AB BANKAS NORD/LB LIETUVA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANKAS NORD/LB LIETUVA AB

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

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

3. During the year ended 31 December 2002 the Bank made an impairment charge equivalent to the full amount of the outstanding loan for certain doubtful loans, irrespective of estimated future cash flows from those borrowers and any associated collateral. Such policy was not consistent with requirements of IAS 39 *Financial Instruments: Recognition and Measurement* but was done in order to comply with the prudential requirements of the Bank of Lithuania. This caused us to qualify our opinion on the financial statements for that year. There have been recoveries on these loans in 2003 of approximately LTL 19 million resulting in a credit of that amount to the income statement for the year. In our opinion, if provisions for loan impairment had been calculated in accordance with the requirements of IAS 39, the profit for the year 2003 should be decreased by approximately LTL 19 million and the loss for the year 2002 decreased by the same amount. Shareholders' equity and total assets should consequently be increased by approximately LTL 19 million as at 31 December 2002.

4. In our opinion, except for the effects of the matter referred to in paragraph 3, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

On behalf of PricewaterhouseCoopers UAB,

Christopher C. Butler
Partner

Asta Liepienė
Auditor's Certificate No.000438

Vilnius, 1 March 2004

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

THE GROUP AND BANK INCOME STATEMENT

		Year ended			
		31 December 2003		31 December 2002	
	Notes	**Group**	**Bank**	**Group**	**Bank**
Interest income		99,729	94,544	101,195	96,596
Interest expense		(32,432)	(31,830)	(39,094)	(37,874)
Net interest income	1	67,297	62,714	62,101	58,722
Expenses for provisions for loans and accrued interest	2	20,223	20,200	(35,897)	(35,897)
Net interest income after provisions		87,520	82,914	26,204	22,825
Fee and commission income		39,037	36,300	33,416	32,897
Fee and commission expense		(8,026)	(6,684)	(5,909)	(4,815)
Net interest, fee and commission income		118,531	112,530	53,711	50,907
Net gain (loss) on operations with securities and financial instruments	3	(1,686)	(1,936)	3,879	3,397
Net foreign exchange gain		11,588	11,603	10,764	10,932
Net gain on revaluation of investments in subsidiaries and associates		650	1,292	435	2,570
Operating income		129,083	123,489	68,789	67,806
Operating expenses	4	(117,517)	(100,059)	(98,947)	(89,036)
Provisions for other assets and contingent liabilities	5	1,554	2,205	(6,292)	(5,786)
Other income		32,885	6,358	23,245	3,299
Other expenses	6	(36,442)	(22,539)	(41,019)	(30,718)
Profit (loss) before tax		9,563	9,454	(54,224)	(54,435)
Income tax	7	5,891	6,000	(2,771)	(2,560)
Net profit (loss)		15,454	15,454	(56,995)	(56,995)
Earnings per share (in LTL per share)					
Basic	8	8.31	8.31	(51.05)	(51.05)
Diluted	8	8.31	8.31	(51.05)	(51.05)

The accounting policies and notes on pages 8 to 41 are an integral part of these financial statements.

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

THE GROUP AND BANK BALANCE SHEET

		31 December 2003		31 December 2002	
	Notes	**Group**	**Bank**	**Group**	**Bank**
ASSETS					
Cash and balances with central banks	9	234,260	234,255	199,558	199,550
Treasury bills	10	51,115	36,525	44,934	42,533
Due from other banks and financial institutions	11	159,369	284,803	53,167	111,969
Trading securities	12	99,440	99,440	47,648	47,648
Derivative financial instruments	13	1,039	1,039	472	472
Loans	14	1,583,589	1,583,008	1,070,439	1,069,203
Leasing	15	132,992	-	68,639	-
Securities available-for-sale	16	83,904	67,856	281,955	261,450
Securities held-to-maturity	16	74,437	74,437	13,325	13,325
Investments in subsidiaries and associates	17	-	22,324	4,312	22,106
Intangible assets	18	3,881	3,306	4,173	3,569
Fixed assets	19	117,095	108,302	113,636	109,757
Deferred tax assets	7	6,006	6,000	-	-
Other assets	20	39,432	20,209	30,021	17,229
Total assets		2,586, 559	2,541,504	1,932,279	1,898,811
LIABILITIES					
Due to other banks and financial institutions	21	518,938	503,316	286,649	270,433
Derivative financial instruments	13	1,497	1,497	1,322	1,322
Deposits	22	1,573,895	1,573,895	1,389,515	1,389,515
Debt securities in issue	23	171,847	171,847	-	-
Special and lending funds	24	2,277	2,277	14,025	14,025
Other liabilities	25	55,764	26,331	45,673	28,421
Subordinated loans	26	87,100	87,100	35,308	35,308
Total liabilities		2,411,318	2,366,263	1,772,492	1,739,024
SHAREHOLDERS' EQUITY					
Share capital	27	176,585	176,585	176,585	176,585
Revaluation reserve	27	2,405	2,405	5,221	5,221
Reserve capital	27	2,816	2,816	28,585	28,585
Retained earnings	27	(6,565)	(6,565)	(50,604)	(50,604)
Total shareholders equity		175,241	175,241	159,787	159,787
Total liabilities and equity		2,586,559	2,541,504	1,932,279	1,898,811

