ŠIAULIŲ BANKAS

CONFIRMATION FROM THE RESPONSIBLE PERSONS

We, Chief Executive Officer of Šiaulių bankas AB Vytautas Sinius and Chief Accountant Vita Adomaitytė, confirm hereby that the provided consolidated financial statements of Šiaulių bankas AB for 2013 are compiled in compliance with applicable accounting standards, correspond to the reality and correctly reveal the assets, liabilities, financial status, activity result and cash flows of Šiaulių bankas AB and its Group of Companies, moreover, we confirm that the review of the business development and activities, the status of the Bank and the Group, alongside with the description of the key risks and indeterminacies incurred, are correctly revealed in the consolidated annual report.

Chief Executive Officer	Vytautas Sinius
Chief Accountant	Vita Adomaitytė

28 March 2014

ŠIAULIŲ BANKAS AB

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
ANNUAL REPORT

31 DECEMBER 2013

CONTENTS

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Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.

Independent Auditor's Report

To the shareholders of Šiaulių Bankas AB

Report on the financial statements

We have audited the accompanying stand-alone and consolidated financial statements of Šiaulių Bankas AB ("the Bank") and its subsidiaries ("the Group") set out on pages 5 to 105, which comprise the stand-alone and consolidated statements of financial position as of 31 December 2013 and the stand-alone and consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information ("the financial statements").

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the consolidated annual report for the year ended 31 December 2013 set out on pages 106 to 166 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 2013.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
6 March 2014

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

THE GROUP'S AND THE BANK'S INCOME STATEMENTS

		Year ended			
		31 December 2013		31 December 2012	
	Notes	Group	Bank	Group	Bank
Interest and similar income	1	177,197	177,665	126,111	124,041
Interest expense and similar charges	1	(94,494)	(94,626)	(68,612)	(68,611)
Net interest income		**82,703**	**83,039**	**57,499**	**55,430**
Fee and commission income	2	26,374	26,817	16,545	16,617
Fee and commission expense	2	(11,655)	(10,257)	(8,445)	(7,944)
Net fee and commission income		**14,719**	**16,560**	**8,100**	**8,673**
Result from associated company	16	-	-	89	-
Net gain from operations with securities	3	6,684	6,684	10,608	9,606
Net foreign exchange gain		7,212	7,213	4,866	4,865
Net gain (loss) from embedded derivatives	11	(5,014)	(4,482)	4,185	4,185
Net gain from financial liabilities at fair value through profit or loss		536	536	-	-
Net gain from disposal of assets	5	293	41	1,999	57
Other operating income	6	60,067	14,582	31,020	1,009
Other operating expenses	4	(112,857)	(65,415)	(72,813)	(39,503)
Operating profit before impairment losses		**54,343**	**58,758**	**45,553**	**44,322**
Allowance for impairment losses	7	(50,526)	(48,558)	(30,402)	(28,192)
Dividends from investments in subsidiaries and associates		-	2,400	-	1,000
Profit from continuing operations before income tax		**3,817**	**12,600**	**15,151**	**17,130**
Profit from discontinued operations, net of tax	20	17,217	-	-	-
Income tax (expense)	8	(2,517)	(1,873)	(2,023)	(2,258)
Net profit for the year		**18,517**	**10,727**	**13,128**	**14,872**
Net profit attributable to:					
Owners of the Bank		18,424	10,727	13,027	14,872
From continuing operations		1,207	10,727	13,027	14,872
From discontinued operations		17,217	-	-	-
Non-controlling interest (from continuing operations)		93	-	101	-
Basic earnings per share (in LTL per share) attributable to owners of the Bank	9	0.08		0.06	
From continuing operations		0.01		0.06	
From discontinued operations		0.07		-	
Diluted earnings per share (in LTL per share) attributable to owners of the Bank	9	0.07		0.06	
From continuing operations		0.01		0.06	
From discontinued operations		0.06		-	

The accounting policies and notes on pages 11 to 105 constitute an integral part of these financial statements.

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

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

		Year ended			
		31 December 2013		31 December 2012	
	Notes	**Group**	**Bank**	**Group**	**Bank**
Net profit for the year		**18,517**	**10,727**	**13,128**	**14,872**
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Gain (loss) from revaluation of financial assets		(5,422)	(5,422)	6,244	6,244
Gain (loss) from sale of financial assets		(2,626)	(2,626)	1,830	1,830
Amortisation of revaluation related to held-to-maturity investments		(179)	(179)	(556)	(556)
Deferred income tax on gain (loss) from revaluation of financial assets		1,043	1,043	(1,142)	(1,142)
Other comprehensive income (loss), net of deferred tax		(7,184)	(7,184)	6,376	6,376
Total comprehensive income for the year		**11,333**	**3,543**	**19,504**	**21,248**
Total comprehensive income (loss) attributable to:					
Owners of the Bank		11,240	3,543	19,403	21,248
From continuing operations		(5,977)	3,543	19,403	21,248
From discontinued operations		17,217	-	-	-
Non-controlling interest (from continuing operations)		93	-	101	-
		11,333	3,543	19,504	21,248

The accounting policies and notes on pages 11 to 105 constitute an integral part of these financial statements.

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

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

		31 December 2013		31 December 2012	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	481,002	480,999	221,855	221,805
Trading securities	12	70,648	193,648	51,198	51,198
Due from other banks		5,995	5,995	4,137	4,137
Derivative financial instruments	11	22,347	21,008	13,690	13,690
Loans to customers	13	2,375,700	2,723,662	1,731,858	2,052,809
Finance lease receivables	14	205,093	20,779	183,863	-
Investment securities:					
- available-for-sale	15	188,203	186,432	207,611	205,385
- held-to-maturity	15	1,309,375	1,300,833	273,031	273,031
Investments in subsidiaries and associates	16	-	51,562	-	51,791
Intangible assets	17	1,178	887	1,207	903
Property, plant and equipment	18	45,546	35,914	52,988	38,211
Investment property	26	86,637	47,565	37,508	7,517
Current income tax prepayment		10	-	208	-
Deferred income tax asset	8	6,183	4,723	6,997	5,553
Inventories	19	111,629	-	132,803	-
Other financial assets	19	7,695	423	5,970	133
Other non-financial assets	19	28,333	21,102	17,779	5,303
Assets classified as held for sale	20	388,360	155,296	-	-
Total assets		**5,333,934**	**5,250,828**	**2,942,703**	**2,931,466**
LIABILITIES					
Due to other banks and financial institutions	21	264,234	301,206	406,270	408,568
Due to customers	22	4,529,237	4,530,021	2,165,691	2,165,852
Debt securities in issue	24	-	-	22,912	22,912
Special and lending funds	23	7,354	7,354	7,294	7,294
Liabilities at fair value through profit or loss	33	68,855	68,855	-	-
Current income tax liabilities		1,028	-	390	-
Deferred income tax liabilities	8	4,952	-	5,668	-
Other financial liabilities	25	2,470	-	3,456	-
Other non-financial liabilities	25	38,997	22,167	16,566	7,984
Liabilities related to assets classified as held for sale	20	92,620	-	-	-
Total liabilities		**5,009,747**	**4,929,603**	**2,628,247**	**2,612,610**
EQUITY					
Share capital	27	250,000	250,000	234,858	234,858
Share premium	27	32,719	32,719	47,861	47,861
Reserve capital	27	2,611	2,611	2,611	2,611
Statutory reserve	27	3,243	2,641	1,891	1,289
Financial assets revaluation reserve		(1,990)	(1,990)	5,194	5,194
Retained earnings		37,104	35,244	21,206	27,043
		323,687	321,225	313,621	318,856
Non-controlling interest		500	-	835	-
Total equity		**324,187**	**321,225**	**314,456**	**318,856**
Total liabilities and equity		**5,333,934**	**5,250,828**	**2,942,703**	**2,931,466**

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 6 March 2014 by:

Vytautas Sinius
Chief Executive Officer

Vita Adomaitytė
Chief accountant

The accounting policies and notes on pages 11 to 105 constitute an integral part of these financial statements.

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

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to the owners of the Bank								Non-controlling interest	Total equity
		Share capital	Share premium	Reserve capital	Financial assets reva-luation	Statutory reserve	Other reserves	Retained earnings	Total		
31 December 2011		**234,858**	**47,861**	**2,611**	**(1,182)**	**960**	**-**	**9,110**	**294,218**	**-**	**294,218**
Transfer to statutory reserve		-	-	-	-	931	-	(931)	-	-	-
Acquisition of subsidiary		-	-	-	-	-	-	-	-	734	734
Total comprehensive income:		-	-	-	6,376	-	-	13,027	19,403	101	19,504
Net profit		-	-	-	-	-	-	*13,027*	*13,027*	*101*	*13,128*
Other comprehensive income		-	-	-	*6,376*	-	-	-	*6,376*	-	*6,376*
31 December 2012		**234,858**	**47,861**	**2,611**	**5,194**	**1,891**	**-**	**21,206**	**313,621**	**835**	**314,456**
Transfer to statutory reserve		-	-	-	-	1,352	-	(1,352)	-	-	-
Payment of dividends	29	-	-	-	-	-	-	(1,174)	(1,174)	-	(1,174)
Increase in share capital	27	15,142	(15,142)	-	-	-	-	-	-	-	-
Acquisition of subsidiary		-	-	-	-	-	-	-	-	(428)	(428)
Total comprehensive income (loss):		-	-	-	(7,184)	-	-	18,424	11,240	93	11,333
Net profit		-	-	-	-	-	-	*18,424*	*18,424*	*93*	*18,517*
Other comprehensive (loss)		-	-	-	*(7,184)*	-	-	-	*(7,184)*	-	*(7,184)*
31 December 2013		**250,000**	**32,719**	**2,611**	**(1,990)**	**3,243**	**-**	**37,104**	**323,687**	**500**	**324,187**

The accounting policies and notes on pages 11 to 105 constitute an integral part of these financial statements.

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

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2011		**234,858**	**47,861**	**2,611**	**(1,182)**	**648**	**-**	**12,812**	**297,608**
Transfer to statutory reserve		-	-	-	-	641	-	(641)	-
Total comprehensive income:		-	-	-	6,376	-	-	14,872	21,248
Net profit		-	-	-	-	-	-	*14,872*	*14,872*
Other comprehensive income		-	-	-	*6,376*	-	-	-	*6,376*
31 December 2012		**234,858**	**47,861**	**2,611**	**5,194**	**1,289**	**-**	**27,043**	**318,856**
Increase in share capital	27	15,142	(15,142)	-	-	-	-	-	-
Payment of dividends	29	-	-	-	-	-	-	(1,174)	(1,174)
Transfer to statutory reserve		-	-	-	-	1,352	-	(1,352)	-
Total comprehensive income (loss):		-	-	-	(7,184)	-	-	10,727	3,543
Net profit		-	-	-	-	-	-	*10,727*	*10,727*
Other comprehensive (loss)		-	-	-	*(7,184)*	-	-	-	*(7,184)*
31 December 2013		**250,000**	**32,719**	**2,611**	**(1,990)**	**2,641**	**-**	**35,244**	**321,225**

The accounting policies and notes on pages 11 to 105 constitute an integral part of these financial statements.

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

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

	Notes	Year ended 31 December 2013 Group	31 December 2013 Bank	31 December 2012 Group	31 December 2012 Bank
Operating activities					
Interest received		120,760	119,628	105,620	103,312
Interest paid		(94,494)	(94,626)	(66,991)	(66,990)
Fees and commissions received		26,374	26,817	16,545	16,617
Fees and commissions paid		(11,655)	(10,257)	(8,445)	(7,944)
Cash inflows from trade in trading securities		9,450	9,450	10,154	9,152
Net inflows from foreign exchange operations		6,942	6,943	4,796	4,795
Recoveries on loans previously written off		636	159	1,243	715
Salaries and related payments to and on behalf of employees		(43,156)	(36,974)	(29,088)	(23,399)
Other cash receipts, sale of assets		74,292	11,338	26,447	1,066
Other cash payments		(62,097)	(24,718)	(14,794)	(14,324)
Income tax (paid)		(540)	-	(957)	-
Net cash flow from operating activities before change in operating assets and liabilities		**26,512**	**7,760**	**44,530**	**23,000**
Change in operating assets and liabilities:					
Decrease (increase) in trading securities		292,913	169,913	(33,154)	(33,154)
Decrease (increase) in loans to credit and financial institutions		(1,858)	(1,858)	10	10
Increase in loans to customers		(64,039)	(84,614)	(807)	(18,192)
Decrease (increase) in other current assets		(266,179)	(18,966)	(56,805)	2,052
(Decrease) in liabilities to credit and financial institutions		(72,645)	(37,971)	(64,619)	(62,332)
(Decrease) increase in deposits		(364,377)	(363,754)	271,806	271,685
Increase (decrease) in special and lending funds		60	60	(9,606)	(9,606)
Increase in other liabilities		113,396	13,595	3,692	1,058
Change		**(362,729)**	**(323,595)**	**110,517**	**151,521**
Net cash flow (used in) from operating activities		**(336,217)**	**(315,835)**	**155,047**	**174,521**
Investing activities					
(Acquisition) of property, plant and equipment and intangible assets		(16,955)	(5,855)	(5,296)	(2,439)
Disposal of property, plant and equipment and intangible assets		7,120	1,821	4,778	2,719
(Acquisition) of held-to-maturity securities		(176,954)	(168,412)	(31,400)	(31,400)
Proceeds from redemption of held-to-maturity securities		253,672	253,672	76,405	73,337
Dividends received		67	2,467	60	1,060
(Acquisition) of available-for-sale securities		(336,996)	(336,790)	(349,138)	(349,006)
Sale of available-for-sale securities		354,792	354,713	188,519	188,519
(Acquisition) of subsidiaries	16	(352)	(353)	(16,973)	(35,357)
Cash from the transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas (see General information)		535,459	497,827	-	-
Net cash flow from (used in) investing activities		**619,853**	**599,090**	**(133,045)**	**(152,567)**
Financing activities					
Payment of dividends	27	(1,149)	(1,149)	-	-
Payment to minority shareholders		(428)	-		
Debt securities in issue	33	-	-	1,514	1,514
Redemption of debt securities in issue		(22,912)	(22,912)	(25,507)	(25,507)
Net cash flow (used in) financing activities		**(24,489)**	**(24,061)**	**(23,993)**	**(23,993)**
Net increase (decrease) in cash and cash equivalents		**259,147**	**259,194**	**(1,991)**	**(2,039)**
Cash and cash equivalents at 1 January		**221,855**	**221,805**	**223,846**	**223,844**
Cash and cash equivalents at 31 December	**10**	**481,002**	**480,999**	**221,855**	**221,805**

The accounting policies and notes on pages 11 to 105 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 Banks of the Republic of Lithuania and the Statute of the Bank.

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 63 client service units (2012: 14 branches and 42 client service units). As at 31 December 2013 the Bank had 680 employees (31 December 2012: 481). As at 31 December 2013 the Group (except subsidiaries held for sale) had 824 employees (31 December 2012: 626 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 of the Republic of Lithuania and the Statute of the Bank.

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

The Bank had the following subsidiaries:
- Šiaulių Banko Lizingas UAB (hereinafter – SB Lizingas, finance and operating lease activities),
- Šiaulių Banko Investicijų Valdymas UAB (hereinafter SB Investicijų Valdymas, investment management activities),
- Šiaulių Banko Turto Fondas UAB (hereinafter – SB Turto Fondas, real estate management activities),
- Minera UAB (hereinafter – Minera, real estate management activities),
- ŠBTF UAB (hereinafter – SBTF, real estate management activities),
- Pavasaris UAB (hereinafter – Pavasaris, development of residential quarter).

The Group also had the following subsidiary:
- Kėdainių Oda UAB (hereinafter – Kėdainių Oda, leather processing).

The Bank had the following subsidiaries held for sale:
- Ūkio Banko Lizingas UAB (hereinafter – UB Lizingas, finance lease activities),
- Bonum Publicum GD UAB (hereinafter Bonum Publicum, life insurance activities),
- ŽSA 1 UAB (hereinafter – ŽSA 1, real estate management activities),
- ŽSA 2 UAB (hereinafter – ŽSA 2, real estate management activities),
- ŽSA 3 UAB (hereinafter – ŽSA 3, real estate management activities),
- ŽSA 4 UAB (hereinafter – ŽSA 4, real estate management activities),
- ŽSA 5 UAB (hereinafter – ŽSA 5, real estate management activities),
- Trade Project UAB (hereinafter – Trade Project, real estate management activities),
- Sporto Klubų Investicijos UAB (hereinafter – Sporto Klubų Investicijos, real estate management activities),
- Investicinio Turto Valdymas UAB (hereinafter – Investicinio Turto Valdymas, real estate management activities),
- Eastern Europe Development Fund UAB (hereinafter – Eastern Europe Development Fund, real estate management activities).

The Group also had the following subsidiaries held for sale:
- Žalgirio Sporto Arena UAB (hereinafter – Žalgirio Sporto Arena, real estate management activities),
- Nacionalinis Futbolo Stadionas UAB (hereinafter – Nacionalinis Futbolo Stadionas, development of the football stadium).

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

Investments in subsidiaries held for sale are described in more detail in Note 20 *Assets classified as held for sale.*

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

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

TRANSACTION OF TRANSFER OF ASSETS, RIGHTS, TRANSACTIONS AND LIABILITIES OF ŪKIO BANKAS

On 23 February 2013, an agreement (hereinafter – the Agreement) was signed between Ūkio Bankas AB registered in Lithuania (legal entity‘s code 112020136, hereinafter Ūkio Bankas), Šiaulių Bankas AB (legal entity‘s code 112025254) and a state-owned enterprise Indėlių ir Investicijų Draudimas (legal entity‘s code 110069451, hereinafter Deposit Insurance Fund or DIF) on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas, based on which a part of assets, rights, transactions and liabilities of Ūkio Bankas was transferred to Šiaulių Bankas. Under the Agreement, Šiaulių Bankas takes over assets (rights) and liabilities from Ūkio Bankas. The difference between the liabilities and the assets taken over is to be covered by the Deposit Insurance Fund. The assets of Ūkio Bankas transferred to Šiaulių Bankas were based on a preliminary valuation carried out by an audit company, KPMG Baltic UAB (legal entity's code 111494971, registered in Lithuania, hereinafter - KPMG) the results of which have been approved by the Board of the Bank of Lithuania. To have an accurate estimation of assets and liabilities transferred, a more detailed final valuation of assets and liabilities transferred was carried out. On 11 October 2013 the KPMG provided Šiaulių Bankas with the final valuation report of the assets and liabilities taken over from Ūkio Bankas under the Agreement. The difference between the assets and liabilities taken over from Ūkio Bankas was covered by cash payments or assumption of liabilities from DIF to Šiaulių Bankas.

In addition, the agreement provides for the possibility for the creditors of Ūkio Bankas to sell five different portfolios of assets: (a) portfolio of real estate transferred into the ownership of Šiaulių Bankas, (b) portfolio of higher risk (potentially lower-quality performance) loan groups, (c) portfolio of subsidiaries of Ūkio Bankas engaged in real estate development activities, (d) portfolio of shares of subsidiaries of Ūkio Bankas engaged in other activities – Ūkio Banko Lizingas UAB and life insurance company Bonum Publicum UAB, (e) portfolio consisting of higher risk loans and foreclosed assets. This right expired in February 2014. In this case the Bank bears no risk, because portfolio of the assets would be fully exchanged in another form of asset – cash, also covering all related administration, financing and other expenses which are foreseen in the agreement.

Another important clause in the agreement says that in case the value of the assets transferred to Šiaulių Bankas increases until the year-end 2014, Šiaulių Bankas will have to refund a part of such increase in the value of the assets to the creditors of Ūkio Bankas. This clause is applicable to lower risk (potentially higher-quality performance) loan groups and some categories of real estate and subsidiaries engaged in real estate activities. Amount payable to Ūkio Bankas under this clause can vary from nil to unlimited amount (based on the actual performance of assets in these categories). As of 31 December 2013, Šiaulių Bankas recognized a liability of LTL 742 thousand related to this clause of the agreement.

As a result of this transaction, Šiaulių Bankas increased its customer base and market share in Lithuanian commercial banking market.

The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date. Fair values have been established by KPMG Baltic UAB using valuation techniques mainly attributable to level 3 fair value measurement.

As at 3 March 2013	**Fair value**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Assets acquired from Ūkio Bankas	**1,797,606**
- Cash and cash equivalents	366,665
- Securities	586,408
- Subsidiaries (see Note 20 for fair values of assets and liabilities of subsidiaries acquired)	154,100
- Loans and finance lease receivables	652,230
- Other assets	38,203
Consideration received from DIF	**930,317**
- Cash and cash equivalents	131,162
- Securities	799,155
Liabilities (deposits) assumed from Ūkio Bankas	**2,727,923**
Assets acquired in total (from Ūkio Bankas and DIF)	**2,727,923**
Liabilities assumed in total (from Ūkio Bankas)	**2,727,923**
Difference = Consideration paid by Šiaulių Bankas	**-**

No equity interests were transferred by the transaction.

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

Acquisition-related costs of LTL 4,602 thousand have been charged to operating expenses in the income statement for the year ended 31 December 2013.

The table below presents gross amounts and fair values of the receivables acquired under the transaction of the transfer of assets, rights, transactions and liabilities of Ūkio Bankas.

As at 3 March 2013 **Gross amounts and fair values of the receivables acquired**	**Gross amount**	**Fair value**
- Funds at correspondent accounts	92,707	92,707
- Securities	1,372,520	1,385,563
- Loans and finance lease receivables	1,305,126	652,230

At the acquisition date, for the loans and finance lease receivables, the difference between gross amounts and fair values of the receivables is an approximate estimate of net present value of the cash flows that are not expected to be collected. For other categories of receivables, all the cash flows are expected to be collected, and the difference between gross amounts and fair values of the receivables reflects the difference arising mainly from market price factors.

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, all derivative financial instruments and investment properties.

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.

<u>Amendments to existing standards and interpretations effective in 2013</u>

IFRS 13, Fair value measurement (effective for annual periods beginning on or after 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Standard did not have material impact on measurement of transactions and balances, but resulted in additional disclosures in these financial statements (in Financial Risk Management disclosures, Section 4. "Fair value").

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (effective for annual periods beginning on or after 1 January 2013). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.
The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.
The amendment did not have an impact on the Bank and the Group's financial statements.

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

Recovery of Underlying Assets – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2013). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The amendment did not have an impact on the Bank and the Group's financial statements.

Amendments to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The amended standard resulted in changed presentation of financial statements, but did not have any impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The amendment did not have an impact on the Bank and the Group's financial statements.

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (effective for annual periods beginning on or after 1 January 2013). The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, Inventories, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. The interpretation did not have an impact on the Bank and the Group's financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these financial statements. Refer to Financial Risk Management disclosures, Section 4.3., "Offsetting financial assets and financial liabilities".

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards - Government loans. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The amendment did not have an impact on the Bank and the Group's financial statements.

Improvements to International Financial Reporting Standards (effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23, Borrowing costs, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements. The amendments did not have an impact on the Bank and the Group's financial statements.

Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Bank and the Group

IFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

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

IFRS 11, Joint Arrangements, (effective for annual periods beginning on or after 1 January 2014), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

IAS 27, Separate Financial Statements, (effective for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (effective for annual periods beginning on or after 1 January 2014). The accounting for joint ventures using the equity method was incorporated into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective for annual periods beginning 1 January 2014). The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets (effective for annual periods beginning 1 January 2014). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

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

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 9, Financial Instruments: Classification and Measurement (not yet endorsed by European Union). Key features of the standard are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IFRIC 21 - Levies (not yet endorsed by European Union). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 19 – Defined benefit plans: Employee contributions (not yet endorsed by European Union). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2012 (not yet endorsed by European Union). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

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

Annual Improvements to IFRSs 2013 (not yet endorsed by European Union). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its financial statements.

Consolidation of subsidiaries

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

If transaction with non-controlling interest does not result in control being lost, the result from acquisition of non-controlling interest or sale of shares to non-controlling interest is recognized directly in equity of the Group.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and eviously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

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

Subsidiaries in the stand-alone financial statements are accounted for at cost less impairment. Dividend from a subsidiary is recognised in profit or loss in when the Bank's right to receive the dividend is established.

The group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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. Litas also is functional and presentation currency of all the subsidiaries of the Bank included in the consolidated financial statements.

(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 statement of comprehensive income 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 statement of comprehensive income at the time of transaction using the exchange rate ruling at that date.

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 statement of comprehensive income on all debt instruments 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income

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

Taxation

a) Income tax
In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2012 and 2013 period is subject to income tax at a rate of 15%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes.

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

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

b) Other taxes

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

Cash and cash equivalents

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

Financial assets

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

Trading securities

Trading securities are securities which were acquired either for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at fair value, which is based on transaction price. Trading securities are subsequently measured at fair value based on quoted bid prices or derived from a discounted cash flow model if market price is unreliable measure. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date when payment is made for assets purchased or sold. Otherwise such transactions are treated as derivatives until settlement occurs.

Securities available for sale and held to maturity

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

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

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

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

Interest earned whilst holding securities is reported as interest income. Dividends receivable related to equity securities classified as trading or available for sale are included separately in dividend income when the Bank's right to receive payments is established

All regular way purchases and sales of securities are recognised at settlement date, which is the date when payment is made for assets purchased or sold**.** All other purchases and sales are recognised as derivative forward transactions until settlement.

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

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. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Allowance for impairment losses.

Impairment of financial assets

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant as well as for those that are not individually significant. Losses on loan and held-to-maturity investment impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of future expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of comprehensive income. 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 after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

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

In the case of 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 the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income.

Impairment of non-financial assets

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

Reverse repurchase transactions

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

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

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

Intangible assets

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

Property, plant and equipment

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

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the Statement of comprehensive income.

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 statement of comprehensive income when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset. Borrowing costs that are directly attributable to the acquisition or construction of assets requiring substantial amount of time to get ready for their usage are capitalized. Useful lives of property, plant and equipment are disclosed in note 18.

Leases

a) Group company is the lessee

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

Inventories

Inventories of the Group consist mainly of apartments held for sale and property for development. They are stated at the lower of cost and net realizable value. Net realizable value for apartments held for sale are calculated as based on market value of apartments less costs to sell. Net realizable value of property for development are calculated as discounted cash inflows to be received from developed property less discounted cash outflows related to the development and selling of a property.

Financial liabilities

The Group's financial liabilities consist of those designated at fair value and those carried at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities at fair value through profit or loss

The group designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated.

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

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as ‘Liabilities at fair value through profit or loss’. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in ‘Net gain from financial liabilities at fair value through profit or loss’. Financial liabilities at fair value through profit or loss are subordinated borrowings.

Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue, liabilities to special and lending funds as well as other various financial liabilities. Initially they are recognised at fair value, and subsequently stated at amortised cost, with any difference between net proceeds and the redemption value recognised in the Income statement over their period using the effective interest method.

Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be 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 can no longer withdraw the offer of those benefits; or when recognises costs for a restructuring that involves the payment of termination benefits. 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 Statement of comprehensive income and within other liabilities in the balance sheet.

Segment information

Operating segments are reported in accordance with the information analysed by the Executive Board (the chief operating decision-maker) of the Group, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has seven main business segments:

- Šiauliai region – includes banking operations (retail and corporate banking) performed in Siauliai region;
- Vilnius region – includes banking operations (retail and corporate banking) performed in Vilnius region;
- Klaipėda region - includes banking operations (retail and corporate banking) performed in Klaipeda region;
- Headquarters – incorporates treasury and support services (IT, management, administration and other services) provided to other banking operations segments of the Group;
- Leasing activities – includes finance and operating lease services provided to customers of the Group;
- Investment management – includes management of investments in equity instruments held by the Group;
- Real estate development – includes development of real estate projects.

As the Group’s segment operations, except for real estate development are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. Also all other main items of the statement of comprehensive income are analysed by the management of the Group on segment basis therefore they are presented in the segment reporting.

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

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

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

Fiduciary activities

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

Fair value of assets and liabilities

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 Statement of comprehensive income 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 Statement of comprehensive income 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.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise buildings for commercial activities and land plots for undetermined future use.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 95% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square meters.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

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

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is determined by comparable market prices, or, if these are unavailable, is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually by external or internal appraisers.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for non-traded options), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as interest rate floor in a loan granted, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss.

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

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

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

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

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

The Risk Management Policy approved by Board of the Bank 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 Group's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

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

The Group performs self assessment each year. This process analyses types of risks that could potentially arise from banking activities and have material impact to the Group. The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, concentration risk and operational risk. Market risk includes currency risk, interest rate and securities price risk. Other types of risk are considered immaterial by the Group and, therefore, are not assessed.

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

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

FINANCIAL RISK MANAGEMENT (continued)

1. Credit risk

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

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

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

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

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

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

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

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

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

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

1.1. Credit risk measurement

(a) Loans and receivables

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

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

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

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

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

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

FINANCIAL RISK MANAGEMENT (continued)

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

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

The Bank's Credit Risk Department collects and, if necessary, provides to responsible managerial personnel information on external conditions, the growth of the credit portfolio and fulfilment of targeted profit, expenses associated with risks, the largest amounts due from clients, distribution of credits by the type of economic activity, repayment terms past due, the largest clients with default possibilities, analysis of the credit portfolio by risk groups, changes in risk groups over a certain time period.

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

(b) Debt securities

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

(c) Credit-related commitments

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

1.2. Risk limit control and mitigation policies

(a) Concentrations

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

In addition to the Bank of Lithuania requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement, which to a single borrower may not exceed 15 percent of the Bank's capital. The Bank's Council must approve the higher limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent. Concentration of credit risk of the Bank is disclosed in note 34.

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

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

Some other specific control and mitigation measures are outlined below.

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

FINANCIAL RISK MANAGEMENT (continued)

(b) Collateral

The Group mitigates credit risk by taking security for loans granted. The types of collateral considered by the Group as the most acceptable for loans and advances are the following:
• Real estate (mainly residential properties, commercial and industrial real estate);
• Business assets (equipment, inventory, transport vehicles);
• Property rights over financial instruments (debt securities, equities);
• Third party guarantees.

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

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

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

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

1.3. Impairment and provisioning policies

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

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

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

The list of loss events:

1) significant financial difficulties of the debtor or issuer, i.e. the borrower's financial status is evaluated as poor or bad;
2) violation of the loan agreement (non-payment of the periodic loan payments (the part of the loan or interest)) for more than 30 days;
3) the loan is being recovered;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or decrease in collateral value, when repayment terms of the evaluated loans directly depend on the value of the object of security measure;
5) third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
6) other loss events (termination or cancellation of the licence validity of the borrower or issuer engaged in licensed activity; the death of the borrower or issuer).

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

FINANCIAL RISK MANAGEMENT (continued)

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

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Loans and advances to banks	**5,995**	**5,995**	**4,137**	**4,137**
Loans and advances to customers:	**2,375,700**	**2,723,662**	**1,731,858**	**2,052,809**
Loans and advances to financial institutions	**-**	**215,734**	**-**	**216,789**
Loans to individuals (Retail):	**227,319**	**195,246**	**194,394**	**159,927**
- Consumer loans	58,036	28,924	41,878	12,048
- Mortgages	101,242	101,242	95,290	95,290
- Credit cards	6,106	3,242	7,590	3,111
- Other (reverse repurchase agreements, other loans backed by securities, other)	61,935	61,838	49,636	49,478
Loans to business customers:	**2,148,381**	**2,312,682**	**1,537,464**	**1,676,093**
- Large corporates	195,113	195,113	132,834	132,834
- SME	1,643,040	1,807,341	1,281,193	1,419,822
- Central and local authorities, administrative bodies and other	310,228	310,228	123,437	123,437
Finance lease receivables	**205,093**	**20,779**	**183,863**	-
- Individuals	9,423	-	**8,750**	-
- Business customers	195,670	20,779	**175,113**	-
Trading assets:	**70,146**	**193,146**	**50,741**	**50,741**
- Debt securities	70,146	193,146	50,741	50,741
Derivative financial instruments	**22,347**	**21,008**	**13,690**	**13,690**
Securities available for sale	**184,663**	**184,663**	**203,641**	**203,641**
- Debt securities	184,663	184,663	203,641	203,641
Investment securities held to maturity	**1,309,375**	**1,300,833**	**273,031**	**273,031**
- Debt securities	1,309,375	1,300,833	273,031	273,031
Other financial assets	**7,695**	**423**	**5,970**	**133**
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	103,673	104,473	88,313	88,360
Letters of credit	7,039	7,039	3,541	3,541
Loan commitments and other credit related liabilities	243,202	252,847	114,483	115,966
At 31 December	**4,534,928**	**4,814,868**	**2,673,268**	**2,806,049**

The table above represents a worst case scenario of credit risk exposure at 31 December 2013 and 2012, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are net carrying amount as reported in the balance sheet.

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

FINANCIAL RISK MANAGEMENT (continued)

1.5. Loans and advances

Loans and advances are summarised as follows:

		2013		2012
	Group	Bank	Group	Bank
Loans to business customers	2,739,281	3,120,652	1,631,892	1,987,154
Loans to individuals	252,854	219,695	211,565	176,086
Subtract: Difference between acquisition value and gross value *	(473,782)	(473,782)	-	-
Gross	**2,518,353**	**2,866,565**	**1,843,457**	**2,163,240**
Subtract: Allowance for impairment	(142,653)	(142,903)	(111,599)	(110,431)
Net	**2,375,700**	**2,723,662**	**1,731,858**	**2,052,809**

* Difference between acquisition value and gross value is the difference between the acquisition value of the loans acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas (see General Information for more details on this transaction) and the gross value of the above-mentioned loans.

31 December 2013

	2013			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks and financial institutions	Loans and advances to customers	Loans and advances to banks and financial institutions
Neither past due nor impaired	1,957,779	-	2,090,135	215,734
Past due but not impaired	344,608	-	342,075	-
Impaired	215,966	-	218,621	-
Gross	**2,518,353**	**-**	**2,650,831**	**215,734**
Less: allowance for impairment	(142,653)	-	(142,903)	-
Net	**2,375,700**	**-**	**2,507,928**	**215,734**

31 December 2012

	2012			
	Group		Bank	
	Loans and advances to customers	Loans and advances to banks and financial institutions	Loans and advances to customers	Loans and advances to banks and financial institutions
Neither past due nor impaired	1,517,839	-	1,625,208	216,789
Past due but not impaired	128,477	-	125,920	-
Impaired	197,141	-	195,323	-
Gross	**1,843,457**	**-**	**1,946,451**	**216,789**
Less: allowance for impairment	(111,599)	-	(110,431)	-
Net	**1,731,858**	**-**	**1,836,020**	**216,789**

During the year ended 31 December 2013, the Group’s total loans and advances increased by 36.61%. The Group’s total impairment provision for loans and advances amounts to LTL 142,653 thousand (2012: LTL 111,599 thousand) and it accounts for 5.66% of the respective portfolio (2012: 6.05%).The Group’s impaired loans and advances to customers comprise 8.58% of the total portfolio (2012: 10.69%).

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.

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

FINANCIAL RISK MANAGEMENT (continued)

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. 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.

31 December 2013

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	50,651	61,084	5,258	25,553	**142,546**
Watch	411	13,108	104	16,922	**30,545**
Substandard	(6)	9,944	103	6,032	**16,073**
Total	**51,056**	**84,136**	**5,465**	**48,507**	**189,164**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	610,620	146,752	-	286,823	**1,044,195**
Watch	617,944	23,536	-	8,804	**650,284**
Substandard	64,672	3,130	-	6,334	**74,136**
Total	**1,293,236**	**173,418**	**-**	**301,961**	**1,768,615**

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	36,488	52,798	6,167	15,794	**111,247**
Watch	552	15,738	97	17,883	**34,270**
Substandard	919	10,694	318	7,280	**19,211**
Total	**37,959**	**79,230**	**6,582**	**40,957**	**164,728**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	486,391	85,599	-	108,913	**680,903**
Watch	587,837	20,415	-	8,580	**616,832**
Substandard	43,633	6,074	-	5,669	**55,376**
Total	**1,117,861**	**112,088**	**-**	**123,162**	**1,353,111**

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	24,317	61,084	3,060	25,456	**113,917**
Watch	411	13,108	60	16,922	**30,501**
Substandard	(6)	9,944	-	6,032	**15,970**
Total	**24,722**	**84,136**	**3,120**	**48,410**	**160,388**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	787,157	146,752	215,734	286,823	**1,436,466**
Watch	604,120	23,536	-	8,804	**636,460**
Substandard	63,091	3,130	-	6,334	**72,555**
Total	**1,454,368**	**173,418**	**215,734**	**301,961**	**2,145,481**

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	9,884	52,798	2,896	15,636	**81,214**
Watch	551	15,738	69	17,883	**34,241**
Substandard	39	10,694	0	7,280	**18,013**
Total	**10,474**	**79,230**	**2,965**	**40,799**	**133,468**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	634,228	85,599	216,789	108,913	**1,045,529**
Watch	578,629	20,415	-	8,580	**607,624**
Substandard	43,633	6,074	-	5,669	**55,376**
Total	**1,256,490**	**112,088**	**216,789**	**123,162**	**1,708,529**

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.

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

For analysis of debt securities according to the credit quality see Notes 12 and 15.

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

FINANCIAL RISK MANAGEMENT (continued)

b) Loans and advances past due but not impaired. Past due but not impaired loans are loans for which principal or interest is past due but no allowance for impairment is recognized.

