 3.24 per cent during the financial year. Return on the Group's shareholders equity (ROAE) reached 4.64 per cent, return on assets (ROAA) was 0.65 percent, cost/income comprised 59.27 per cent, while the Group's earnings per share comprised LTL 0.07.

In 2008 asset profitability ratio (ROAA) of Šiaulių bankas AB reached 0.86 per cent, equity profitability ratio (ROAE) reached 6.34 per cent. Net profit per share (in litas) reached LTL 0.10.

Profitability ratios:

		2008	2007	2006
Bank	ROAA, %	0.86	1.62	1.14
	ROAE, %	6.34	12.92	11.26
	Cost/income, %	55.59	47.11	63.56
Financial group	ROAA, %	0.84	1.64	1.15
	ROAE, %	6.22	13.08	11.53
	Cost/income, %	56.73	47.99	63.60
Entire group	ROAA, %	0.65	1.42	1.86
	ROAE, %	4.64	10.93	17.50
	Cost/income, %	59.27	49.94	37.35

At the end of the accounting year the assets of Šiaulių bankas AB comprised LTL 2 049,69 million and were by LTL 36,54 million litas bigger in comparison with the assets in 2007.

Taking into consideration the market changes the bank has been assessing transactions carefully and efficiently as well as the level of accepted risks, and effectively applied risk mitigation measures, therefore, the loan portfolio of Šiaulių bankas AB had grown by 8.69 per cent in comparison to 2007 and reached LTL 1,674.54 million late in the year.

The major share of the Bank's liabilities consists of the deposits, which comprised 71 per cent at the end of 2008. The clients' deposits with Šiaulių bankas had increased by 3.52 per cent during the accounting year in comparison to 2007 and reached LTL 1,259.76 million late in 2008.

In the course of 2008 the Bank earned LTL 42.73 million in net interest income, which had grown by 13.73 per cent in comparison to 2007. Net fee and commission income comprised 15.22 million over the year, i.e. they had grown by 2.57 per cent.

The Bank paid much attention not only to its business development but also to the increase of business efficiency and to the improvement of various risks management systems. At the end of the accounting year the Bank's cost/income ratio was 55.59 per cent. While Šiaulių bankas' liquidity ratio had exceeded the minimal activity risk standard set by the Bank of Lithuania by almost 9 per cent and

reached 38.75 per cent the capital adequacy ratio also had much exceeded the minimal 8 per cent standard set by the Bank of Lithuania and reached 15.08 per cent.

Prudential requirements limiting the activity risks:

		2008-12-31	2007-12-31	2006-12-31
Bank	Capital adequacy, % (>8%)	15.08	15.07	13.73
	Liquidity, % (>30%)	38.75	44.03	40.74
	Maximum loan per borrower, % (<25%)	21.30	13.29	17.74
	Big exposure standard, % (<800%)	166.20	156.99	240.20
	General open position in foreign currency, % (<25%)	0.41	1.40	1.39
Financial group	Capital adequacy, % (>8%)	15.19	14.33	13.70
	Maximum loan per borrower, % (<25%)	21.12	13.88	18.14
	Big exposure standard, % (<800%)	111.86	115.98	195.32
	General open position in foreign currency, % (<25%)	1.30	1.39	1.37
Entire group	Capital adequacy, %	15.21	14.62	13.80
	Liquidity, %	32.14	39.48	37.53
	Maximum loan per borrower, %	20.43	13.2	20.11
	General open position in foreign currency, %	1.26	1.32	1.34

15. Activity plans and prognosis

The changes in economic situation as well as in financial status of the inhabitants will also impact the banking sector in the nearest future. Despite the economic uncertainty prevailing in the country, Šiaulių bankas is planning to work profitably in 2009.

16. The most important events during the accounting period

Aiming to promote the development of small and medium-sized business in Lithuania and searching for possibilities to finance regional projects Šiaulių bankas concluded the agreement of EUR 20 million regarding the credit line granted by 8 foreign banks. The loan was organized by HSH Nordbank AG from Germany and financial company Raiffeisen Zentralbank Osterreich from Austria. The long-term collaboration is characteristic to relations between Šiaulių bankas and the European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB) and other financial institutions.