These financial statements have been approved by the Board on 1 March 2004 and signed on its behalf by:

Thomas Stephan Buerkle
Chairman of the Board

Hinrich Holm
Member of the Board, Chief Financial Officer

The accounting policies and notes on pages 8 to 41 are an integral part of these financial statements.

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

BANK AND GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Share capital	Revaluation reserve	Reserve capital	Retained earnings	Total
Balance at 1 January 2002		102,839	5,275	20,342	14,634	143,090
Transfer to retained earnings		-	-	8,243	(8,243)	-
Reduction of revaluation reserve for long term investments		-	(54)	-	-	(54)
Increase of share capital	27	73,746	-	-	-	73,746
Net loss for the year		-	-	-	(56,995)	(56,995)
Balance at 31 December 2002		176,585	5,221	28,585	(50,604)	159,787
Transfer to retained earnings		-	-	(28,585)	28,585	-
Transfer from revaluation reserve on tangible assets sold or fully depreciated		-	(2,816)	2,816	-	-
Net profit for the year		-	-	-	15,454	15,454
Balance at 31 December 2003		176,585	2,405	2,816	(6,565)	175,241

The accounting policies and notes on pages 8 to 41 are an integral part of these financial statements.

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

THE GROUP AND BANK CASH FLOW STATEMENT

		Year ended			
		31 December 2003		31 December 2002	
	Notes	Group	Bank	Group	Bank
Operating activities					
Income (expense)					
Interest income		82,745	77,729	84,454	80,451
Interest expense		(27,003)	(25,632)	(42,171)	(41,125)
Collected previously written-off loans		16,347	16,347	13,608	13,503
Net income from operations in foreign currency		2,011	1,999	10,130	10,130
Net income from operations in securities		5,594	5,451	4,824	4,824
Net income from service and commission fees		31,011	29,616	30,984	31,698
Salaries and related expenses		(69,879)	(58,299)	(57,009)	(50,672)
Other expenses		(42,012)	(50,447)	(28,522)	(35,703)
Net cash flow from operating profits before changes in operating assets and liabilities		(1,186)	(3,236)	16,298	13,106
(Increase) decrease in operating assets					
(Increase) decrease in compulsory reserves with the central bank		(27,637)	(27,637)	17,248	17,248
(Increase) decrease in loans to credit and financial institutions		(106,734)	(173,366)	36,653	2,222
(Increase) in loans granted		(494,707)	(493,999)	(185,459)	(185,459)
(Increase) decrease in securities		(23,302)	(11,113)	23,904	23,408
(Increase) in other short-term assets		(70,831)	(1,125)	(41,246)	(2,250)
Change in operating assets		(723,211)	(707,240)	(148,900)	(144,831)
Increase (decrease) in liabilities					
Increase in liabilities to credit and financial institutions		232,289	232,883	36,952	35,869
Increase in deposits and letters of credit		172,632	172,632	99,120	99,120
Increase (decrease) in other liabilities		2,008	(9,405)	7,686	(3,078)
Change in liabilities		406,929	396,110	143,758	131,911
Net cash flow from operating activities		(317,468)	(314,366)	11,156	186
Investing activities					
Acquisition of tangible and intangible assets		(20,033)	(12,943)	(15,321)	(12,272)
Disposal of tangible and intangible assets		2,894	2,864	1,215	-
Investments in securities and sale thereof, net		68,061	63,925	(40,578)	(31,138)
Disposal of associates		3,993	3,993	-	-
Investments into subsidiaries		-	(4,000)	-	-
Dividends received		45	45	66	66
Interest received		11,719	9,696	18,858	18,586
Net cash flow from investing activities		66,679	63,580	(35,760)	(24,758)
Financing activities					
Own debt securities issued		171,847	171,847	-	-
Increase in share capital		-	-	73,746	73,746
Cash flow from other financing activities		51,792	51,792	-	-
Net cash flow from financing activities		223,639	223,639	73,746	73,746
Net increase (decrease) in cash and cash equivalents		(27,150)	(27,147)	49,142	49,174
Cash and cash equivalents at beginning of year		190,498	190,490	141,356	141,316
Cash and cash equivalents at 31 December	30	163,348	163,343	190,498	190,490