31 December 2013

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	5,102	6,170	263	7,676	**19,211**
Past due 30-60 days	96	1,881	44	1,034	**3,055**
Past due 60-90 days	36	932	-	560	**1,528**
Past due more than 90 days	98	2,578	7	2,301	**4,984**
Total	**5,332**	**11,561**	**314**	**11,571**	**28,778**
Fair value of collateral	1,223	11,294	-	7,795	20,312

	Group loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	94,510	2,547	8,171	**105,228**
Past due 30-60 days	8,356	407	-	**8,763**
Past due 60-90 days	29,437	253	-	**29,690**
Past due more than 90 days	153,565	18,488	96	**172,149**
Total	**285,868**	**21,695**	**8,267**	**315,830**
Fair value of collateral	260,995	21,260	69	282,324

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	2,864	7,218	602	4,323	**15,007**
Past due 30-60 days	125	1,554	7	280	**1,966**
Past due 60-90 days	30	283	13	178	**504**
Past due more than 90 days	19	1,827	14	279	**2,139**
Total	**3,038**	**10,882**	**636**	**5,060**	**19,616**
Fair value of collateral	-	19,385	-	7,549	26,934

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

FINANCIAL RISK MANAGEMENT (continued)

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	**107,275**	**1,311**	**275**	**108,861**
Fair value of collateral	178,388	7,193	707	186,288

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	2,883	6,170	56	7,676	**16,785**
Past due 30-60 days	62	1,881	-	1,034	**2,977**
Past due 60-90 days	14	932	-	560	**1,506**
Past due more than 90 days	98	2,578	-	2,301	**4,977**
Total	**3,057**	**11,561**	**56**	**11,571**	**26,245**
Fair value of collateral	1,223	11,294	-	7,795	20,312

	Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	94,510	2,547	8,171	**105,228**
Past due 30-60 days	8,356	407	-	**8,763**
Past due 60-90 days	29,437	253	-	**29,690**
Past due more than 90 days	153,565	18,488	96	**172,149**
Total	**285,868**	**21,695**	**8,267**	**315,830**
Fair value of collateral	260,995	21,260	69	282,324

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	982	7,218	75	4,323	**12,598**
Past due 30-60 days	51	1,554	-	280	**1,885**
Past due 60-90 days	-	283	-	178	**461**
Past due more than 90 days	9	1,827	-	279	**2,115**
Total	**1,042**	**10,882**	**75**	**5,060**	**17,059**
Fair value of collateral	-	19,385	-	7,549	26,934

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	**107,275**	**1,311**	**275**	**108,861**
Fair value of collateral	178,388	7,193	707	186,288

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 and the Bank as security is as follows:

31 December 2013

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**3,636**	**13,108**	**854**	**12,450**	**30,048**
Allowance for impairment	(1,988)	(7,563)	(527)	(10,593)	(20,671)
Fair value of collateral	835	7,311	-	1,688	9,834

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**-**	**185,918**	-	**185,918**
Allowance for impairment	-	(121,982)	-	(121,982)
Fair value of collateral	-	88,449	-	88,449

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**2,055**	**12,143**	**1,504**	**11,519**	**27,221**
Allowance for impairment	(1,174)	(6,965)	(1,132)	(7,900)	(17,171)
Fair value of collateral	-	7,460	-	1,482	8,942

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

FINANCIAL RISK MANAGEMENT (continued)

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**37,451**	**132,469**	-	**169,920**
Allowance for impairment	(18,016)	(76,412)	-	(94,428)
Fair value of collateral	19,025	73,517	-	92,542

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**2,373**	**13,108**	**267**	**12,450**	**28,198**
Allowance for impairment	(1,228)	(7,563)	(201)	(10,593)	(19,585)
Fair value of collateral	835	7,311	-	1,688	9,834

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**190,423**	-	-	190,423
Allowance for impairment	(123,318)	-	-	(123,318)
Fair value of collateral	92,576	-	-	92,576

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**1,509**	**12,143**	**388**	**11,519**	**25,559**
Allowance for impairment	(977)	(6,965)	(317)	(7,900)	(16,159)
Fair value of collateral	-	7,460	-	1,482	8,942

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**132,313**	**37,451**	-	**169,764**
Allowance for impairment	(76,256)	(18,016)	-	(94,272)
Fair value of collateral	73,517	19,025	-	**92,542**

During 2013 the Bank's estimated interest income on impaired loans amounted to LTL 2,116 thousand (2012: LTL 2,499 thousand).

Impairment loss by class of financial assets for loans has been disclosed in Note 13.

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

FINANCIAL RISK MANAGEMENT (continued)

d) Loans and advances renegotiated

Loans and advances that are not past due or impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2013 amounted to LTL 26 million (2012: LTL 33 million).

Renegotiated loans by the class of financial assets:

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	-	340	-	2,425	2,765

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	22,797	761	-	23,558

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	34	401	-	1,045	1,480

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	18,972	4,784	7,806	31,562

e) Information about loan collateral

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method. Fair values of the collateral are updated regularly in line with the Bank's procedures.

If loan is secured by several different types of collateral, priority in their recognition is based on their liquidity. Cash deposits are treated as having the highest liquidity followed by guarantees, residential real estate and then other real estate. Securities and other assets are treated as having the lowest liquidity.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured, as at 31 December 2013 amounted to LTL 267 million (2012: LTL 251 million). Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

For the purpose of calculation of impairment, fair values of the collateral are reduced by multiplying them with the certain ratio dependant on the type of collateral.

Following tables present the lower of loan and collateral amount per agreement.

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2013

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	51,407	8,861	6,633	21,267	88,168
Loans collateralised by:	**8,617**	**99,944**	**-**	**51,261**	**159,822**
- residential real estate	5	86,967	-	22,518	109,490
- other real estate	-	7,228	-	20,404	27,632
- securities	-	147	-	3,480	3,627
- guarantees	8,612	5,602	-	3,630	17,844
- cash deposits	-	-	-	631	631
- other assets	-	-	-	598	598
Total	**60,024**	**108,805**	**6,633**	**72,528**	**247,990**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	320,839	34,411	-	295,556	650,806
Loans collateralised by:	**1,444,183**	**160,702**	**-**	**14,672**	**1,619,557**
- residential real estate	81,034	1,530	-	1,419	83,983
- other real estate	963,491	136,896	-	10,286	1,110,673
- securities	51,222	10,741	-	-	61,963
- guarantees	212,793	2,562	-	2,193	217,548
- cash deposits	11,693	69	-	24	11,786
- other assets	123, 950	8,904	-	750	133,604
Total	**1,765,022**	**195,113**	**-**	**310,228**	**2,270,363**

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	43,041	8,238	8,722	18,638	**78,639**
Loans collateralised by:	**11**	**94,017**	**-**	**38,898**	**132,926**
- residential real estate	11	81,890	-	14,421	**96,322**
- other real estate	-	5,951	-	19,989	**25,940**
- securities	-	153	-	1,494	**1,647**
- guarantees	-	5,927	-	913	**6,840**
- cash deposits	-	96	-	1,198	**1,294**
- other assets	-	-	-	883	**883**
Total	**43,052**	**102,255**	**8,722**	**57,536**	**211,565**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	252,693	32,716	-	111,629	**397,038**
Loans collateralised by:	**1,104,911**	**118,134**	**-**	**11,809**	**1,234,854**
- residential real estate	71,004	930	-	1,016	**72,950**
- other real estate	747,232	79,073	-	8,227	**834,532**
- securities	40,158	4,798	-	-	**44,956**
- guarantees	150,159	2,378	-	2,443	**154,980**
- cash deposits	12,454	975	-	24	**13,453**
- other assets	83,904	29,980	-	99	**113,983**
Total	**1,357,604**	**150,850**	**-**	**123,438**	**1,631,892**

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	21,535	8,861	3,443	21,170	55,009
Loans collateralised by:	**8,617**	**99,944**	**-**	**51,261**	**159,822**
- residential real estate	5	86,967	-	22,518	109,490
- other real estate	-	7,228	-	20,404	27,632
- securities	-	147	-	3,480	3,627
- guarantees	8,612	5,602	-	3,630	17,844
- cash deposits	-	-	-	631	631
- other assets	-	-	-	598	598
Total	**30,152**	**108,805**	**3,443**	**72,431**	**214,831**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	498,781	34,411	215,734	295,556	1,044,482
Loans collateralised by:	**1,431,878**	**160,702**	**-**	**14,672**	**1,607,252**
- residential real estate	81,034	1,530	-	1,419	83,983
- other real estate	964,428	136,896	-	10,286	1,111,610
- securities	37,222	10,741	-	-	47,963
- guarantees	212,793	2,562	-	2,193	217,548
- cash deposits	11,693	69	-	24	11,786
- other assets	124,708	8,904	-	750	134,362
Total	**1,930,659**	**195,113**	**215,734**	**310,228**	**2,651,734**

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	13,014	8,238	3,428	18,480	**43,160**
Loans collateralised by:	**11**	**94,017**	**-**	**38,898**	**132,926**
- residential real estate	11	81,890	-	14,421	**96,322**
- other real estate	-	5,951	-	19,989	**25,940**
- securities	-	153	-	1,494	**1,647**
- guarantees	-	5,927	-	913	**6,840**
- cash deposits	-	96	-	1,198	**1,294**
- other assets	-	-	-	883	**883**
Total	**13,025**	**102,255**	**3,428**	**57,378**	**176,086**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	400,510	32,716	216,789	111,629	**761,644**
Loans collateralised by:	**1,095,567**	**118,134**	**-**	**11,809**	**1,225,510**
- residential real estate	71,004	930	-	1,016	**72,950**
- other real estate	751,181	79,073	-	8,227	**838,481**
- securities	26,158	4,798	-	-	**30,956**
- guarantees	150,159	2,378	-	2,443	**154,980**
- cash deposits	12,454	975	-	24	**13,453**
- other assets	84,611	29,980	-	99	**114,690**
Total	**1,496,077**	**150,850**	**216,789**	**123,438**	**1,987,154**

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

FINANCIAL RISK MANAGEMENT (continued)

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Business customers	265,121	87,632	176,195	-
Individuals	10,108	-	9,417	-
Subtract: Difference between acquisition value and gross value *	(66,853)	(66,853)	-	-
Gross	**208,376**	**20,779**	**185,612**	**-**
Subtract: Allowance for impairment	(3,283)	-	(1,749)	-
Net	**205,093**	**20,779**	**183,863**	**-**

* Difference between acquisition value and gross value is the difference between the acquisition value of the finance lease receivables acquired under the transaction transfer of assets, rights, transactions and liabilities of Ūkio Bankas (see General Information for more details on this transaction) and the gross value of the above-mentioned receivables.

	The Group					
	2013			2012		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	7,843	155,100	162,943	7,600	148,489	156,089
Past due but not impaired	1,320	32,829	34,149	725	24,646	25,371
Impaired	945	10,339	11,284	1,092	3,060	4,152
Gross	**10,108**	**198,268**	**208,376**	**9,417**	**176,195**	**185,612**
Less: allowance for impairment	(685)	(2,598)	(3,283)	(667)	(1,082)	(1,749)
Net	**9,423**	**195,670**	**205,093**	**8,750**	**175,113**	**183,863**

	The Bank					
	2013			2012		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	-	11,028	11,028	-	-	-
Past due but not impaired	-	9,751	9,751	-	-	-
Impaired	-	-	-	-	-	-
Gross	**-**	**20,779**	**20,779**	**-**	**-**	**-**
Less: allowance for impairment	-	-	-	-	-	-
Net	**-**	**20,779**	**20,779**	**-**	**-**	**-**

During the year ended 31 December 2013, finance lease receivables portfolio of the Group increased by 12.26% (2012: increased by 12.23%). Total impairment provision for finance lease receivables of the Group amount to LTL 3,283 thousand (2012: LTL 1,749 thousand) and it accounts for 1.58% of the respective portfolio (2012: 0.94%).

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

FINANCIAL RISK MANAGEMENT (continued)

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.

	The Group					
			2013			2012
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	6,921	71,360	78,281	7,430	42,153	49,583
Watch	84	72,172	72,256	6	70,562	70,568
Substandard	838	11,568	12,406	164	35,774	35,938
Total	**7,843**	**155,100**	**162,943**	**7,600**	**148,489**	**156,089**

	The Bank					
			2013			2012
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	-	-	-	-	-	-
Watch	-	8,246	8,246	-	-	-
Substandard	-	2,782	2,782	-	-	-
Total	**-**	**11,028**	**11,028**	**-**	**-**	**-**

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

b) Finance lease receivables past due but not impaired

	The Group					
			2013			2012
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	157	13,241	13,398	305	8,074	8,379
Past due 4-40 days	1,163	5,135	6,298	384	16,273	16,657
Past due 41-90 days	-	4,702	4,702	36	42	78
Past due more than 90 days	-	9,751	9,751	,	257	257
Total	**1,320**	**32,829**	**34,149**	**725**	**24,646**	**25,371**
Fair value of the collateral	780	19,124	19,904	307	14,067	14,374

	The Bank					
			2013			2012
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	-	-	-	-	-	-
Past due 4-40 days	-	-	-	-	-	-
Past due 41-90 days	-	-	-	-	-	-
Past due more than 90 days	-	9,751	9,751	-	-	-
Total	**-**	**9,751**	**9,751**	**-**	**-**	**-**
Fair value of the collateral	-	9,751	9,751	-	-	-

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

FINANCIAL RISK MANAGEMENT (continued)

c) Finance lease receivables individually impaired

	The Group		
	Individuals	**Business customers**	**Total**
31 December 2013			
Individually impaired	945	10,339	11,284
Fair value of collateral	25	2,568	2,593
31 December 2012			
Individually impaired	1,092	3,060	4,152
Fair value of collateral	25	906	931

	The Bank		
	Individuals	**Business customers**	**Total**
31 December 2013			
Individually impaired	-	-	-
Fair value of collateral	-	-	-
31 December 2012			
Individually impaired	-	-	-
Fair value of collateral	-	-	-

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.

Following tables present the lower of lease receivable and collateral amount per agreement.

	The Group					
	2013			**2012**		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	6,863	49,100	55,963	4,957	41,386	46,343
- real estate	1,670	108,087	109,757	1,587	89,615	91,202
- airplanes	-	-	-	-	7,623	7,623
- railway equipment	-	6,114	6,114			
- production equipment	9	11,512	11,521	34	12,540	12,574
- other equipment	1,247	4,927	6,174	554	18,344	18,898
- other assets	319	18,528	18,847	2,285	6,687	8,972
Total	**10,108**	**198,268**	**208,376**	**9,417**	**176,195**	**185,612**

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

FINANCIAL RISK MANAGEMENT (continued)

	The Bank					
			2013			**2012**
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	-	267	267	-	-	-
- real estate	-	20,450	20,450	-	-	-
- airplanes	-	-	-	-	-	-
- railway equipment	-	-	-	-	-	-
- production equipment	-	12	12	-	-	-
- other equipment	-	50	50	-	-	-
- other assets	-	-	-	-	-	-
Total	**-**	**20,779**	**20,779**	-	-	-

1.7. Other financial assets

		2013		**2012**
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Neither past due nor impaired	6,797	423	1,605	133
Past due but not impaired	-	-	-	-
Impaired	9,102	5,561	9,711	2,684
Gross	**15,899**	**5,984**	**11,316**	**2,817**
Less: allowance for impairment	(8,204)	(5,561)	(5,346)	(2,684)
Net	**7,695**	**423**	**5,970**	**133**

a) *Amounts receivable neither past due nor impaired*

		2013		**2012**
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Standard	6,797	423	1,605	133
Watch	-	-	-	-
Sub-standard	-	-	-	-
Total:	**6,797**	**423**	**1,605**	**133**

b) *Impaired amounts receivable*

100% provision for impairment is recognized for other assets that are impaired unless there are collaterals available. The amount of impaired other assets that were not provisioned against because of the impact of collateral is presented in the table below. Collateral mainly consists of real estate.

		2013		**2012**
	Group	**Bank**	**Group**	**Bank**
Impact of collateral on impaired other financial assets	898	-	4,365	-

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

FINANCIAL RISK MANAGEMENT (continued)

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

Industry sectors

The Group and the Bank established lending limits for loans granted to a particular industry, which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Board of the Bank: wholesale and retail –15% of the total loan portfolio, loans to individuals – 10%, manufacturing – 20%, construction – 10%, real estate and rent – 24% (Group – 28%), agriculture, hunting and forestry – 10%, transport, storage and communication – 5%, hotels and restaurants – 5%, health and social work – 5%. As at 31 December 2013 the Group and the Bank were compliant with the above limits.

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

Bank

	Financial interme-diation	Wholesale and retail	Manufac-turing	Real estate and rent	Construc-tion	Agriculture, hunting and forestry	Hotels and restaurants	Transport, storage and communica-tion	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	5,995	-	-	-	-	-	-	-	-	-	-	5,995
Loans and advances to customers:	**303,439**	**279,372**	**382,290**	**538,410**	**192,485**	**154,427**	**63,010**	**51,953**	**94,991**	**195,246**	**468,039**	**2,723,662**
Loans and advances to financial institutions	215,734	-	-	-	-	-	-	-	-	-	-	215,734
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	**195,246**	-	**195,246**
- Mortgages	-	-	-	-	-	-	-	-	-	101,242	-	101,242
- Consumer loans	-	-	-	-	-	-	-	-	-	28,924	-	28,924
- Credit cards	-	-	-	-	-	-	-	-	-	3,242	-	3,242
- Other	-	-	-	-	-	-	-	-	-	61,838	-	61,838
Loans to business customers:	**87,705**	**279,372**	**382,290**	**538,410**	**192,485**	**154,427**	**63,010**	**51,953**	**94,991**	-	**468,039**	**2,312,682**
- SME	79,938	275,927	306,187	532,966	176,363	153,729	63,010	48,934	10,396	-	159,891	1,807,341
- Large corporates	7,767	3,445	76,103	5,444	12,637	698	-	2,114	73,761	-	13,144	195,113
- Central and local authorities, administrative bodies and other	-	-	-	-	3,485	-	-	905	10,834	-	295,004	310,228
Finance lease receivables:	-	-	**9,569**	**10,621**	-	**50**	**539**	-	-	-	-	**20,779**
- Individuals	-	-	-	-	-	-	-	-	-	-	-	-
- Business customers	-	-	9,569	10,621	-	50	539	-	-	-	-	20,779
Trading assets:	**143,469**	**9,114**	**3,406**	-	-	-	-	**1,577**	-	-	**36,082**	**193,648**
- Debt securities	143,364	9,114	3,406	-	-	-	-	1,180	-	-	36,082	193,146
- Equity securities	105	-	-	-	-	-	-	397	-	-	-	502
Derivative financial instruments	-	2,382	4,248	2,953	3,217	2,863	610	903	197	2,407	1,228	21,008
Securities available for sale	**30,759**	**4,998**	**29,147**	-	-	-	-	**5,053**	**10,702**	-	**105,773**	**186,432**
- Equity securities	393	-	39	-	-	-	-	-	-	-	1,337	1,769
- Debt securities	30,366	4,998	29,108	-	-	-	-	5,053	10,702	-	104,436	184,663
Investment securities held-to-maturity												
-debt securities	96,299	6,906	33,406	-	-	-	-	31,837	7,363	-	1,125,022	1,300,833
Other financial assets	423	-	-	-	-	-	-	-	-	-	-	423
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	4,387	29,726	23,231	8,728	26,361	377	309	1,482	7	-	9,865	104,473
Letters of credit	3,512	603	2,924	-	-	-	-	-	-	-	-	7,039
Loan commitments and other credit related liabilities	15,917	40,919	53,689	26,273	32,020	12,926	1,461	5,956	2,393	6,913	54,380	252,847
At 31 December 2013	**604,200**	**374,020**	**541,910**	**586,985**	**254,083**	**170,643**	**65,929**	**98,761**	**115,653**	**204,566**	**1,800,389**	**4,817,139**
At 31 December 2012	**308,767**	**279,798**	**384,563**	**384,434**	**270,642**	**121,319**	**102,100**	**97,688**	**56,860**	**167,591**	**632,535**	**2,806,295**

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

FINANCIAL RISK MANAGEMENT (continued)

Group

	Financial interme-diation	Wholesale and retail	Manufac-turing	Real estate and rent	Construc-tion	Agricul-ture, hunting and forestry	Hotels and restau-rants	Transport, storage and communi-cation	Health and social work	Loans to indivi-duals	Other	Total
Loans and advances to banks	5,995	-	-	-	-	-	-	-	-	-	-	5,995
Loans and advances to customers:	**81,181**	**279,372**	**378,945**	**381,067**	**192,485**	**154,427**	**65,121**	**51,953**	**94,991**	**227,319**	**468,839**	**2,375,700**
Loans and advances to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	**227,319**	-	**227,319**
- Consumer loans	-	-	-	-	-	-	-	-	-	101,242	-	101,242
- Mortgages	-	-	-	-	-	-	-	-	-	58,036	-	58,036
- Credit cards	-	-	-	-	-	-	-	-	-	6,106	-	6,106
- Other	-	-	-	-	-	-	-	-	-	61,935	-	61,935
Loans to business customers:	**81,181**	**279,372**	**378,945**	**381,067**	**192,485**	**154,427**	**65,121**	**51,953**	**94,991**	**-**	**468,839**	**2,148,381**
- SME	73,414	275,927	302,842	375,623	176,363	153,729	65,121	48,934	10,396	-	160,691	**1,643,040**
- Large corporates	7,767	3,445	76,103	5,444	12,637	698	-	2,114	73,761	-	13,144	**195,113**
- Central and local authorities, administrative bodies and other	-	-	-	-	3,485	-	-	905	10,834	-	295,004	**310,228**
Finance lease receivables	**3,605**	**25,371**	**56,493**	**37,506**	**5,375**	**5,900**	**18,849**	**24,362**	**1,140**	**9,423**	**17,069**	**205,093**
- Individuals	-	-	-	-	-	-	-	-	-	9,423	-	9,423
- Business customers	3,605	25,371	56,493	37,506	5,375	5,900	18,849	24,362	1,140	-	17,069	195,670
Trading assets:	**20,469**	**9,114**	**3,406**	**-**	**-**	**-**	**-**	**1,577**	**-**	**-**	**36,082**	**70,648**
- Debt securities	20,364	9,114	3,406	-	-	-	-	1,180	-	-	36,082	70,146
- Equity securities	105	-	-	-	-	-	-	397	-	-	-	502
Derivative financial instruments	19	2,789	4,425	2,980	3,294	2,944	637	1,136	207	2,407	1,509	22,347
Securities available for sale	**30,759**	**4,998**	**30,020**	**-**	**-**	**-**	**-**	**5,139**	**11,392**	**-**	**105,895**	**188,203**
- Equity securities	393	-	912	-	-	-	-	86	690	-	1,459	3,540
- Debt securities	30,366	4,998	29,108	-	-	-	-	5,053	10,702	-	104,436	184,663
Investment securities held-to-maturity												
- Debt securities	96,299	6,906	33,406	8,542	-	-	-	31,837	7,363	-	1,125,022	1,309,375
Other assets	507	-	1,478	4,125	-	-	-	177	-	10	1,398	7,695
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	4,387	29,726	23,186	7,728	26,361	377	309	1,482	7	-	10,110	103,673
Letters of credit	3,512	603	2,924	-	-	-	-	-	-	-	-	7,039
Loan commitments and other credit related liabilities	11,590	40,919	53,792	19,336	32,020	12,926	1,461	5,956	2,393	8,207	54,602	243,202
At 31 December 2013	**258,323**	**399,798**	**588,075**	**461,284**	**259,535**	**176,574**	**86,377**	**123,619**	**117,493**	**247,366**	**1,820,526**	**4,538,970**
At 31 December 2012	**79,029**	**304,624**	**413,869**	**281,804**	**277,846**	**128,097**	**122,153**	**121,199**	**59,680**	**212,277**	**676,922**	**2,677,498**

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 management of the currency exchange risk is regulated by the "Currency Exchange Risk Management Procedures" which specify the principles allowing the Group to reduce the incurred foreign currency fluctuation risk to minimum. The Group is not engaged in any speculative transactions through which it could expect to earn profit from the open currency positions after changes in currency rate. The Board of the Bank approves and reviews on regular basis the maximum limits set to the open currency positions at the level of the Bank's subsidiary companies and the Bank. The established limits are below the limits allowed by the Bank of Lithuania. The Treasury Department of the Bank bears responsibility for the Group's compliance with the Currency Exchange Risk Management Procedures.

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. Long position means that Bank's assets exceed liabilities in given currency, whereas short position means that liabilities exceed assets. The Bank also calculates Overall net open position (ONOP), which is the higher of the total short or total long positions. As at 31 December 2013 the Group's ONOP to capital ratio was 2.06% (2012: 1.02%), the Bank's ONOP to capital ratio was 2.04% (2012: 1.02%).

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

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 maximum fluctuations of currency exchange rate in 2013 and prognosis that exchange rate fluctuations will have the same trends in 2014. The Group does not evaluate FX risk on open EUR position as LTL is pegged to EUR at a fixed rate (see Basis of preparation).

Currency	Annual reasonable shift, 2014	Annual reasonable shift, 2013
CHF	2%	1%
GBP	4%	4.5%
NOK	8%	3.5%
USD	4%	6%
Other currencies	6%	4.5%

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

	At 31 December 2013	At 31 December 2012
Group / Bank	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
USD	80	26
GBP	1	3
CHF	1	-
NOK	95	48
Other currencies	272	74
Total	**449**	**151**

The impact of presumable FX rate change on the Group's / Bank's profit for the year is at acceptable level. It equals to LTL 449 thousand in 2013 (2012: LTL 151 thousand).

The Bank's and Group's exposure to foreign currency exchange rate risk is summarised in Note 31. The Note reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and imposes limits to all positions.

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

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 and the Group's assets and liabilities.

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

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

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

Sensitivity of interest rate risk

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

Group	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
31 December 2013							
Total interest rate sensitive assets	484,601	645,017	939,613	207,404	1,609,447	788,802	4,674,884
Total interest rate sensitive liabilities	633,238	675,767	837,096	1,393,232	320,092	999,838	4,859,263
Net interest sensitivity gap at 31 December 2013	(148,637)	(30,750)	102,517	(1,185,828)	1,289,355	(211,036)	(184,379)
31 December 2012							
Total interest rate sensitive assets	380,747	543,467	798,257	98,937	617,568	254,237	2,693,213
Total interest rate sensitive liabilities	340,077	427,380	517,669	622,362	67,145	618,082	2,592,715
Net interest sensitivity gap at 31 December 2012	40,670	116,087	280,588	(523,425)	550,423	(363,845)	100,498

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

The table below summarises the effect on the Group's profit and other comprehensive income of interest rate risk as at 31 December 2013 and 31 December 2012.

	31 December 2013		**31 December 2012**	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	(7,687)	(10,921)	(444)	(12,842)
Interest rate decrease by 1p.p.	7,687	10,921	444	12,842

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

FINANCIAL RISK MANAGEMENT (continued)

The shift of yield curve according to above mentioned parameters creates significant impact on Group's total comprehensive income and makes LTL 7,681 thousand in 2013 (2012: LTL 444 thousand) higher/lower impact on profit and LTL 10,921 thousand in 2013 (2012: LTL 12,842 thousand) higher/lower impact on other comprehensive income.

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

Bank	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
31 December 2013							
Total interest rate sensitive assets	511,293	746,580	925,030	339,219	1,644,069	767,588	4,933,779
Total interest rate sensitive liabilities	633,238	675,772	837,096	1,394,540	320,092	1,036,281	4,897,019
Net interest sensitivity gap at 31 December 2013	(121,945)	70,808	87,934	(1,055,321)	1,323,977	(268,693)	36,760
31 December 2012							
Total interest rate sensitive assets	419,951	529,989	798,003	199,256	631,388	243,601	2,822,188
Total interest rate sensitive liabilities	340,238	427,380	517,669	622,367	67,145	616,919	2,591,718
Net interest sensitivity gap at 31 December 2012	79,713	102,609	280,334	(423,111)	564,243	(373,318)	230,470

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

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk, except for effects on derivative financial instruments, as at 31 December 2013 and 31 December 2012.

	31 December 2013		**31 December 2012**	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	(6,349)	(10,921)	67	(12,842)
Interest rate decrease by 1p.p.	6,349	10,921	(67)	12,842

The shift of yield curve according to above mentioned parameters creates significant impact on Bank's total comprehensive income and makes LTL 6,349 thousand in 2013 (2012: LTL 67 thousand) higher/lower impact on profit and LTL 10,921 thousand in 2013 (2012: LTL 12,842 thousand) higher/lower impact on other comprehensive income.

For the analysis of assets and liabilities by the contractual reprising or maturity dates, see Note 32.

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 one hand, in the event of liquidity problems, the demand for total funds is rather small in terms of banking system; therefore, they are solved easily. On the other hand, in the event of liquidity problems the Bank's ability to borrow from the market may decrease significantly. Due to that fact the Bank possesses a significant Debt Securities Portfolio, which is highly liquid.

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

The Group controls short-term and long-term liquidity risk through established ratios and limits. The required liquidity limit set by Bank of Lithuania is 30 per cent. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2013 the Group's ratio was 54.07 (2012: 41.56) and the Bank's 53.94 (2012: 42.78), the Group uses the ratio of *mobile* assets to the total assets. According to the documentation of the liquidity risk management of the Bank, *the mobile* assets used in calculation of the above ratio represents funds held at banks and financial institutions with maturity of less than three months, cash, placements with Central Bank and liquid securities. As at 31 December 2013 the above Group's ratio was 37.84 per cent (2012: 24.41 per cent), and the Bank's – 38.44 per cent (2012: 24.51 per cent). It is targeted that this recommended ratio would be 16 per cent or more.

To follow the solvency status the Group and the Bank monitors availability of *mobile* funds needed to cover *mobile* liabilities with a maturity of less than 30 days. Based on the Group's liquidity management policy this ratio (i.e. *mobile* funds / *mobile* liabilities of less than 30 days) should not be lower than 100 per cent. As at 31 December 2013 the above ratio on the Group's and the Bank's level was 314.82 (2012: 225.01 per cent) per cent and 309.54 (2012: 224.47 per cent) per cent respectively. The Group and the Bank aim that the share of *mobile* liabilities with a maturity of less than 30 in the total liabilities would not exceed 23 per cent. As at 31 December 2013 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 12.80 per cent (2012: 12.15 per cent), on the Bank's level – 13.23 per cent (2012: 12.25 per cent).

The Group and the Bank also monitors liquidity gap ratios. From the year 2012, the lowest recommended gap ratio in the Bank should not be less than -35 per cent. Recommended limit of ratio is not imposed for the Group. As at 31 December 2013 the Group's and the Bank's ratio was -37.48 per cent (2012: -43.24 per cent) and -30.64 per cent (2012: -33.38 per cent) respectively.

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

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 interest till the end of the contract.

Group

31 December 2013 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	13,588	8,346	83,348	136,521	26,365	268,168
Due to customers	-	1,387,088	576,201	2,240,932	355,187	17,801	4,577,209
Financial liabilities at fair value	-	-	1,089	3,289	83,135	-	87,513
Special and lending funds	-	7,354	-	-	-	-	7,354
Total liabilities (contractual maturity dates)	**-**	**1,408,030**	**585,636**	**2,327,569**	**574,843**	**44,166**	**4,940,244**

Group

31 December 2012 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	17,664	39,557	118,033	202,695	39,633	417,582
Due to customers	-	744,508	314,932	1,036,123	79,336	7,999	2,182,898
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	**-**	**772,803**	**369,897**	**1,155,361**	**285,276**	**47,632**	**2,630,969**

Bank

31 December 2013 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	49,247	8,351	84,656	136,521	26,365	305,140
Due to customers	-	1,387,872	576,201	2,240,932	355,187	17,801	4,577,993
Financial liabilities at fair value	-	-	1,089	3,289	83,135	-	87,513
Special and lending funds	-	7,354	-	-	-	-	7,354
Total liabilities (contractual maturity dates)	**-**	**1,444,473**	**585,641**	**2,328,877**	**574,843**	**44,166**	**4,978,000**

Bank

31 December 2012 Liabilities	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Due to banks	-	19,957	39,557	118,038	202,695	39,633	419,880
Due to customers	-	744,669	314,932	1,036,123	79,336	7,999	2,183,059
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	**-**	**775,257**	**369,897**	**1,155,366**	**285,276**	**47,632**	**2,633,428**

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

FINANCIAL RISK MANAGEMENT (continued)

3.3. Remaining contractual maturity off - balance sheet items

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

Group At 31 December 2013	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
Loan commitments	232,354	-	-	-	-	-	232,354
Finance lease commitments	332	-	-	-	-	-	332
Guarantees	103,673	-	-	-	-	-	103,673
Operating lease commitments	269	489	609	1,029	4,724	10	7,130
Other commitments	16,826	6,085	5,733	4,310	430	199	33,583
Total	353,454	6,574	6,342	5,339	5,154	209	377,072

Group At 31 December 2012	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
Loan commitments	112,094	-	-	-	-	-	112,094
Finance lease commitments	434	-	-	-	-	-	434
Guarantees	88,313	-	-	-	-	-	88,313
Operating lease commitments	154	307	454	883	3,028	39	4,865
Other commitments	2,299	416	57	4,295	169	18	7,254
Total	203,294	723	511	5,178	3,197	57	212,960

Bank At 31 December 2013	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1to 5 years	Over 5 years	Total
Loan commitments	242,331	-	-	-	-	-	242,331
Guarantees	104,473	-	-	-	-	-	104,473
Operating lease commitments	337	625	811	1,432	6,548	10	9,763
Other commitments	12,993	3,506	166	4,185	-	-	20,850
Total	360,134	4,131	977	5,617	6,548	10	377,417

Bank At 31 December 2012	Up to one month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1to 5 years	Over 5 years	Total
Loan commitments	114,011	-	-	-	-	-	114,011
Guarantees	88,360	-	-	-	-	-	88,360
Operating lease commitments	214	426	633	1,242	5,196	39	7,750
Other commitments	2,121	204	-	3,541	-	-	5,866
Total	204,706	630	633	4,783	5,196	39	215,987

For additional information on assets and liabilities used for liquidity management purposes see note 30 Liquidity risk.

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

FINANCIAL RISK MANAGEMENT (continued)

4. Fair value of financial assets and liabilities

4.1. Financial assets and liabilities not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank’s and Group’s balance sheets at their fair value. The valuation methods for the assets and liabilities are summarized below.

a) Loans and advances to banks

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

The fair value of fixed interest bearing deposits is estimated using valuation technique attributable to Level 3 in the fair value hierarchy, based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

b) Loans and advances to customers and finance lease receivables

Loans and advances and finance lease receivables are net of charges for impairment. The fair value of loans and advances to customers and finance lease receivables is estimated using valuation technique attributable to Level 3 in the fair value hierarchy. The estimated fair value of loans, advances and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates (average interest rates on outstanding loans published by the Bank of Lithuania) to determine fair value.

c) Investment securities

The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations – i.e. it is estimated using valuation technique attributable to Level 1 in the fair value hierarchy. The estimated fair value of unlisted securities is estimated using valuation technique attributable to Level 3 in the fair value hierarchy, it represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Listed securities priced on market quotations represent over 99% of the investment securities held-to-maturity portfolio of the Group.

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

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

The fair value of fixed interest-bearing deposits and special and lending funds not quoted in an active market is estimated using valuation technique attributable to Level 3 in the fair value hierarchy based on discounted cash flows using interest rates for new debts with similar remaining maturity. Interest rates for new deposits of Šiaulių bankas are used for calculation purposes as discount rates.

e) Debt securities in issue

No debt securities in issue were outstanding on 31 December 2013. The estimated fair value of debt securities in issue was considered to be similar to the carrying value as the yield on these securities was similar to the market yield on 31 December 2012.

f) Other financial assets and other financial liabilities

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

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

FINANCIAL RISK MANAGEMENT (continued)

Bank

	As of 31 December 2013		As of 31 December 2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Loans	**2,723,662**	**2,733,365**	**2,052,809**	**2,058,711**
Loans to individuals:	**195,246**	**195,173**	**159,927**	**154,500**
- Consumer loans	28,924	30,166	12,048	12,905
- Mortgages	101,242	100,213	95,290	84,657
- Credit cards	3,242	3,312	3,111	3,368
- Other	61,838	61,482	49,478	53,570
Loans to business customers	**2,312,682**	**2,323,081**	**1,676,093**	**1,689,016**
- Central and other authorities	310,228	310,312	123,437	120,324
- Large corporates	195,113	196,896	132,834	143,212
- SME	1,807,341	1,815,873	1,419,822	1,425,480
Loans and advances to financial institutions	**215,734**	**215,111**	**216,789**	**215,195**
Finance lease receivables	**20,779**	**20,779**	**-**	**-**
Investment securities held-to-maturity	**1,300,833**	**1,331,076**	**273,031**	**290,558**
- Local government bonds	995,595	1,023,310	209,340	222,285
- Foreign government bonds	45,019	47,657	31,172	33,911
- Foreign corporate bonds	260,219	260,109	32,519	34,362
Other financial assets	**423**	**423**	**133**	**133**
Liabilities				
Due to other banks and financial institutions	**301,206**	**304,429**	**408,568**	**419,479**
Due to customers	**4,530,021**	**4,535,578**	**2,165,852**	**2,169,529**
Due to individuals	3,865,315	3,870,527	1,617,097	1,620,420
Due to private companies	482,702	482,993	375,641	375,861
Other	182,004	182,058	173,114	173,248
Debt securities in issue	**-**	**-**	**22,912**	**23,610**
Special and lending funds	**7,354**	**7,354**	**7,294**	**8,051**

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

FINANCIAL RISK MANAGEMENT (continued)

Group

	As of 31 December 2013		As of 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans	**2,375,700**	**2,386,628**	**1,731,858**	**1,736,384**
Loans to individuals:	**227,319**	**227,057**	**194,394**	**185,440**
- Consumer loans	58,036	59,065	41,878	39,007
- Mortgages	101,242	100,213	95,290	84,657
- Credit cards	6,106	6,193	7,590	8,103
- Other	61,935	61,586	49,636	53,673
Loans to business customers	**2,148,381**	**2,159,571**	**1,537,464**	**1,550,944**
- Central and other authorities	310,228	310,312	123,437	120,324
- Large corporates	195,113	196,896	132,834	143,212
- SME	1,643,040	1,652,363	1,281,193	1,287,408
Loans and advances to financial institutions	**-**	**-**	**-**	**-**
Finance lease receivables	**205,093**	**186,052**	**183,863**	**159,480**
Investment securities held-to-maturity	**1,309,375**	**1,339,696**	**273,031**	**290,558**
- Local government bonds	995,595	1,023,310	209,340	222,285
- Local corporate bonds	8,542	8,620	-	-
- Foreign government bonds	45,019	47,657	31,172	33,911
- Foreign corporate bonds	260,219	260,109	32,519	34,362
Other financial assets	**7,695**	**7,695**	**5,970**	**5,868**
Liabilities				
Due to other banks and financial institutions	**264,234**	**267,463**	**406,270**	**417,181**
Due to customers	**4,529,237**	**4,534,794**	**2,165,691**	**2,169,368**
Due to individuals	3,865,315	3,870,527	1,617,097	1,620,420
Due to private companies	481,918	482,209	375,480	375,700
Due to other enterprises	182,004	182,058	173,114	173,248
Debt securities in issue	**-**	**-**	**22,912**	**23,610**
Special and lending funds	**7,354**	**7,354**	**7,294**	**8,051**

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

FINANCIAL RISK MANAGEMENT (continued)

4.2. Financial assets and liabilities measured at fair value

a) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, NASDAQ OMX Vilnius Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange) or public price quotations (for example, for Lithuanian government bonds denominated in Litas, average price quotations for these securities from the most active banks that participate in the primary placement auctions of the Lithuanian Government securities are used).