In 2008 Šiaulių bankas signed the bilateral agreement with Lithuanian Innovation Centre. Both parties seek accelerating the growth of knowledge-based economy, fostering implementation of innovations and business development projects taking advantage of funds from private and structural funds of the European Union.

Pursing to improve the efficiency of international retail payments and to simplify settlements Šiaulių bankas joined the officially operating Single Euro Payment Area (SEPA) early in 2008. This incentive should create the completely integrated retail payment service market in the euro zone, where all the differences in payments among the countries and payments within the country would be eliminated until 2010.

The number of private and corporate customers had grown over 2008 - the bank serviced 124 thousand of natural and legal entities. Šiaulių bankas paid much attention to the enlargement of the reliability of the IT systems and development of the electronic banking. The company "Metasite Business Solutions" after the independent research and evolution of the electronic banking development in the

Baltic States announced Šiaulių bankas as one of the banks in Lithuania making the biggest progress in the mentioned sector.

Electronic banking has been further keeping its pace – currently almost 75 per cent of the total inter-bank transfers performed in Šiaulių bankas are made using the bank's Internet service system "SB linija". Late in 2008 Šiaulių bankas had issued more than 48 thousand of payment cards, which by 12 per cent more than in 2007. In 2008 the bank has been further expanding its ATM network not only in the biggest towns of the country but also in smaller ones. Late in the year the bank had 29 ATMs operating in 17 towns of Lithuania.

The intensive development of the servicing network early in 2008 improved the accessibility of the bank's services. During the first quarter 8 outlets of the bank were opened in seven different towns of Lithuania: Vilnius, Klaipėda, Kupiškis, Rokiškis, Šiauliai, Kaunas and Panevežys. Two new outlets more were opened in Visaginas and Varėna during the second half of the year.

Due to the slower pace of economy the Bank not only opened but also closed several outlets in the second half of 2008. At the end of accounting year Šiaulių bankas had 59 outlets operating in 33 towns of the country.

In 2008 Šiaulių bankas introduced a new product - "The Child's Deposit", offered a short-term time deposit to corporate clients, arranged various deposit campaigns, started providing the electronic trading service in the "SB linija" environment, expanded the list of service suppliers, the bills of which could be paid using the direct debit service, joined the optimized bill settlement system "BendraSąskaita.lt", and participated in the charity campaign "The Kindness Day" arranged by LNK television. The bank is further to promote the social partnership projects.

In the light of the difficult economic situation the bank pursued not only profitable performance of its business but also was active in the social life of the country. Šiaulių bankas promoted both – cultural (days of the towns, church music festivals) and sports events, financed issue of various publications and, traditionally, was the patron of the premium established "For the best project to the town and business". The voluntary blood donations in the bank had been organized for the third year in turn.

17. Paid dividends

	2004	2005	2006	2007
Per cent from the nominal value	1.00	2.00	2.00	2.00
Amount of dividends per share, in LTL	0.01	0.02	0.02	0.02
Amount of dividends, in LTL	560,000	1,694,400	2,180,784	3,220,670

The Bank does not have an established procedure for allocation of dividends. The general shareholders' meeting decides either to pay dividends or not while allocating the Bank's profit.

18. Principles of the Internal audit performance

The goal of the Internal Audits is to inspect the activities independently and impartially and provide consultations, to assess the bank's risk management systematically and comprehensively, to evaluate the bank's internal control processes and foster its improvements, to assist the bank in achieving its aims insuring that the internal control goals are achieved at the lowest possible costs and the functions of the internal control are implement successfully as it is defined in the General Bank's Internal

Control Organization Provisions approved by the Bank of Lithuania. The Internal Audit Division performs the finance audit, equivalence audit, activity audit, audit of information systems and projects.

The Internal Audit Division performs its functions in accordance with the annual activity plan approved by the Internal Audit Committee. The officers of the Internal Audit Division prior to performance of each audit prepare the audit program. If during the audit the internal auditors find particular violations they immediately inform the Head of the Internal Audit Division. Taking into consideration defects detected in the process of audit and recommendations made by the Internal Audit Division, the heads of the bank's divisions approve the plan of implementation of recommendations listed in the Internal Audit report. The heads of divisions taking into consideration the significance of the provided conclusions and recommendations assign the internal auditors to perform the control of the implemented recommendations (progress monitoring).

The post-audit activities (progress monitoring) also include inspections on elimination of defects detected by the external auditors and the Bank of Lithuania and implementation of their recommendations. The internal auditors regularly meet the heads of the bank's divisions and employees in order to identify and discuss the important issues and to use the gained information for further planning of the Internal Audit's activities.

19. Employees

As of December 31st 2008, Šiaulių bankas employed 522 staff members, 67 per cent of whom had the university education, 18 per cent had college, 10 per cent secondary education (35 per cent of them are recently studying) and 6 per cent had special secondary education. In comparison with 2007, the number of employees increased by 8 per cent and such a growth was mainly caused by the development of the bank's network. As of December 31st 2008, Šiaulių bankas' Group employed 578 employees in total.

In 2008 Šiaulių bankas participated in the traditional campaign "Praise the service" organized in Lithuania for the first time and was among top 10 winners. Besides, for the second year in turn Šiaulių bankas" won one of the prize in the contest of "The most attractive employer of Šiauliai'2008" taking the third place among the companies operating in the servicing field.

Implementing the Human Resource policy the bank seeks creating and developing the long-term collaboration with its employees. The bank's employees form the professional and tuneful team, which pays the special attention to the clients, partnership, and efficient and flexible decisions. The employees are provided with the opportunities to improve their competencies and skills in the internal and external seminars. The competent and talented employees have career development possibilities. Organization of internal contest helps combining the employees' satisfaction and their commitments and thus insuring the good quality of the performed tasks. The employees are motivated by the privileges to use some of the banking services. The Bank has a name of the attractive employer insuring the social guarantees.

Average monthly salary of the relevant employee group before taxes:

Employee group	2006 m.		2007 m.		2008 m.	
	Officers	Average monthly salary, LTL	Number of employees	Average monthly salary, LTL	Number of employees	Average monthly salary, LTL
Management	8	13,843	8	18,027	8	23,039
Officers	413	2,088	450	2,292	484	2,410

The Bank does not have agreements with the employees foreseeing compensations in case of retirement or dismissal without the reasonable ground or in case their capacities would be canceled because of changes in the bank's control.

The Bank also is not the party of material agreements, which would become effective, change or would be canceled because of changes in the bank's control.

20. The Bank's bodies

The Bank's Bodies are as follows: General Meeting of the Shareholders of the Bank, Supervisory Council of the Bank, Board of the Bank and Chief Executive Officer of the Bank (Head of the Bank). The Board and Head of the Bank are managing bodies of the Bank.

The Supervisory Council is a collegial body supervising the activities of the Bank. It is directed by its Chairman. The General Meeting of the Shareholders elects the Supervisory Council, consisting of 7 members. In accordance with the Bank's Charter the number of tenures of the Council member is not limited.

The Board is a collegial Bank management body consisting of 5 members. It manages the bank, handles its matters and answers under the laws for execution of the bank's financial services. Order of the board's work is set by the Board work regulations. The Board is elected by the Council for a term of 4 years.

The Head of the Bank arranges everyday activities of the bank and performs other actions necessary to perform his functions, to implement decisions of the Bank's bodies and to secure the bank's activities.

Managing bodies of the bank observe laws and other legal acts of the Republic of Lithuania and follow the requirements of the Charter of the Bank. The bank's bodies are elected, assigned and dismissed from the capacities in accordance with the provisions of the mentioned documents.

21. Members of the Collegial bodies

The Bank's Supervisory Council

- **Arvydas Salda** – Chairman of the Bank's Supervisory Council. A consultant of „Šiaulių banko turto fondas“ UAB, member of the Board of „Klaipėdos LEZ valdymo bendrovė“ UAB, member of the Board of „Pavasaris“ UAB, member of the Supervisory Council of Šiaulių bankas AB since 1991 (the Chairman since 1999).