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group does not have financial assets measured at fair value calculated based on Level 2 inputs.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes Group's investments into unlisted equity securities. Fair value for financial assets measured at fair value according to level 3 principles is established based on expected discounted net future cash flows from activities of these companies. Discount rate is based on the cost of financing used for investments in these companies.

b) Measurement of financial assets and liabilities according to the fair value hierarchy

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
LEVEL I				
Financial assets at fair value through profit or loss				
Listed equity securities	397	397	357	357
Units of investment funds	105	105	97	97
Government bonds	18,884	18,884	20,600	20,600
Corporate bonds	51,262	51,262	30,141	30,141
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	31,574	31,574	21,293	21,293
Bonds of foreign countries governments	30,332	30,332	-	-
Bonds of foreign countries corporates	122,757	122,757	147,311	147,311
Investment fund units	378	378	353	353
TOTAL LEVEL I	**255,689**	**255,689**	**220,152**	**220,152**
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	-	-	3	3
Derivative financial instruments	22,347	21,008	13,690	13,690
Available for sale financial assets				
Unlisted equity securities	3,162	1,391	3,617	1,391
Total Level III assets	**25,509**	**22,399**	**17,310**	**15,084**
Financial liabilities at fair value through profit or loss				
Subordinated loans	68,855	68,855	-	-
Total Level III liabilities	**68,855**	**68,855**	**-**	**-**

There were no transfers between fair value hierarchy levels during 2013 and 2012.

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

FINANCIAL RISK MANAGEMENT (continued)

The following table presents the changes in Level III instruments during 2013 and 2012:

The Group	**Unlisted equities at fair value through profit or loss**		**Unlisted equities available for sale**		**Derivatives**		**Financial liabilities at fair value through profit or loss**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Value as of 1 Jan	3	6	3,617	4,940	13,690	-	-	-
Additions	-	-	217	132	13,671	9,505	68,319	-
Disposals	(3)	(3)	(90)	-	-	-	-	-
Revaluations through profit or loss	-	-	(582)	(1,455)	(5,014)	4,185	536	-
Value as of 31 Dec	**-**	**3**	**3,162**	**3,617**	**22,347**	**13,690**	**68,855**	**-**

The Bank	**Unlisted equities at fair value through profit or loss**		**Unlisted equities available for sale**		**Derivatives**		**Financial liabilities at fair value through profit or loss**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Value as of 1 Jan	3	6	1,391	1,391	13,690	-	-	-
Additions	-	-	-	-	11,800	9,505	68,319	-
Disposals	(3)	(3)	-	-	-	-	-	-
Revaluations through profit or loss	-	-	-	-	(4,482)	4,185	536	-
Value as of 31 Dec	**-**	**3**	**1,391**	**1,391**	**21,008**	**13,690**	**68,855**	**-**

	2013		**2012**	
	Group	**Bank**	**Group**	**Bank**
Total result from revaluation of Level III instruments included in the income statement	(5,060)	(3,946)	2,730	4,185

Details on the main models used in valuation of Level III instruments:

Derivatives (see also Note 11): The Bank uses Black-Sholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR and VILIBOR rates as well as EURIBOR forward curves), while forward curves for VILIBOR are derived from EURIBOR forward curves with an adjustment of historical spread between EURIBOR and VILIBOR. The historical spread between EURIBOR and VILIBOR used in calculations ranges from 0.4 to 0.75 p.p.

The shift of yield curve up by 1p.p. would cause decrease in value of derivative financial instruments by LTL 10,474 thousand for the Group and LTL 9,897 thousand for the Bank (2012: LTL 6,875 thousand for the Group and the Bank), the decrease would be accounted in profit (loss). The shift of yield curve down by 1 p.p. would cause increase in value of derivative financial instruments by LTL 14,727 thousand for the Group and LTL 13,977 thousand for the Bank (2012: LTL 11,341 thousand for the Group/Bank), the increase would be accounted in profit (loss).

The valuation is performed monthly by the employees of the Group, the data for some of the inputs such as forward curves is obtained directly from the publicly available sources (Bloomberg), data for some inputs such as forward curves for VILIBOR calculated from the data obtained from publicly available sources (Bloomberg).

Financial liabilities at fair value through profit or loss (see also Note 33): The financial liability at fair value through profit or loss was priced using Black-Scholes model at initial recognition, and fair valued using this model at each balance sheet date. Various inputs to the model were used such as risk-free rate (historical average 6 month VILIBOR), current market price and historical volatility for the 2-year period of the market price of shares of the Bank, projected book value per share at the date of expected maturity (in book value per share projections, data of budgeted activity results and planned capital increases were used). Sensitivity of the valuation model to changes in various inputs is presented in the table below:

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

FINANCIAL RISK MANAGEMENT (continued)

Underlying factor	Change in factor	Impact on fair value of the liability
Risk-free rate	Increase by 50 bps	Increase by LTL 314 thousand
	Decrease by 50 bps	Decrease by LTL 302 thousand
Current price of shares	Increase by 10%	Increase by LTL 2,185 thousand
	Decrease by 10%	Decrease by LTL 1,775 thousand
Projected BV* per share	Increase by 10%	Decrease by LTL 1,631 thousand
	Decrease by 10%	Increase by LTL 2,453 thousand

**book value*

The valuation is performed quarterly by the employees of the Group. The data for the inputs such as risk-free rate, market price is obtained from the publicly available sources (Bank of Lithuania, NASDAQ OMX Vilnius), data for some inputs such as market volatility calculated from the data obtained from publicly available sources (NASDAQ OMX Vilnius), and data of some inputs used to calculate projected book value per share is obtained from publicly unavailable internal documents of the Group.

Unlisted equity securities. Most commonly used fair value measures in the Group are: valuations from external independent certified appraisers or assessment of discounted cash flows from the security carried out by employees of the Group. The principles for the assessment of fair value of unlisted equity securities are stipulated in the Procedure of Investment in Securities.

4.3. Offsetting financial assets and financial liabilities

As of 31 December 2013, the Bank had no offsettable assets or liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements. As of 31 December 2012, investment securities held-to-maturity with a carrying amount of LTL 30,450 thousand were pledged for a liability with a carrying value of LTL 30,179 thousand under repurchase agreement.

4.4. Classes of financial instruments

A table below provides reconciliation of items of financial assets and liabilities as presented in Statement of Financial Position to classes of financial instruments:

	31 December 2013		31 December 2012	
	Group	**Bank**	**Group**	**Bank**
FINANCIAL ASSETS				
Financial assets mandatorily measured at fair value through profit or loss:				
Trading securities	70,648	193,648	51,198	51,198
Derivative financial instruments	22,347	21,008	13,690	13,690
Financial assets measured at fair value through other comprehensive income:				
Investment securities available-for-sale	188,203	186,432	207,611	205,385
Financial assets measured at amortized cost:				
Cash and cash equivalents	481,002	480,999	221,855	221,805
Due from other banks	5,995	5,995	4,137	4,137
Loans to customers	2,375,700	2,723,662	1,731,858	2,052,809
Finance lease receivables	205,093	20,779	183,863	-
Investment securities held-to-maturity	1,309,375	1,300,833	273,031	273,031
Other financial assets	7,695	423	5,970	133
Total financial assets	**4,666,058**	**4,933,779**	**2,693,213**	**2,822,188**
FINANCIAL LIABILITIES				
Financial liabilities at fair value through profit and loss, designated as such upon initial recognition:				
Liabilities at fair value through profit or loss	68,855	68,855	-	-
Financial liabilities measured at amortised cost:				
Due to banks and financial institutions	264,234	301,206	406,270	408,568
Due to customers	4,529,237	4,530,021	2,165,691	2,165,852
Debt securities in issue	-	-	22,912	22,912
Special and lending funds	7,354	7,354	7,294	7,294
Other financial liabilities	2,470	-	3,456	-
Total financial liabilities	**4,872,150**	**4,907,436**	**2,605,623**	**2,604,626**

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

FINANCIAL RISK MANAGEMENT (continued)

5. Operational risk

The Bank's operational risk management objectives include as follows: proper identification and assessment of operational risk; implementation of effective internal controls, prevention of major events and losses; proper organisation and maintenance of internal control environment by regular reviews of internal control methods and learning lessons from past experience; concentration of financial and time resources to identification of key sources of operational risk and to its management across all lines of activities of the Bank; ensuring the enforcement of the compliance legislation.

In view of operational risk management system, the Bank's activities can be grouped into the following categories: credit facilities, other financial services to customers, cash and other valuables, property, plant and equipment, categories not related to the provision of financial services to customers, and information security.

The following sources of operational risk can be distinguished at the Bank:
1. Information systems (failures of hardware, software, telecommunication systems, etc.).
2. Human factor effect.
3. Working conditions (violation of safe work conditions, etc.).
4. Natural forces.

The Bank accumulates information about operational risk events. For this purpose the Bank has established a system with the description of its operation included in the Procedure for Registration of Operational Risk Events approved by the Bank's Board. Depending on the type and extent of activities, following types of operational risk events are distinguished: internal fraud; external fraud; labour relations and workplace safety; customers, products and business practice; property damage; business process disorders and system errors; execution, delivery and process management.

Organisation and monitoring of internal control environment form an integral part of the Bank's operational risk management process. The Bank's internal control is a continuous process in day-to-day activities at the Bank, during which the Bank's personnel aim to ensure: effective operation of the Bank; prevention of the Bank from potential losses as a result of operational risk events; reliable, relevant and timely financial and other information used internally or for regulatory purpose, or by third parties; the Bank's compliance with the laws, regulatory legislation of the Bank of Lithuania and other legal acts, the Bank's strategy and internal policy.

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.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation, the Group also performs stress tests which are a part of Internal Capital Adequacy Assessment Process (ICAAP). 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 deterioration. Stress testing for all of the risks is performed once a year in accordance with the requirements set by the Bank of Lithuania.

7. Capital management

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

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

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

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

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

FINANCIAL RISK MANAGEMENT (continued)

Additional capital requirement for the risks that are identified as material in the process of self-assessment, is estimated on a regular basis using stress tests and internal capital adequacy assessment.

The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the share capital, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, loss of the current year, other reserves and statutory reserve less the intangible assets and negative revaluation reserve of financial assets;
2) Tier 2 capital consists of 85 per cent of revaluation reserves of financial assets if they are positive and additional Tier 2 capital comprised of subordinated loans with a certain term to maturity that are compliant with the regulations of the Bank of Lithuania regarding subordinated loans.

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 institutions exceeding 10 per cent of capital of those institutions.

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.

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.

		2013		**2012**
	Group	**Bank**	**Group**	**Bank**
Tier 1 capital				
Ordinary shares	250,000	250,000	234,858	234,858
Share premium	32,719	32,719	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	18,680	24,517	8,179	12,171
Current year loss	-	-	-	-
Other reserves (statutory reserve)	3,243	2,641	1,891	1,289
Negative financial assets revaluation reserve	(1,990)	(1,990)	-	-
Less: Intangible assets	(1,178)	(887)	(1,207)	(903)
Total Tier 1 capital	**304,085**	**309,611**	**294,193**	**297,887**
Tier 2 capital				
85 % of positive financial assets revaluation reserve	-	-	4,415	4,415
Subordinated loan capital	69,056	69,056	-	-
Total Tier 2 capital	**69,056**	**69,056**	**4,415**	**4,415**
Less Investments in other credit or financial institutions	-	(2,729)	-	(2,505)
Total capital	**373,141**	**375,938**	**298,608**	**299,797**
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	245,294	230,616	166,071	166,817
Debt financial instruments	4,126	9,306	2,335	2,335
Equity securities	80	80	73	73
Foreign exchange positions	615	615	8,558	8,563
Operational risk under the Basic Indicator Approach	17,822	13,605	11,885	9,453
Other capital requirements (large positions in the trading book)	-	9,542	-	-
Total capital requirements	**267,937**	**263,764**	**188,921**	**187,241**
Capital adequacy (solvency) ratio, %	**11.14**	**11.40**	**12.64**	**12.81**

During the years ended 31 December 2013 and 31 December 2012, the Group and the Bank complied with prudential requirements stipulated by the central bank to which it is subject.

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

CRITICAL ACCOUNTING ESTIMATES

Impairment losses on loan and finance lease receivables. The Bank and the Group review their loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income , the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and finance lease before the decrease can be identified with an individual loan or lease receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on loans and receivables in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience. Taking into account the information mentioned above, the management considers that certain entities (operating in Retail, Business advisory and management, Real estate and Production of electrical equipment industries) have increased credit risk because of uncertainties related to their activities. Some of these loans are impaired, while the others do not yet have the loss event occurred. In any case, the net exposure remaining in the balance sheet (after impairment recognised, if any is applicable, also taking into account the undiscounted value of real estate collateral pledged as well as fair value of financial assets that the entities possess) of the Bank amount to LTL 15 million (and LTL 21 million for the Group). For some of these exposures, management has calculated and allocated internally additional capital. Having applied the critical judgements described above, also having evaluated uncertainties related to the entities' activities, management of the Bank and the Group expects to recover the net exposures listed above. However, in the light that future may develop unfavourably, for the loans that are already impaired additional impairment might be needed, as well as for loans not impaired as of 31 December 2013 loss events might occur, which again might require additional impairment losses.

Impairment losses on investments in subsidiaries. The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank establishes recoverable amount of investments in subsidiary companies based on discounted future estimated net cash flows to be earned by a subsidiary. Future net cash flows to be earned by investment management and real estate development subsidiaries are based on estimated inflow from sales of financial and other assets held by these subsidiaries less estimated cash outflow related to management and development costs. Future net cash flows from subsidiary involved in leasing operations are estimated based on future expected interest income to be earned on lease portfolio less cash outflows related to financing activities and administration costs. Discount rates are based on current cost of capital used for investments in these subsidiaries. The Group’s management applies judgement in estimating cash flows and discount rates used in impairment testing.

Inventories. Net realizable value of apartments held for sale and property for development is based either on current estimated sales price of an asset or on expected discounted future cash flows from future development and realization of an asset based on the Group’s management plans with respect to a certain asset. Inputs in estimating sales price and future cash flows from development of an asset are based on current market prices. The Group’s management applies judgement in estimating cash flows and discount rates used in impairment testing.

Impairment losses on receivables. The Group test receivables for impairment when loss events (delays in payments or significant financial difficulties or a debtor) are identified. Recoverable amount of receivables is established individually based on discounted expected future payments to be received. The management applies judgement in estimating timing, amounts and probabilities of future cash flows to be received from debtors.

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

Fair value of derivatives and liabilities at fair value through profit or loss. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses its judgement to select valuation methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The sensitivity of the value of above-mentioned financial instruments to changes in underlying factors is presented in Financial Risk Management section 4.2. “Financial assets and liabilities measured at fair value”.

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

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

The deferred tax assets recognised at 31 December 2013 have been based on future profitability assumptions of the Bank over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

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

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

SEGMENT INFORMATION

A summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2013 and in the Statement of comprehensive income for the year then ended is presented in the table below. Indicators of subsidiaries held for sale (see Note 20 for details) are included in the column "Eliminations" as these subsidiaries were classified as held for sale at initial recognition and did not contribute to results of any segment.

	Šiauliai region	**Vilnius region**	**Klaipėda region**	**Head-quarters, including Kaunas**	**Leasing**	**Invest-ment mana-gement**	**Real estate develop-ment and other**	**Elimi-nations**	**Total Group**
Continuing operations									
Internal	5,033	8,308	(273)	5,866	(5,901)	(84)	(3,594)	(9,355)	-
External	6,549	3,533	7,781	46,242	15,440	166	2,992	-	82,703
Net interest income	11,582	11,841	7,508	52,108	9,539	82	(602)	(9,355)	82,703
Internal	5,274	8,311	(273)	6,098	(6,126)	83	(3,269)	(10,098)	-
External	12,070	9,598	12,213	46,308	14,068	172	2,993	-	97,422
Net interest, fee and commissions income	**17,344**	**17,909**	**11,940**	**52,406**	**7,942**	**255**	**(276)**	**(10,098)**	**97,422**
Internal	-	-	-	(1,609)	(148)	(16)	(44)	1,817	-
External	(5,861)	(5,866)	(5,764)	(42,251)	(3,621)	(492)	(43,414)	-	(107,269)
Operating expenses	**(5,861)**	**(5,866)**	**(5,764)**	**(43,860)**	**(3,769)**	**(508)**	**(43,458)**	**1,817**	**(107,269)**
Amortisation charges	-	(2)	(1)	(311)	(16)	-	(6)	-	(336)
Depreciation charges	(272)	(331)	(389)	(2,758)	(724)	(14)	(764)	-	(5,252)
Internal	(1,492)	-	-	(3,582)	-	(2,820)	2,820	5,074	-
External	(31,883)	(4,653)	(1,916)	(5,032)	(2,643)	(628)	(3,771)	-	(50,526)
Impairment expenses	**(33,375)**	**(4,653)**	**(1,916)**	**(8,614)**	**(2,643)**	**(3,448)**	**(951)**	**5,074**	**(50,526)**
Internal	-	-	-	2,701	-	33	316	(3,050)	-
External	3,779	2,935	1,421	16,138	(236)	144	45,597	-	69,778
Net other income	**3,779**	**2,935**	**1,421**	**18,839**	**(236)**	**177**	**45,913**	**(3,050)**	**69,778**
Profit (loss) from continuing operations before tax	**(18,385)**	**9,992**	**5,291**	**15,702**	**554**	**(3,538)**	**458**	**(6,257)**	**3,817**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	17,217	17,217
Income tax	-	-	-	(1,873)	(399)	-	(245)	-	(2,517)
Profit (loss) per segment after tax	**(18,385)**	**9,992**	**5,291**	**13,829**	**155**	**(3,538)**	**213**	**10,960**	**18,517**
Non-controlling interest	-	-	-	-	-	-	93	-	93
Profit (loss) for the year attributable to the owners of the Bank	(18,385)	9,992	5,291	13,829	155	(3,538)	120	10,960	18,424
Total segment assets	1,045,262	1,290,844	780,258	2,134,464	223,771	22,888	215,167	(378,720)	5,333,934
Total segment liabilities	1,063,647	1,280,852	774,967	1,810,137	221,064	20,548	168,163	(329,631)	5,009,747
Net segment assets (shareholders' equity)	(18,385)	9,992	5,291	324,327	2,707	2,340	47,004	(49,089)	324,187

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

SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2012 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head-quarters, including Kaunas	Leasing	Invest-ment manage-ment	Real estate develop-ment and other	Elimina-tions	Total Group
Continuing operations									
Internal	526	14,050	4,462	(6,399)	(6,000)	(818)	(5,171)	(650)	-
External	19,546	2,467	6,958	13,820	12,708	311	1,689	-	57,499
Net interest income	20,072	16,517	11,420	7,421	6,708	(507)	(3,482)	(650)	57,499
Internal	42	14,028	4,410	(5,677)	(6,142)	(818)	(5,191)	(652)	-
External	24,709	5,974	9,968	10,649	12,222	385	1,692	-	65,599
Net interest, fee and commissions income	**24,751**	**20,002**	**14,378**	**4,972**	**6,080**	**(433)**	**(3,499)**	**(652)**	**65,599**
Internal	(6,672)	(5,141)	(5,821)	16,887	(180)	(14)	(33)	974	-
External	(4,884)	(4,262)	(4,256)	(22,105)	(3,225)	(1,345)	(27,821)	-	(67,898)
Operating expenses	**(11,556)**	**(9,403)**	**(10,077)**	**(5,218)**	**(3,405)**	**(1,359)**	**(27,854)**	**974**	**(67,898)**
Amortisation charges	-	(2)	(3)	(277)	(8)	-	(5)	-	(295)
Depreciation charges	(274)	(199)	(322)	(2,172)	(894)	(14)	(745)	-	(4,620)
Internal	-	-	-	(455)	-	-	-	455	-
External	(26,793)	503	1,069	(2,516)	(80)	(1,454)	(1,131)	-	(30,402)
Impairment expenses	**(26,793)**	**503**	**1,069**	**(2,971)**	**(80)**	**(1,454)**	**(1,131)**	**455**	**(30,402)**
Internal	(24)	(7)	5	1,270	(1)	34	67	(1,344)	-
External	1,774	1,194	956	15,554	1,153	815	31,321	-	52,767
Net other income	**1,750**	**1,187**	**961**	**16,824**	**1,152**	**849**	**31,388**	**(1,344)**	**52,767**
Profit (loss) before tax	(12,122)	12,088	6,006	11,158	2,845	(2,411)	(1,846)	(567)	15,151
Income tax	-	-	-	(2,258)	(419)	-	654	-	(2,023)
Profit (loss) per segment after tax	**(12,122)**	**12,088**	**6,006**	**8,900**	**2,426**	**(2,411)**	**(1,293)**	**(567)**	**13,128**
Non-controlling interest	-	-	-	-	-	-	101	-	101
Profit (loss) for the year attributable to the owners of the Bank	(12,122)	12,088	6,006	8,900	2,426	(2,411)	(1,293)	(567)	13,028
Total segment assets	**788,223**	**728,196**	**499,949**	**915,098**	**230,008**	**18,527**	**188,692**	**(425,990)**	**2,942,703**
Total segment liabilities	**800,345**	**716,108**	**493,943**	**602,214**	**225,056**	**15,649**	**149,131**	**(374,199)**	**2,628,247**
Net segment assets (shareholders' equity)	**(12,122)**	**12,088**	**6,006**	**312,884**	**4,952**	**2,878**	**39,561**	**(51,791)**	**314,456**

Distribution of the Group's assets and revenue according to geographical segmentation

All Bank's and Group's non-current assets other than financial instruments are located in Lithuania. No material revenue is earned by the Group in foreign countries.

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

NOTE 1 NET INTEREST INCOME

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,866	8,532	1,928	8,585
on loans to customers	121,262	117,298	97,631	98,049
on debt securities	42,930	49,295	17,407	17,407
- held to maturity	*34,229*	*34,031*	*11,687*	*11,687*
- available for sale	*6,965*	*6,965*	*4,757*	*4,757*
- at fair value through profit or loss	*1,736*	*8,299*	*963*	*963*
on finance leases	11,139	2,540	9,145	-
Total interest income	**177,197**	**177,665**	**126,111**	**124,041**
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(10,446)	(10,572)	(13,548)	(13,547)
on customer deposits and other repayable funds	(65,330)	(65,336)	(44,310)	(44,310)
compulsory insurance of deposits	(18,596)	(18,596)	(9,133)	(9,133)
on debt securities issued	(122)	(122)	(1,621)	(1,621)
on finance leases	-	-	-	-
Total interest expense	**(94,494)**	**(94,626)**	**(68,612)**	**(68,611)**
Net interest income	**82,703**	**83,039**	**57,499**	**55,430**

NOTE 2 NET FEE AND COMMISSION INCOME

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Fee and commission income:				
for money transfer operations	15,453	15,658	10,360	10,466
for payment card services	2,947	2,947	2,254	2,254
for base currency exchange	3,338	3,343	1,983	1,990
for operations with securities	338	532	148	148
other fee and commission income	4,298	4,337	1,800	1,759
Total fee and commission income	**26,374**	**26,817**	**16,545**	**16,617**
Fee and commission expense:				
for payment card services	(7,244)	(7,244)	(6,026)	(6,026)
for money transfer operations	(2,863)	(2,863)	(1,860)	(1,838)
for operations with securities	(143)	(143)	(77)	(77)
for base currency exchange	(5)	(5)	(2)	(2)
other fee and commission expenses	(1,400)	(2)	(480)	(1)
Total fee and commission expense	**(11,655)**	**(10,257)**	**(8,445)**	**(7,944)**
Net fee and commission income	**14,719**	**16,560**	**8,100**	**8,673**

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

NOTE 3 NET GAIN (LOSS) FROM OPERATIONS WITH SECURITIES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Securities held for trading				
Realised gain (loss) on trading equity securities	(70)	(70)	43	43
Unrealised gain on trading equity securities	83	83	41	41
Realised gain on trading debt securities	6,410	6,410	3,481	3,481
Unrealised gain (loss) on trading debt securities	(2,923)	(2,923)	351	351
Realised (loss) on trading options	-	-	(172)	(172)
Net gain on trading securities	**3,500**	**3,500**	**3,744**	**3,744**
Realised gain on debt securities held to maturity	-	-	1,000	-
Realised gain on available-for-sale debt securities	3,117	3,117	5,765	5,765
Dividend and other income from equity securities held for trading	17	17	17	17
Dividend and other income from available-for-sale equity securities	50	50	82	80
Total	**6,684**	**6,684**	**10,608**	**9,606**

NOTE 4 OTHER OPERATING EXPENSES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Salaries, social security and other related expenses	43,800	37,537	29,440	23,630
Raw materials and consumables used	9,187	-	11,967	-
Construction works related to apartments sold	26,595	-	7,740	-
Rent of premises	4,852	4,665	2,417	2,430
Maintenance of premises	3,663	3,580	2,600	2,209
Office equipment maintenance	2,383	2,324	1,189	1,132
Depreciation of fixed tangible assets	5,251	3,750	4,620	2,967
Amortisation of intangible assets	336	314	295	282
Transportation, post and communications expenses	2,983	3,030	2,059	2,081
Real estate tax and other taxes	3,456	514	2,882	294
Advertising and marketing expenses	999	729	1,055	791
Training and business trip expenses	221	164	172	122
Charity	148	134	196	192
Service organisation expenses	3,260	3,930	1,007	908
Legal costs incurred due to debt recovery	653	604	464	345
Other operating expenses	5,070	4,140	4,710	2,120
Total	**112,857**	**65,415**	**72,813**	**39,503**

NOTE 5 GAIN FROM DISPOSAL OF ASSETS

In 2013 gain on disposal of real estate assets at the Group amounted to LTL 293 thousand (Bank LTL 41 thousand). In 2012 gain on disposal of real estate assets at the Group amounted to LTL 1,999 thousand (Bank LTL 57 thousand).

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

NOTE 6 OTHER OPERATING INCOME

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Revenue from sale of goods	10,501	-	14,747	-
Revenue from sale of apartments	32,097	-	12,517	-
Gain from derecognition of financial assets *	12,172	12,172	-	-
Income from rent of investment property	2,876	1,072	1,984	271
Income from rent of other assets	816	726	538	417
Other income	1,605	612	1,234	321
Total	**60,067**	**14,582**	**31,020**	**1,009**

* Gain from derecognition of financial assets is based on the difference between carrying value of the loans acquired under the transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas (see General Information for more details on this transaction) and the sale price of the above-mentioned loans. It is charged to profit or loss by these principles:

- for the good credit quality (performing) loans, interest income is amortized to profit or loss using the effective interest rate of the loan, and in case the loan is derecognized (i.e. repaid or refinanced), the difference is charged to profit or loss;
- for the bad credit quality (non-performing) loans, impairment is recognised, and afterwards the difference is charged to profit or loss in case the loan is derecognized (i.e. repaid or refinanced).

NOTE 7 IMPAIRMENT LOSSES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Impairment losses on loans:				
Impairment charge for the year	67,189	68,005	47,284	47,069
Reversal of impairment charge for the year	(26,213)	(26,178)	(19,085)	(18,710)
Recoveries of loans previously written off	(505)	(207)	(955)	(715)
Total impairment losses on loans	40,471	41,620	27,244	27,644
Impairment losses on finance lease receivables:				
Impairment charge for the year	2,369	-	794	-
Reversal of impairment charge for the year	(496)	-	(555)	
Recovered previously written-off finance lease receivables	(179)	-	(288)	-
Total impairment losses (reversals) on finance lease	1,694	-	(49)	-
Impairment losses on other assets:				
Investments in subsidiaries: impairment charge	-	3,582	-	1,455
Investments in subsidiaries: reversal of impairment charge	-	-	-	(1,000)
Claims: impairment charge	2,953	2,891	1,289	93
Claims: reversal of impairment charge	(39)	(14)	-	-
Available for sale securities and other assets: impairment charge	5,447	479	2,304	-
Available for sale securities and other assets: reversal of impairment charge	-	-	(386)	
Total impairment losses on other assets	8,361	6,938	3,207	548
Total	50,526	48,558	30,402	28,192

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

NOTE 8 INCOME TAX

	2013		2012	
	Group	Bank	Group	Bank
Current tax	1,376	-	1,058	-
Deferred taxes	1,141	1,873	953	2,258
Adjustments of previous year income tax	-	-	12	-
Total	2,517	1,873	2,023	2,258

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:

	2013		2012	
	Group	Bank	Group	Bank
Profit before income tax	3,817	12,600	15,151	17,130
Tax calculated at a tax rate of 15%	573	1,890	2,273	2,570
Income not subject to tax	(1,127)	(800)	(1,990)	(486)
Expenses not deductible for tax purposes	1,911	783	1,949	174
Adjustment of previous year income tax	-	-	12	-
(Utilisation of) tax losses for which no deferred tax asset was recognized	86	-	(221)	-
Taxable income from discontinued operations	1,074	-	-	-
Income tax charge	**2,517**	**1,873**	**2,023**	**2,258**

Deferred tax assets

	Group						Bank				
	Re-valuation of financial instru-ments and other assets	Accruals	Tax losses carried forward	Re-valuation of assets held for sale	Revaluation of investment property	Total	Re-valuation of financial instru-ments	Accruals	Tax losses carried forward	Re-valuation of investment property	Total
At 31 December 2011	(457)	(238)	(8,856)	-	-	(9,551)	(483)	(238)	(8,652)	-	(9,373)
To be credited/(charged) to net profit	951	(35)	65	-	(45)	936	1,033	(35)	1,243	-	2,241
To be credited/ (charged) to equity	461	-	-	-	-	461	461	-	-	-	461
At 31 December 2012	955	(273)	(8,791)	-	(45)	(8,154)	1,011	(273)	(7,409)	-	(6,671)
To be credited/(charged) to net profit	(395)	(225)	2,820	(72)	-	2,128	(395)	(222)	2,731	(72)	2,042
To be credited/ (charged) to equity	(362)	-	-	-	-	(362)	(362)	-	-	-	(362)
At 31 December 2013	198	(498)	(5,971)	(72)	(45)	(6,388)	254	(495)	(4,678)	(72)	(4,991)

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

NOTE 8 INCOME TAX (CONTINUED)

Deferred tax liabilities	**Group**			**Bank**		
	Revaluation of securities	**Fixed assets**	**Total**	**Revaluation of securities**	**Fixed assets**	**Total**
At 31 December 2011	-	459	459	-	420	420
To be credited/(charged) to net profit	13	4	17	13	4	17
Acquired in business combination (note 16)	-	5,668	5,668	-	-	-
To be credited/ (charged) to equity	681	-	681	681	-	681
At 31 December 2012	694	6,131	6,825	694	424	1,118
To be credited/(charged) to net profit	(13)	(974)	(987)	(13)	(156)	(169)
To be credited/ (charged) to equity	(681)	-	(681)	(681)	-	(681)
At 31 December 2013	-	5,157	5,157	-	268	268

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

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

	2013		**2012**	
	Group	**Bank**	**Group**	**Bank**
Deferred tax assets	(6,388)	(4,991)	(8,154)	(6,671)
Deferred tax liabilities	5,157	268	6,825	1,118
Net deferred tax (asset)	(1,231)	(4,723)	(1,329)	(5,553)

NOTE 9 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period.

As of 31 December 2013, the Group had dilutive potential ordinary shares that were related to a subordinated loan obtained from a shareholder (see Note 33 Related-Party Transactions). Diluted earnings per share were calculated by dividing the net profit for the period adjusted by eliminating interest expense related to the above-mentioned loan by the total of weighted average number of ordinary shares in issue during the period and weighted average number of dilutive potential ordinary shares during the period.

As of 31 December 2012, the Group had dilutive potential ordinary shares that were related to convertible loan, obtained from a shareholder (see Note 33 Related-Party Transactions). The management believes that there was no dilution effect as a part of loan was returned in 2013 and a new loan agreement signed. Therefore, diluted earnings per share were the same as basic earnings per share in 2012.

The number of shares in issue for the year ended 31 December 2013 was 250,000 thousand (2012: 234,857 thousand). Weighted average number of shares in issue for the year ended 31 December 2013 was 243,777 thousand (150 days – 234,857 thousand shares, 215 days – 250,000 thousand shares), for the year ended 31 December 2012 – 234,857 thousand.

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

NOTE 9 EARNINGS PER SHARE (CONTINUED)

Basic earnings per share

Group	2013	2012
Net profit from continuing operations attributable to equity holders	1,207	13,027
Net profit from discontinued operations attributable to equity holders	17,217	-
Net profit attributable to equity holders	**18,424**	**13,027**
Weighted average number of shares in issue during the period (thousand units)	243,777	234,857
Basic earnings per share (LTL)	0.08	0.06
Basic earnings per share (LTL) from continuing operations	0.01	0.06
Basic earnings per share (LTL) from discontinued operations	0.07	-

Diluted earnings per share

Group	2013	2012
Net profit from continuing operations attributable to equity holders	1,207	13,027
Adjustments to net profit from continuing operations related to potential dilutive shares	3,192	-
Adjusted net profit from continuing operations attributable to equity holders	4,399	13,027
Net profit from discontinued operations attributable to equity holders	17,217	-
Net profit (loss) attributable to equity holders	**21,616**	**13,027**
Weighted average number of shares in issue during the period (thousand units)	243,777	234,857
Weighted average number of potential dilutive shares in issue during the period (thousand units)	59,029	-
Total	**302,806**	**234,857**
Diluted earnings per share (LTL)	0.07	0.06
Diluted earnings per share (LTL) from continuing operations	0.01	0.06
Diluted earnings per share (LTL) from discontinued operations	0.06	-

NOTE 10 CASH AND CASH EQUIVALENTS

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	59,986	59,983	47,107	47,106
Balances in bank deposit accounts	32,765	32,765	5,000	5,000
Balances in bank correspondent accounts	50,008	50,008	21,647	21,598
Placements with Central Bank:				
Deposits in Central Bank	-	-	-	-
Correspondent account with Central Bank	215,380	215,380	62,471	62,471
Mandatory reserves in national currency	122,863	122,863	85,630	85,630
Total placements with Central Bank	338,243	338,243	148,101	148,101
Total	**481,002**	**480,999**	**221,855**	**221,805**

The compulsory reserves held in the Bank of Lithuania are estimated on a monthly basis based on the value of indicated liabilities using the established compulsory reserve rate. With effect from 24 January 2013, the compulsory reserve rate has been reduced from 4% to 3%. The mandatory reserves are held with the Bank of Lithuania in the form of current deposits. The Bank is free to use the funds held in the current account with the Bank of Lithuania, the average monthly amount of which may be not less than the estimated compulsory reserves.

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

NOTE 10 CASH AND CASH EQUIVALENTS (CONTINUED)

Breakdown of balances in bank correspondent and deposit accounts by credit rating is presented in the table below:

Rating	**2013**		**2012**	
	Group	**Bank**	**Group**	**Bank**
From AA- to AA+	171	171	3,412	3,412
From A- to A+	69,516	69,516	15,936	15,887
From BBB- to BBB+	3,085	3,085	2,298	2,298
Lower than BBB-	1	1	1	1
No rating	10,000	10,000	5,000	5,000
Total	**82,773**	**82,773**	**26,647**	**26,598**

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS

The Group granted certain loans to customers with variable interest rate, however, the floor for interest rate was also set in the agreements. The floor presents a put option issued by the client and thus is treated as a derivate embedded in the host contract (loan granted). Accounting standards mandate that if at the moment of granting the loan the floor interest rate is above the contractual variable interest rate, then the embedded derivative is not closely related with host contract and thus should be separated and accounted for separately.

Upon initial separation of the derivative, the related amount is credited to the loan balance and becomes part of the effective interest rate of the loan, whereas the embedded derivative is fair valued at each balance sheet date. The Bank uses Black-Sholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR and VILIBOR rates as well as EURIBOR forward curves), while forward curves for VILIBOR are derived from EURIBOR forward curves with an adjustment of historical spread between EURIBOR and VILIBOR.

Details of the derivatives are presented below:

	2013		**2012**	
	Group	**Bank**	**Group**	**Bank**
Initial recognition				
Value of the embedded derivative	13,671	11,800	9,505	9,505
Credit to loans granted	(13,671)	(11,800)	(9,505)	(9,505)
Subsequent measurement				
Increase (decrease) in the fair value of the derivative (gain (loss) in profit or loss)	(5,014)	(4,482)	4,185	4,185
Fair value of the derivative as of 1 January	**13,690**	**13,690**	**-**	**-**
Additions	13,671	11,800	9,505	9,505
Revaluations through profit or loss	(5,014)	(4,482)	4,185	4,185
Fair value of the derivative as of 31 December	**22,347**	**21,008**	**13,690**	**13,690**

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

NOTE 12 TRADING SECURITIES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Debt securities:				
Government bonds	18,884	18,884	20,600	20,600
Corporate bonds	44,405	167,405	23,569	23,569
State controlled entities' bonds	6,857	6,857	6,572	6,572
Total debt securities	**70,146**	**193,146**	**50,741**	**50,741**
Equity securities:				
Listed	397	397	357	357
Unlisted	-	-	3	3
Units of investment funds	105	105	97	97
Total equity securities	**502**	**502**	**457**	**457**
Total	**70,648**	**193,648**	**51,198**	**51,198**
Breakdown of debt securities by their maturity:				
Short-term (up to 1 year)	999	123,999	14,938	14,938
Long-term (over 1 year)	69,147	69,147	35,803	35,803
Total	**70,146**	**193,146**	**50,741**	**50,741**

Trading securities have not been pledged as at 31 December 2013 and 2012.