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: the Chairman of the Board of „SLEZVB“ UAB until 2007; member of the Board of „Pavasaris“ UAB since 2005; member of the Board of „LEZ vystymo centras“ UAB until 2005; Director of „Šiaulių banko turto fondas“ UAB from August 2002 to March.; member of the Council of Šiauliai University since 2000; member of the Board of „Klaipėdos LEZ valdymo bendrovė“ UAB since 1998.

Members of the Council:

- **Sigitas Baguckas** – Procurist of "Namų statyba" .Deputy Chairman of Council of Šiaulių

bankas AB since 2000, member of Council since 1991.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: procurist of "Namų statyba" UAB since 2007; director of "Namų statyba" UAB from 1992 to 2007; member of the Board of "Šiaulių dujotiekio statyba" UAB from 2000 to 2005.

- **Gintaras Kateiva** – Director of "Litagros prekyba" UAB; Chairman of the Board of "Litagros chemija" UAB; advisor of the director of "Litagros mažmena" UAB, member of the Supervisory Council of Šiaulių bankas AB since 2008.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: General Director of "Litagros prekyba" UAB from July 1993 to February 2008; advisor of the director of "Litagros chemija" UAB from February 1996 to January 2005; Deputy Director of "Litagros mažmena" UAB from September 2003 to January 2005; Director of "Litagros mažmena" UAB from March 1999 to August 2003.

- **Kastytis-Jonas Vyšniauskas** – General Director of "Sulinkiai" UAB; member of the Board of "Agroferta" UAB, member of the Supervisory Council of Šiaulių bankas AB since 1996.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: General Director of "Sulinkiai" UAB since April 2000; member of the Board of "Agroferta" UAB since 2000.

- **Vigintas Butkus** – Director of "Mintaka" UAB; Director of trade house „Aiva“ UAB (secondary capacity), member of the Supervisory Council of Šiaulių bankas AB since 2004.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: Director of "Mintaka" UAB since February 2000; Director of trade house "Aiva" UAB (secondary capacity) since May 2002.

- **Vytautas Junevičius** – the Chairman of the Board, General Director of "Alita" AB; Chairman of the Board "Anykščių vynas" AB. A member of the Supervisory Council of Šiaulių bankas AB since 2006.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: the Chairman of the Board "Anykščių vynas" AB since July 2004, Chairman of the Board, General Director of "Alita" AB since February 1994; General Director of "Invinus" UAB from May 2003 to April 2004.

- **Matti Hyrynen** – Head of the European Bank for Reconstruction and Development's Resident Office in Vilnius. A member of the Supervisory Council of Šiaulių bankas AB since 2008.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: Head of the EBRD's Resident Office in Vilnius since May 2001.

The Bank's Board

- **Algirdas Butkus** – the Chairman of the Board, Chief Executive Officer. Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: Chairman of the Board of Šiaulių bankas, Chief Executive Officer since April 1999.

- **Donatas Savickas** – Deputy Chairman of the Board, Deputy Chief Executive Officer, Head of Finance and Credit Division.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: Deputy Chairman of the Board of Šiaulių bankas AB, Deputy Chief Executive Officer, Head of Finance and Credit Division since October 2005, Deputy Chairman of the Board of Šiaulių bankas AB since 1995.

- **Vita Adomaitytė** – member of the Board, Chief Financial Officer, Head of Accounting and Reporting Division.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: member of the Board, Chief Financial Officer, Head of Accounting and Reporting Division since October 2005, member of the Board, Chief Financial Officer since July 2002.

- **Daiva Kiburienė** – member of the Board, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: a member of the Board of "Grimeda" UAB from December 2007 to February 2008, member of the Board of Šiaulių bankas AB, Deputy Chief Executive Officer, Head of Corporate and Retail Banking since October 2005, Deputy Chief Executive Officer, Head of Corporate and Retail Banking Division of Šiaulių bankas AB since May 2005, Deputy Chairman of the Board, Regional Manager since May 2001.

- **Jonas Bartkus** – member of the Board, Deputy Chief Executive Officer, Head of Business Development Division since December.

Companies and partnerships, the member or partner of the management or supervisory bodies the entity used to be over the last five years: a member of the Board of Šiaulių bankas AB, Deputy Chief Executive Officer, Head of Business Development Division of Šiaulių bankas AB from December 2005, member of the Board since October 2005, Director of IT department of Šiaulių bankas AB since January 2001.

Name, surname	Beginning/end of tenure	Share of capital under the right of ownership, %	Share of votes together with the related entities, %
Arvydas Salda	Beginning 27-03-2008 End 2012	2.63	39.87
Sigitas Baguckas	Beginning 27-03-2008 End 2012	0.58	39.87
Kastytis Jonas Vyšniauskas	Beginning 27-03-2008 End 2012	1.00	39.87
Vigintas Butkus	Beginning 27-03-2008 End 2012	0.31	39.87
Vytautas Junevičius	Beginning 27-03-2008 End 2012	0.03	39.87
Matti Hyyrynen	Beginning 27-03-2008 End 2012	-	-
Gintaras Kateiva	Beginning 27-03-2008 End 2012	5.86	39.87
Ričardas Valskis	Beginning 29-03-2004 End 27-03-2008	0.60	0.60
Algirdas Butkus	Beginning 27-03-2008 End 2012	4.49	39.87
Donatas Savickas	Beginning 27-03-2008 End 2012	<0.01	39.87

Vita Adomaitytė	Beginning 27-03-2008 End 2012	0.02	39.87
Daiva Kiburienė	Beginning 27-03-2008 End 2012	<0.01	39.87
Jonas Bartkus	Beginning 27-03-2008 End 2012	<0.01	39.87

Amounts of funds in total and average amounts per members of the collegial body calculated during 2008:

Members of management bodies	Number of people	total amounts, LTL	Average amounts, LTL
Members of the Bank's Council	7	624,000	89,143
Members of the Bank's Board	5	576,000	115,200
CEO and CFO	2	935,430	467,715

Loans granted to the members of the Council and Board as of December 31st 2008:

Members of management bodies	Granted loans, LTL
Members of the Bank's Council	2,831,000
Members of the Bank's Board	61,000
TOTAL	2,892,000

There were no guarantees or warranties issued in 2008 regarding the fulfillment of liabilities of management bodies' members.

22. Transactions with related parties

There were quite many banking transactions entered with related parties in the course of general activities in 2008. The related parties of the bank are as follows: the members of the Bank's Supervisory Council and the Bank's Board, shareholders acting together under the Shareholders' Agreement, close family members of the mentioned related parties as well the bank's subsidiaries and the companies which are controlled by the related parties, jointly controlled companies or companies, in which these related parties have a significant influence. All the transactions have been entered into on an arm's length basis. The comprehensive description of the transactions is provided in the explanatory note of the financial statement of Šiaulių bankas for 2008.

23. Data on the publicly disclosed information

Publicly disclosed information in the course of 2008:

- 24-01-2008 Preliminary activity results for 2007;
- 21-02-2008 Pre-audited activity result of Šiaulių bankas AB Group for 2007;
- 21-02-2008 Summoning of General Shareholders' Meeting;
- 29-02-2008 Interim financial information of Šiaulių bankas AB for 12 months of 2007
- 15-03-2008 Draft resolutions for the General Shareholders' Meeting to be held on 27-03-2008;
- 27-03-2008 Resolutions of the General Shareholders' Meeting dated 27-03-2008;
- 28-03-2008 Audited annual information for 2007;
- 01-04-2008 Review: audited information for 2007;
- 14-04-2008 Pre-audited activity result of Šiaulių bankas AB for the 1st quarter of 2008;
- 23-04-2008 Pre-audited activity result of Šiaulių bankas AB Group for the 1st quarter of 2008;
- 15-05-2008 The amended Charter registered after the increase of authorized capital;
- 22-05-2008 Completed dissemination of the bond issue;
- 30-05-2008 Financial statements of Šiaulių bankas AB for the 1st quarter of 2008;
- 25-06-2008 The syndycaed loan agreement of EUR 20 million concluded;
- 15-07-2008 Preliminary activity result of Šiaulių bankas AB for the 1st half-year of 2008;
- 04-08-2008 Preliminary activity result of Šiaulių bankas AB Group for the 1st half-year of 2008; ;
- 13-08-2008 Consolidated financial statements and interim report of Šiaulių bankas AB for 1st half-year of 2008;
- 30-09-2008 Submission of application regarding bond issue listing;
- 06-10-2008 Summoning of the Extraordinary General Shareholders' Meeting;
- 13-10-2008 Preliminary result of three quarters of 2008;
- 30-10-2008 Draft resolutions for the General Shareholders' Meeting to be held on 11-11-2008-11-11;
- 04-11-2008 „Moody's Investors Service“ approved ratings of Šiaulių bankas AB;
- 05-11-2008 Preliminary result of Šiaulių bankas AB Group for 9 months of 2008;
- 11-11-2008 Resolutions of the Extraordinary General Shareholders' Meeting dated 11-11-2008;
- 11-11-2008 Reviewed prognosis for activity result in 2008;
- 19-11-2008 Consolidated financial statements of Šiaulių bankas for 9 months of 2008;
- 19-02-2009 Preliminary activity results for 2008;
- Reports regarding the transactions with the bank's shares made by the bank's senior management.