Except of unlisted equity securities and unrated debt securities all of the trading securities are accounted at fair value that is determined using level 1 requirements as described in fair value hierarchy in Section 4.2 of Financial Risk Management, i.e. fair value is based on quoted prices in active markets for identical assets and liabilities. Unlisted equity securities and unrated debt securities are accounted at fair value that is determined using level 3 requirements.

Breakdown of the Group's trading securities as at 31 December 2013 and 2012:

Rating	**Government debt securities**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
AAA	7,344	-	10,069	-	-	-	-	-
From AA- to AA+	-	-	9,121	3,437	-	-	-	-
From A- to A+	-	-	5,677	17,951	-	-	-	-
From BBB- to BBB+	11,540	20,600	22,963	8,753	-	-	-	-
From BB- to BB+	-	-	3,432	-	-	-	-	-
Lower than BB-	-	-	-	-	-	38	-	-
No rating	-	-	-	-	397	322	105	97
Total	18,884	20,600	51,262	30,141	397	360	105	97

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

NOTE 12 TRADING SECURITIES (CONTINUED)

Breakdown of the Bank‘s trading securities as at 31 December 2013 and 2012:

Rating	Government debt securities		Corporate debt securities		Corporate equity securities		Investment fund units	
	2013	2012	2013	2012	2013	2012	2013	2012
AAA	7,344	-	10,069	-	-	-	-	-
From AA- to AA+	-	-	9,121	3,437	-	-	-	-
From A- to A+	-	-	5,677	17,951	-	-	-	-
From BBB- to BBB+	11,540	20,600	22,963	8,753	-	-	-	-
From BB- to BB+	-	-	3,432	-	-	-	-	-
Lower than BB-	-	-	-	-	-	38	-	-
No rating	-	-	123,000	-	397	322	105	97
Total	18,884	20,600	174,262	30,141	397	360	105	97

NOTE 13 LOANS TO CUSTOMERS

	2013		2012	
	Group	Bank	Group	Bank
Gross loans to customers	2,518,353	2,866,565	1,843,457	2,163,240
Allowance for loan impairment	(142,653)	(142,903)	(111,599)	(110,431)
NET LOANS TO CUSTOMERS	2,375,700	2,723,662	1,731,858	2,052,809
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	842,373	1,120,729	520,324	798,240
Long-term (over 1 year)	1,533,327	1,602,933	1,216,427	1,259,462
Total	2,375,700	2,723,662	1,731,858	2,052,809

	Group	Bank
Allowance for loan impairment as at 31 December 2011	**90,583**	**88,536**
Allowance for impairment of loans written off during the year as uncollectible	(7,113)	(6,394)
Currency translation differences and other adjustments	(70)	(70)
Increase in allowance for loan impairment (Note 7)	28,199	28,359
Allowance for loan impairment as at 31 December 2012	**111,599**	**110,431**
Allowance for impairment of loans written off during the year as uncollectible	(9,652)	(9,085)
Currency translation differences and other adjustments	(270)	(270)
Increase in allowance for loan impairment (Note 7)	40,976	41,827
Allowance for loan impairment as at 31 December 2013	**142,653**	**142,903**

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

31 December 2013

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 December 2012	**1,174**	**6,965**	**1,132**	**7,900**	**17,171**
Change in allowance for loan impairment	1,442	727	(505)	2,913	4,577
Loans written off during the year	(628)	(129)	(100)	(220)	(1,077)
As at 31 December 2013	**1,988**	**7,563**	**527**	**10,593**	**20,671**

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
As at 31 December 2012	**18,016**	**76,412**	**-**	**94,428**
Change in allowance for loan impairment	(17,746)	54,145	-	36,399
Loans written off during the year	-	(8,575)	-	(8,575)
Influence of FX rate shift	(270)	-	-	(270)
As at 31 December 2013	**-**	**121,982**	**-**	**121,982**

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
As at 31 December 2011	**1,898**	**7,322**	**2,353**	**3,723**	**15,296**
Change in allowance for loan impairment	1,451	(357)	(1,221)	4,177	4,050
Loans written off during the year	(2,175)	-	-	-	(2,175)
As at 31 December 2012	**1,174**	**6,965**	**1,132**	**7,900**	**17,171**

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
As at 31 December 2011	**-**	**75,287**	**-**	**75,287**
Change in allowance for loan impairment	18,016	6,133	-	24,149
Loans written off during the year	-	(4,938)	-	(4,938)
Influence of FX rate shift	-	(70)	-	(70)
As at 31 December 2012	**18,016**	**76,412**	**-**	**94,428**

31 December 2013

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
As at 31 Dec 2012	**977**	**6,965**	**317**	**7,900**	**16,159**
Change in allowance for loan impairment	312	727	(16)	2,913	3,936
Loans written off during the year	(61)	(129)	(100)	(220)	(510)
As at 31 Dec 2013	**1,228**	**7,563**	**201**	**10,593**	**19,585**

	Bank loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
As at 31 Dec 2012	**18,016**	**76,256**	**-**	**94,272**
Change in allowance for loan impairment	(17,746)	55,637	-	37,891
Loans written off during the year	-	(8,575)	-	(8,575)
Exchange rate impact	(270)	-	-	(270)
As at 31 Dec 2013	**-**	**123,318**	**-**	**123,318**

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2011	**1,889**	**7,322**	**725**	**3,723**	**13,659**
Change in allowance for loan impairment	544	(357)	(408)	4,177	3,956
Loans written off during the year	(1,456)	-	-	-	(1,456)
As at 31 Dec 2012	**977**	**6,965**	**317**	**7,900**	**16,159**

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2011	**-**	**74,877**	**-**	**74,877**
Change in allowance for loan impairment	18,016	6,387	-	24,403
Loans written off during the year	-	(4,938)	-	(4,938)
Exchange rate impact	-	(70)	-	(70)
As at 31 Dec 2012	**18,016**	**76,256**	**-**	**94,272**

NOTE 14 FINANCE LEASE RECEIVABLES

The Group	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2012	45,552	123,594	38,719	207,865
Change during 2013	16,452	14,890	6,445	37,787
Balance at 31 December 2013	62,004	138,484	45,164	245,652
Unearned finance income on finance leases:				
Balance at 31 December 2012	(6,646)	(12,715)	(2,892)	(22,253)
Change during 2013	(2,722)	(8,064)	(4,237)	(15,023)
Balance at 31 December 2013	(9,368)	(20,779)	(7,129)	(37,276)
Net investments in leasing before provisions:				
At 31 December 2012	38,906	110,879	35,827	185,612
At 31 December 2013	52,636	117,705	38,035	208,376
Changes in provisions:				
Balance at 31 December 2011	-	(1,640)	-	(1,640)
Additional provisions charged	-	(239)	-	(239)
Provisions for finance lease debts written off	-	130	-	130
Balance at 31 December 2012	-	(1,749)	-	(1,749)
Additional provisions charged	-	(1,873)	-	(1,873)
Provisions for finance lease debts written off	-	339	-	339
Balance at 31 December 2013	-	(3,283)	-	(3,283)
Net investments in leasing after provisions:				
At 31 December 2012	38,906	109,130	35,827	183,863
At 31 December 2013	52,636	114,422	38,035	205,093

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

NOTE 14 FINANCE LEASE RECEIVABLES (CONTINUED)

The Bank

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2012	-	-	-	-
Change during 2013	13,179	14,336	10,801	38,316
Balance at 31 December 2013	13,179	14,336	10,801	38,316
Unearned finance income on finance leases:				
Balance at 31 December 2012	-	-	-	-
Change during 2013	(2,758)	(9,586)	(5,193)	(17,537)
Balance at 31 December 2013	(2,758)	(9,586)	(5,193)	(17,537)
Net investments in leasing before provisions:				
At 31 December 2012	-	-	-	-
At 31 December 2013	10,421	4,750	5,608	20,779
Changes in provisions:				
Balance at 31 December 2012	-	-	-	-
Additional provisions charged	-	-	-	-
Provisions for finance lease debts written off	-	-	-	-
Balance at 31 December 2013	-	-	-	-
Net investments in leasing after provisions:				
At 31 December 2012	-	-	-	-
At 31 December 2013	10,421	4,750	5,608	20,779

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

Group			**2013**			**2012**
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
As at 1 January	667	1,082	1,749	543	1,097	1,640
Change in allowance for finance lease impairment	285	1,588	1,873	127	112	239
Amounts written off during the year	(267)	(72)	(339)	(3)	(127)	(130)
As at 31 December	685	2,598	3,283	667	1,082	1,749

As of 31 December 2013 and 2012, there were no provisions for impairment of finance lease receivables of the Bank.

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

NOTE 15 INVESTMENT SECURITIES

	2013 Group	2013 Bank	2012 Group	2012 Bank
Securities available for sale:				
Equity securities:				
Unlisted equity securities	3,162	1,391	3,617	1,391
Investment fund units	378	378	353	353
TOTAL	3,540	1,769	3,970	1,744
Debt securities:				
Local government bonds	31,574	31,574	21,293	21,293
Treasury debt securities of foreign countries	30,332	30,332	35,037	35,037
Foreign countries corporate debt securities	122,757	122,757	147,311	147,311
Total	184,663	184,663	203,641	203,641
Total securities available for sale	188,203	186,432	207,611	205,385
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	-	-	-	-
Long-term (over 1 year)	188,203	186,432	207,611	205,385
Total	188,203	186,432	207,611	205,385

Breakdown of the Bank‘s securities available for sale as at 31 December 2013 and 2012:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
AAA	18,787	13,353	6,874	-	-	-	-	-
From AA- to AA+	3,408	-	20,445	10,381	-	-	-	-
From A- to A+	-	9,504	49,703	44,202	-	-	-	-
From BBB- to BBB+	36,070	29,981	41,958	92,728	-	-	-	-
From BB- to BB+	1,875	1,829	3,777	-	-	-	-	-
Lower than BB-	1,766	1,663	-	-	-	-	-	-
No rating	-	-	-	-	1,391	1,391	378	353
Total	61,906	56,330	122,757	147,311	1,391	1,391	378	353

Breakdown of the Group‘s securities available for sale as at 31 December 2013 and 2012:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
AAA	18,787	13,353	6,874	-	-	-	-	-
From AA- to AA+	3,408	-	20,445	10,381	-	-	-	-
From A- to A+	-	9,504	49,703	44,202	-	-	-	-
From BBB- to BBB+	36,070	29,981	41,958	92,728	-	-	-	-
From BB- to BB+	1,875	1,829	3,777	-	-	-	-	-
Lower than BB-	1,766	1,663	-	-	-	-	-	-
No rating	-	-	-	-	3,162	3,617	378	353
Total	61,906	56,330	122,757	147,311	3,162	3,617	378	353

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

Group/Bank	Financial assets revaluation reserve	Deferred income tax asset (liabilities)	Financial assets revaluation reserve
31 December 2011	**(1,643)**	**461**	**(1,182)**
Revaluation	6,244	-	6,244
Sale or redemption	1,830	-	1,830
Amortisation of revaluation related to held-to-maturity investments	(556)	-	(556)
Deferred income tax	-	(1,142)	(1,142)
31 December 2012	**5,875**	**(681)**	**5,194**
Revaluation	(5,422)	-	(5,422)
Sale or redemption	(2,626)	-	(2,626)
Amortisation of revaluation related to held-to-maturity investments	(179)	-	(179)
Deferred income tax	-	1,043	1,043
31 December 2013	**(2,352)**	**362**	**(1,990)**

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Held-to-maturity securities:				
Local government bonds	995,595	995,595	209,340	209,340
Local corporate bonds	8,542	-	-	-
Foreign government bonds	45,019	45,019	31,172	31,172
Foreign corporate bonds	260,219	260,219	32,519	32,519
Total held-to-maturity securities	**1,309,375**	**1,300,833**	**273,031**	**273,031**
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	-	-	90,679	90,679
Long-term (over 1 year)	1,309,375	1,300,833	182,352	182,352
Total	**1,309,375**	**1,300,833**	**273,031**	**273,031**

The cash flows and other movements of held-to-maturity securities:

	2013	2012
As at 1 January	273,031	303,281
Acquisitions	1,181,654	32,099
Redemptions	(228,893)	(62,396)
Accrued interest	34,289	11,687
Received coupon payment	(24,779)	(10,941)
Reclassifications	69,598	(556)
Foreign currency exchange rate impact	(4,067)	(143)
As at 31 December	1,300,833	273,031

During 2013, the Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities (no reclassifications were performed during 2012). Management of the bank has assessed that it has an intention to hold these securities to their maturity. Carrying amount of the reclassified securities at the time of reclassification was LTL 69,612 thousand, as at 31 December 2013 - LTL 69,926 thousand. As of 31 December 2013, total book value of securities reclassified from available for sale to held-to-maturity portfolio was LTL 165,867 thousand (31 December 2012: LTL 124,857 thousand). During 2013 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of reclassified debt securities amounted to LTL 179 thousand (during 2012 - LTL 556 thousand). If the reclassification had not been performed, other comprehensive income recognized in 2013 in relation to these securities would be equal to LTL 5,236 thousand (in 2012 – other comprehensive income of 9,696 thousand).

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

No investment securities were pledged as at 31 December 2013. As at 31 December 2012 the Bank had held – to- maturity investments with carrying amount of LTL 30,450 thousand pledged under repurchase agreement. Repurchase agreement settlement date was 29 March 2013.

Breakdown of the Bank‘s held-to-maturity securities as at 31 December 2013 and 2012:

Rating	**Treasury bills**		**Corporate debt securities**	
Bank	**2013**	**2012**	**2013**	**2012**
AAA	-	-	23,335	-
From AA- to AA+	18,480	8,092	36,093	6,811
From A- to A+	17,752	17,704	128,191	8,615
From BBB- to BBB+	998,982	209,340	61,765	17,093
From BB- to BB+	5,400	5,376	10,835	-
Lower than BB-	-	-	-	-
No rating	-	-	-	-
Total	1,040,614	240,512	260,219	32,519

Breakdown of the Group‘s held-to-maturity securities as at 31 December 2013 and 2012:

Rating	**Treasury bills**		**Corporate debt securities**	
Group	**2013**	**2012**	**2013**	**2012**
AAA	-	-	23,335	-
From AA- to AA+	18,480	8,092	36,093	6,811
From A- to A+	17,752	17,704	128,191	8,615
From BBB- to BBB+	998,982	209,340	61,765	17,093
From BB- to BB+	5,400	5,376	10,835	-
Lower than BB-	-	-	-	-
No rating	-	-	8,542	-
Total	1,040,614	240,512	268,761	32,519

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

				2013
Bank	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated directly controlled subsidiaries				
Šiaulių Banko Lizingas UAB	100.00%	5,000	(2,000)	3,000
Šiaulių Banko Investicijų Valdymas UAB	100.00%	7,040	(5,964)	1,076
Šiaulių Banko Turto Fondas UAB	100.00%	5,117	(846)	4,271
SBTF UAB	100.00%	2,000	-	2,000
Pavasaris UAB	98.91%	35,710	-	35,710
Minera UAB	100.00%	5,505	-	5,505
Total		**60,372**	**(8,810)**	**51,562**

	Share in equity	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated indirectly controlled subsidiaries:				
Kėdainių Oda UAB*	100.00%	12,000	(2,820)	9,180

*Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

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

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

				2012
Bank	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated directly controlled subsidiaries				
Šiaulių Banko Lizingas UAB	100.00%	5,000	(2,000)	3,000
Šiaulių Banko Investicijų Valdymas UAB	100.00%	4,040	(2,382)	1,658
Šiaulių Banko Turto Fondas UAB	100.00%	5,117	(846)	4,271
SBTF UAB	100.00%	2,000	-	2,000
Pavasaris UAB	97.93%	35,357	-	35,357
Minera UAB	100.00%	5,505	-	5,505
Total		**57,019**	**(5,228)**	**51,791**

	Share in equity	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated indirectly controlled subsidiaries:				
Kėdainių Oda UAB*	100.00%	12,000	(10)	11,990

* Indirectly controlled by subsidiary Šiaulių Banko Investicijų Valdymas UAB

In 2013, the Bank recognised an impairment loss of LTL 3,582 thousand on an investment in Šiaulių Banko Investicijų Valdymas UAB (the Bank covered subsidiary's losses in amount of LTL 3,000 thousand and recognized additional impairment of LTL 582 thousand). In 2012, the Bank recognised an impairment loss of LTL 1,455 thousand on an investment in Šiaulių Banko Investicijų Valdymas UAB and reversed an impairment loss of LTL 1,000 thousand on an investment in Šiaulių Banko Lizingas UAB. The management of the Group uses value-in-use (discounted cash flows) method for testing investment in subsidiaries for impairment.

In 2013, an impairment of an investment in an indirectly controlled subsidiary Kėdainių Oda UAB of LTL 2,820 thousand was recognized. In Group's financial statements, it is accounted for as an impairment of fixed assets. The investment in Kėdainių Oda UAB was tested for impairment using valuation performed by independent certified appraiser, which used a combination of residual asset value and value-in-use methods (discount rate of 10.8% and annual growth rate of 0% were used in the calculation).

Development of investment in Pavasaris

In 2013, the Group increased holding in Pavasaris UAB from 97.93% to 98.91%. The Bank acquired 0.98% holding from third parties. This acquisition resulted in a gain of LTL 75 thousand which is included in the income statement line "Other operating income".

In 2012, the Group increased holding in Pavasaris to 97.93%, thus it became a consolidated subsidiary. The Bank acquired 49.60% holding from its subsidiaries and 48.33% from third parties.

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

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (CONTINUED)

The assets and liabilities arising from the acquisition as at the date of acquisition are as follows:

	Acquiree's carrying amount	Fair value
Assets		
Property, plant and equipment	596	596
Financial assets	2,903	2,903
Deferred tax asset	191	191
Inventories (completed residential premises)	23,144	28,855
Inventories (assets under construction)	11,872	19,695
Receivables	1,563	1,563
Land lease rights	-	24,253
Cash	2	2
Liabilities		
Loans	33,664	33,664
Trade payables	2,911	2,911
Advances received	336	336
Other liabilities	44	44
Deferred tax liabilities	-	5,668
Net assets at acquisition date	**3,316**	**35,435**
Acquired share capital, %	97.93	97.93
Interest in net assets acquired	3,247	34,701
Non-controlling interest	69	734

Fair value of investment held by the Group upon acquisition (49,6% holding)	17,907
Cash paid upon acquisition of control (extra 48,33% holding)	16,975
Non-controlling interest	734
	35,615
Net assets at acquisition date	**35,435**
Total goodwill	**180**
Value of investment to Pavasaris as at 31 December 2011	18,392
Share of profits of associates in 2012 by the date of obtaining the control	89
Value of investment to Pavasaris in Group accounts at acquisition	18,481
Fair value of investment to Pavasaris held by the Group at acquisition (49.6%)	17,907
Loss on valuation of investment to FV	**(574)**
Group's cash flow	
Cash paid upon acquisition (48.33%)	16,975
Cash acquired upon acquisition	2
Net cash outflow	**16,973**
Bank's cash flow	
Cash paid upon acquisition (97.87%)	35,357
Net cash outflow	**35,357**

Due to revaluation of previously held interest, the Group incurred a loss of LTL 574 thousand.

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

NOTE 17 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	**Software and licences**
As at 31 December 2011:		
Cost	5,873	5,635
Accumulated amortisation	(4,957)	(4,741)
Net book value	916	894
Year ended 31 December 2012:		
Net book value at 1 January	916	894
Acquisitions	401	291
Write-offs	-	-
Amortisation charge	(295)	(282)
Net book value at 31 December	1,022	903
As at 31 December 2012:		
Cost	6,204	5,899
Accumulated amortisation	(5,177)	(4,996)
Net book value	1,027	903
Year ended 31 December 2013:		
Net book value at 1 January	1,027	903
Acquisitions	307	298
Write-offs	-	-
Amortisation charge	(336)	(314)
Net book value at 31 December	998	887
As at 31 December 2013:		
Cost	6,511	6,197
Accumulated amortisation	(5,513)	(5,310)
Net book value	998	887
Economic life (in years)	3 – 9	3 - 9

In addition to software and licences, the Group had goodwill arising from acquisition of Pavasaris UAB (see Note 16 “Investment in Subsidiaries and Associates” for details). Book value of the goodwill was LTL 180 thousand as of 31 December 2013 and 2012; no impairment of the goodwill has been detected.

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

NOTE 18 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2011:					
Cost	41,987	11,451	17,651	-	71,089
Accumulated depreciation	(7,385)	(3,909)	(12,921)	-	(24,215)
Net book value	34,602	7,542	4,730	-	46,874
Year ended 31 December 2012:					
Net book value at 1 January	34,602	7,542	4,730	-	46,874
Increase after obtaining a control over UAB "Pavasaris"	369	-	25	-	394
Increase after UAB "Kėdainių oda" reclassification	7,105	22	2,673		9,800
Acquisitions	684	324	1,669	-	2,677
Reclassifications to investment property	(389)	-	-	-	(389)
Disposals and write-offs	(1,223)	(656)	(145)	-	(2,024)
Depreciation charge	(1,063)	(1,327)	(1,954)	-	(4,344)
Net book value at 31 December	40,085	5,905	6,998	-	52,988
As at 31 December 2012:					
Cost	48,794	10,418	21,251	-	80,463
Accumulated depreciation	(8,709)	(4,513)	(14,253)	-	(27,475)
Net book value	40,085	5,905	6,998	-	52,988
Year ended 31 December 2013					
Net book value at 1 January	40,085	5,905	6,998	-	52,988
Acquisitions	-	228	4,875	56	5,159
Reclassifications to investment property	(1,804)	-	-	-	(1,804)
Reclassifications to assets held for sale	(1,675)	-	-	-	(1,675)
Disposals and write-offs	(300)	(1,102)	(15)	-	(1,417)
Depreciation charge	(1,016)	(1,131)	(2,469)	-	(4,616)
Impairment charge	(2,820)	(269)	-	-	(3,089)
Net book value at 31 December	32,470	3,631	9,389	56	45,546
As at 31 December 2013:					
Cost	40,904	6,898	25,152	56	73,010
Accumulated depreciation	(8,434)	(3,267)	(15,763)	-	(27,464)
Net book value	32,470	3,631	9,389	56	45,546
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2013, as follows:

Group	Vehicles	Equipment	Total
As at 31 December 2011:			
Cost	7,266	60	7,326
Accumulated depreciation	(2,566)	(26)	(2,592)
Net book value	4,700	34	4,734
Year ended 31 December 2012:			
Net book value at 1 January	4,700	34	4,734
Acquisitions	103	1	104
Disposals and write-offs	(352)	-	(352)
Depreciation charge	(758)	(6)	(764)
Net book value at 31 December	3,693	29	3,722
As at 31 December 2012:			
Cost	6,674	61	6,735
Accumulated depreciation	(2,981)	(32)	(3,013)
Net book value	3,693	29	3,722
Year ended 31 December 2013:			
Net book value at 1 January	3,693	29	3,722
Acquisitions	129	-	129
Disposals and write-offs	(876)	(1)	(877)
Depreciation charge	(578)	(5)	(583)
Impairment	(269)	-	(269)
Net book value at 31 December	2,099	23	2,122
As at 31 December 2013:			
Cost	3,634	75	3,709
Accumulated depreciation	(1,535)	(52)	(1,587)
Net book value	2,099	23	2,122
Economic life (in years)	6-12	6-15	-

As at 31 December 2013 and 31 December 2012, there were no property, plant and equipment pledged to third parties.

Future minimum lease payments to be received under non-cancellable operating lease agreements for the Bank and the Group were as follows (this includes investment property disclosed in Note 26):

	2013			2012		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	1,575	786	-	497	1,310	-
Group	2,852	6,527	6,155	2,615	7,885	8,114

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

NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	**Buildings and premises**	**Vehicles**	**Office equipment**	**Construction in progress**	**Total**
As at 31 December 2011:					
Cost	38,878	3,365	16,841	-	59,084
Accumulated depreciation	(5,942)	(1,234)	(12,276)	-	(19,452)
Net book value	32,936	2,131	4,565	-	39,632
Year ended 31 December 2012:					
Net book value at 1 January	32,936	2,131	4,565	-	39,632
Acquisitions	684	-	1,464	-	2,148
Disposals and write-offs	(706)	(209)	(116)	-	(1,031)
Depreciation charge	(741)	(453)	(1,605)	-	(2,799)
Reclassification	261	-	-	-	261
Net book value at 31 December	32,434	1,469	4,308	-	38,211
As at 31 December 2012:					
Cost	38,736	2,786	17,038	-	58,560
Accumulated depreciation	(6,302)	(1,317)	(12,730)	-	(20,349)
Net book value	32,434	1,469	4,308	-	38,211
Year ended 31 December 2013:					
Net book value at 1 January	32,434	1,469	4,308	-	38,211
Acquisitions	-	90	4,721	56	4,867
Disposals and write-offs	(300)	(150)	(12)	-	(462)
Depreciation charge	(719)	(398)	(2,106)	-	(3,223)
Reclassification to investment property	(1,804)	-	-	-	(1,804)
Reclassification to assets held for sale	(1,675)	-	-	-	(1,675)
Net book value at 31 December	27,936	1,011	6,911	56	35,914
As at 31 December 2013:					
Cost	33,666	2,441	20,851	56	57,014
Accumulated depreciation	(5,730)	(1,430)	(13,940)	-	(21,100)
Net book value	27,936	1,011	6,911	56	35,914
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 19 OTHER ASSETS

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Financial assets:				
Amounts receivable	7,695	423	5,970	133
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	7,579	423	5,454	133
Long-term (over 1 year)	116	-	516	-
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	89,710	18,893	97,600	4,485
Long-term (over 1 year)	50,252	2,219	52,982	819
Inventories	111,629	-	132,803	-
Deferred charges	4,580	3,261	3,280	1,902
Prepayments	16,042	13,884	4,545	-
Foreclosed assets	2,288	2,045	2,422	1,995
Other	5,423	1,912	7,532	1,406
TOTAL OTHER ASSETS	**147,657**	**21,525**	**156,552**	**5,436**

Inventories relate to real estate projects under development and real estate held for sale by the Bank’s subsidiaries Šiaulių Banko Turto Fondas UAB, ŠB TF UAB, Minera UAB, Pavasaris UAB and Šiaulių Banko Investicijų Valdymas UAB. Kėdainių Oda UAB inventories are also included.

Breakdown of inventories according to type:	2013		2012	
	Group	Bank	Group	Bank
Apartments held for sale	26,055	-	48,690	-
Property held for sale or development	85,574	-	84,113	-
Total inventories	111,629	-	132,803	-

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

NOTE 20 ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE

Assets held for sale consist of:

	2013		**2012**	
	Group	Bank	Group	Bank
Assets related to subsidiaries classified as held for sale	387,164	154,100	-	-
Real estate classified as held for sale	1,196	1,196	-	-
Total assets classified as held for sale	**388,360**	**155,296**	**-**	**-**
Liabilities attributable to subsidiaries classified as held for sale	**92,620**	**-**	**-**	**-**

Subsidiaries held for sale:
3 March 2013, under the agreement on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas, based on which a part of assets, rights, transactions and liabilities of Ūkio Bankas was transferred to Šiaulių Bankas (for more details on the agreement, see General Information), Šiaulių Bankas AB acquired 100 % control over following subsidiaries:

i. subsidiaries engaged in real estate development activities: Eastern Europe Development Fund UAB, Sporto Klubų Investicijos UAB, Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB (ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB together own 100% shares of Žalgirio Sporto Arena UAB; Žalgirio Sporto Arena UAB owns 100% shares of Nacionalinis Futbolo Stadionas UAB) and

ii. subsidiaries engaged in other activities: Ūkio Banko Lizingas UAB and Bonum Publicum GD UAB.

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

NOTE 20 ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE (CONTINUED)

As the sale of subsidiaries mentioned above is highly probable because the agreement under which the subsidiaries were acquired until February 2014 provides the opportunity to the creditors of the Ūkio Bankas to sell these subsidiaries as two portfolios of assets: i) portfolio of subsidiaries of Ūkio Bankas engaged in real estate development activities and ii) portfolio of shares of subsidiaries of Ūkio Bankas engaged in other activities, the above-mentioned subsidiaries are included in the financial statements of the Group as subsidiaries held for sale. In addition, the management of Šiaulių Bankas AB is committed to a plan to sell these subsidiaries in case Ūkio Bankas AB does not execute its right. The option held by Ūkio Bankas expired on 2 February 2014. Management of Šiaulių Bankas remains committed to a plan to sell these subsidiaries and considers it to be very likely for the sale transaction to be executed in 2014.
As above-mentioned subsidiaries were acquired in a transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas, they initially are accounted at acquisition value which is equal to their fair value and subsequently adjusted by the amount of activity result (in case of profit, the value is increased as Šiaulių Bankas has the right to distribute the profit earned after the acquisition despite the rights of Ūkio Bankas to sell the subsidiary; in case of loss, the value is decreased). Fair values have been established by KPMG Baltic UAB, using valuation methodology attributable to level 3 valuation.

Ūkio Banko Lizingas UAB (UBL) was established in 1997. It is a financial services company, specializing in consumer lease, and is one of the market leaders in this segment in Lithuania.

Ūkio Banko Lizingas UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	190,894
Fair value of liabilities	160,294
Total net assets on acquisition	**30,600**
Acquired share capital, %	100.00
Acquisition value = Fair value	30,600
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**30,600**

Life insurance company Bonum Publicum GD UAB was founded on 31 August 2000. The company is headquartered in Vilnius and runs five regional branches in Kaunas, Klaipėda, Mažeikiai, Šiauliai and Panevėžys.

Bonum Publicum GD UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	83,831
Fair value of liabilities	54,831
Total net assets on acquisition	**29,000**
Acquired share capital, %	100.00
Acquisition value = Fair value	29,000
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**29,000**

Eastern Europe Development Fund UAB is a special purpose vehicle which owns two land plots in the outskirts of Vilnius.

Eastern Europe Development Fund UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	3,317
Fair value of liabilities	7
Total net assets on acquisition	**3,310**
Acquired share capital, %	100.00
Acquisition value = Fair value	3,310
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**3,310**

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

NOTE 20 ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE (CONTINUED)

Sporto Klubų Investicijos UAB is a special purpose vehicle which owns one real estate object located in Vilnius.

Sporto Klubų Investicijos UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	7,382
Fair value of liabilities	32
Total net assets on acquisition	**7,350**
Acquired share capital, %	100.00
Acquisition value = Fair value	7,350
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**7,350**

Trade Project UAB is a real estate management company that is engaged in lease and administration of real estate. Trade Project UAB owns two real estate objects in Vilnius.

Trade Project UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	8,632
Fair value of liabilities	3,402
Total net assets on acquisition	**5,230**
Acquired share capital, %	100.00
Acquisition value = Fair value	5,230
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**5,230**

Investicinio Turto Valdymas UAB is a special purpose vehicle which owns one real estate object in Vilnius.

Investicinio Turto Valdymas UAB net assets on acquisition	As at 3 March 2013
Fair value of assets	19,790
Fair value of liabilities	310
Total net assets on acquisition	**19,480**
Acquired share capital, %	100.00
Acquisition value = Fair value	19,480
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**19,480**

Žalgirio Sporto Arena UAB is a special purpose vehicle which owns a land plot with a complex of buildings located in Vilnius.

Žalgirio Sporto Arena UAB net assets on acquisition	As at 3 March 2013
Total assets	93,635
Total liabilities	34,525
Total net assets on acquisition	**59,110**
Acquired share capital, %	100.00
Acquisition value = Fair value	59,110
Net assets attributable to Group = Net assets of discontinued operations included in statement of financial position	**59,110**

NOTE 20 ASSETS HELD FOR SALE AND LIABILITIES RELATED TO ASSETS HELD FOR SALE (CONTINUED)

Žalgirio Sporto Arena UAB is owned indirectly – five 100% owned real estate subsidiaries ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB together hold 100% shares of Žalgirio Sporto Arena UAB. At the date of acquisition, the five real estate subsidiaries have no other assets or liabilities except for the investment in Žalgirio Sporto Arena UAB and LTL 5 thousand cash each and LTL 2 thousand other liabilities each. Fair values of the investment in these subsidiaries are as follows (if fair value of Žalgirio Sporto Arena UAB was eliminated, the fair value of all five subsidiaries would amount to LTL 20 thousand, i.e. cash less liabilities):

ŽSA 1 UAB	LTL 24,730 thousand
ŽSA 2 UAB	LTL 21,050 thousand
ŽSA 3 UAB	LTL 4,400 thousand
ŽSA 4 UAB	LTL 6,230 thousand
ŽSA 5 UAB	LTL 2,720 thousand

Žalgirio Sporto Arena UAB also owns a subsidiary Nacionalinis Futbolo Stadionas UAB, which was established with the aim to develop the new football stadium, but currently does not perform any activities and is planned to be liquidated. At the date of acquisition, fair value of Nacionalinis Futbolo Stadionas UAB is nil.

Investment in subsidiaries classified as held for sale, as of 31 December 2013	**Entities engaged in real estate development**	**Entities engaged in other activities**	**TOTAL**
Assets held for sale attributable to group of entities	131,235	255,929	387,164
Liabilities attributable to assets held for sale attributable to the group of entities	21,450	71,170	92,620
Profit (loss) of the current year from the date of acquisition of the entities (recorded in Discontinued operations line of the income statement)	(973)	18,190	17,217

During the year ended 31 December 2013, the Group did not incur any gain or loss related to the measurement to fair value less costs to sell or on the disposal of the subsidiaries mentioned above.

As all of the entities attributed to assets held for sale are 100%-owned, the whole amount of the profit (loss) from discontinued operations is attributable to equity owners of the Group.

Real estate held for sale:
In addition to the subsidiaries held for sale, one real estate object in Vilnius with a fair value of LTL 1,196 thousand was included in assets held for sale (reclassified from property, plant and equipment (Note 18) with a value of LTL 1,675 thousand and revalued at fair value by recognizing an impairment loss of LTL 479 thousand). It was reclassified from property, plant and equipment in December 2013 and is expected to be sold in the first half of 2014. No income or expenses related to this object were recorded in profit or loss of discontinued operations.

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

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	9,443	45,102	13,179	15,472
Time deposits	35,071	36,384	27,383	27,388
Total correspondent accounts and deposits of other banks and financial institutions	**44,514**	**81,486**	**40,562**	**42,860**
Loans received from:				
Other banks	47,516	47,516	76,421	76,421
Other organisations	94,602	94,602	74,035	74,035
International organisations	77,602	77,602	215,252	215,252
Total loans received	**219,720**	**219,720**	**365708**	**365,708**
Total	**264,234**	**301,206**	**406,270**	**408,568**
Breakdown of due to other banks and financial institutions according to maturity				
Short-term (up to 1 year)	103,975	140,947	170,815	173,113
Long-term (over 1 year)	160,259	160,259	235,455	235,455
Total	**264,234**	**301,206**	**406,270**	**408,568**

NOTE 22 DUE TO CUSTOMERS

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	30,636	30,636	37,033	37,033
Local government institutions	67,136	67,136	53,094	53,094
Governmental and municipal companies	16,175	16,175	24,849	24,849
Corporate entities	307,676	308,460	219,489	219,650
Non-profit organisations	23,507	23,507	13,128	13,128
Individuals	443,191	443,191	205,037	205,037
Unallocated amounts due to customers	15,419	15,419	7,364	7,364
Total demand deposits	**903,740**	**904,524**	**559,994**	**560,155**
Time deposits:				
National government institutions	1,939	1,939	2,198	2,198
Local government institutions	2,331	2,331	2,011	2,011
Governmental and municipality companies	10,540	10,540	24,277	24,277
Corporate entities	174,242	174,242	155,991	155,991
Non-profit organisations	14,321	14,321	9,160	9,160
Individuals	3,422,124	3,422,124	1,412,060	1,412,060
Total time deposits	**3,625,497**	**3,625,497**	**1,605,697**	**1,605,697**
Total	**4,529,237**	**4,530,021**	**2,165,691**	**2,165,852**
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	4,176,516	4,177,300	2,081,725	2,081,886
Long-term (over 1 year)	352,721	352,721	83,966	83,966
Total	**4,529,237**	**4,530,021**	**2,165,691**	**2,165,852**

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

NOTE 23 SPECIAL AND LENDING FUNDS

	2013		2012	
	Group	Bank	Group	Bank
Special funds	7,354	7,354	2,835	2,835
Lending funds	-	-	4,459	4,459
Total	**7,354**	**7,354**	**7,294**	**7,294**
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	7,354	7,354	4,142	4,142
Long-term (over 1 year)	-	-	3,152	3,152
	7,354	**7,354**	**7,294**	**7,294**

The special funds consist of the funds from the mandatory social and health insurance funds. The special funds have to be returned to the institutions which have placed them upon the first requirement of the latter.
The lending funds consist of the loans from the ministries of Economy and Finance of the Republic of Lithuania for credits of a special purpose granted by other financial institutions.

NOTE 24 DEBT SECURITIES IN ISSUE

In 2013 and in 2012 the Bank did not issue new bonds.

There were no outstanding bond issues on 31 December 2013.