Šiaulių bankas AB has informed the Securities Commission and Vilnius Stock Exchange (AB NASDAQ OMX Vilnius) about all the stock events in accordance with the procedures set by the Charter and the legal acts of the Republic of Lithuania, also, announced this information in the daily newspapers "Lietuvos rytas" and "Šiaulių kraštas" and provided it on the Šiaulių bankas' website www.sb.lt. Other regulated information (reports on a share block acquisition and loss as well as on transactions of the senior management) was announced on the websites of the Vilnius Stock Exchange and Securities Commission.

24. Procedures of Charter amendments

The Bank's Charter can be amended only by the resolution of the General Shareholders' Meeting at 2/3 majority of votes, except exclusive cases defined in the law.

25. Information regarding compliance with the Governance Code

The Bank operates in compliance with the many standards set in the Governance Code. Information about how the bank complies with the particular articles of the Governance Code is provided in the annexed enclosed to the present report together with the financial statements. The entire information is also available on the website of Šiaulių bankas www.sb.lt.

Chief executive Officer

A handwritten signature in black ink, consisting of stylized, overlapping letters, positioned above a horizontal line.

Algirdas Butkus

ŠIAULIŲ BANKAS AB
Report on the compliance with the Governance Code
for the companies listed on the regulated market

Šiaulių bankas AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICA BLE	COMMENTARY
<p>Principle I: Basic Provisions</p> <p>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes/No	<p>The Bank prepares (activity) business plans and provides them to the Bank of Lithuania. Only made and already implemented particular decisions are declared publicly.</p> <p>The Bank's activity goals include seeking profit by providing financial services, fostering the clients and those who could become the clients to use the financial services efficiently, seeking to provide the clients with the high quality services, forming positive image of the Bank and banking system, introducing society with the financial services and services related to them, providing material and other help or support to separate the entities and separate fields, and paying exclusive attention to the culture, art, education and sports.</p>
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	<p>The rights and interest of the shareholders, employees, clients and other entities related to the bank's activities are respected; the bank works in compliance with requirements set by the Labour Code as well as with the provisions stated in the agreements between clients and suppliers.</p>
<p>Principle II: The corporate governance framework</p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p>		

<p>2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders’ meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.</p>	<p>Yes</p>	<p>The Bank’s bodies include a general shareholders’ meeting, the Bank’s Supervisory Council, the Bank’s Board and the chief executive officer.</p>
<p>2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company’s management bodies.</p>	<p>Yes</p>	<p>At the Bank the recommended function is performed by the collegial supervisory body - the Bank’s Supervisory Council.</p>
<p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company’s chief executive officer.</p>	<p>Not applicable</p>	<p>Both bodies are formed at the Bank - the Bank’s Supervisory Council and the Bank’s Board.</p>
<p>2.4. The collegial supervisory body to be elected by the general shareholders’ meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.</p>	<p>Yes</p>	<p>The Supervisory Council is set up at the Bank. The candidates to the Supervisory Council are elected and the votes for them are given in compliance with procedures defined in the law. The right of small shareholders to have their own representative is not suppressed.</p>
<p>2.5. Company’s management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.</p>	<p>Yes</p>	<p>The Bank’s Board consists of 5 members; the Supervisory Council consists of 7 members. Taking into consideration the Bank’s size, scope of activities and the number of shareholders such number of members is the most optimal. Each member has one vote while the bodies are making decisions.</p>
<p>2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.</p>	<p>Yes</p>	<p>The term of tenure of the Bank’s Board and Supervisory Council members is 4 years. According to the Bank’s Charter members of management and supervisory bodies can be re-elect for the next tenure.</p>