On 31 December 2012, the following bond issues were outstanding:
- 2011.08.16 - ISIN LT0000402661 - 505-day, interest rate of 4.25 per cent, maturity date - 2013.01.03;
- 2011.08.29 - ISIN LT0000402687 - 555-day, interest rate of 5.25 per cent, maturity date – 2013.03.06;
- 2011.11.29 - ISIN LT0000402703 - 547-day, interest rate of 4.50 per cent, maturity date – 2013.05.29;
- 2011.11.29 - ISIN LT0000402420 - 547-day, interest rate of 4.50 per cent, maturity date – 2013.05.29;

29 May 2013, the Bank redeemed bond issue of LTL 8.3 million which was issued 23 September 2011 and had interest rate of 4.5 per cent, ISIN LT0000402703;
29 May 2013, the Bank redeemed bond issue of EUR 2 million which was issued in 23 September 2011 and had interest rate of 4.5 per cent, ISIN LT1000402420
6 March 2013, the Bank redeemed bond issue of LTL 15 million which was issued 29 August 2011 and had interest rate of 5.25 per cent, ISIN LT0000402687;
3 January 2013, the Bank redeemed bond issue of LTL 15 million which was issued 8 August 2011 and had interest rate of 4.25 per cent, ISIN LT0000402661;
24 August 2012, the Bank redeemed bond issue of LTL 7,685 million which was issued 23 September 2011 and had interest rate of 4.9 per cent, ISIN LT0000410482;
7 May 2012, the Bank redeemed bond issue of LTL 15 million which was issued 5 August 2011 and had interest rate of 4.5 per cent, ISIN LT0000390031.

	2013		2012	
Issue number	Group	Bank	Group	Bank
LT0000402687	-	-	15,268	15,268
LT0000402661	-	-	7,116	7,116
LT0000402703	-	-	528	528
LT1000402420	-	-	-	-
Total:	-	-	**22,912**	**22,912**

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

NOTE 25 OTHER LIABILITIES

	2013		2012	
	Group	**Bank**	**Group**	**Bank**
Financial liabilities:				
Trade payables	2,470	-	3,456	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	2,470	-	3,456	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	18,552	12,879	10,529	6,541
Advance amounts received from the buyers of assets	1,318	-	2,057	-
Deferred income	9,835	1,011	3,003	859
Other liabilities	9,292	8,277	977	584
Total non-financial liabilities	**38,997**	**22,167**	**16,565**	**7,984**
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	29,239	21,252	15,194	7,278
Long-term (over 1 year)	9,758	915	1,371	706
Total non-financial liabilities	**38,997**	**22,167**	**16,565**	**7,984**

NOTE 26 INVESTMENT PROPERTY

Investment property	**Bank**	**Group**
Year ended 31 December 2012:		
Revalued amount at 1 January	7,946	33,314
Acquisitions	-	2,058
Reclassification	(261)	2,061
Revaluation at fair value	(168)	75
Disposals and write-offs	-	-
Revalued amount at 31 December	**7,517**	**37,508**
Year ended 31 December 2013:		
Revalued amount at 1 January	7,517	37,508
Acquisition in a transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas	32,473	32,473
Acquisitions	6,420	17,220
Reclassification	1,804	514
Revaluation at fair value	(527)	(638)
Disposals and write-offs	(122)	(440)
Revalued amount at 31 December	**47,565**	**86,637**

Income from rent of investment property is included in the income statement line “Other operating income” (see Note 6 “Other operating income”).

Maintenance expenses related to investment property (Group: LTL 1,634 thousand in 2013, LTL 134 thousand in 2012; Bank: LTL 1,599 thousand in 2013, LTL 84 thousand in 2012) are included in the income statement line “Other operating expenses”.

The Group measures fair value of the investment property mainly using valuations from external independent certified appraisers (as of 31 December 2013, approximately 82% of the carrying value of the investment property was measured using valuations from external independent certified appraisers), the remaining part of the investment property was fair valued by Group’s employees. Income method or replacement cost methods, i.e. valuation techniques attributable to Level 3 are mostly used valuation techniques to measure fair value of investment property both by external and internal valuators.

NOTE 27 SHARE CAPITAL

As of 31 December 2013 the Bank's share capital comprised 250 000 000 ordinary registered shares with par value of LTL 1 each (31 December 2012: 234 857 533 ordinary registered shares).

Authorized capital was registered in the Register of Legal Entities on 31 May 2013, using bank's own resources (share premium), from which a new share issue of 15 142 467 ordinary shares was issued. The shares were distributed among bank's shareholders using the proportion of their stakes at the accounting date of the shares (12 April 2013) of the ordinary meeting of shareholders of Šiaulių Bankas that took place on 28 March 2013.

As of 31 December 2013, 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	19.57
Gintaras Kateiva	6.24
Total	25.81

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.

Shareholders of the Bank including the shareholders that have signed shareholders agreement (European Bank for Reconstruction and Development, Prekybos namai „Aiva" UAB, Mintaka UAB, Įmonių grupė „Alita" AB, Sigitas Baguckas, Algirdas Butkus, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Arvydas Salda and Kastytis Jonas Vyšniauskas) and other shareholders votes of which are calculated together based on the legal acts of Republic of Lithuania, form a group votes of which are calculated together. As of 31 December 2013, this group possessed 42.93 percent of the authorised capital and votes of the Bank. This group is not deemed to have joint control over the Bank.

As at 31 December 2013, the Bank had 3,592 shareholders (as at 31 December 2012: 3,671).

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 or annual meeting of the shareholders, be used only to cover losses of the activities.

NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2013 and as at 31 December 2012 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 2013. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

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

	2013		**2012**	
	Group	**Bank**	**Group**	**Bank**
Financial guarantees issued	103,673	104,473	88,313	88,360
Letters of credit	7,039	7,039	3,541	3,541
Commitments to grant loans	232,686	242,331	112,528	114,011
Operating lease commitments	7,130	9,763	4,865	7,750
Other commitments	26,544	13,811	3,713	2,325
Total	**377,072**	**377,417**	**212,960**	**215,987**

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

NOTE 29 DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. In March 2013, the annual general meeting of shareholders decided to pay dividends to the holders of ordinary shares 0.5% of the nominal value of the share, i.e. LTL 0.005 per one ordinary share. Total amount of dividends was LTL 1,174 thousand. In March 2012, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares.

In 2013, Bank's 100%-owned subsidiary Šiaulių Banko Lizingas UAB paid dividends of LTL 2,400 thousand to the Bank. In 2012, Šiaulių Banko Lizingas UAB paid dividends of LTL 1,000 thousand to the Bank.

NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2013 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	471,002	10,000	-	-	-	-	-	-	481,002
Due from other banks	-	-	-	224	3,029		2,719	23	5,995
Trading securities	-	-	-	999	-	2,055	67,092	502	70,648
Loans granted to customers, finance lease receivables	-	50,922	131,418	213,378	310,900	767,371	916,781	190,023	2,580,793
Investment securities									
- available-for-sale securities	-	-	-	-	-	5,367	179,296	3,540	188,203
- held-to-maturity securities	-	1,758	3,609	30,602	93,939	337,334	842,133		1,309,375
Intangible assets	-	-	-	-	-	-	-	1,178	1,178
Property, plant and equipment and investment property	-	-	-	-	-	-	-	132,183	132,183
Other assets	159	6,806	27,915	7,752	14,350	41,742	21,940	443,893	564,557
Total assets	471,161	69,486	162,942	252,955	422,218	1,153,869	2,029,961	771,342	5,333,934
Due to other banks and financial institutions	9,582	4,018	8,578	14,633	67,499	112,088	116,691	-	333,089
Due to customers	911,192	484,811	573,093	836,260	1,378,514	303,334	49,387	-	4,536,591
Other liabilities	1,406	11,002	2,177	4,319	3,576	9,177	581	107,829	140,067
Shareholders' equity	-	-	-	-	-	-	-	324,187	324,187
Total liabilities and shareholders' equity	922,180	499,831	583,848	855,212	1,449,589	424,599	166,659	432,016	5,333,934
Net liquidity gap	(451,019)	(430,345)	(420,906)	(602,257)	(1,027,371)	729,270	1,863,302	339,326	-

The structure of the Group's assets and liabilities by remaining maturity as at 31 December 2012 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	222,023	89,340	145,387	171,540	280,718	712,043	1,080,549	241,103	2,942,703
Total liabilities and shareholders' equity	574,971	205,409	370,533	474,223	669,357	228,896	95,012	324,302	2,942,703
Net liquidity gap	(352,948)	(116,069)	(225,146)	(302,683)	(388,639)	483,147	985,537	(83,199)	-

NOTE 30 LIQUIDITY RISK (CONTINUED)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2013 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	470,999	10,000	-	-	-	-	-	-	480,999
Due from other banks	-	-	-	224	3,029	-	2,719	23	5,995
Trading securities	-	-	123,000	999	-	2,055	67,092	502	193,648
Loans granted to customers, finance lease receivables	-	82,395	165,184	268,836	427,720	776,187	837,095	187,024	2,744,441
Investment securities									0
- available-for-sale securities	-	-	-	-	-	5,367	179,296	1,769	186,432
- held-to-maturity securities	-	1,758	3,609	30,602	93,939	328,792	842,133	-	1,300,833
Investments in subsidiaries	-	-	-	-	-	-	-	51,562	51,562
Intangible assets	-	-	-	-	-	-	-	887	887
Property, plant and equipment and investment property	-	-	-	-	-	-	-	83,479	83,479
Other assets	45	3,313	3,642	2,194	3,853	9,708	5,402	174,395	202,552
Total assets	471,044	97,466	295,435	302,855	528,541	1,122,109	1,933,737	499,641	5,250,828
Due to other banks and financial institutions	45,241	4,018	8,583	14,633	68,807	112,088	116,691	-	370,061
Due to customers	911,976	484,811	573,093	836,260	1,378,514	303,334	49,387	-	4,537,375
Other liabilities	118	6,713	977	3,057	980	737	178	9,407	22,167
Shareholders' equity	-	-	-	-	-	-	-	321,225	321,225
Total liabilities and shareholders' equity	957,335	495,542	582,653	853,950	1,448,301	416,159	166,256	330,632	5,250,828
Net liquidity gap	(486,291)	(398,076)	(287,218)	(551,095)	(919,760)	705,950	1,767,481	169,009	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2012 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	221,810	126,853	191,013	236,358	357,373	654,621	982,241	161,197	2,931,466
Total liabilities and shareholders' equity	575,883	200,300	369,718	473,643	666,781	228,128	94,999	322,014	2,931,466
Net liquidity gap	(354,073)	(73,447)	(178,705)	(237,285)	(309,408)	426,493	887,242	(160,817)	-

Loans and receivables with undefined maturity consist of overdue exposures, which were not repaid at their contractual maturity.

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

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2013 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	25,730	41,618	67,348	128,831	284,823	481,002
Due from other banks	516	-	516	5,479	-	5,995
Trading securities	17,687	-	17,687	41,865	11,096	70,648
Loans granted to customers, finance lease receivables	16,388	3,470	19,858	596,066	1,964,869	2,580,793
Investment securities						
- available-for-sale securities	34,984	1,438	36,422	120,848	30,933	188,203
- held-to-maturity securities	87,253	-	87,253	303,137	918,985	1,309,375
Intangible assets	-	-	-	-	1,178	1,178
Property, plant and equipment and investment property	-	-	-	-	132,183	132,183
Other assets	92	-	92	19,422	545,043	564,557
Total assets	182,650	46,526	229,176	1,215,648	3,889,110	5,333,934
Liabilities and shareholders' equity						
Due to other banks and financial institutions	3,479	3	3,482	300,053	29,554	333,089
Due to customers	173,206	36,681	209,887	934,432	3,392,272	4,536,591
Other liabilities	49	34	83	382	139,602	140,067
Shareholders' equity	(2,359)	9	(2,350)	(1,547)	328,084	324,187
Total liabilities and shareholders' equity	174,375	36,727	211,102	1,233,320	3,889,512	5,333,934
Net balance sheet position	8,275	9,799	18,074	(17,672)	(402)	-
Open currency exchange transactions	(6,275)	(4,241)	(10,516)	10,524	-	8
Net open position	2,000	5,558	7,558	(7,148)	(402)	8

The Group's open positions of prevailing currencies as at 31 December 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	70,290	9,045	79,335	835,220	2,028,148	2,942,703
Liabilities and shareholders' equity	68,766	6,054	74,820	733,258	2,134,625	2,942,703
Net balance sheet position	1,524	2,991	4,515	101,962	(106,477)	-
Open currency exchange transactions	(1,954)		(1,954)	1,959	-	5
Net open position	(430)	2,991	2,561	103,921	(106,477)	5

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

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS (CONTINUED)

The Bank's open positions of prevailing currencies as at 31 December 2013 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	25,730	41,618	67,348	128,831	284,820	480,999
Due from other banks	516	-	516	5,479	-	5,995
Trading securities	17,687	-	17,687	41,865	134,096	193,648
Loans granted to customers, finance lease receivables	16,388	3,470	19,858	596,628	2,127,955	2,744,441
Investment securities						
- available-for-sale securities	34,984	1,438	36,422	120,848	29,162	186,432
- held-to-maturity securities	87,253	-	87,253	303,137	910,443	1,300,833
Investments in subsidiaries	-	-	-	-	51,562	51,562
Intangible assets	-	-	-	-	887	887
Property, plant and equipment and investment property	-	-	-	-	83,479	83,479
Other assets	91	-	91	18,813	183,648	202,552
Total assets	182,649	46,526	229,175	1,215,601	3,806,052	5,250,828
Liabilities and shareholders' equity						
Due to other banks and financial institutions	3,479	3	3,482	300,052	66,527	370,061
Due to customers	173,206	36,681	209,887	934,433	3,393,055	4,537,375
Other liabilities	49	34	83	382	21,702	22,167
Shareholders' equity	(2,359)	9	(2,350)	(1,547)	325,122	321,225
Total liabilities and shareholders' equity	174,375	36,727	211,102	1,233,320	3,806,406	5,250,828
Net balance sheet position	8,274	9,799	18,073	(17,719)	(354)	-
Open currency exchange transactions	(6,275)	(4,241)	(10,516)	10,524	-	8
Net open position	1,999	5,558	7,557	(7,195)	(354)	8

The Bank's open positions of prevailing currencies as at 31 December 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	70,289	9,045	79,334	835,074	2,017,058	2,931,466
Liabilities and shareholders' equity	68,766	6,054	74,820	733,046	2,123,600	2,931,466
Net balance sheet position	1,523	2,991	4,514	102,028	(106,542)	-
Open currency exchange transactions	(1,954)	-	(1,954)	1,959		5
Net open position	(431)	2,991	2,560	103,987	(106,542)	5

*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.

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

NOTE 32 INTEREST RATE RISK

The tables below summarize the Group's and the Bank's interest rate risks as at 31 December 2013. Assets and liabilities shown at their carrying amounts categorized by the earlier of contractual reprising or maturity dates.

Details of the Group's interest rate risk as at 31 December 2013 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 or maturity undefined	Total
Assets							
Cash and cash equivalents	10,000	-	-	-	-	471,002	481,002
Due from other banks	-	-	224	3,029	2,719	23	5,995
Trading securities	-	-	999	-	69,147	502	70,648
Loans granted to customers, finance lease receivables	472,843	641,408	907,788	110,436	173,451	274,867	2,580,793
Investment securities							
- available-for-sale securities	-	-	-	-	184,663	3,540	188,203
- held-to-maturity securities	1,758	3,609	30,602	93,939	1,179,467	-	1,309,375
Intangible assets	-	-	-	-	-	1,178	1,178
Property, plant and equipment and investment property	-	-	-	-	-	132,183	132,183
Other assets	-	-	-	-	-	564,557	564,557
Total assets	484,601	645,017	939,613	207,404	1,609,447	1,447,852	5,333,934
Due to other banks and financial institutions	163,250	117,185	16,358	25,433	-	10,863	333,089
Due to customers	469,988	558,582	820,738	1,367,799	320,092	999,392	4,536,591
Other liabilities	-	-	-	-	-	140,067	140,067
Shareholders' equity	-	-	-	-	-	324,187	324,187
Total liabilities and shareholders' equity	633,238	675,767	837,096	1,393,232	320,092	1,474,509	5,333,934
Interest rate sensitivity gap	(148,637)	(30,750)	102,517	(1,185,828)	1,289,355	(26,657)	-

Details of the Group's interest rate risk as at 31 December 2012 are presented below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing or maturity undefined	Total
Total assets	380,747	543,467	798,257	98,937	617,568	503,727	2,942,703
Total liabilities and shareholders' equity	340,077	427,380	517,669	622,362	67,145	968,070	2,942,703
Interest rate sensitivity gap	40,670	116,087	280,588	(523,425)	550,423	(464,343)	-

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

NOTE 32 INTEREST RATE RISK (CONTINUED)

Details of the Bank's interest rate risk as at 31 December 2013 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 or maturity undefined	Total
Assets							
Cash and cash equivalents	10,000	-	-	-	-	470,999	480,999
Due from other banks	-	-	224	3,029	2,719	23	5,995
Trading securities	-	123,000	999	-	69,147	502	193,648
Loans granted to customers, finance lease receivables	499,535	619,971	893,205	242,251	216,615	272,864	2,744,441
Investment securities							
- available-for-sale securities	-	-	-	-	184,663	1,769	186,432
- held-to-maturity securities	1,758	3,609	30,602	93,939	1,170,925	-	1,300,833
Investments in subsidiaries	-	-	-	-	-	51,562	51,562
Intangible assets	-	-	-	-	-	887	887
Property, plant and equipment and investment property	-	-	-	-	-	83,479	83,479
Other assets	-	-	-	-	-	202,552	202,552
Total assets	511,293	746,580	925,030	339,219	1,644,069	1,084,637	5,250,828
Due to other banks and financial institutions	163,250	117,190	16,358	26,741	-	46,522	370,061
Due to customers	469,988	558,582	820,738	1,367,799	320,092	1,000,176	4,537,375
Other liabilities	-	-	-	-	-	22,167	22,167
Shareholders' equity	-	-	-	-	-	321,225	321,225
Total liabilities and shareholders' equity	633,238	675,772	837,096	1,394,540	320,092	1,390,090	5,250,828
Interest rate sensitivity gap	(121,945)	70,808	87,934	(1,055,321)	1,323,977	(305,453)	-

Details of the Bank's interest rate risk as at 31 December 2012 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 or maturity undefined	Total
Total assets	419,951	529,989	798,003	199,256	631,388	352,879	2,931,466
Total liabilities and shareholders' equity	340,238	427,380	517,669	622,367	67,145	956,667	2,931,466
Interest rate sensitivity gap	79,713	102,609	280,334	(423,111)	564,243	(603,788)	-

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) members of the Bank's Supervisory Council and Board (which also are the main decision makers of the Group), their close family members and companies that are controlled, jointly controlled or significantly influenced over by these related parties. For some companies the presumed significant influence threshold of 20% voting rights has been reduced if other evidence shows that a person/ entity can exercise significant influence by additional means (e.g. by holding a seat in the Board of Directors of a particular entity);
b) subsidiaries of the Bank, includes Šiaulių Banko Lizingas UAB, Šiaulių Banko Investicijų Valdymas UAB, Šiaulių Banko Turto Fondas UAB, SBTF UAB, Minera UAB, Kėdainių Oda UAB, Pavasaris UAB;
c) the shareholders holding over 5 % of the Bank's share capital.

During 2013, 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 (incl. off-balance sheet commitments) 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 (data of the Bank):

	Deposits, at the year-end		**Average annual interest rates, %**		**Loans, at the year-end**		**Average annual interest rates, %**		**Off-balance sheet commitments, at the year-end**	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Members of the Council and the Board	1,303	1,031	2.04	2.61	6,273	4,857	4.79	4.97	623	1,654
Other related parties (excluding subsidiaries of the Bank)	6,418	5,353	0.29	0.96	145,638	121,954	3.79	3.66	542	3,838
Total	**7,721**	**6,384**	**-**	**-**	**151,911**	**126,811**	**-**	**-**	**1,165**	**5,492**
% of regulatory capital	2.05%	2.13%	-	-	40.41%	42.29%	-	-	0.31%	1.83%

As at 31 December 2013 and 2012, Bank's subsidiaries had no material transactions with the related persons except for the Bank and its subsidiaries.

As at 31 December 2013 and 2012, balance of allowances for impairment losses that are related to balances of loans to related parties, except for subsidiaries, was equal to nil. No impairment losses were incurred due to loans mentioned above.

Transactions with EBRD:

The Group/Bank has a subordinated loan received from European Bank for Reconstruction and Development (hereinafter – EBRD), book value of which was LTL 68,855 thousand as of 31 December 2013. The agreement for the loan was signed at the end of February 2013. Loan amount is EUR 20 million, term – 10 year. Loan agreement provides a prepayment option to Šiaulių Bankas in 2018, and a conversion option to EBRD which can be carried out until 2018, under which EBRD has a right to convert a part of or the whole loan to ordinary shares of the Bank at a price, which is more favourable than the market price (but in any case, not less than the nominal value of the share). Because of the latter option, which is an embedded derivative, the Bank chose to account the whole instrument for as Financial liabilities at fair value through profit or loss. Subordinated loan related interest expenses amounted to LTL 3,729 thousand, a gain of LTL 536 thousand related to revaluation of the liability to fair value was recorded in profit (loss) statement in 2013.

The fair value of liability is determined using valuation technique attributable to level 3 fair value measurement.

As of 31 December 2012, LTL 78,109 thousand loan from EBRD was outstanding. It was repaid in 2013. Interest and other expenses related to this loan amounted to LTL 1,045 thousand in 2013, and to LTL 4,685 thousand in 2012.

NOTE 33 RELATED-PARTY TRANSACTIONS (CONTINUED)

Transactions with subsidiaries:

Balances of Bank's transactions with the subsidiaries are given below:

	Deposits, at the year-end		**Average annual interest rates, %**		**Loans, at the year-end**		**Average annual interest rates, %**		**Off-balance sheet commitments, at the year-end**	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Non-financial institutions	782	161	0.2	0.0	184,285	154,609	3.0	3.5	8,469	2,558
Financial institutions	36,972	2,298	0.8	0.2	215,734	216,789	3.2	3.5	2,802	816

Bank's transactions with subsidiaries (see Note 16 for details on investment in subsidiaries and Note 20 for details on subsidiaries held for sale):

Assets	**2013**	**2012**
Loans	400,019	371,398
Debt securities*	123,000	-
Other assets	102	27
Bank's investment in subsidiaries	51,562	51,791
Bank's investment in subsidiaries classified as assets held for sale	154,100	-
Liabilities and shareholders' equity		
Demand deposits	37,756	2,459
Other liabilities	330	-

Income and expenses arising from transactions with subsidiaries:

Income	**2013**	**2012**
Interest	19,061	12,639
Commission income	476	164
Income from foreign exchange operations	-	1
Dividends	2,400	1,000
Other income	301	203
Expenses		
Interest	(127)	-
Operating expenses	(1,609)	(747)
Impairment of loans	(1,492)	-
Impairment of an investment to subsidiaries	(3,582)	(455)

* Bonds issued by Ūkio Banko Lizingas UAB, a subsidiary held for sale, maturity 31 March 2014. At maturity, the Bank intends to refinance the amount necessary for operations of the subsidiary. As of 31 December 2013, total carrying value of the bond issue amounts to LTL 153 million: LTL 123 million are possessed by the Bank (accounted for as trading securities), LTL 30 million by other subsidiaries of the Group.

As at 31 December 2013 balance of allowances for impairment losses that are related to balances of loans to subsidiaries was equal to LTL 1,492 thousand (as at 31 December 2012: nil).

Remuneration of the management of the Group/Bank

During 2013 the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 3,653 thousand (2012: LTL 2,961 thousand).

NOTE 34 CONCENTRATION EXPOSURE

As at 31 December 2013, 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 73.8 million, i.e. 19.62% of the Bank's calculated capital (2012: LTL 56.3 million and 18.77% of the Bank's calculated capital).

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

NOTE 35 FINANCIAL GROUP INFORMATION

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

STATEMENT OF FINANCIAL POSITION

	31 December 2013		31 December 2012	
	Fin. Group	**Bank**	**Fin. Group**	**Bank**
ASSETS				
Cash and cash equivalents	481,000	480,999	221,805	221,805
Due from other banks	5,995	5,995	51,198	51,198
Trading securities	193,648	193,648	4,137	4,137
Derivative financial instruments	22,347	21,008	13,690	13,690
Loans to customers	2,539,867	2,723,625	1,870,329	2,052,809
Finance lease receivables	205,372	20,816	184,169	-
Investment securities:				
- available-for-sale	186,432	186,432	205,385	205,385
- held to maturity	1,300,833	1,300,833	273,031	273,031
Investments in subsidiaries	48,562	51,562	48,791	51,791
Intangible assets	985	887	1,017	903
Property, plant and equipment	38,259	35,914	42,194	38,211
Investment property	47,624	47,565	7,972	7,517
Deferred tax asset	4,723	4,723	5,600	5,553
Other assets	24,874	21,525	10,046	5,436
Assets held for sale	155,296	155,296	-	-
Total assets	**5,255,817**	**5,250,828**	**2,939,364**	**2,931,466**
LIABILITIES				
Due to other banks and financial institutions	301,185	301,206	406,270	408,568
Due to customers	4,530,021	4,530,021	2,165,852	2,165,852
Special and lending funds	7,354	7,354	7,294	7,294
Debt securities in issue	-	-	22,912	22,912
Liabilities at fair value through profit or loss	68,855	68,855	-	-
Current income tax liabilities	127	-	285	-
Deferred income tax liabilities	102	-	-	-
Other liabilities	27,241	22,167	15,943	7,984
Total liabilities	**4,934,885**	**4,929,603**	**2,618,556**	**2,612,610**
EQUITY				
Capital and reserves attributable to owners of the Bank				
Share capital	250,000	250,000	234,858	234,858
Share premium	32,719	32,719	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Statutory reserve	2,841	2,641	1,489	1,289
Financial assets revaluation reserve	(1,990)	(1,990)	5,194	5,194
Retained earnings	34,751	35,244	28,795	27,043
Total equity	**320,932**	**321,225**	**320,808**	**318,856**
Total liabilities and equity	**5,255,817**	**5,250,828**	**2,939,364**	**2,931,466**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

INCOME STATEMENT

	2013		2012	
	Fin. Group	**Bank**	**Fin. Group**	**Bank**
Interest and similar income	186,455	177,665	130,103	124,041
Interest expense and similar charges	(94,626)	(94,626)	(68,611)	(68,611)
Net interest income	**91,829**	**83,039**	**61,492**	**55,430**
Fee and commission income	26,618	26,817	16,488	16,617
Fee and commission expense	(11,655)	(10,257)	(8,443)	(7,944)
Net fee and commission income	**14,963**	**16,560**	**8,045**	**8,673**
Net gain from operations with securities	6,684	6,684	9,606	9,606
Net foreign exchange gain	7,212	7,213	4,866	4,865
Net gain (loss) from embedded derivatives	(5,,014)	(4,482)	4,185	4,185
Net gain from financial liabilities at fair value through profit or loss	536	536	-	-
Net gain from disposal of assets	25	41	723	57
Other operating income	14,747	14,582	1,314	1,009
Other operating expenses	(69,027)	(65,415)	(42,984)	(39,503)
Operating profit before impairment losses	**61,955**	**58,758**	**47,247**	**44,322**
Allowance for impairment losses	(51,201)	(48,558)	(29,272)	(28,192)
Dividends from investments in subsidiaries	-	2,400	-	1,000
Profit from continuing operations before income tax	**10,754**	**12,600**	**17,975**	**17,130**
Profit from discontinued operations, net of tax	-	-	-	-
Income tax (expense)	(2,272)	(1,873)	(2,677)	(2,258)
Net profit for the year	**8,482**	**10,727**	**15,298**	**14,872**
Net profit attributable to:				
Owners of the Bank	8,482	10,727	15,298	14,872
Non-controlling interest	-	-	-	-
	8,482	10,727	15,298	14,872

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

	2013		2012	
	Fin. Group	**Bank**	**Fin. Group**	**Bank**
Profit for the year	**8,482**	**10,727**	**15,298**	**14,872**
Other comprehensive income (loss)				
Items that may be subsequently reclassified to profit or loss:				
Gain (loss) from revaluation of financial assets	(5,422)	(5,422)	6,244	6,244
Gain (loss) from sale of financial assets	(2,626)	(2,626)	1,830	1,830
Amortisation of revaluation related to held-to-maturity investments	(179)	(179)	(556)	(556)
Deferred income tax on gain (loss) from revaluation of financial assets	1,043	1,043	(1,142)	(1,142)
Other comprehensive income (loss), net of deferred tax	(7,184)	(7,184)	6,376	6,376
Total comprehensive income	**1,298**	**3,543**	**21,674**	**21,248**
Total comprehensive income attributable to:				
Owners of the Bank	1,298	3,543	21,674	21,248
From continuing operations	1,298	3,543	21,674	21,248
From discontinued operations	-	-	-	-
Non-controlling interest (from continuing operations)	-	-	-	-
	1,298	3,543	21,674	21,248

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

	Year ended			
	31 December 2013		31 December 2012	
	Fin. Group	**Bank**	**Fin. Group**	**Bank**
Operating activities				
Interest received	127,974	119,628	109,529	103,312
Interest paid	(94,626)	(94,626)	(66,990)	(66,990)
Fees and commissions received	26,618	26,817	16,488	16,617
Fees and commissions paid	(11,655)	(10,257)	(8,443)	(7,944)
Cash inflows from trade in trading securities	9,450	9,450	9,152	9,152
Net income from foreign exchange operations	6,942	6,943	4,796	4,795
Recoveries on loans previously written off	636	159	1,243	715
Salaries and related payments to and on behalf of employees	(39,293)	(36,974)	(25,630)	(23,399)
Other cash receipts, sale of assets	11,487	11,338	2,025	1,066
Other cash payments	(28,341)	(24,718)	(14,990)	(14,324)
Income tax paid	(408)	-	(69)	-
Net cash flow from operating activities before change in operating assets and liabilities	**8,784**	**7,760**	**27,111**	**23,000**
Change in operating assets and liabilities:				
Decrease (increase) in trading securities	169,913	169,913	(33,154)	(33,154)
(Increase)/decrease in loans to credit and financial institutions	(1,858)	(1,858)	10	10
(Increase) in loans to customers	(87,714)	(84,614)	(17,969)	(18,192)
(Increase) in other current assets	(17,705)	(18,966)	(674)	2,052
(Decrease) in liabilities to credit and financial institutions	(35,694)	(37,971)	(64,619)	(62,332)
(Decrease) increase in deposits	(363,754)	(363,754)	271,685	271,685
Increase/(decrease) in special and lending funds	60	60	(9,606)	(9,606)
Increase in other liabilities	10,710	13,595	1,769	1,058
Change	**(326,042)**	**(323,595)**	**147,442**	**151,521**
Net cash flow (used in) from operating activities	**(317,258)**	**(315,835)**	**174,553**	**174,521**
Investing activities				
(Acquisition) of property, plant and equipment and intangible assets	(6,084)	(5,855)	(2,702)	(2,439)
Disposal of property, plant and equipment and intangible assets	5,824	1,821	3,999	2,719
(Acquisition) of held-to-maturity securities	(168,412)	(168,412)	(31,400)	(31,400)
Proceeds from redemption of held-to-maturity securities	253,672	253,672	73,337	73,337
Dividends received	67	2,467	60	1,060
(Acquisition) of available-for-sale securities	(336,790)	(336,790)	(349,006)	(349,006)
Sale of available-for-sale securities	354,713	354,713	188,519	188,519
(Acquisition) of subsidiaries	(353)	(353)	(35,357)	(35,357)
Cash from the transaction of transfer of assets, rights, transactions and liabilities of Ūkio Bankas (see General information)	497,827	497,827	-	-
Net cash flow from (used in) investing activities	**600,464**	**599,090**	**(152,550)**	**(152,567)**
Financing activities				
Payment of dividends	(1,149)	(1,149)	-	-
Debt securities in issue	-	-	1,514	1,514
Redemption of debt securities in issue	(22,912)	(22,912)	(25,507)	(25,507)
Net cash flow from financing activities	**(24,061)**	**(24,061)**	**(23,993)**	**(23,993)**
Net increase (decrease) in cash and cash equivalents	**259,145**	**259,194**	**(1,990)**	**(2,039)**
Cash and cash equivalents at 1 January	**221,855**	**221,805**	**223,845**	**223,844**
Cash and cash equivalents at 31 December	**481,000**	**480,999**	**221,855**	**221,805**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2011	**234,858**	**47,861**	**2,611**	**(1,182)**	**848**	**-**	**14,138**	**299,134**
Formation of statutory reserve					641		(641)	-
Increase in share capital	-	-	-	-	-	-	-	-
Total comprehensive income:	-	-	-	6,376	-	-	15,298	21,674
Net profit	-	-	-	-	-	-	*15,298*	*15,298*
Other comprehensive income	-	-	-	*6,376*	-	-	-	*6,376*
31 December 2012	**234,858**	**47,861**	**2,611**	**5,194**	**1,489**	**-**	**28,795**	**320,808**
Formation of statutory reserve	-	-	-	-	1,352	-	(1,352)	-
Payment of dividends	-	-	-	-	-	-	(1,174)	(1,174)
Increase in share capital	15,142	(15,142)	-	-	-	-	-	-
Total comprehensive income (loss):	-	-	-	(7,184)	-	-	8,482	1,298
Net profit	-	-	-	-	-	-	*8,482*	*8,482*
Other comprehensive (loss)	-	-	-	*(7,184)*	-	-	-	*(7,184)*
31 December 2013	**250,000**	**32,719**	**2,611**	**(1,990)**	**2,841**	**-**	**34,751**	**320,932**

NOTE 36 EVENTS AFTER THE REPORTING PERIOD

2 February 2014 was the date of the expiration of the option held by Ūkio Bankas to purchase back a part of assets acquired by Šiaulių Bankas under the transaction of transfer of assets, rights, transactions and liabilities based on an agreement signed among Šiaulių Bankas AB, Ūkio Bankas AB and State Company "Indėlių ir Investicijų Draudimas".
None of the five options, under which a part of the assets acquired by Šiaulių Bankas from Ūkio Bankas could be sold, was realised.

ŠIAULIŲ BANKAS

CONSOLIDATED ANNUAL REPORT FOR 2013

Bank in facebook

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1. REPORTING PERIOD COVERED BY THE CONSOLIDATED ANNUAL REPORT

The present consolidated annual report of Šiaulių Bankas AB (hereinafter – the "Bank") covers the period from 1 January 2013 to 31 December 2013.

2. COMPANIES OF THE BANK'S GROUP

As of 31 December 2013, the Bank had the following subsidiaries:

Šiaulių Banko Lizingas UAB (hereinafter – "SB Lizingas"):

- *assets:* LTL 223.8 million
- *nature of activities:* finance lease (leasing) and leases

Šiaulių Banko Turto Fondas UAB (hereinafter – "ŠB Turto Fondas"):

- *assets:* LTL 74.01 million
- *nature of activities: real estate management*

Šiaulių Banko Investicijų Valdymas UAB (hereinafter – "ŠB Investicijų Valdymas"):

- assets: LTL 22.89 million
- nature of activities: investment management

SBTF UAB (hereinafter – "SBTF"):

- assets: LTL 42.81 million
- nature of activities: management and administration of liquid real estate and movable estate, assurance and realisation of the current activity

Minera UAB (hereinafter – "Minera"):

- assets: LTL 53.68 million
- nature of activities: real estate management

Pavasaris UAB (hereinafter – "Pavasaris"):

- assets: LTL 30.15 million
- nature of activities: development of the area of multi-apartment buildings

A share of the Bank in the Bank's subsidiaries as of 31 December 2013:

Subsidiary	Share of the authorised capital owned by the Bank, %
Šiaulių Banko Lizingas UAB	100.00
Šiaulių Banko Investicijų Valdymas UAB	100.00
Šiaulių Banko Turto Fondas UAB	100.00
SBTF UAB	100.00
Pavasaris UAB	98.91
Minera UAB	100.00

As of 31 December 2013, the Bank controlled all subsidiaries directly, except for Kėdainių Oda UAB.

On 3 March 2013, the Bank, pursuant to the Agreement on the Transfer of Assets, Rights and Liability of Ūkio Bankas, on the basis of which part of the assets, rights, transactions and liability of Ūkio Bankas is transferred to Šiaulių Bankas, acquired subsidiaries controlled by 100%:

- real estate development companies: Eastern Europe Development Fund UAB, Sporto Klubų Investicijos UAB, Trade Project UAB, Investicinio Turto Valdymas UAB, ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB (ŽSA 1 UAB, ŽSA 2 UAB, ŽSA 3 UAB, ŽSA 4 UAB and ŽSA 5 UAB co-owns 100% of Žalgirio Sporto Arena UAB shares, Žalgirio Sporto Arena UAB controls 100% of Nacionalinis Futbolo Stadionas UAB shares);

- companies engaged in other activities: Ūkio Banko Lizingas UAB and Bonum Publicum GD UAB.

According to the agreement (as last amended) concluded by Šiaulių Bankas AB, administrator of Ūkio Bankas AB and State Enterprise Indėlių ir Investicijų Draudimas on 23 February 2013, call option rights of Ūkio Bankas BAB to acquire part of the assets taken over by Šiaulių Bankas AB from Ūkio Bankas BAB expired on 2 February 2014. None of the five call options under which part of the assets taken over by Šiaulių Bankas AB from Ūkio Bankas BAB could have been sold was realised.

3. STRATEGY OF THE BANK

Implementing its operational strategy, the Bank pays special attention to the financing of small and medium-sized enterprises (SMEs), provides financial services to private and corporate clients and helps them achieve financial welfare and stability. The aim of the Bank is to be a strong Lithuanian bank with advanced banking traditions.

Simplicity, commitment, professionalism and expediency are the main working principles of the Bank, ensuring long-term and mutual trust-based relationships in communicating and cooperating with partners and clients, providing them financial services.

MISSION

We are here to help our clients grow in implementing their goals, targets and projects, together creating a better quality of life in Lithuania.

OUR VISION

To be a professional, reliable and modern financial partner.

OUR VALUES

- Attention to clientele
- High internal standards, respect to each other and to clients
- Open communication
- Constant growing

After taking over part of bankrupt Ūkio Bankas in 2013, the Bank's position in the market has drastically changed. The Bank has become larger and more important. Within a short period of time, it has successfully integrated two banks, ensuring further fulfilment of obligations and efficient resumption of services to former clients of Ūkio Bankas. In 2013, its network was expanded by 21 customer service point up to 77 points in total. The number of clients is over 300,000 making the Bank the largest Lithuanian bank.

With a help of its major shareholder, the European Bank for Reconstruction and Development (EBRD), the Bank is successfully expanding its activities.

4. NATURE OF ACTIVITIES OF THE BANK

The Bank is engaged in normal activities of commercial banks in accordance with laws and legislation of the Republic of Lithuania, the Charter of the Bank and the agreements concluded. The priority area of the Bank's activities is funding SMEs.

The Bank offers a wide range of services to private and corporate clients:

- opening and handling of bank accounts in Litas and foreign currencies for Lithuanian and foreign clients;
- domestic and international payments in Litas and foreign currencies;
- collection of utility bills and other charges;
- direct debit services, standing and conditional orders;
- online management of accounts;
- mobile banking services;
- trading in foreign currencies;
- conclusion of deposit agreements;
- issue, purchase and sale of cheques;
- short-term and long-term crediting;
- issue and administration of payment cards;
- intermediation in transactions on the Stock Exchange;
- registration of transactions in securities off-stock trading;

- advice on the issue, acquisition and transfer of securities;
- accounting of shares issued by enterprises;
- issue of debt securities;
- preparation of share issue prospectus;
- distribution of commemorative coins, numismatic sets, etc.

The Bank's head office is located in Šiauliai. The Bank's network covers major towns and financially active regional centres. As of 31 December 2013, the Bank had 77 customer service points in 38 Lithuanian towns.

5. INVOLVEMENT IN ASSOCIATED STRUCTURES

- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- International payment card organisation association Visa International
- International payment card organisation MasterCard Worldwide
- EUROPAY International
- UN international initiative Global Compact
- Association of Lithuanian Banks
- Stock Exchange NASDAQ OMX Baltic
- Association of Lithuanian Financial Brokers
- Lithuanian Business Employers' Confederation (centre and Utena)
- International Chamber of Commerce (ICC) Lithuania
- Kaunas Chamber of Commerce, Industry and Crafts
- Klaipėda Chamber of Commerce, Industry and Crafts
- Panevėžys Chamber of Commerce, Industry and Crafts
- Šiauliai Chamber of Commerce, Industry and Crafts
- Klaipėda Association of Industrialists
- Šiauliai Association of Industrialists
- Kelmė Association of Entrepreneurs
- Mažeikiai Association of Entrepreneurs
- Tauragė Association of Entrepreneurs

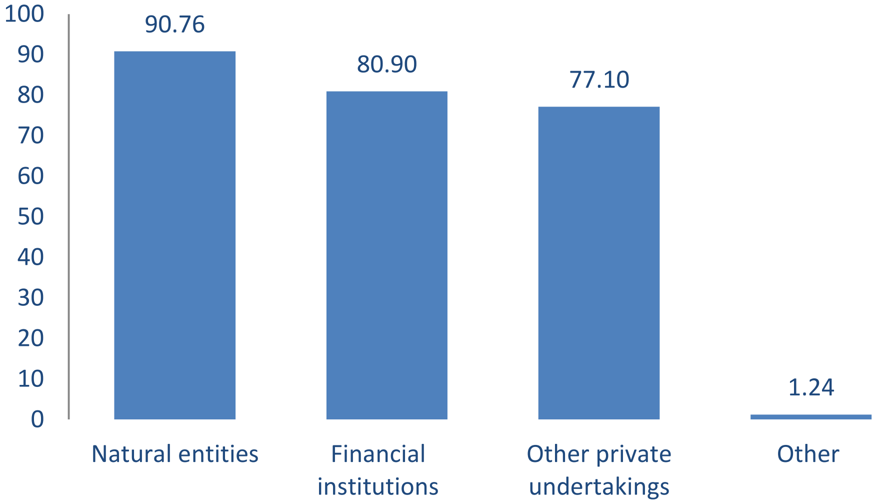
6. AUTHORISED CAPITAL AND SHAREHOLDERS OF THE BANK

The Bank's authorised capital is LTL 250,000,000. Amendments to the Charter related to the capital increase were registered at the Register of Legal Entities on 31 May 2013. 66.36% of the Bank's authorised capital is owned by enterprises registered in Lithuania and individuals. The major shareholder is the European Bank for Reconstruction and Development (EBRD) which controls 19.57% of the shares.

Within the last five years, the Bank's authorised capital has been increased by LTL 88.94 million: LTL 54.5 million from additional contributions of the shareholders and LTL 34.44 million from the Bank's own funds.

Date	14/05/2008	22/06/2010	04/08/2011	31/05/2013
Capital size, LTL	180,357,533	204,857,533	234,857,533	250,000,000

Distribution of the authorised capital by type of shareholder as on 31 December 2013 (in LTL million):

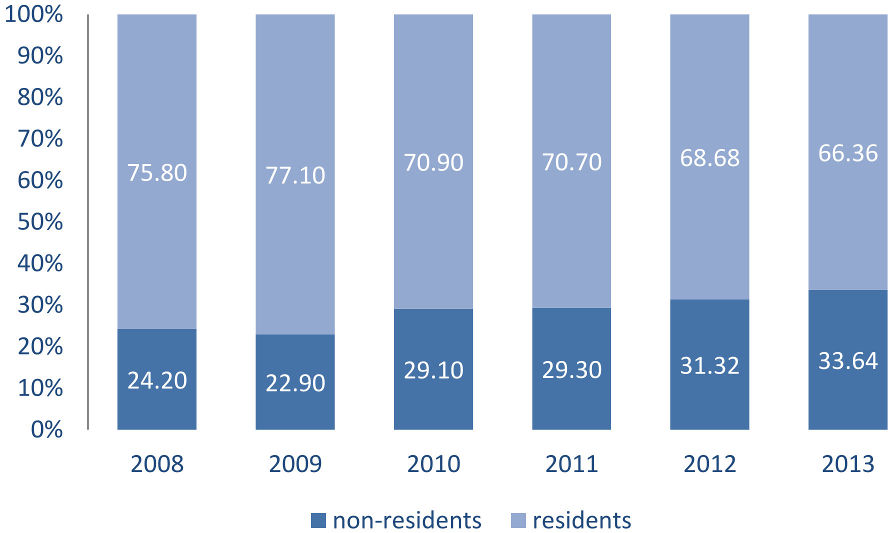


Structure of the Bank's authorised capital:

Type of shares	Number of shares, units	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares, ISIN LT0000102253	250 000 000	1	250 000 000

As on 31 December 2013, the Bank had 3,592 shareholders (3,671 at the end of 2012). All shares issued by the Bank grant shareholders equal rights as provided for by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

The share of the capital controlled by the Bank's shareholders by place of residence (%)



The Bank's shareholders have the following property rights:

- to receive a share of the Bank's profit (dividends);
- to receive a share of the Bank's funds when the Bank's authorised capital is decreased in order to pay the Bank's funds to its shareholders;
- to receive shares free of charge, if the authorised capital is raised from the Bank's own funds, except for the cases stipulated by law;
- where the shareholder is a natural person, to leave under the will all shares or any part thereof to one or several persons;

- to sell or otherwise transfer all shares or any part thereof to the ownership of other persons in accordance with the procedure and conditions established by law;
- to have the pre-emption right to purchase shares issued by the Bank or convertible bonds, except where the General Meeting of Shareholders withdraws this right from all the shareholders following the procedure established by law;
- to lend to the Bank in the manner stipulated by law. However, when borrowing from its shareholders, the Bank shall not have the right to pledge its assets to the shareholders. When the Bank borrows from a shareholder, the interest rate may not exceed the average interest rate of commercial banks available in the place of residence or business effective at the moment of conclusion of the loan agreement. In such a case, the Bank and its shareholders shall not be allowed to agree on a higher interest rate;
- other property rights stipulated by law.

The right to dividends, free shares and the pre-emption right to acquire shares issued by the Bank shall belong to those persons who are the Bank's shareholders at the end of the tenth working day after the General Meeting of Shareholders which makes the corresponding decision, i.e. at the end of the day of accounting of the rights.

The Bank's shareholders have the following non-property rights:

- to take part in General Meetings of Shareholders;
- to vote at Meetings in accordance with the rights granted by the shares;
- to provide, in advance, questions to the Bank in relation to the agenda items of the General Meeting of Shareholders;
- to receive information on the Bank specified by the Law on Companies of the Republic of Lithuania;
- to file a claim for damages against the Bank, if the damages resulted from the failure to execute or improper execution of the obligations of the Chief Executive Officer and members of the Board of the Bank as well as in other cases stipulated by law;
- to authorise a natural or legal entity to act as a representative in maintaining relations with the Bank and any other persons;
- other non-property rights stipulated by law.

A person shall obtain all rights and obligations granted by the share of the Bank's authorised capital and/or voting rights: in case of the raise of the Bank's authorised capital – from the date of registration of the changes related to the raise of the Bank's authorised capital and/or voting rights; in any other cases – from the emergence of the property right to the share of the Bank's authorised capital and/or voting rights.

Shareholders of the Bank who owned more than 5% of the Bank's authorised capital as of 31 December 2013:

	Shareholder	Number of shares held under the right of ownership, units	Share of the authorised capital held under the right of ownership, %	Share of votes held under the right of ownership, %	Share of votes held together with related persons, %
1	European Bank for Reconstruction and Development, address (Great Britain)	48,928,965	19.57	19.57	42.93
2	Gintaras Kateiva	15,605,433	6.24	6.24	42.93

Shareholders of the Bank, including the European Bank for Reconstruction and Development (EBRD), Trade House Aida, Mintaka UAB, Enterprise Group Alita AB, Sigitas Baguckas, Algirdas Butkus, Vigintas Butkus, Vytautas Junevičius, Gintaras Kateiva, Arvydas Salda and Kastytis Jonas Vyšniauskas, who have concluded a shareholders' agreement, and any other shareholders whose votes are calculated jointly as prescribed by the law of the Republic of Lithuania form a group which had 42.93% of the Bank's authorised capital and votes as of 31 December 2013.

THERE ARE NO RESTRICTIONS TO THE TRANSFER OF SECURITIES. The shareholders exercise property and non-property rights and have obligations specified by the Law on Companies of the Republic of Lithuania and the Charter of the Bank.

SHAREHOLDERS ENTITLED TO SPECIAL CONTROL RIGHTS AND DESCRIPTIONS OF THOSE RIGHTS. The shareholders control the Bank through the elected Supervisory Council. Its functions are defined by the Law on Companies of the Republic of Lithuania.

RESTRICTIONS TO THE VOTING RIGHTS. All shares issued by the Bank are ordinary registered shares with the nominal value of LTL 1. Each share grants one voting right at the General Meeting of Shareholders. Restrictions to the voting rights may be applied in cases specified by law.

The shareholders shall not have the right to vote when adopting a decision on the pre-emption right to acquire shares issued by the Bank or withdrawal of convertible bonds, if the agenda of the General Meeting of Shareholders provides for that the right to acquire these securities is granted to them, their close relative, spouse or common-law spouse where partnership is registered as prescribed by the law, or to a close relative of the spouse where the shareholder is a natural person as well as to the company patronising the shareholder or the shareholder's subsidiary where the shareholder is a legal entity.

A person or persons acting jointly, having decided to acquire a qualified share of the Bank's authorised capital and/or voting rights or to raise it to the extent that the available share of the Bank's authorised capital and/or voting rights would be equal to or exceed 20%, 30% or 50% or as much as the Bank would become controllable, shall be obliged to report this in writing to the Bank of Lithuania which implements the supervisory function, specifying the qualified share of the Bank's authorised capital and/or voting rights to be purchased, as well as to provide documents and data listed in Article 25.2 of the Law on Banks. Failure to observe the requirement to obtain a decision of the Bank of Lithuania not to be in conflict with surpassing the aforementioned limits shall not cause the transaction to become ineffective; however, due to the failure to observe this requirement, the whole share of the Bank's authorised capital and/or voting rights owned by the person acquiring it shall lose the voting right in the General Meeting of Shareholders.

TAXATION OF CAPITAL GAINS. Pursuant to Article 17 of the Law on Personal Income Tax of the Republic of Lithuania, which took effect on 1 January 2014, income from the securities sold or otherwise transferred to ownership shall not be subject to the personal income tax, if the difference between the gain received from the sale or other transfer of financial instruments or the realisation of derivative financial instruments and the acquisition price of these financial instruments and costs related to their sale or other transfer and realisation of derivative financial instruments does not exceed LTL 10,000 within a tax period. A difference which exceeds LTL 10,000 within a tax period shall be subject to a 15% tax rate. The same tax rate shall be applicable to gain from the sale of securities, where a shareholder sells shares or otherwise transfers them to the ownership of to the issuing entity or where shares that have been received from the issuer free of charge are sold to increase the authorised capital, or in any other cases stipulated by the Law on Personal Income Tax of the Republic of Lithuania.

Pursuant to the Law on Corporate Income Tax of the Republic of Lithuania, the profit of Lithuanian legal entities received from the securities sold shall be subject to a 15% profit tax from the gain received from an increase in the value of the assets. The gain received from an increase in the value of the assets shall mean the earned income formed by the difference between the price of the transfer of the assets and the acquisition price. The acquisition price of the assets shall include the commission fees. In case of sale of the assets, the selling price shall be reduced by the amount of the taxes paid. If a legal entity suffers loss from the trade in securities, this loss shall be carried over to the following tax year but covered only from the gain on the transfer of securities. Subject to the type of activities of the undertaking, the law provides for different procedures for carrying over the loss from securities.

7. TRADE IN SHARES OF COMPANIES OF THE BANK'S GROUP IN REGULATED MARKETS

The official trading list of NASDAQ OMX Vilnius AB quotes only shares of the Bank. ISIN code is LT0000102253; the number of shares is 250,000,000. Shares of the Bank's subsidiaries are issued for non-public circulation.

Shares issued by the Bank are included in the OMX Baltic Benchmark, a comparative index of the OMX Baltic States securities market, which comprises of shares of the highest capitalisation and most liquid companies as well as in indices of OMX Baltic (OMXBGI), OMX Baltic Financial, OMX Baltic Banks PI and OMX Baltic Benchmark Cap (OMXBBCAPGI). Moreover, shares issued by the Bank are included in indices of STOXX All Europe Total Market, STOXX Eastern Europe TMI, STOXX Eastern Europe TMI Small, STOXX EU Enlarged TMI, STOXX Global Total Market and STOXX Lithuania Total Market.

Changes in the share price within five years (share price is provided in Euro as the trade in shares is performed in Euro since 22 November 2010):

Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=en&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2009&end_d=31&end_m=12&end_y=2013

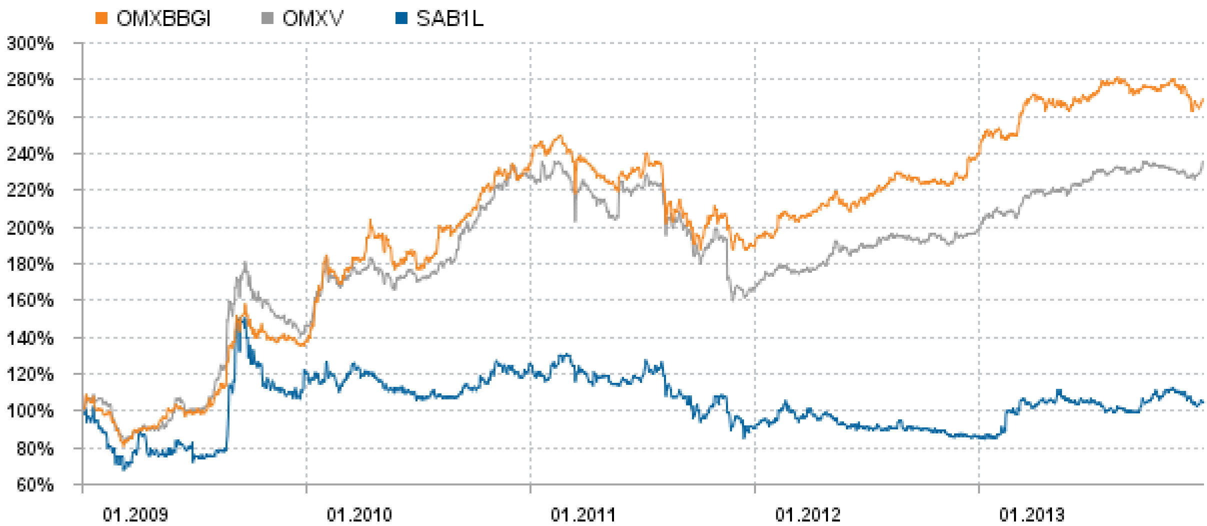
Turnover of the Bank's shares from 2009 to 2013:

Year	Price of the last trading session, EUR	Max. price, EUR	Min. price, EUR	Average price, EUR	Number of shares, units	Turnover, million EUR
2009	0.324	0.446	0.180	0.267	20,746,641	5.54
2010	0.337	0.345	0.264	0.318	17,784,012	5.65
2011	0.245	0.372	0.225	0.298	17,899,502	5.34
2012	0.231	0.285	0.230	0.256	11,106,241	2.48
2013	0.266	0.310	0.227	0.266	20,496,506	5.45

Price and turnover of the Bank's shares in the reporting year (EUR):

Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?instrument=LT0000102253&list=2&pg=details&tab=historical&lang=en&currency=0&downloadcsv=0&date=&start_d=1&start_m=1&start_y=2013&end_d=31&end_m=12&end_y=2013

Changes in the index of OMX Vilnius, OMX Baltic Benchmark and the price of the Bank's shares from 2009 to 2013 are presented by the chart below:



Data of the chart:

Index/shares	01/01/2009	31/12/2013	+/-, %
OMX Baltic Benchmark GI	228.12	613.508	168.94
OMX Vilnius	179.25	421.608	135.20
SAB1L	EUR 0.25	EUR 0.27	5.12

Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?pg=charts&lang=en&idx_main%5B%5D=OMXBBGI&idx_main%5B%5D=OMXV&add_index=OMXBBPI&add_equity=LT0000102253&idx_equity%5B%5D=LT0000102253&period=other&start_d=1&start_m=1&start_y=2009&end_d=31&end_m=12&end_y=2013

Capitalisation of the Bank was LTL 229.61 million (EUR 66.50 million) as of 31 December 2013, compared to LTL 187.32 million (EUR 54.25 million) on 31 December 2012.

Capitalisation of the Bank's shares and NASDAQ OMX AB trading list in the Baltic market as of the last trading day of 2012 and 2013 is as follows:

	30/12/2012	30/12/2013	Change
Šiaulių Bankas – SAB1L	EUR 54,252,090	EUR 66,500,000	22.58 %
Baltic market, total	EUR 5,602,632,807.33	EUR 5,731,270,188.87	2.30 %

Source: website of NASDAQ OMX Vilnius AB
http://www.nasdaqomxbaltic.com/market/?pg=capital&list%5B%5D=BAMT&list%5B%5D=BAIT&period=other&start_d=1&start_m=1&start_y=2013&end_d=30&end_m=12&end_y=2013

The ratio between the market price of a Bank's share and earnings (P/E):

Indicator	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
P/E	negative	negative	14.10	13.29	22.96

8. ACQUISITION OF OWN SHARES

The Bank and its subsidiaries or persons acting under the authorisation of the subsidiaries do not hold any shares of the Bank. The Bank has not acquired its own shares and has not transferred them to other entities.

9. INFORMATION ON COMPLIANCE WITH THE BANK'S PRUDENTIAL REQUIREMENTS

Over the accounting period the Bank executed all the prudential requirements stipulated by the Bank of Lithuania. Detailed information regarding the compliance with the standards is revealed in the Bank's explanatory note to the financial statements for 2013.

10. RISK MANAGEMENT

The Bank Group accepts, manages, analyses, and evaluates the risks arising from its activities. The purpose of risk management in the Bank Group is to ensure sufficient return on equity by managing risks in a conservative manner. By implementing an advanced risk management policy, the Bank Group seeks not only to minimize the potential risks as much as possible, but also to ensure the optimal risk and profit ratio as well as an effective distribution of capital.

The risk management policy is approved and its implementation is controlled by the Board of the Bank. It specifies the risks incurred in the activities of the Bank Group and the principles of the risk management system. The development of the proper risk management system, its constant improvement and application of its measures in the daily performance are among the key preconditions for the Bank Group activities in the long run. The procedures for the management of various types of risks prepared on the basis of the policy specify the principles of management of particular risks and ensure the integrity of the risk management process throughout the Bank Group.

The key types of risks that the Bank Group is exposed to include credit, market, liquidity, concentration, and operational risks. Market risk encompasses the risk of currency exchange rate, interest rate, and price of securities. More detailed information regarding the management of risks is provided in in the chapter Financial Risk Management of the explanatory note to the financial statements for 2013.

The Bank Group revises its risk management policies and systems on a regular basis in consideration of market changes, new products, and newly emerging best practices.

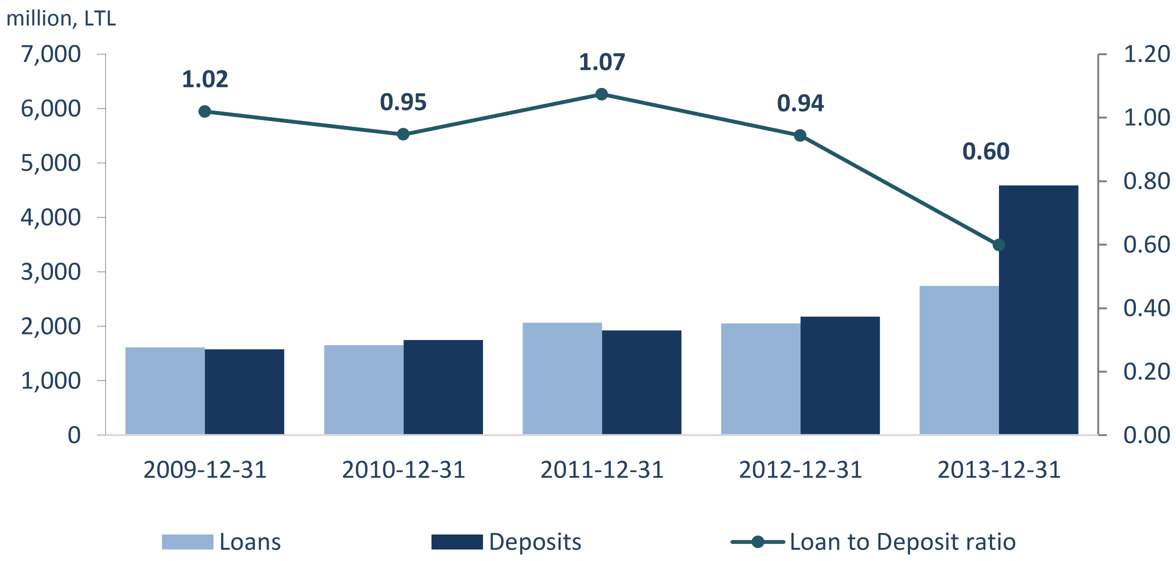
11. INFORMATION ON RESULTS OF PERFORMANCE

2013 proved to be a year of significant developments and changes. The Bank gained a much stronger foothold in the market and expanded its presence.

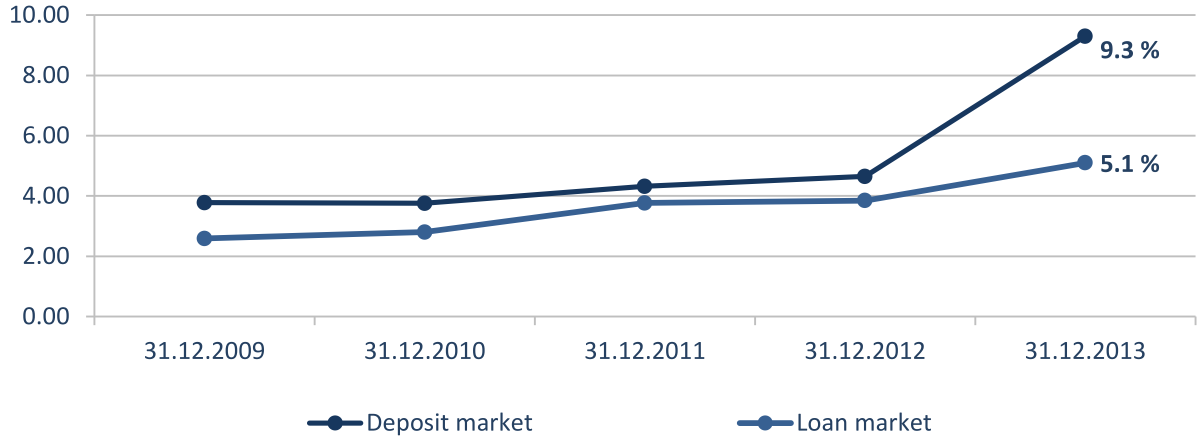
Following the announcement of the Board of the Bank of Lithuania that declared Ūkio Bankas insolvent and terminated its operation licence, on 23 February 2013, Šiaulių Bankas, the temporary administrator of Ūkio Bankas, and state enterprise Deposit and Investment Insurance signed a tripartite agreement on the transfer of a part of Ūkio Bankas assets and liabilities to the Bank. Within the shortest time practicable the Bank has re-opened 25 former outlets of Ūkio Bankas, expediently resumed the provision of services to former clients of Ūkio Bankas, and renewed access to their funds.

On 11 October 2013, KPMG Baltics submitted the Bank with the final evaluation of the assets and liabilities taken over from Ūkio Bankas, stating the total value of the liabilities and assets taken over by the bank respectively at LTL 2,725 million and LTL 1,798. At the end of Q4 of 2013, assuming its debt obligation with the Bank, the state enterprise Deposit and Investment Insurance covered LTL 128 million difference that occurred between the final and preliminary evaluation.

Purchase call options have been granted to ensure that the transferable asset value as established in the final evaluation was in line with the market. In accordance with the agreement signed by Šiaulių Bankas AB, the temporary administrator of Ūkio Bankas AB, and state enterprise Deposit and Investment Insurance on 23 February 2013 and its further amendments, the period for exercising a call option right with regard to the assets taken over from bankrupt Ūkio Bankas AB expired on 2 February 2014. Neither of five call options, during which part of the assets taken over by Šiaulių Bankas from Ūkio Bankas were made available for sales, has been exercised.



Over the year the Bank Group assets grew by more than 80 % to LTL 5.3 billion. The net value of the loan portfolio rose by more than a third in 2013 and reached nearly LTL 2.4 billion at the end of the year. According to data available at the end of 2013, the Bank was the sixth-largest lender on the banking market with a 5.2 % market share. Over the accounting period the deposit portfolio grew two-fold to over LTL 4.5 billion. The 9.7 % deposit market share allowed the bank advance to the fourth position among Lithuania-based banks.

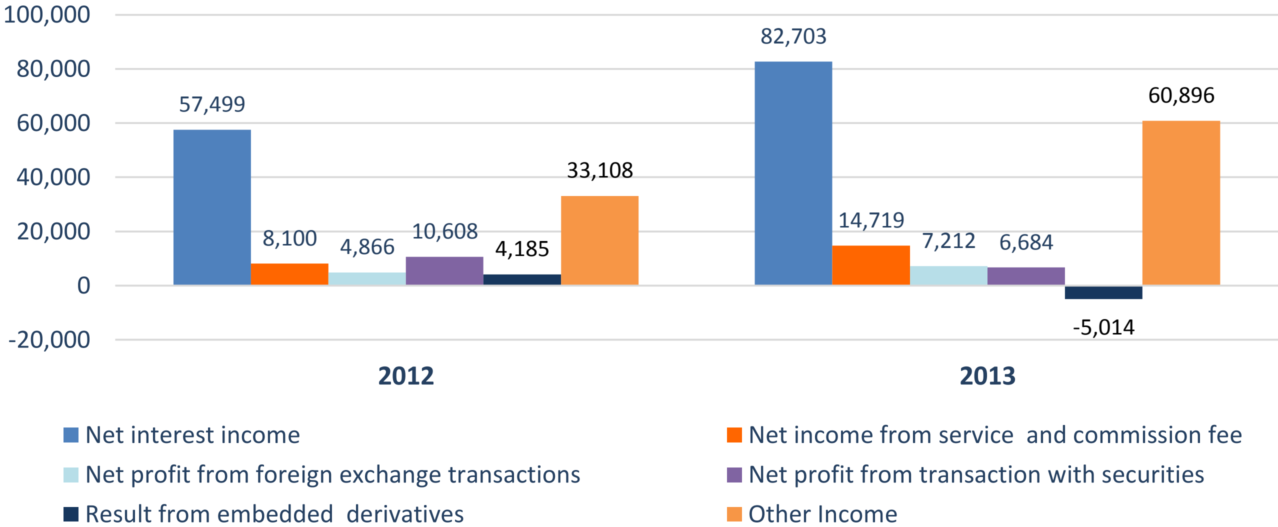


In 2013, the expanded Bank Group posted LTL 18.4 million net profit, or 41 % up from LTL 13.0 million in 2012. The Bank's net profit accounted for LTL 10.7 million in 2013 or 28 % down from LTL 14.9 million in 2012.

Compared with 2012, the Bank Group reported a 44 % rise in annual net interest income, or a total of LTL 83 million. The annual net fees and commissions income also picked up to LTL 14.7 million in 2013, i.e. 82 % up from 2012. The annual profit from foreign exchange transactions increased by 48 % to LTL 7.2 million.

Compared with the data of 2013 and earlier, it must be noted that the takeover of Ūkio Bankas assets and liabilities had a crucial impact on the Bank Group performance statistics for the previous year.

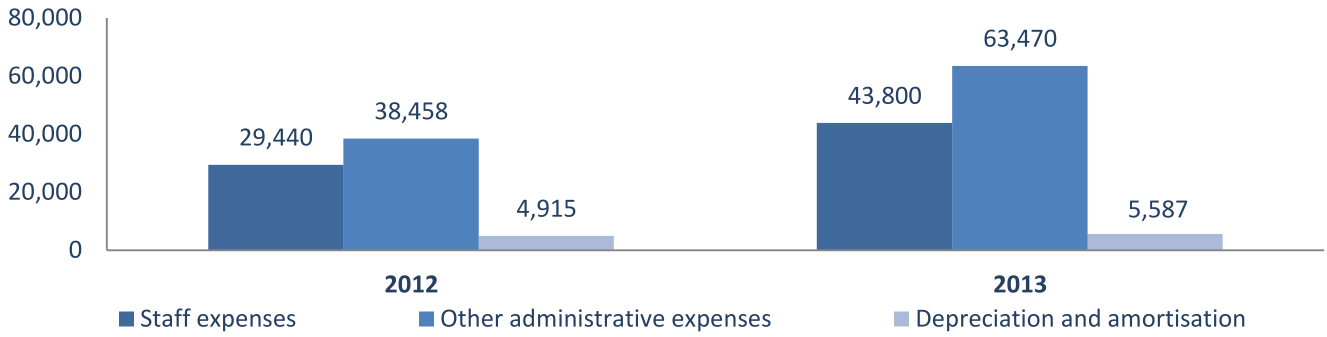
Group operating income:



Asset impairment produced a negative effect on the Bank Group operating results. Bank Group asset impairment as well as changes in the value of loans taken over from Ūkio Bankas resulted in annual impairment losses of LTL 50.5 million. These losses were partially covered by the repaid loans of former Ūkio Bankas clients and the positive impact of the LTL 12.2 million was accounted for in other Bank Group income items. In the light of this, the actual annual impairment losses reached LTL 38.4 million.

Changes in the operating expenses are also attributed to the takeover of Ūkio Bankas assets and liabilities. In 2013, the Bank Group reported LTL 112.8 million in operating expenses, which is 55 % more than in 2012.

Group operating costs:



Increased operating costs affected the Bank Group performance as well. The expense-to-income ratio stood at 65.8 %, while annual return on equity (ROE) and return on assets (ROA) respectively reached 5.8 % and 0.3 %.

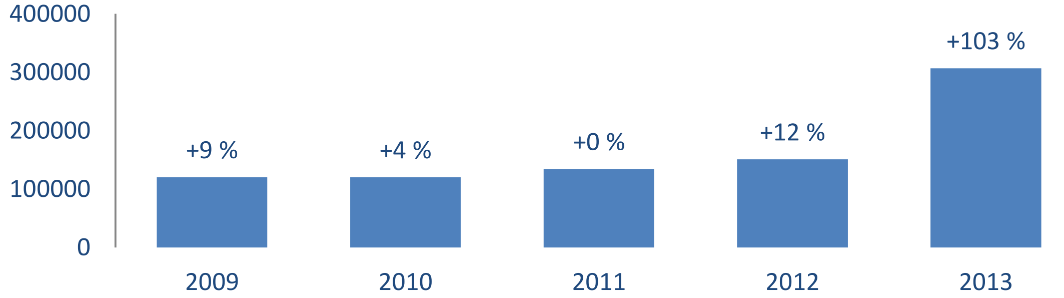
	Profitability ratios, %	2009	2010	2011	2012	2013
Bank	Costs / income	75.71	63.78	58.87	45.55	50.88
	ROAA	-1.47	-1.10	0.49	0.52	0.20
	ROAE	-11.22	-9.47	4.61	4.79	3.36
Financial group	Costs / income	71.81	62.77	59.13	45.94	50.77
	ROAA	-1.53	-1.09	0.53	0.54	0.16
	ROAE	-11.74	-9.38	4.87	4.90	2.65
Group	Costs / income	78.42	67.85	60.44	59.40	65.84
	ROAA	-1.71	-1.28	0.49	0.46	0.34
	ROAE	-13.07	-11.20	4.63	4.24	5.79

As at 31 December 2013, the Bank complied with all the prudential requirements stipulated by the Bank of Lithuania:

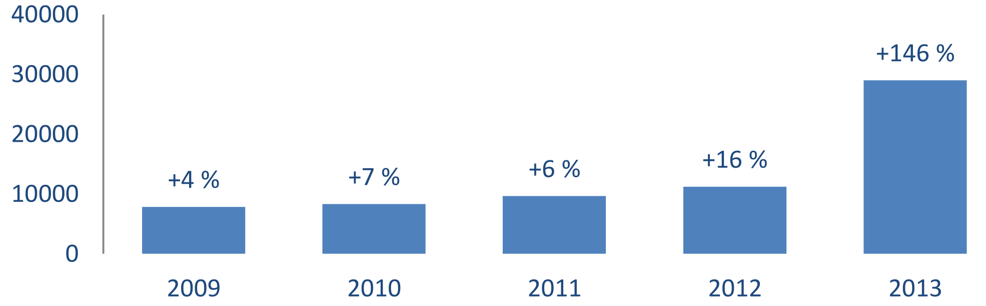
	Profitability ratios, %	Stipulated requirements	2009	2010	2011	2012	2013
Bank	Capital adequacy	> 8 %	13.90	14.06	13.05	12.81	11.40
	Liquidity	> 30 %	38.23	46.00	38.36	42.78	53.94
	Maximum exposure per borrower	< 25 %	24.56	21.68	21.36	22.33	19.62
	General open position in foreign currency	< 25 %	0.31	0.55	0.49	1.02	2.04
Financial group	Capital adequacy	> 8 %	13.94	14.17	13.12	13.00	11.60
	Maximum exposure per borrower	< 25 %	24.38	21.50	21.42	22.04	19.38
	General open position in foreign currency	< 25 %	0.31	0.54	0.49	1.00	2.02
Group	Capital adequacy	> 8 %	13.90	14.02	12.95	12.64	11.14
	General open position in foreign currency	< 25 %	0.31	0.55	0.49	1.02	2.06

In 2013, the Bank expanded its network of customer service points to 77, operating in 38 Lithuanian cities and towns. The number of clients increased significantly, too, with the segment of corporate clients rising by 146 % to 29,000 and that of private clients expanding two-fold to 307,000.

Growth in the number of private clients:



Growth in the number of corporate clients:



The Bank's clients had access to 230 ATMs across 56 Lithuanian cities and towns. At the end of 2013, the service of cash withdrawal or deposit to the Bank clients' payment card accounts was available at as many as 1,800 terminals operated by Perlo Paslaugos UAB all over Lithuania.

12. ACTIVITY PLANS AND FUTURE OUTLOOK

The recovering country's economic market, alongside with the strengthening SME sector and occurring new businesses create favorable conditions for the Bank to grow, to achieve better profitability indicators, to improve the quality of its assets, and to increase the loan portfolio.

In short-term the Bank is planning to focus on synergy which has occurred at the Bank after the transaction with Ūkio bankas - a large part of Ūkio bankas assets and liabilities has been taken over as well as the part of the employees, which alongside with the new technological systems allow systematizing and improving the Bank's internal processes, generating higher revenue, and increasing efficiency. Moreover, much attention shall be paid on improving the quality of customer service.

The Bank has been operating in the market for 22 years as a universal bank - it works with both the corporate and private customers, however the greatest experience the Bank has gained in the field of small and medium enterprises (SME). The Bank is going to continue strengthening its exclusive competence and promoting the SME development in Lithuania. Currently the Bank is actively involved in various programmes for SMEs – it is extending credits with the EIF portfolio guarantees, offering risk-shared products under the JEREMIE programme, micro-credits under microfinance facility „Progress“, etc. The Bank plans to continue expanding the range of services provided to SMEs.

The Bank is also an active participant of the programmes Government of the Republic of Lithuania aimed at increasing the efficiency of energy of the multi-apartment buildings, therefore, the renovation of the multi-apartment buildings shall also remain an important area of the Bank‘s activities.

The development of the private clients' base is going to be consistent, however, the Bank applying the experience and knowledge of its team, will continue to ensure the rapid, simple, and high-quality customer service. The number of the clients which increased after the transaction with Ūkio bankas is dictating the need to improve the quality of services, to invest in products that customers consider important, and to pay the greater attention to the modernization and development of the electronic channels.