<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>The Chairman of Supervisory Council have never been the Bank's chief executive officer.</p>
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes/No</p>	<p>Information is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members of the Supervisory Council introduce themselves and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>No</p>	<p>While electing the members of the Supervisory Council, their particular competences relevant to his/her service are disclosed. The Bank supposes that it is suffice to meet the standards and provisions set in the Acts of Law of the Republic of Lithuania including the requirement approved by the resolutions of the Bank of Lithuania which indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania.</p>

<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>	No	See section 3.3
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	No	See section 3.3
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.</p>	No	<p>The members of the Supervisory Council perform their duties and seek avoiding the conflict of interests. Election of independent members to the Supervisory Council cannot be regulated in any way as the members of the Supervisory Council are elected during the General Shareholders; Meeting and elected are those who receive the biggest number of votes. The shareholders offering the candidates to the Supervisory Council have their own opinion concerning what candidates will represent their interest in the Council best.</p>

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:

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

No

See section 3.6

<p>shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>		
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	Not applicable	
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	Not applicable	

<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.. The general shareholders' meeting should approve the amount of such remuneration.</p>	<p>Not applicable</p>	
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance</p>	<p>Yes</p>	<p>The Supervisory Council performs all the control and monitoring functions within its competence assigned by the company regarding the management performance.</p>
<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	<p>Yes/No</p>	<p>The members of the Supervisory Council act in good faith with regard to the Bank and according to its interest not of their own one or of the third parties trying to maintain their independence while making decisions. The independence of the members was not assessed.</p>
<p>4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	<p>Yes/No</p>	<p>The members of the Supervisory Council actively participate in the meetings and devote sufficient time to perform his duties as a member of the collegial body. The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.</p>

<p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>	<p>Yes</p>	
<p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p>	<p>Yes/No</p>	<p>All the transactions are concluded according standard conditions performing usual banking activities. Not all transactions are approved by the collegial body.</p>
<p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>	<p>Yes</p>	<p>The work and decisions of the Supervisory Council are not influenced by people who elected the members of this body. The members of the Supervisory Council have a right to receive the information and documents necessary for appropriate performance of their duties through the Bank's Board and Chief Executive Officer.</p>

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Yes/No</p>	<p>The Bank has formed the Audit Committee. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes/No</p>	<p>The Audit Committee submits the Supervisory Council recommendations regarding its decisions. The Nomination and Remuneration Committees are not formed. The functions of these committees are performed by the Supervisory Council itself.</p>
<p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes/No</p>	<p>The Audit Committee consists of 3 members. The Nomination and Remuneration Committees are not formed.</p>

<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Yes/No</p>	<p>The authority delegated to the Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council. The Bank does not provide information regarding the number of held meetings and the committee's members' participation there.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Yes</p>	<p>Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites.</p>
<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ul style="list-style-type: none"> • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>No</p>	<p>There is no Nomination Committee at the Bank.</p>

<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ul style="list-style-type: none"> • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ul style="list-style-type: none"> • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>	<p>No</p>	<p>There is no Remuneration Committee at the Bank.</p>
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ul style="list-style-type: none"> • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p>	<p>Yes</p>	
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<p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	No	The Bank does not have practice of assessment of the Supervisory Council's performance and making it public.