The Bank operates with the prospects of further growth and higher returns to its investors. The following actions shall be taken at the Bank in 2014:

- realization of the possibilities of business profitability improvements, which occurred after the completion of the takeover process of Ūkio bankas' assets and liabilities, shall be started;
- the loan portfolio shall be increased using the excessive liquidity reserves;
- the capital base shall be subject to strengthening;
- the investments into the information technologies ensuring the improvement of the customer servicing quality as well as development of the rendered services shall be increased.

13. KEY EVENTS OVER THE ACCOUNTING PERIOD

Key events of 2013:

- on 15 January, Vilnius-hosted closing event of the United Nations Development Programme (UNDP) project in Lithuania titled GATES: Social and Environmental Business Initiatives, dedicated to promote corporate social responsibility in the region, recognised the Bank as the corporate social responsibility leader in the region of Šiauliai and awarded it for the drive to promote responsible business ideas.

- on 7 February, an agreement was signed with the European Investment Bank (EIB) for the extension of cooperation on the multi-apartment housing renovation programme under JESSICA financing scheme (the original agreement was signed in 2011) which will lead to additional EUR 12 million (LTL 41.4 million) allocated to the Bank;

- on 13 February, the Bank announced that following the decision of the Bank of Lithuania to restrict operations of Ūkio Bankas the Bank was ready to enter into negotiations with the Bank of Lithuania regarding the takeover of Ūkio Bankas banking operations in Lithuania in an effort to fast-track the restarting of Ūkio Bankas' operations and maintaining the stability of the financial system.

- on 23 February, Šiaulių Bankas AB, the temporary administrator of Ūkio Bankas AB, and the state enterprise Deposit and Investment Insurance signed an agreement on the transfer of a part of Ūkio Bankas assets and liabilities to the Bank;

- on 28 March, the Bank held a General Shareholders Meeting and decided to increase the Bank's authorised capital with LTL 15,142,467 from the Bank's funds, i.e. from LTL 234,857,533 to LTL 250,000,000, issuing 15,142,467 new ordinary registered shares and distributing them free-of-charge among the shareholders of the Bank pro rata to the number of shares they held at the moment;

- on 31 May, the Bank registered amendments to its Charter with an increased authorised capital of LTL 250,000,000 and with the newly issued shares assigned to the shareholders' equity accounts;

- on 6 August, the Bank opened a new customer service point (CSP) in Nida, which is the only financial service outlet in Neringa;

- on 13 September, Šiaulių Bankas and the European Investment Bank (EIB), manager of the Jessica holding fund in Lithuania, signed a EUR 40 million loan agreement to boost energy-efficient programmes across the country's urban areas;

- on 3 October, for the second consecutive year the Bank received the Straight-Through Processing Award from the German bank Commerzbank, an award acknowledging that more than 97 % of international remittances with Commerzbank are processed automatically in the payment system without any manual intervention involved;

- on 11 October, KPMG Baltics submitted Šiaulių Bankas AB with the final assessment of the assets and liabilities taken over from Ūkio Bankas under the Agreement on the Transfer of Ūkio Bankas Assets and Liabilities signed by Ūkio Bankas AB, Šiaulių Bankas AB, and state enterprise Deposit and Investment Insurance on 23 February 2013;

- on 29 November, the Bank received an exclusive acknowledgement in the prestigious bank awards held under the auspices of the magazine The Banker, an international magazine published by The Financial Times, which recognised Šiaulių Bankas the Bank of the Year 2013 with the largest national capital;

- on 3 December, the Bank opened Šeduva Customer Service Point (CSP) in Šeduva, Radviliškis, increasing the number of the Bank's outlets to 77;

- on 16 December, it was announced that Audrius Žiugžda, the Deputy Chairman of the Board and Chief Executive Officer of Šiaulių Bankas, decided to end his work at the Bank (Mr Žiugžda stepped down as the Bank's CEO on 31 January 2014);

- on 23 December, the Board of Šiaulių Bankas appointed Vytautas Sinius as the new Chief Executive Officer of the Bank, with the decision coming into force on 1 February 2014.

14. SOCIAL RESPONSIBILITY

Forming part of the UN international initiative Global Compact since 2008, the Bank has joined businesses and other organisations worldwide to align its business practices with the principles covering the areas of human rights, labour, environment, and anti-corruption.

In 2013, after the takeover of a part of Ūkio Bankas assets and liabilities, the number of staff rose sharply at the Bank, thus over the accounting period major attention has been focused on employee adaptation: departments held introduction events, employee training, common after-work activities, and the initiation ceremony for the newcomers.

Over the accounting period the Bank launched a programme to prepare supervisors across service outlets, organised training sessions to client service managers on efficient sales and mentoring, and Bank employees were given an opportunity to expand their knowledge at project management training, attend seminars on multi-apartment housing renovation, INVEGA training on loans and guarantees under Funded Risk Sharing Product (FRSP) scheme, etc.

As part of the employee motivation for their qualified work, implemented projects, significant achievements and initiatives, the Bank offered bonuses on a quarterly basis. On the occasion of the Bank's anniversary all employees have been acknowledged for their input and offered bonuses.

In autumn, the Bank employees embarked on the traditional trip, which this time took them to Vilnius, visiting the Taujėnai manor on the way, and followed by a literature trip Silva Rerum, and finally completed with the Barbora Radvilaitė ballet at the National Opera and Ballet Theatre.

Other traditional events organised for Bank employees in 2013 included the summer sports and fun event, the Christmas gala, and the Employee of 2013 acknowledgement and award ceremony.

The Bank cares for its employee health and welfare, thus each of them has a 24-hour worldwide insurance coverage for accidents that could lead to injury, disability or fatality.

The Bank's volunteer blood donation campaign successfully continues thanks to employees' kind support and willingness to engage. For several years now the Bank has been promoting healthy nutrition and active lifestyle habits among its employees: the Bank offers partial compensation of gym subscription expenses.

In 2013, for the first time the Bank participated in the conference Enterprising (Lith. *Veikli*) for women, which was attended by more than 600 women from all over Lithuania. In the presentation delivered by the Bank representatives they discussed issues of financial management, shared insight on effective financial management, and introduced the financial products offered by the Bank to help clients save money or carry through a business idea.

In 2013, the Bank signed a cooperation agreement with Vytautas Magnus University in an effort to bridge the gap between science and business, encourage cooperation through newly launched and implemented joint projects, improved study quality for students, also developing their practical skills and contributing to the education of qualified employees. Two students of Vytautas Magnus University have been awarded nominal grants by the Bank for their academic achievements and the aspiration to grow.

In 2013, the Bank paid major attention to vocational orientation of youth and their introduction to banking operations and the banker's occupation. For the second consecutive time the Bank representatives participated in the Junior Colleague Day organised by the Lithuanian Junior Achievement in the framework of a partnership programme with the schools. Over 50 students visited the Bank's offices in Alytus, Panevėžys, Šiauliai, Kaunas, and Tauragė to get a hands-on experience of the banking career and daily work. Among them were the students from Šiauliai Juventa pro-gymnasium and Šiauliai Simonas Daukantas gymnasium.

Representatives of the Bank's Vilnius unit met with the students of Vilnius College, got introduced with the concept of VIKO Bank and took a tour of the education institution's premises to get a closer look at its facilities and the information system Forpost.

In 2013, the Bank was engaged in supporting a number of social initiatives. As usual, the Bank supported local events of both larger and smaller cities, including Klaipėda Sea Feast, Šiauliai Days 777, Marijampolė Harvest Feast Sūduvos Kraitė, Days of Plungė, Anniversary of Utena, and Varėna Farmers' Feast. For many years now the Bank has been sponsoring the 1 September celebration outside the Presidential Palace, organised by the Musician Foundation. The Bank also contributed financial support to the following events: 12th running marathon Amber Sea Mile, Lithuanian Equestrian Championship in Jusaičiai, first-time Lithuanian Club Team Badminton Championship in Tauragė, sailing events, 600th anniversary of Samogitia baptism in Telšiai, Klaipėda Castle Jazz Festival, etc.

Over the accounting period the Bank also started cooperation with the donation website www.aukok.lt.

15. DIVIDENDS PAID

The Bank does not have an established procedure for the allocation of dividends. The decision on the payment of dividends is made on an annual basis by the General Shareholders Meeting while distributing the Bank's profit.

The table below shows data on the dividends paid by the Bank in the past five years:

	2009	2010	2011	2012	2013
Percentage of nominal value	0.00	0.00	0.00	0.00	0.05
Dividends per share, LTL	0.00	0.00	0.00	0.00	0.005
Total dividends, LTL	0.00	0.00	0.00	0.00	1,174,288
Dividend to net profit ratio, %	0.00	0.00	0.00	0.00	7.89

TAXATION OF DIVIDENDS–legal entity profit taxation is governed by the Law on Corporate Income Tax of the Republic of Lithuania of 20 December 2001 No IX-675 and Government resolutions and legal acts adopted in accordance with the aforementioned law. Dividends are subject to a 15 % tax. Dividends received by a Lithuanian entity controlling 10 % of voting shares for an uninterrupted period of at least 12 months are not subject to corporate income tax (granted further conditions described in Chapter VII of the Law on Corporate Income Tax of the Republic of Lithuania are satisfied). Dividends received by foreign entities are subject to a corporate income tax rate of 15 %. Dividends paid to a foreign entity which controls at least 10 % of voting shares for an uninterrupted period of at least 12 months are not subject to taxation, except for the cases where the foreign entity receiving the dividends is registered or otherwise organised in target territories.

Resident income tax is governed by the Law on Personal Income Tax of the Republic of Lithuania of 2 July 2002 No IX-1007 with its later amendments and resolutions adopted in accordance with the aforementioned law. As of 1 January 2014, the dividends received are subject to a 15 % tax duly deducted and paid to the budget by the Bank.

16. PRINCIPLES OF INTERNAL AUDIT CONTROL

The goals, functions, activity organisation, rights, duties, and responsibility of the Internal Audit Department are laid down in the Department's regulations and internal audit methodology. These documents are prepared in line with the Law on Banks of Lithuania of the Republic of Lithuania, resolutions of the Government of Lithuania and the Bank of Lithuania as well as other legal acts of the Republic of Lithuania that govern banking activity, International Accounting Standards, International Internal Audit Standards, the Code of Ethics, the general provisions on the internal audit organisation in the Bank as approved by the Board of the Bank of Lithuania, the Charter of the Bank, the decisions by the General Shareholders Meeting, the Supervisory Council, Internal Audit Committee, and the Board of the Bank.

As part of its activity the Internal Audit Department performs audit of operations related to finances, compliance, activity, management, and information systems. The goal of internal audit is to perform an independent and unbiased examination and control, offer a systematic and comprehensive assessment and pave the way for new improvements to the banking activity risk management, efficacy of internal control systems, assist the Bank in the implementation of its goals, ensuring that internal audit goals are accomplished at minimum cost and internal control functions are implemented effectively.

Activity of the Internal Audit Department is based on the current year's operational plan and the strategic operational plan for 2014-2016 (documents approved by the Internal Audit Committee).

Activity of internal auditors conforms to the principles of:

- GOOD FAITH, performing the functions in good faith, diligently, responsibly, in accordance with the laws, avoiding any illegal activities or any actions that could compromise internal auditor's occupation and the Bank, to respect the lawful and ethical goals of the Bank and contribute to their implementation;
- OBJECTIVITY, avoiding any activity or relations that are or could be potentially harmful to their impartiality or be in conflict with the Bank's interests, refuse any gifts in order to avoid any prejudice in their professional opinion, and reveal all the relevant facts available to them;
- CONFIDENTIALITY, responsibly using and keeping information obtained when performing their functions and avoid using the information for personal gain;
- COMPETENCE, providing exclusively those services for which they have the relevant knowledge, skill and experience, providing internal audit services in compliance with international internal audit standards, pursuing constant professional growth, improving the quality and efficacy of services.

The Internal Audit Department is directly accountable to the Internal Audit Committee and reports to it no less than once every quarter of the year.

The goal of the Internal Audit Committee is to monitor the preparation of the Bank's financial statements, the efficacy of the Bank's internal control, risk management and internal audit systems, the processes of external and internal audit performance, to discuss the information submitted by internal audit on the examinations conducted, shortcomings identified and their elimination, the implementation of internal audit operational plans, ensuring the independence of internal audit activity.

The Internal Audit Committee consists of four members, including an independent member of the Bank's Supervisory Council. The functions of the Internal Audit Committee are laid down in the Internal Audit Committee's regulations (approved by the Supervisory Council of the Bank). Once a year the Internal Audit Committee reports on its activity to the Supervisory Council of the Bank.

Prior to the performance of each audit, the representatives of the Internal Audit Department prepare an audit programme that describes the objective, the scope, and the time frame in which the audit is completed. The audit programme is discussed with the director of the Internal Audit Department. In consideration of the comments and suggestions by the Internal Audit Department, the Bank's executives approve the plan of the implementation of recommendations presented in the internal audit report. In view of the significance of the conclusions and recommendations presented in the report, the director of the Internal Audit Department authorises responsible employees to ensure the control (follow-up) of the implementation of the recommendations.

The post-audit follow-up includes the monitoring of the elimination of shortcomings identified by external auditors and the Bank of Lithuania as well as the implementation of recommendations.

The director of the Internal Audit Department informs the Bank's executives on a quarterly basis about the recommendations proposed during inspections and their implementation.

17. EXTERNAL AUDIT

In 2013-2014, the Bank was audited by PricewaterhouseCoopers UAB (head office at J. Jasinskio str. 16B, 01112 Vilnius, phone (8 5) 2392 300, fax (8 5) 2392 301, company registered 29.12.1993 with the registration No UĮ 93-369, company code 111473315). The company was selected after the Board interviewed a number of international audit companies and discussed their offers. The selection of the audit company is based on the reputation risk, the price of service and other factors. On 29 March 2012, the General Shareholders Meeting decided to entrust PricewaterhouseCoopers UAB with the Bank's audit performance, setting the price of service provision at LTL 124,000 (excluding VAT).

On 6 August 2013, the price of service for the audit of 2013 was revised to LTL 189,000 (excluding VAT) by the decision of the Extraordinary Shareholders Meeting, revoking the previous decision of the General Shareholders Meeting. The price increase was due to the positive part of assets of Ūkio Bankas AB taken over by the Bank in 2013 and consequent increase in the scope of the audit.

In 2013, the audit company was paid LTL 60,000 by the Bank for additional consulting services and reports on prudential requirements that were not related to the auditing services. In 2012, the audit company did not receive any additional payment.

18. RELATED PARTY TRANSACTIONS

Members of the Supervisory Council and the Board act in the interest of the Bank and its shareholders and avoid any conflict of interest. Any transactions with the executives of the Bank are concluded in accordance with market conditions. The regulation stipulating the work of the Board provides that a member of the Board must avoid any conduct that could cause a conflict of interest. Prior to starting the term of office as the member of the Board, the candidate must reveal all the information to the Bank that could potentially cause a conflict of interest and keep the relevant information constantly updated. Board members abstain from voting and participating in the Board meeting that addresses a question pertaining to his/her activity in the Board or his/her responsibility as well as issues that could be related to the Board member's interest or cases where the absence of the Board member's impartiality could pose any risk.

Each prospective member of the Supervisory Council must inform the General Shareholders Meeting of any occupation and duties exercised as well as details of how such activity is connected with the Bank or other legal entities involved with the Bank.

In the Bank, transactions with the executives are separated from the rest of the transactions by means of technology and the amounts of such transactions are shown in the explanatory note to the financial statements for 2013.

The Bank follows a conflict of interest policy that establishes the requirements for internal procedures and measures that help identify and manage any circumstances that may give rise to a conflict of interest related to the provision of the banking services and specifies the ways and actions to be followed in case such conflicts arise. The policy applies to all Bank employees and executives, including members of the Board and the Supervisory Council. Apart from other measures described in the policy, the person in charge of performing internal control is also responsible for monitoring those financial transactions that could potentially cause a conflict of interest and must immediately report of any instances of procedural violations in writing to the Internal Audit Committee and the Board of the Bank.

19. INFORMATION ON ADVERSE TRANSACTIONS

Over the accounting period no adverse transactions were concluded in conflict with the Bank's goals, normal market conditions, interests of the shareholders or other groups of entities, or those that had or could have a negative impact on the Bank's activity or its operational results. Also, no transactions were concluded in relation to conflicts of interest among Bank executives or the interests and (or) duties that controlling shareholders or other related parties have in the Bank.

20. ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT

The risk management system of the Bank Group consists of the risk management policy of the Bank, individual procedures of the Bank's risk management, the internal control system and internal audit.

In order to avoid conflict of interests, the outlets of the Bank which perform risk management functions are separated from the outlets direct activities of which are related to the occurrence of different types of risks of the Bank.

Since various risks encountered by the Bank are interdependent, their management is made centralised. One of the main tasks of the Bank's Risk Management Committee is the arrangement and coordination of the management system of risks encountered by the Bank.

The risks incurred in the activities of the Bank Group as well as the principles of their management are defined by the Risk Management Policy of the Bank. The Bank distinguishes the following key activity risk areas: concentration risk; credit risk; liquidity risk; operational risk; market risk (interest rate risk, foreign currency risk, securities price risk).

The Bank‘s Remuneration Policy is an integral part of the Bank‘s risk management system. The Remuneration Policy is coordinated with the Bank‘s strategy, the level of assumed risks, the Bank‘s objectives, values and long-term vision.

Before calculating the internal capital requirement necessary to ensure its stable performance, the Bank performs annual self-assessment. This process allows identifying all the risks faced by the Bank in its activities, defining their level, assessing the impact of the risks on the Bank's income and capital.

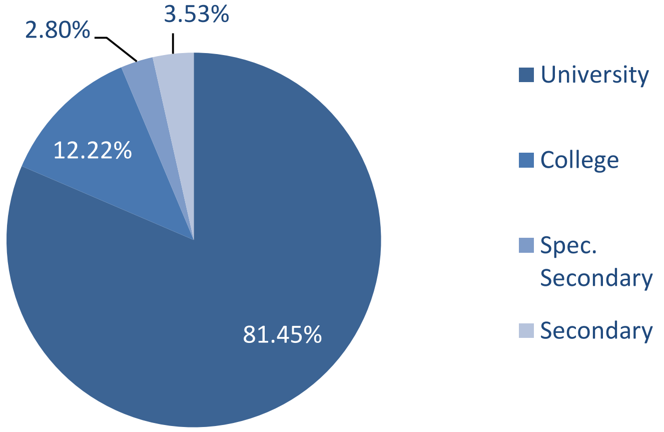
Compliance with and arrangement of the internal control environment as well as its monitoring are considered as one of the integral parts of the Bank‘s operational risk management process. The Bank's internal control is an integral and continuous part of the daily activities of the Bank. It operates at every level of the Bank‘s management and processes, its elements are integrated into procedures of each process, regulation and are an integral part of them. The compliance function in the Bank is decentralised, i.e. its individual parts are executed by individual outlets / persons in accordance with the functions assigned to them in their job descriptions, departmental regulations or other internal regulations of the Bank.

The assessment of the Bank Group's internal control system, compliance audit and risk management is performed by the Bank's Internal Audit Department, which informs the Bank's Internal Audit Committee and the Bank's Board regarding the detected shortcomings or violations.

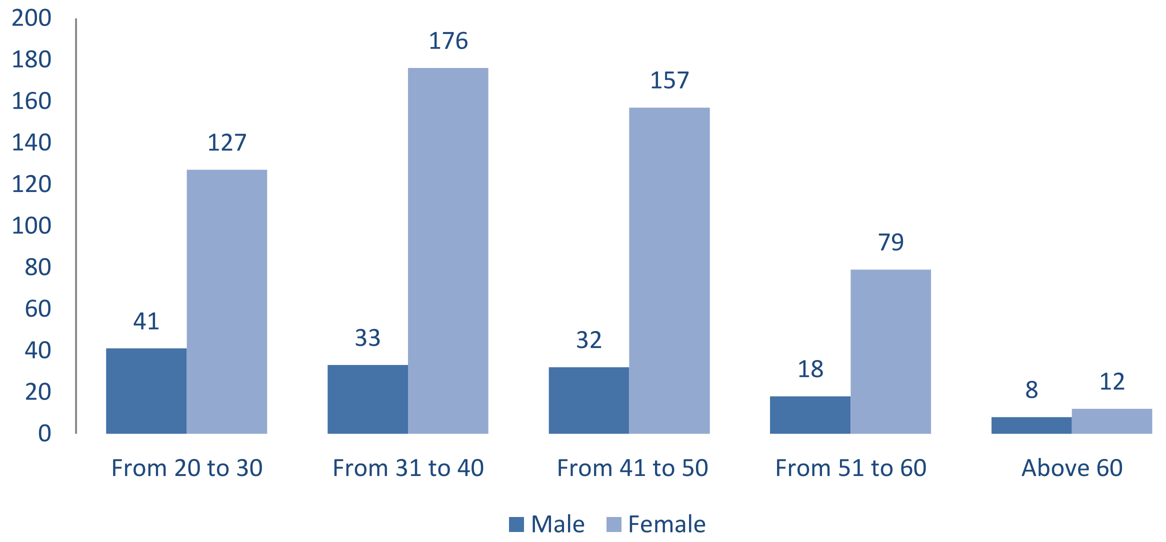
21. EMPLOYEES

As of December 31, 2013 the Bank employed 680 staff members. In comparison with 2012, the number of employees in the Bank increased by 41 % over the accounting year. The increase of the number of employees was driven by the takeover of part of liabilities and assets of the bank Ūkio Bankas. At the end of the reporting period the enterprises of the Bank Group employed 761 staff members.

The structure of the Bank employees' education in terms of their level of education, as of December 31, 2013:



The structure of the Bank employees in terms of their age and gender, as of December 31, 2013:



PERSONNEL STRATEGY

To create environment that allows attracting and selecting professional and loyal employees who deliver the best results.

THE TEAM OF THE BANK'S EMPLOYEES

The takeover of part of liabilities and assets of Ūkio Bankas and the obligation to society regarding the opening 25 former outlets of Ūkio Bankas in the shortest time possible has mobilised all employees of the Bank towards a common goal. The employees of the Bank demonstrated their focus, discipline and ability to master new services and IT systems within a very short time-frame, which in turn ensured professional service of customers both of the Bank and the former Ūkio Bankas.

RELATIONS WITH EMPLOYEES

The Bank fosters long-term employment relations with its employees.

TRAINING OF EMPLOYEES

With the purpose of expertly and efficiently training the new personnel who started working at the Bank in 2013, a new employees training project was implemented throughout the first half of the accounting year. Each customer service outlet selected competent and communicative employees-supervisors of the Bank who are the best capable of fulfilling the Bank's objectives. Specialists from the Bank's centre outlets prepared special training programmes for them. The supervisors give the new employees of the Bank trainings and consultations at their workplace and help them to address difficult work situations.

In the second half of 2013, over 300 customer service specialists of the Bank took part in the Active Sales seminars given by external consultants. The training imparted not only theoretical knowledge but also valuable guidance on the formation of practical skills needed for daily work. With the purpose of developing greater responsibility in senior specialists for the sales results of an outlet, more active involvement and help to their colleagues, senior specialists additionally had the topics on teamwork coordination, mentoring and teamwork efficiency in their training programme.

In accordance with the specificities of their work, the management of the Bank and outlets took part in the Project Management seminar and events.

MOTIVATION

The Bank Group applies various motivation measures to stimulate the employees. The employees receive bonuses on a quarterly basis for the implementation of targets set by the Bank and individual outlets as well as for individual goals. Each year the Bank holds traditional election of the Person of the Year as well as sports and leisure event of the Bank in summer. Careful treatment of the staff, their insurance against the accidents, preventive healthcare, payouts in case of accident in the employee's family, presents on personal occasions, bonuses to the employees with the longest work experience on the occasion of the Bank‘s birthday and gym memberships are the additional benefits provided by the Bank to its employees.

Average monthly salary of the relevant employee group before taxes:

Employee group	2009		2010		2011		2012		2013	
	Average number of employees	Average monthly salary in LTL	Average number of employees	Average monthly salary in LTL	Average number of employees	Average monthly salary in LTL	Average number of employees	Average monthly salary in LTL	Average number of employees	Average monthly salary in LTL
Management	8	17 106	8	14 910	12	23 568	11	24 207	11	29 228
Workers	454	1 980	441	1 967	418	2 476	411	2 780	609	2 925

THE BANK DOES NOT HAVE AGREEMENTS WITH THE EMPLOYEES FORESEEING COMPENSATIONS in cases of their resignation or dismissal without reasonable grounds or in case their capacities would be cancelled due to changes in the Bank's control.

THE BANK ALSO IS NOT THE PARTY OF MATERIAL AGREEMENTS which would become effective, would be amended or terminated due to changes in the Bank's control.

22. REMUNERATION POLICY

The information is prepared and published implementing the requirements set by the cl. 25 of the resolution No. 03-175 dated December 10, 2009 of the Board of the Bank of Lithuania on Amending the Minimal Requirements for Employee Remuneration Policies in Credit Institutions. The Bank acts in compliance with the Remuneration Policy approved by the Supervisory Council of the Bank on May 2, 2013.

RELATION BETWEEN REMUNERATION AND OPERATING RESULTS

The Bank uses the following elements of the remuneration system:

- the fixed remuneration agreed upon in the labour contract;
- the variable remuneration (quarterly bonuses to employees and annual premiums to employees in the position which can have a significant impact on the risks assumed by the Bank);
- single time payouts / allowances (payouts not relating to the Bank's results);
- other benefits.

Alongside with other factors (the specifics of the labour market and sector, employee's professional qualification, experience, etc.), the principles of remuneration establishment are also related with the employee's performance results. It means that the annual performance evaluation of the employee is taken into consideration while establishing individual salaries and amounts of the variable remuneration. The variable remuneration depends on the achievements of the Bank, also the Bank's outlet where the person is employed as well as on the achievement of his/her personal objectives.

The variable remuneration can be paid to all employees of the Bank, however, the provisions applicable to the positions which might have a significant impact on the risks accepted by the Bank, in all cases must comply with the principles of the payment of the variable remuneration set by the Remuneration policy: a share of the variable remuneration is paid in the form of the Bank's financial instruments (the Bank's shares) and the payment of the variable remuneration is subject to deferment.

THE CRITERIA FOR ASSESSMENT OF PERFORMANCE RESULTS, CORRECTION OF REMUNERATION IN COMPLIANCE WITH THE RISKS, CRITERIA OF REMUNERATION ASSIGNMENT AND DEFERMENT PRINCIPLES

While assessing the achievement of the set out objectives, the quantitative and qualitative criteria are taken into consideration. While evaluating the employee's achievements, not only the achievement level of the set out personal objectives, financial results of the outlet but also non-financial/non-quantitative contribution, i.e. relations with customers, colleagues, compliance with the standards, implementation of the internal regulations, policies and procedures, proactiveness, responsibility, improvement of activities, etc are taken into consideration.

In compliance with the requirements set out the Bank of Lithuania, the Remuneration Policy provides the list of employees whose professional performance may have a significant impact on the risks assumed by the Bank. As of December 31, 2013, a total of 21 employees of the Bank and 26 employees of the Bank's financial group were included into the mentioned category (as of December 31, 2012, also 21 employees of the Bank and 26 employees of the Bank's financial group).

The variable remuneration can be decreased or not paid if the Bank's performance results do not comply with the indicators foreseen in the strategy or in case when the Bank is operating at a loss.

The deferred and retained share of the variable remuneration is corrected (decreased) in cases when the Board of the Bank or the Bank's supervisory authority determines any of the following events:

- The Bank's financial position is not sustainable (the conclusion that the Bank faces liquidity problems or there is a real threat that it might face liquidity problems or will become insolvent) *or*;
- if after paying out the accrued Fund of the Variable Remuneration, the Bank's financial position becomes unsustainable, *or*,
- in case of other material events causing threats to the continuity of the Bank's activities (big loss is incurred, the Bank fails in meeting the prudential requirements set by the Bank of Lithuania, etc.)

Given the possible risks related to the assessed annual results of the employee whose professional performance may have a significant impact on the risks assumed by the Bank, payment of not less than 40 % of the variable remuneration is subject to 3 (three) years of deferment, paying it out in equal shares. 50 % of the variable remuneration which is paid out immediately and of the deferred remuneration is paid in the form of the Bank's shares, which are subject to three-month period of transfer restriction.

THE CRITERIA OF ASSESSMENT OF PERFORMANCE RESULTS WHICH SERVE AS THE BASIS FOR THE RIGHT TO THE BANK'S SHARES, FINANCIAL INSTRUMENTS RELATING TO THE SHARES, OTHER INTEGRAL PARTS OF THE VARIABLE REMUNERATION

The right to the Bank's shares as a share of the variable remuneration is based on the same criteria of the assessment of the performance as to the monetary share.

THE PROCESS OF DECISION-MAKING, DEFINING AND REVIEWING THE POLICY PRINCIPLES, INCLUDING THE INFORMATION ON THE REMUNERATION COMMITTEE (COMPOSITION AND AUTHORISATIONS), EXTERNAL CONSULTANTS IF THE SERVICES OF THE LATTER HAD BEEN USED WHILE PREPARING THE POLICY

The Remuneration Policy is reviewed annually. The suggestions regarding the principles of remuneration are submitted by the Remuneration Committee. The Remuneration Policy is approved by the Supervisory Council of the Bank, while the Board of the Bank bears responsibility for its implementation. The services of external consultants have not been used while preparing the Remuneration Policy.

The composition of the Remuneration Committee was approved by the Supervisory Council of the Bank on May 2, 2013. The Remuneration Committee is authorised to the following:

- competently and independently evaluate the variable remuneration principles which are a part of the Remuneration Policy,
- supervise the variable remuneration of the management personnel responsible for the risk management and control of compliance,
- prepare draft resolutions on the variable remuneration which are subject to the adoption by the Bank's Supervisory Council, taking into account the long-term objectives of the Bank's shareholders and investors,
- provide proposals on the principles of the variable remuneration and creation and application of the models of calculation,
- perform other functions needed for improvement, assessment and supervision of the Remuneration Policy of the Bank and its efficiency.

THE GENERAL QUANTITATIVE INFORMATION ABOUT REMUNERATION IN TERMS OF BUSINESS AREAS

No business areas are distinguished within the Bank.

THE GENERAL QUANTITATIVE INFORMATION ABOUT REMUNERATION TO EMPLOYEES, DISTINGUISHING THE MANAGEMENT OF THE BANK. THE TOTAL AMOUNTS OF THE FIXED AND VARIABLE REMUNERATION AND THE NUMBER OF RECIPIENTS

The Bank's data (thousand, LTL):

2012	Fixed share of remuneration	Variable share of remuneration	Number of recipients
Management (Board members)	2 010	258	7
Employees	13 916	2 029	423
Total:	15 926	2 287	430
2013	Fiksuotoji atlygio dalis	Kintamoji atlygio dalis	Gavėjų skaičius
Management (Board members)	2 462	323	7
Employees	21 012	2 338	613
Total:	23 474	2 661	620

The Financial Group's data (thousand, LTL):

2012	Fixed share of remuneration	Variable share of remuneration	Number of recipients
Management (Board members)	2 413	292	12
Employees	14 954	2 118	459
Total:	17 367	2 410	471
2013	Fiksuotoji atlygio dalis	Kintamoji atlygio dalis	Gavėjų skaičius
Management (Board members)	2 889	387	12
Employees	22 141	2 430	651
Total:	25 030	2 817	663

THE AMOUNTS OF THE VARIABLE REMUNERATION DIVIDED INTO MONETARY PAYOUTS, PENSION CONTRIBUTIONS, THE BANK'S SHARES, FINANCIAL INSTRUMENTS RELATING TO THE SHARES, OTHER FINANCIAL OR NON-MONETARY INSTRUMENTS FOR 2012

The Bank's data:

Shares of the variable remuneration:	
Monetary payouts	396 thousand LTL
The Bank's shares	486 thousand units
Pension contributions	-
Financial instruments relating to the shares	-
Other financial or non-monetary instruments	-

The Financial Group's data:

Shares of the variable remuneration:	
Monetary payouts	441 thousand LTL
The Bank's shares	541 thousand units
Pension contributions	-
Financial instruments relating to the shares	-
Other financial or non-monetary instruments	-

THE AMOUNTS OF OUTSTANDING DEFERRED VARIABLE REMUNERATION FOR 2012, DIVIDED INTO PARTS ASSIGNED AND NON-ASSIGNED TO THE EMPLOYEES

The Bank's data:

The deferred share of the variable remuneration	
Monetary payouts	158 thousand LTL
In shares	194 thousand units

The Financial Group's data:

The deferred share of the variable remuneration	
Monetary payouts	176 thousand LTL
In shares	216 thousand units

THE AMOUNTS OF THE DEFERRED VARIABLE REMUNERATION ASSIGNED OVER THE FINANCIAL YEAR, PAID OUT AND CORRECTED IN ACCORDANCE WITH THE PERFORMANCE RESULTS

Not paid.

THE AMOUNT AND NUMBER OF RECIPIENTS OF THE GUARANTEED VARIABLE REMUNERATION AS FORESEEN BY THE NEW AGREEMENTS AND PAYMENTS RELATING TO THE TERMINATION OF THE AGREEMENT OVER THE FINANCIAL YEAR

The guaranteed variable remuneration is not foreseen.

ASSIGNMENT OF PAYMENTS RELATING TO THE TERMINATION OF THE AGREEMENTS OVER THE FINANCIAL YEAR, THE NUMBER OF RECIPIENTS AND THE BIGGEST AMOUNT ASSIGNED PER PERSON

In 2013, the Bank did not terminate any labour contract with the management of the Bank.

THE REASONS AND CRITERIA OF ASSIGNMENT OF THE SHARE OF THE VARIABLE REMUNERATION AND ALL THE OTHER BENEFITS RECEIVED NOT IN CASH

Following the requirements set by the Bank of Lithuania and the Remuneration Policy, the non-cash variable remuneration can be assigned only in the form of the Bank‘s shares and only to those Bank‘s employees whose professional activities can have a significant impact on the risks assumed by the Bank.

OTHER INFORMATION WHICH, IN THE BANK'S OPINION, IS SIGNIFICANT

The outstanding amounts of the deferred share of the variable remuneration, divided into assigned and non-assigned shares to the employees; the amounts of the deferred variable remuneration assigned over the financial year, paid out and corrected in accordance with the results of performance are disclosed after their payment, i.e. after the general meeting of the Bank’s shareholders together with the interim report for the year 2014.

23. MEMBERS OF THE COMMITTEES OF THE BANK, AREAS OF THEIR ACTIVITIES

The Loan, Internal Audit, Risk Management and Remuneration Committees are formed within the Bank. The functions, procedures of formation and the policy of activities of these committees are established by the legal acts of the Republic of Lithuania, legal acts of the Bank of Lithuania as well as provisions of the relevant committee, approved by the Board of the Bank and the Supervisory Council of the Bank.

- The Loan Committee is engaged in the analysis of loan application documents, decisions regarding granting of loans and amendment of their terms, assessment of risks of loans, proposals regarding loan granting, improvement of loan administration procedures and other functions foreseen by its provisions.
- The Internal Audit Committee decides on matters related to the strengthening of the Bank's internal control system and improvement of the internal audit division work, also guarantees the independency of the activities of the internal audit division, coordinates the distribution of the audit areas covered by internal and external auditors, considers other matters foreseen by the legal acts of the supervisory authority and provisions of the Internal Audit Committee. The composition, competences and arrangement of activities of the internal Audit Committee are defined by the Bank's Supervisory Council in compliance with the laws and the legal acts of the supervisory authority.
- The Risk Management Committee performs the functions relating to the efficiency of the Bank's activities, taking into consideration the acceptable risk parameters and integrating the management of the interest rates, capital and liquidity and performs other functions foreseen by its provisions.
- The Remuneration Committee evaluates the variable remuneration policy, practice and incentives created in order to manage the risks assumed by the Bank, its capital and liquidity, supervises the variable remuneration of the employees responsible for risk management and control of compliance, prepares draft resolutions regarding the variable remunerations and performs other functions foreseen by its provisions.

Data of the members of the committees as of December 31, 2013:

Full name	Beginning / end of tenure	Share of capital under the right of ownership, %	Job
Internal Audit Committee			
Ramunė Vilija Zabulienė	29/03/2012 / 2016	0.00	Public body ArsDomina VšĮ
Sigitas Baguckas	29/03/2012 / 2016	0.65	Namų Statyba, UAB
Vytautas Junevičius	29/03/2012 / 2016	0.13	Company Group Alita, AB
Rimantas Purtulis	29/03/2012 / 2016	0.10	Registered individual activity under a business certificate of the resident of Lithuania
Risk Management Committee			
Donatas Savickas	29/05/2012 / constantly operating	0.11	Šiaulių Bankas AB
Jolanta Dūdaitė	29/05/2012 / constantly operating	0.00	Šiaulių Bankas AB
Pranas Gedgaudas	29/05/2012 / constantly operating	0.01	Šiaulių Bankas AB
Morena Liachauskienė	29/05/2012 / constantly operating	0.00	Šiaulių Bankas AB
Vytautas Sinius	29/05/2012 / constantly operating	0.08	Šiaulių Bankas AB
Loan Committee			
Vytautas Sinius	27/03/2012 / constantly operating	0.08	Šiaulių Bankas AB
Edas Mirijauskas	27/03/2012 / constantly operating	0.01	Šiaulių Bankas AB
Danutė Gaubienė	27/03/2012 / constantly operating	< 0.01	Šiaulių Bankas AB
Daiva Kiburienė	27/03/2012 / constantly operating	0.07	Šiaulių Bankas AB
Aurelija Pociūtė	27/03/2012 / constantly operating	< 0.01	Šiaulių Bankas AB
Giedrius Sarapinas	27/03/2012 / constantly operating	0.01	Šiaulių Bankas AB
Donatas Savickas	27/03/2012 / constantly operating	0.11	Šiaulių Bankas AB

Remuneration Committee			
Gintaras Kateiva	02/05/2013 / constantly operating	6.24	Litagra UAB
Živilė Skibarkienė	09/05/2011 / constantly operating	0.06	Šiaulių Bankas AB
Pranas Gedgaudas	13/08/2012 / constantly operating	0.01	Šiaulių Bankas AB
Gintaras Kateiva	02/05/2013 / constantly operating	0.24	Litagra UAB

24. MANAGEMENT BODIES OF THE BANK

The management bodies of the Bank are as follows: the general meeting of shareholders of the Bank, the Supervisory Council of the Bank, the Board of the Bank and the chief executive officer (the head of the Bank).

THE GENERAL MEETING OF SHAREHOLDERS OF THE BANK is convened annually, not later than three months after the end of the financial year. The convening right of the meeting is held by the Board of the Bank, the Supervisory Council of the Bank, shareholders with 1/10 of all votes. The Law on Companies establishes circumstances in which the general meeting of shareholders can be convened by other persons as well.

The general meeting of shareholders is arranged, voting is held and resolutions are made in accordance with the procedures established by the Law on Companies. In cases when the meeting cannot take place due to the absence of a quorum (more than ½ of all votes), the general meeting of shareholders will be re-convened where only the agenda from the failed meeting is valid.

Exclusively the general meeting of shareholders:

- amends the Charter of the Bank, except in cases provided by the laws,
- amends the head office of the Bank,
- elects members to the Supervisory Council of the Bank,
- recalls the Supervisory Council of the Bank or its members,
- elects and recalls an audit company to audit the annual financial statements, sets the terms of payment for audit services,
- approves the set of annual financial statements of the Bank,
- establishes the class, number, par value and minimum issue price of the shares issued by the Bank,
- decides on:
  - issuing of convertible bonds,
  - cancellation of the preference right to purchase shares or convertible bonds of the Bank of a given emission to all of the shareholders,
  - conversion of the Bank's shares of one class into another, approval of the share conversion procedures,
  - allocation of profit (loss),
  - making, use, reduction and cancellation of reserves,
  - increase of authorised capital,
  - reduction of authorised capital, except the cases provided by the laws,
  - purchase by the Bank of own shares,
  - reorganisation or demerge of the Bank, approving terms of such reorganisation or demerge,
  - restructuring of the Bank,
  - liquidation of the Bank, cancellation of liquidation of the Bank, except the cases provided by the laws,
- selects and cancels the Bank’s liquidator, except the cases provided by the laws.

The general meetings of shareholders of the Bank are always attended by the chairman of the Board of the Bank, the chief executive officer of the Bank, the chief financial officer of the Bank and other responsible persons.

THE SUPERVISORY COUNCIL OF THE BANK is a collegial body supervising the activities of the Bank. The Supervisory Council is chaired by its chairman. The eight-member Supervisory Council of the Bank is elected by the general meeting of shareholders for a term of four years. Members to the Supervisory Council are proposed to the meeting by the initiators of the meeting or shareholders owning 1/20 shares of the Bank. Candidates are proposed ahead of the meeting or during the meeting. Every candidate to the Supervisory Council of the Bank must inform the meeting where and what job he/she has, how his/her other activities are related to the Bank and to other legal persons related to the Bank. While electing members to the Supervisory Council, every shareholder has the number of votes equal to the product of the number of votes that he/she is entitled to by shares owned by him/her multiplied by the number of the members of the Supervisory Council to be elected. Shareholders distribute these votes at their discretion by voting for a single candidate or for several candidates. Candidates who receive the biggest number of votes are elected. One independent member has been elected to the Supervisory Council of this tenure. In accordance with the Bank's Charter the number of tenures of the Supervisory Council's member is not limited.

The Supervisory Council:

- elects members of the Board of the Bank and removes them from their office, makes recommendations to the Board regarding the candidature for the chairman of the Board. Advance approval of the Supervisory Council must be obtained before establishing the salaries of the Board members who hold other positions in the Bank, the chief executive officer of the Bank and his deputies, as well as other terms of labour contract. If the Bank operates at a loss, the Supervisory Council must consider the suitability of the Board members for their positions,
- elects members of the Internal Audit Committee,
- supervises the activities of the Board and the chief executive officer of the Bank,
- supervises the implementation of business plans of the Bank, analyses the Bank's income and expenses, own investments and capital adequacy issues,
- adopts the work regulation of the Supervisory Council,
- approves business plans of the Bank and annual budget,
- approves any type of policies related to the Bank's activities, including the risk management policy,
- approves the business strategy of every entity controlled by the Bank,
- ensures effective internal control system in the Bank,
- makes proposals and comments to the general meeting of shareholders on the Bank's strategy, the set of the Bank's annual financial statements, the draft of the profit (loss) distribution and the report on the Bank's activities, as well as activities of the Board and the chief executive officer of the Bank,
- approves Loan Granting Policy and sets procedures of borrowing, which is subject to Supervisory Council's approval,
- makes proposals to the Board and the chief executive officer of the Bank to cancel their resolutions that contradict the laws and other legal acts, the Bank's Charter or resolutions of the general meeting of shareholders,
- sets the list of transactions and resolutions for making or implementation of which the management bodies of the Bank must obtain the Supervisory Council's approval,
- makes decisions assigned to the Supervisory Council's competence in accordance with the procedures, approved by the Council; such procedures must be adopted by the Supervisory Council in accordance with the laws, the Bank's Charter and resolutions of the general meeting of shareholders,
- considers and decides on other matters which are subject to consideration or solution by the Supervisory Council, as provided for in the laws and the Bank's Charter, also in the resolutions adopted by the general meeting of shareholders.

A total of nine meetings of the Bank's Supervisory Council took place in 2013. None of the members of the Supervisory Council missed more than half of the meetings over the accounting period.

THE BOARD OF THE BANK is a collegial management body of the Bank, consisting of eight members. The Board manages the Bank, handles its matters and under the laws is responsible for the execution of the Bank's financial services. Procedures of the Board's work are set by the Board's work regulations. The Board is elected by the Supervisory Council of the Bank for a term of four years.

The Board considers and approves:

- the consolidated annual report of the Bank,
- the structure of the Bank management and positions and posts in which persons are employed through competitions,
- regulations of the branches, representative offices and other separate outlets of the Bank,
- procedures of the Bank's loan granting, following the Loan Granting Policy approved by the Supervisory Council of the Bank,
- procedures of issuing the Bank's guarantees, sureties and assumption of other liabilities,
- procedures of writing-off of the loans and other debentures,
- regulations of the Loan Committee and Risk Management Committee of the Bank,
- the Board elects (appoints) and removes from office the chief executive officer of the Bank and his deputies. The Board establishes the salary and other terms of labour contract with the chief executive officer of the Bank, approves his staff regulations, induces and imposes sanctions to the chief executive officer,
- the Board establishes the information to be considered commercial secret of the Bank and confidential information.

The Board adopts:

- decisions on the Bank becoming the incorporator, member of other legal entities,
- decisions on opening branches, representative offices and other separate outlets of the Bank as well as on termination of their activities,
- decisions on the investment, transfer or lease of long-term assets the book value whereof amounts to over 1/20 of the Bank's authorised capital (calculating separately for each kind of transaction),
- decisions on the mortgage or hypothecation of long-term assets the book value whereof amounts to over 1/20 of the Bank's authorised capital (a gross aggregate transaction is calculated),
- decisions on offering guarantee or surety for the discharge of obligations of other entities, when the amount of the obligations exceeds 1/20 of the Bank's authorised capital,
- decisions on the acquisition of long-term assets the price whereof exceeds 1/20 of the Bank's authorised capital,
- decisions on issuing of non-convertible bonds,
- the Board's work regulation,
- decisions on other matters the Board has to consider or solve under the laws and the Charter of the Bank.

The Board establishes:

- terms for the shares issue of the Bank,
- procedures for issue of the bonds of the Bank. When the general meeting of shareholders adopts a resolution regarding the issuing of convertible bonds, the Board is entitled to set additional terms of issuing and to approve bond subscription agreements, signed by the chief executive officer of the Bank or his authorised person,
- procedures and cases of employment in the Bank when the employees are engaged with the Board's approval.

The Board analyses and evaluates the material submitted by the chief executive officer of the Bank on:

- implementation of the Bank's strategy,
- arrangement of the Bank's activities,
- financial position of the Bank,
- results of economic activities, income and expenditure estimates, stock-taking data and other records of changes in assets.

The Board also analyses, assesses the Bank's set of annual financial statements and draft of the profit (loss) allocation and submits them to the Supervisory Council of the Bank and the general meeting of shareholders, also solves other matters of the Bank's activities if they are out of the other managing bodies' competence under the laws of the Republic of Lithuania or the Charter of the Bank.

The Board is responsible for convening and holding the general meetings of shareholders in due time.

CHIEF EXECUTIVE OFFICER OF THE BANK arranges everyday activities of the Bank and performs actions needed to perform his functions, to implement the decisions of the Bank's bodies and to ensure the Bank's activities.

Chief executive officer of the Bank:

- arranges everyday activities of the Bank,
- employs and dismisses employees, concludes job contracts with them and terminates them, induces them and imposes sanctions (the chief executive officer of the Bank is entitled to authorise another employee of the Bank to perform actions listed therein),
- without special authorisation represents the Bank in its relations with other entities, in court and arbitrage,
- grants and cancels authorisations to represent the Bank and procurations,
- issues orders,
- performs other actions needed to perform his functions, implement decisions of the Bank's bodies and ensure the Bank's activities.

Chief executive officer of the Bank is responsible for:

- arrangement of the Bank's activity and implementation of its objectives,
- making of the set of annual financial statements and preparation of the Bank's annual report,
- making of a contract with a audit company,
- delivery of information and documents to the general meeting of shareholders, the Supervisory Council of the Bank and the Board of the Bank in the cases provided for by the laws or upon request,
- delivery of the Bank's documents and data to the custodian of the Register of the Legal Entities,
- delivery of the documents to the Bank of Lithuania and the Central Securities Depository of Lithuania,
- publication of the information, as prescribed by the laws and other legal acts, in the sources stated in the Charter of the Bank,
- information delivery to shareholders,
- execution of other duties, as prescribed by the laws, the Charter of the Bank and staff regulations of the chief executive officer of the Bank.

The chief executive officer of the Bank acts on the Bank's behalf and is entitled to make transactions at his sole discretion, except for the exceptions stated in the Charter of the Bank or the resolutions of the bodies of the Bank.

25. MEMBERS OF THE COLLEGIAL BODIES OF THE BANK

THE SUPERVISORY COUNCIL OF THE BANK:

Arvydas Salda

A member of the Supervisory Council of Šiaulių Bankas AB since 1991, chairman of the Supervisory Council since 1999.
Education:
Kaunas Polytechnic Institute.
Vilnius University, applied mathematics.
Work experience:
a consultant of Šiaulių banko turto fondas UAB since 2004.

Sigitas Baguckas

Deputy chairman of the Supervisory Council of Šiaulių bankas AB since 2000, a member of the Council since 1991.
Education:
Vilnius Civil Engineering Institute, engineer-constructor.
Work experience:
Director of Namų Statyba UAB until 2007, a procurist since 2007.

Gintaras Kateiva

A member of the Supervisory Council of Šiaulių Bankas AB since 2008.
Education:
Vilnius Pedagogical Institute, teacher.
Work experience:
An advisor of the director of Litagros Chemija UAB (currently – Litagra) until 2005, chairman of the Board since 2005, director of Litagros Prekyba UAB until 2008.

Vigintas Butkus

A member of the Supervisory Council of Šiaulių Bankas AB since 2004.
Education:
Marijampolė School of Culture, director.
Work experience:
Director of Mintaka UAB since 2000, director of trading house Aiva UAB since 2002.

Vytautas Junevičius

A member of the Supervisory Council of Šiaulių Bankas AB since 2006.
Education:
Kaunas Polytechnic Institute, engineer-economist.
Vilnius University, expert of international economic relations.
Work experience:
CEO of Alita AB until 2009, the advisor of the CEO of the company group Alita AB from 2009 to 2011.

Peter Reiniger

A member of the Supervisory Council of Šiaulių Bankas AB since 2011.
Education:
Technical University of Budapest, engineer-mechanic, engineer of production organisation.
Work experience:
Director of the Business Group of EBRD until 2010, the managing director since 2010, the chief advisor of Executive Committee since 2011.

Ramunė Vilija Zabulienė

Independent member of Supervisory Council of Šiaulių Bankas AB since May of 2012.
Education:
Vilnius University, engineer-economist.
Work experience:
Member of the Board of the Bank of Lithuania, deputy chairperson of the Board until 2011. Director of public body ArsDomina VšĮ since 2012.

Alexander Saveliev

A member of the Supervisory Council of Šiaulių Bankas AB from August of 2013 to February of 2014.
Work experience:
Senior banker at EBRD, a consultant of Megabank of Ukraine, a member of the Supervisory Council and chairman of the Strategy Development Committee.

THE BOARD OF THE BANK:

Algirdas Butkus

Chairman of the Board of Šiaulių Bankas AB.
Education:
Kaunas Polytechnic Institute, MA of economy.
Work experience:
Chairman of the Board and CEO of Šiaulių Bankas AB from 1999 to February of 2011, the deputy CEO since February of 2011.

Vytautas Sinius

A member of the Board of Šiaulių Bankas AB, head of the Corporate Banking Division, CEO from February 1, 2014.
Education:
Vilnius Higher School of Economics, a bank officer. Vilnius University, BA of economy. Vytautas Magnus University, MA of business administration and management.
Work experience:
Director of the Retail Banking Division of SEB AB from 2006 to 2010, head of the Corporate Banking Division of Šiaulių Bankas AB since 2011.

Donatas Savickas

A member of the Board of Šiaulių Bankas AB, deputy CEO, head of the Finance and Risk Management Division.
Education:
Vilnius University, MA of economy. Vytautas Magnus University, MA of business administration and management.
Work experience:
Deputy chairman of the Board of Šiaulių Bankas AB since 1995, deputy CEO, head of the Finance and Credit Division since 2005, head of the Finance and Risk Management Division since 2011.

Daiva Kiburienė

A member of the Board of Šiaulių Bankas AB, deputy CEO, head of Šiauliai region.
Education:
Vilnius University, MA of economy. Vytautas Magnus University, MA of business administration and management.
Work experience:
Deputy chairperson of the Board of Šiaulių Bankas AB since 1998, deputy CEO, head of the Corporate and Retail Banking Division since 2005, head of Šiauliai region since 2011.

Vita Adomaitytė

A member of the Board of Šiaulių Bankas AB, chief financial officer, head of the Accounting and Reporting Division.
Education:
Vilnius University, MA of finance and credit.
Work experience:
Chief financial officer of Šiaulių Bankas AB since 2002, head of the Accounting and Reporting Division since 2005.

Jonas Bartkus

A member of the Board of Šiaulių Bankas AB, head of the IT Division.
Education:
Vilnius University, MA of mathematics.
Work experience:
Head of the Computerisation Department of Šiaulių Bankas AB since 2001, head of the Business Development Division since 2005, head of the IT Division since 2011.

Audrius Žiugžda

Deputy chairman of the Board of Šiaulių Bankas AB, CEO until January 31, 2014.
Education:
Vytautas Magnus University, MA of business administration and management.
Work experience:
Chairman of the Board and president of SEB AB from 2006 to 2009, advisor of CEO of TEO LT AB from 2010 to 2011, CEO of Šiaulių Bankas since February of 2011.

Full name	Beginning / end of tenure	A share of capital under the right of ownership, %	A share of votes together with related persons, %
Arvydas Salda	beginning 29/03/2012 / end 2016	2.59	42.93
Sigitas Baguckas	beginning 29/03/2012 / end 2016	0.65	42.93
Vigintas Butkus	beginning 29/03/2012 / end 2016	0.13	42.93
Vytautas Junevičius	beginning 29/03/2012 / end 2016	0.13	42.93
Peter Reiniger	beginning 29/03/2012 / end 2016	—	—
Gintaras Kateiva	beginning 29/03/2012 / end 2016	6.24	42.93
Ramunė Vilija Zabulienė	beginning 04/05/2012 / end 2016	—	—
Alexander Saveliev	beginning 06/08/2013 / end 2016	—	—
Algirdas Butkus	beginning 29/03/2012 / end 2016	3.83	42.93
Audrius Žiugžda	beginning 29/03/2012 / end 2016	0.59	42.93
Donatas Savickas	beginning 29/03/2012 / end 2016	0.11	42.93
Vita Adomaitytė	beginning 29/03/2012 / end 2016	0.03	42.93
Daiva Kiburienė	beginning 29/03/2012 / end 2016	0.07	42.93
Vytautas Sinius	beginning 29/03/2012 / end 2016	0.08	42.93

The information regarding the participation of members of the collegial bodies and the chief financial officer in activities and capital of other enterprises is provided in the table below:

Full name	Participation in activities of other enterprises (company name, position)	Participation in capital of other enterprises (percentage in capital exceeding 5 %)
Arvydas Salda	Member of the Board of Klaipėdos LEZ valdymo bendrovė UAB Consultant at Šiaulių banko turto fondas UAB	—
Sigitas Baguckas	Procurist of Namų Statyba UAB	Namų Statyba UAB – 47.12 %
Vigintas Butkus	Director of trading house Aiva UAB Director of Mintaka UAB	Aiva UAB – 9.25 % Mintaka UAB – 9.80 %
Vytautas Junevičius	Senior advisor of Company Group Alita AB, member of the Supervisory Council. Chairman of the Board of Anykščių Vynas AB	Company Group Alita AB – 14.48 %
Gintaras Kateiva	Director General of Litagra UAB, chairman of the Board. Director of Litagros Mažmena UAB	Litagra UAB – 36.95 %
Ramunė Vilija Zabulienė	Director of public body ArsDomina VšĮ	Abiotek UAB – 50.00 %
Peter Reiniger	Chief advisor to the first deputy president and the Executive Committee	—
Algirdas Butkus	—	Trading house Aiva UAB – 66.35 % Visnorus UAB – 48.94 % Mintaka UAB – 68.08 %
Donatas Savickas	—	—
Audrius Žiugžda	Member of the Council of Vytautas Magnus University Member of the Board of Limarko laivininkystės kompanija AB	—
Vita Adomaitytė	—	—
Daiva Kiburienė	Chairperson of the Board of Kėdainių oda UAB	—
Vytautas Sinius	—	Public body Sporto Šaltinis VšĮ – 33.33 %
Jonas Bartkus	—	—

Total amounts of funds calculated over 2013 and average sizes per member of the collegial body as well as provided guarantees:

Members of management bodies	Number of persons	Total calculated amounts, LTL	Average sizes, LTL	Assets transferred, LTL	Guarantees provided, LTL
Members of the Council of the Bank	7	106 320	15 189	0	0
Members of the Board of the Bank	7	2 784 691	397 811	0	0
Chief executive officer and chief financial officer	2	756 484	378 242	0	0

Ba ns granted to members of the Supervisory Council and the Board of the Bank as of December 31, 2013:

Members of management bodies	Loans granted, thousand LTL
Members of the Supervisory Council of the Bank	5 283
Members of the Board of the Bank	990
Total:	6 273

26. DATA ON THE PUBLICLY DISCLOSED INFORMATION

The following information was publicly disclosed over 2013:

- 14/01/2013 – the calendar of the Bank's information to be announced to investors
- 11/02/2013 – pre-audited activity result of the Bank and the Bank Group for 2012
- 12/02/2013 – report on the assets in the bank Ūkio Bankas AB
- 12/02/2013 – information of the resolutions by the Board of the Bank and the Supervisory Council of the Bank
- 13/02/2013 – report on the signed letter of intent on negotiations with the temporary administrator of Ūkio Bankas AB
- 13/02/2013 – report of the European Bank for Reconstruction and Development
- 15/02/2013 – information on the application submitted to the Competition Council
- 19/02/2013 – Decision of the Board of the Bank of Lithuania on the transfer of the assets, rights, transactions and liabilities of Ūkio Bankas AB
- 20/02/2013 – interim information for 12 months of 2012
- 23/02/2013 – agreement on the takeover of the assets, transactions, rights and liabilities of Ūkio bankas AB is signed
- 23/02/2013 – agreement on subordinated loan is signed
- 25/02/2013 – report on the takeover of the assets, transactions, rights and liabilities of Ūkio bankas AB
- 28/02/2013 – information on the conditions of the takeover of the assets, transactions, rights and liabilities of Ūkio bankas AB
- 04/03/2013 – information to shareholders of Invalda AB whose securities accounts were with Ūkio Bankas AB
- 04/03/2013 – documents on the transfer of the assets and liabilities of Ūkio Bankas are signed
- 07/03/2013 – convocation of the ordinary general meeting of shareholders of the Bank
- 07/03/2013 – draft resolutions prepared by the Board of the Bank for the ordinary general meeting of shareholders to be held on 28/03/2013
- 08/03/2013 – corrected draft resolutions prepared by the Board of the Bank for the ordinary general meeting of shareholders to be held on 28/03/2013 (corrected annex to the notification);
- 20/03/2013 – report on the transfer and trade of securities of customers
- 21/03/2013 – rating granted by a rating agency

- 28/03/2013 – resolutions of the ordinary general meeting of shareholders of the Bank held on 28/03/2013
- 29/03/2013 – annual report
- 19/04/2013 – pre-audited activity result for the first quarter of 2013 of the Bank and the Bank Group
- 26/04/2013 – information on dividend payment policy
- 29/04/2013 – report regarding concluded transactions relating to payment of the variable remuneration in form of the Bank‘s shares
- 02/05/2013 – completion act to the agreement on the transfer of the assets and liabilities of Ūkio Bankas AB is signed
- 17/05/2013 – interim information for three months of 2013
- 04/06/2013 – registration of the amended Charter of the Bank after the increase of the authorised capital
- 15/07/2013 – convocation of the extraordinary general meeting of shareholders of the Bank and report on the draft resolutions prepared by the Board of the Bank
- 19/07/2013 – pre-audited operating results of the Bank and the Bank Group for six months of 2013
- 06/08/2013 – resolutions of the extraordinary general meeting of shareholders of the Bank
- 20/08/2013 – interim information for six months
- 11/10/2013 – information on the received assessment report of assets and liabilities
- 18/10/2013 – pre-audited operating result of the Bank and the Bank Group for nine months of 2013
- 20/11/2013 – interim information for nine months
- 20/11/2013 – notification regarding the deprivation of voting rights
- 16/12/2013 – report on the resignation of Chief Executive Officer Audrius Žiugžda
- 23/12/2013 – report on the replacement of Audrius Žiugžda with Vytautas Sinius in the position of the chief executive officer
- 23/12/2013 – the calendar of information to be announced to investors in 2014
- Reports regarding the transactions with the Bank's shares entered by the Bank‘s management.

In accordance with the procedures set by the Articles of Association of the Bank and the legal acts of the Republic of Lithuania all material events are made public in the Central regulated information base and on the Bank‘s website at www.sb.lt. Reports on the meetings of shareholders are additionally announced in the daily Lietuvos Rytas.

27. PROCEDURES OF AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Bank may be amended only by a resolution of the general meeting of shareholders with 2/3 majority of votes, except exclusive cases defined by the law.

28. INFORMATION REGARDING THE COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Bank operates in compliance with the many standards set in the Corporate Governance Code. Information about the Bank's compliance with particular articles of the Corporate Governance Code is provided in the annex to the present report together with the set of financial statements of 2013 and is also made available on the website of the Bank at www.sb.lt.

Chief Executive Officer Vytautas Sinius

6 March 2014.

ŠIAULIŲ BANKAS AB
Report on the compliance with the Governance Code for the companies listed on the NASDAQ OMX AB Vilnius

Šiaulių bankas AB, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and 24.5 clause of the listed rules on NASDAQ OMX AB Vilnius, discloses its compliance with the Governance Code, approved by the NASDAQ OMX AB Vilnius for the companies which securities are traded on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES / NO / NOT APPLICABLE	*COMMENTARY*
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes/No	General purposes of the Bank, in attaining of which the Bank fulfils its mission, and the main business areas, aiming at exceptional competence, as well as plans are publicly declared in the Bank's notifications and are placed on the website of the Bank.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests not only of the company's shareholders but also of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The rights and interest of the shareholders, employees, clients and other entities related to the bank's activities are respected; the bank works in compliance with requirements set by the Labour Code as well as with the provisions stated in the agreements between clients and suppliers.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Bank's bodies include a general shareholders' meeting, the Bank's Supervisory Council, the Bank's Board and the chief executive officer.

2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Board performs the function of the Bank's management and bears responsibility for the performance of the Bank, while the supervision of the management bodies falls on the Bank's Supervisory Council.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both bodies are formed at the Bank - the Bank's Supervisory Council and the Bank's Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	The Supervisory Council is set up at the Bank. The candidates to the Supervisory Council are elected and the votes for them are given in compliance with procedures defined in the law. The right of small shareholders to have their own representative is not suppressed.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Bank's Board consists of 7 members; the Supervisory Council consists of 8 members. Taking into consideration the Bank's size, scope of activities and the number of shareholders such number of members is the most optimal. Each member has one vote while the bodies are making decisions.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The term of tenure of the Bank's Board and Supervisory Council members is 4 years. According to the Bank's Charter members of management and supervisory bodies can be re-elect for the next tenure. Only the body of the Bank who elected a member of Supervisory council or a member of the Board can remove them.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of Supervisory Council have never been the Bank's chief executive officer, previous and current positions do not constitute a barrier for the implementation of independent and impartial supervision.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	General Shareholders' Meeting shall elect a Supervisory Council. Candidates to the Supervisory Council are proposed; voting is held by following the procedures set in the laws. The election procedure of the Supervisory Council member applied by the Bank established in the Law on Companies of the Republic of Lithuania is favorable for the combination of minority shareholders to elect their representative to the Council.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes/No	Information on the candidates to the Supervisory Council is provided before the shareholders' meeting if the members are suggested in advance. During the meeting the members to the Supervisory Council introduce information on them required by laws and answer the shareholders' questions before voting. Eligibility of the member to be elected to the Supervisory Council is assessed by the Bank of Lithuania. The Bank's annual and interim reports include the updated information on the collegial bodies' members' education, professional experience and current position.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes/No	While electing the members of the Supervisory Council, their particular competences relevant to his/her service are disclosed. The Bank supposes that it is suffice to meet the standards and provisions set in the Acts of Law of the Republic of Lithuania including the requirement approved by the resolutions of the Bank of Lithuania which indicates that people who are being elected and assigned into senior management have to receive the permission from the Bank of Lithuania to be appointed to the relevant positions.
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by the members of collegial body, the collegial body should determine its desired composition with regard to the company's structure and activities, and evaluate this periodically. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration determination policy.	Yes/No	With regard to the fact that all the members of the collegial body receive licenses of the Bank of Lithuania to hold positions, it is considered that they possess necessary knowledge of and experience to properly implement the tasks. The members of the audit committee have knowledge in field of finance; an independent member is competent in the field of audit. The director of the Bank's Personnel department, who has knowledge and experience in the salary establishment policy, is a member of the Remuneration Committee

3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes/No	New members shall meet with their duties, the Bank and its activity. Annual verification is not performed subject to the condition that persons participating in the activity of the Bank and other organizations have sufficient knowledge and skills.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	Performing their duties the members of the Supervisory Council seek avoiding the conflict of interests. The shareholders offering the candidates to the Supervisory Council and voting for them have their own opinion concerning which candidates will represent their interest in the Council best. There is 1 independent member in the Supervisory Council.
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	Yes	

external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	While electing the independent member of the Council, he has been considered as independent. The Bank's annual report also contained information stating that the member of the Supervisory Council is independent.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	The independent member of the Council meets all criteria of independence.
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.	Yes/No	The bank has concluded the agreement with the independent Council member foreseeing the remuneration form the Bank's funds, however, according to the Law on Companies the confirmation of the size of the remuneration by the shareholders' meeting is not subject to the competence of the meeting.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance	Yes	The Supervisory Council performs all the control and monitoring functions within its competence assigned by the company regarding the management performance. The Supervisory Council shall submit its responses and offers to each General Shareholders' Meeting.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	The members of the Supervisory Council act in good faith with regard to the Bank and according to the interest of the Bank and its shareholders but not of their own one or of the third parties trying to maintain their independence while making decisions. The independence of the members was not assessed.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the Supervisory Council actively participate in the meetings and devote sufficient time to properly perform his duties as a member of the collegial body. The Bank does not provide information to its shareholders regarding the members' participation in meetings during the last financial year.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes/No	All the transactions between the Bank and shareholders as well as between supervisory and managing members are concluded according standard conditions performing usual banking activities. Not all transactions of the Bank are approved by the collegial body. The Bank's Supervisory Council defines a list of transactions and resolutions the formation and implementation of which are subject to the Supervisory Council's approval.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using their services with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that they would not at the same time advice the affiliated company, executive director or members of management body.	Yes	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.
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.	Yes/No	The Bank has formed the Audit Committee with an independent member as well as the Remuneration Committee. The Nomination Committee is not formed. The functions of this committee are performed by the Supervisory Council itself.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should act independently and based on integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	

4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to refresh membership and that undue reliance is not placed on particular individuals.	Yes/No	The Audit Committee consists of 4 members. It has an independent Council member. The Remuneration Committee consists of 4 members, the Chairman of the Committee is the member of the Bank's Supervisory Council, other members – the Bank's employees. The Nomination Committee is not formed.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes/No	The authority delegated to the Audit Committee as well as its accounting are set in the Committee's provisions approved by the Supervisory Council. The Bank announces the information on the activity's purposes as well as work directions of the Audit Committee in the Prospects of securities issue. This information as well as number of held meetings of Committee and the Committee's members' participation there is not provided in the annual report. The functions of the Remuneration Committee are defined by the Remuneration Policy approved by the Bank Board, Supervisory Council and the regulations of the Remuneration Committee. The Supervisory Council bears responsibility for the establishment of the principles of the Remuneration Committee and models of variable remuneration calculations. Information regarding the functions of the Remuneration Committee, composition of the Remuneration and Audit committees are declared in the Bank's annual report. However, information regarding the number of committee meetings and participation of the committee members herein is not declared there.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Other members of the management bodies who are not Committee's members participate in the meetings in case the Committee invites.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) 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; 2) 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; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management.	No	There is no Nomination Committee at the Bank. The Supervisory Council itself performs the activity attributed to this Committee.
4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	No	There is no Nomination Committee at the Bank. The Supervisory Council itself performs the activity attributed to this Committee.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) 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; 2) 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; 3) Ensure that remuneration of individual executive directors and the member of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy (as well as the policy regarding share-based remuneration)	Yes/No	The Remuneration Committee at the Bank evaluates the principles of the variable remuneration, supervises the variable remunerations of managing employees responsible for risk management and control of compliance, prepares draft resolutions regarding variable remunerations which are approved by the Supervisory Council taking into consideration the long-term goals of the Bank's shareholders and investors. The Remuneration Policy is reviewed by the Supervisory Council at least once a year. The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence.

for executive directors or members of management body, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) 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); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.		
4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.	Yes	
4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general shareholders' meeting for this purpose.	Yes/No	Information regarding the functions of the Remuneration Committee is published in annual reports and not accounted for during meetings of shareholders.
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) 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); 2) 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; 3) 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; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and	Yes	The Audit Committee in the Bank consists of 4 members among who is the independent Council member.

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; 5) 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; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.		
4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.	Yes	

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

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

6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Bank's shareholders may participate in the general shareholders' meeting in person or through their representative. The voting is possible by filling the general voting bulletin.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by providing opportunity to the shareholders to vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Bank is not ready and does not suppose it is necessary to use the modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. Foreigner's shareholders participate in the meeting via their representatives, the voting instructions to whom usually provide with the SWIFT notifications.
Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	All the transactions with the members of the Bank's bodies are concluded in usual (standard) conditions. Information to the shareholders is provided in annual and interim reports.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	

Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public report of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration report should be published as a part of the company's annual statement as well as posted on the company's website.	Yes/No	The report of the Remuneration policy is prepared according to the requirements set by the resolution of the Board of the Bank of Lithuania.Information regarding implementation of the Remuneration policy is provided in the annual report and interim reports in the scope set by the valid requirements.
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.	Yes	The Remuneration Policy report provides data about all employees and management, distinguishing the shares of the fixed and variable remuneration.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of the activities' results evaluation criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether the activities' results evaluation criteria have been fulfilled; 5) Sufficient information on provision periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and activity's results; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13; 10) Sufficient information on retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors. 13) The remuneration report can not contain confidential information in a commercial view.	Yes/No	The Remuneration Policy report is prepared according to the requirements set by the resolutions of the Board of the Bank of Lithuania, therefore, not all clauses specified in this Code are described. Considering the possible risks related to the evaluated annual results of the employee whose professional activities might have significant impact on the risks accepted by the Bank not less than 40 per cent of the variable remuneration is subject to 3 years of grace period paying in equal portions. Calculating the variable remuneration the performance results of the employee for the period not less than three years is taken into consideration. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 3 month grace period to the right of transfer. Referring to the Remuneration Policy approved by the Board, the variable remuneration including the deferred portion is paid only in case of sustainable financial status of the bank. The cases when the variable remuneration can be corrected (reduced) are specified in the Bank's internal procedures.
8.4. Remuneration report should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The report of the Remuneration policy is not prepared in compliance with the scope defined in the present clause.

8.5. Remuneration report should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) 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; 4) 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; 5) 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; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) 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; 3) 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; 4) All changes in the terms and conditions of existing share options occurring during the coming financial year.	No	According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents is not published.
8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	No	According to the requirements set by the Bank of Lithuania the report reveals the average sizes of the remuneration. Other information defined in this documents is not published.
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component of remuneration. The non-variable component of remuneration should be sufficient to allow the company not to pay variable components of	Yes	There are no particular limits set to the variable remuneration; however, it is underlined that it must not amount to a share of remuneration that would prompt an employee to disregard the long-term

remuneration when activity's results evaluation criteria are not met.		objectives of the bank. Each year the principles of establishment of the variable remuneration, corresponding to the business objectives, strategy, long-term objectives of the Bank and fostering reliable and efficient risk management, are prepared.The variable remuneration is paid only in case of sustainable financial status of the bank.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable activity's results evaluation criteria.	Yes	The amount of the variable remuneration is based on the general evaluation of the employee's, outlet's or bank's activity result.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	The deferred portion of the variable remuneration applicable to the employees is not less than 40 per cent.
8.9. Contractual arrangements with executive or members of management bodies should include provision which permits the company to reclaim variable components of remuneration that was awarded on the basis of data which subsequently proved to be manifestly misstated.	No	The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Not applicable	No principles of termination payments are foreseen by the Remuneration policy.
8.11. Termination payments should not be paid if the termination is due to inadequate activity's results	Not applicable	See section 8.10
8.12. The information on preparatory and decision-making processes, during which a remuneration policy of directors is being established, should also be disclosed. Information should include data, if applicable, on authorization and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Yes/No	The official salaries of the employees and senior managers are established or approved by the Bank's CEO, Board and Supervisory Council in accordance with the competence. The principles of the variable remuneration are supervised and assessed by the Remuneration Committee which prepares draft resolutions regarding variable remunerations and submits them to the Supervisory for approval. If the services of the external consultant were used they would be specified in the report of the Remuneration Policy.
8.13. Shares should not vest for at least three years after their award in case the remuneration is share-based.	Yes/No	As foreseen by the Remuneration Policy not less than 40 per cent of the variable remuneration is subject to 3 years of grace period. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 3 month grace period to the right of transfer.

8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable activity's results evaluated criteria.	Yes/No	Share options or any other right to acquire shares or to be remunerated on the basis of share price movements are not foreseen by the Remuneration Policy. 50 per cent of variable remuneration paid immediately and deferred are foreseen to be paid in bank's shares with a 3 month grace period to the right of transfer. The Remuneration policy foresees the review of the assignment of the differed portion of the variable remuneration and to pay it only in case the set goals and the results of the bank meet the goals set in the strategy.
8.15. After vesting, directors should retain a particular number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	No	The share transfer is limited for a period of 3 month. No restrictions are foreseen after this period.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	The members of the Supervisory Council are not subject to any form of remuneration.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general shareholders' meetings and make considered use of their votes regarding directors' remuneration.	No	The meeting for the work in the Supervisory Council can allocate to the Council members annual bonuses (tantiemes). Determination of the remunerations for the members of the Board under the structure of the bank's bodies is not the priority of the shareholders' meeting.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Remuneration Policy and its implementation are the prerogative of the Remuneration Committee and the Council of the Bank. Therefore, the voting does not take place in the shareholders' meeting.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	See section 8.17.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the	No	See section 8.17.

exercise of the options, if permissible by law; 5) 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.		
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	Share options or any other right to acquire shares without remuneration on the basis of share price movements are not foreseen by the Remuneration Policy.
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	Employees of the bank or subsidiaries are not remunerated for the work with shares or share options or the other rights to acquire shares.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Not applicable	See section 8.17.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The interest holders' rights are respected. The Bank obeys the agreements with the suppliers, creditors, and clients. The relations with employees are regulated by the labour contracts. The employees can provide offers in the filed improvement of work conditions. The Bank's employees participate in the Bank's authorized capital.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.	Yes	

9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	The information disclosed in this section is submitted in annual and interim reports, in prospects of securities issue and in the website of the Bank.
10.2. It is recommended to disclose the consolidated results of the whole group to which the company belongs when information specified in item 1 of Recommendation 10.1 is under disclosure.	Yes	
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.	Yes/No	The information regarding the professional experience of the Supervisory Council and the Bank Board, and capacities taken in other companies is provided in the Annual Reports of the Bank and is available on the bank's website. The information regarding received remuneration of the particular person is not published. The information regarding income in average values is published in the Annual Report of the Bank.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	

10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and annual reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The candidate for the Bank's audit agency is provided by the Bank's Board to the General Shareholders' Meeting in compliance with the results of audit agency review. The opinion of the Supervisory Council regarding the audit agency is provided during the Meeting.
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	In 2013, the bank paid an audit company 60,000 LTL for additional consultations and confirmation of statements on prudential requirements.

Chief Executive Officer Vytautas Sinius

6 March 2014.