Principle V: The working procedure of the company's collegial bodies

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

<p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p>	<p>Yes</p>	<p>The Supervisory Council is chaired by the Chairman of the Supervisory Council, the Bank's Board is chaired by the Chairman of the Bank's Board.</p>
<p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month</p>	<p>Yes</p>	<p>The Meetings of the Supervisory Council are carried not less than 4 times a year. The interval between two meetings cannot be longer than 4 months. The Meetings of the Bank's Board are carried not less than once a month.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>	<p>Yes</p>	
<p>5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.</p>	<p>Yes</p>	
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		
<p>6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.</p>	<p>Yes</p>	<p>The ordinary registered shares that comprise the Bank's authorized capital grant the same rights all their holders.</p>

6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares	Yes	The rights provided by the newly issued shares are described in the Securities prospectus.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The decisions regarding the long-term assets the balance value of which exceeds 1/20 of the Bank's authorized capital , purchase, pledge or hypothec as well as liabilities of other persons the amount of which exceeds 1/20 of the Bank's authorized capital are made by the Bank's Board.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance ¹ . It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Bank is not ready and does not suppose it is necessary to use the modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications.

Principle VII: The avoidance of conflicts of interest and their disclosure		
The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy		
Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Bank does not prepare a statement of the company's remuneration policy and does not declare it publicly being of the opinion that such information is not to be published. In the scope set by the valid requirements, the average salaries are declared in the Bank's annual reports and share issue prospects.

<p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>	No	See section 8.1.
<p>8.3. Remuneration statement should leastwise include the following information:</p> <ul style="list-style-type: none"> • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors. 	No	See section 8.1.
<p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>	No	See section 8.1.
<p>8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>	No	See section 8.1.
<p>8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p>	No	See section 8.1.
<p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ul style="list-style-type: none"> • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by 	No	See section 8.1.

the annual general shareholders meeting;

- The remuneration and advantages received from any undertaking belonging to the same group;
- The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;
- If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;
- Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;
- Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.

8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:

- The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;
- The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;
- The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;
- All changes in the terms and conditions of existing share options occurring during the financial year.

8.7.3. The following supplementary pension schemes-related information should be disclosed:

- When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;
- When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.

8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.

<p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	No	The Bank's senior management is not remunerated for their work in shares, share options or any other right to purchase shares.
<p>8.9. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ul style="list-style-type: none"> • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. 	No	See section 8.8.
<p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	No	See section 8.8.
<p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	No	See section 8.8.

<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company’s website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company’s website.</p>	<p>No</p>	<p>See section 8.8.</p>
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Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept “stakeholders” includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	<p>Yes</p>	<p>The interest holders’ rights are respected. The Bank obeys the agreements with the suppliers, creditors, and clients. The relations with employees are regulated by the labour contracts. The employees can provide offers in the filed improvement of work conditions. The Bank’s employees participate in the Bank’s authorized capital.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company’s share capital; creditor involvement in governance in the context of the company’s insolvency, etc.</p>	<p>Yes</p>	
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	

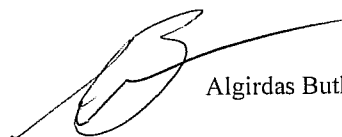
Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

<p>10.1. The company should disclose information on:</p> <ul style="list-style-type: none"> • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company’s supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company’s regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p>	<p>Yes</p>	<p>The information disclosed in this section is in the amount foreseen by the standard documents, annual and interim reports and, also, in share issue prospects.</p>
<p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>Yes</p>	
<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company’s supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company’s supervisory and management bodies and chief executive officer as per Principle VIII.</p>	<p>Yes/No</p>	<p>The Bank publishes information regarding its management and control members, their professional experience, and capacities taken in other companies. The information regarding received income is published in average values.</p>
<p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company’s policy with regard to human resources, employee participation schemes in the company’s share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p>	<p>No</p>	<p>The Banks does not prepare information about the links between the bank and its shareholders, including employees, creditors, suppliers, local community.</p>
<p>10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company’s shareholders and investors should have equal access to the information and make informed investing decisions.</p>	<p>Yes</p>	

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Banks declares all the information listed in this recommendation
Principle XI: The selection of the company's auditor		
The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes/No	Supposes the managing board, but supervisory board approves it
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Not applicable	The Bank's firm of auditors does not render non-audit services to the bank and was not paid for this by the Bank.

Chairman of the Bank's Board



Algirdas Butkus

17-03-2009