The accounting policies and notes on pages 8 to 41 are an integral part of these financial statements.

GENERAL BACKGROUND

AB Bankas Nord/LB Lietuva (formerly AB Lietuvos Žemės Ūkio Bankas) was registered as a public company in the Enterprise Register of the Republic of Lithuania on 13 September 1993. The change in name was registered on 2 May 2003. The Bank is licensed by the Bank of Lithuania to perform all the banking operations provided for in the Law on Commercial Banks of the Republic of Lithuania and the Statute of the Bank, except for operations with precious metals.

The Head Office of the Bank is located in Vilnius. At the end of the reporting period the Bank had 46 branches (2002: 46). As at 31 December 2003, the Bank had 1,274 employees (2002: 1,583).

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

The Bank owns the following subsidiaries:

- UAB Nord/LB Lizingas (leasing activities),
- UAB Nord/LB Draudimas (non-life insurance activities),
- UAB Nord/LB Gyvybės Draudimas (life insurance activities), and
- UAB Nord/LB Investicijų Valdymas (investment management activities).

As at 31 December 2003 and throughout the year 2003 (and 2002), the Bank owned 100% of the share capital of the Leasing, Insurance and Life Insurance subsidiaries. The Investment management subsidiary was established on 19 August 2003. The Bank is the sole shareholder of these companies from their establishment.

The Bank's shares are included in the Current List of the Lithuanian National Stock Exchange. As disclosed in Note 28, *Share capital*, Norddeutche Landesbank Girozentrale (Germany) is the single largest shareholder holding 93.09% of the Bank's shares.

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

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

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

Going concern

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

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

ACCOUNTING POLICIES (continued)

Consolidation

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

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

Associated companies

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

Foreign currency translation

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

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

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost and subsequently re-measured at their fair value. Fair values are obtained from quoted market prices and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

The fair values of derivative instruments are disclosed in Note 13.

Recognition of income and expenses

Interest income and expense are recognised in the income statement on an accrual basis using the effective yield method based on the actual purchase price. Interest due on non-performing commitments is no longer accrued when interest payment elapsed 30 days from the date when debt servicing was due. Interest accrued but not paid is provided for at the same percentage rate as the principal amount to which it relates.

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

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

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

ACCOUNTING POLICIES (continued)

Taxation

Income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Where an overall deferred taxation asset arises, this is only recognised in the financial statements to the extent that its recoverability can be foreseen by the management as being probable.

Other taxes

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

Cash and cash equivalents

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

Trading securities

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

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

Securities available for sale and held to maturity

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

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

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

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

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

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

ACCOUNTING POLICIES (continued)

Purchased loans

The Group classifies its purchased loans and receivables into the following two categories: held-to-maturity and available-for-sale assets. Purchased loans and receivables with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Purchased loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Purchased loans and receivables are initially recognised at cost (which includes transaction costs). Purchased loans that are classified as available-for-sale are subsequently re-measured at fair value based on amounts derived from cash flow models. Purchased loans that are classified as held-to-maturity are carried at amortised cost using the effective yield method, less any provision for impairment.

Originated loans

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

Provisions for loan impairment

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

In addition, as required by the regulation set by the Bank of Lithuania, Loss category loans are written off in full within two quarters.

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.

Fixed assets

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

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

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

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

Leases

Group company is the lessee

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

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

ACCOUNTING POLICIES (continued)

Leases (continued)

Group company is the lessor

Operating leases

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

Finance leases

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

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

Foreclosed assets

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

Assets / funds under management and related liabilities

Assets under management include loans that are managed by the Bank in the name of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. Assets under management equal funds under management and are accounted in the off-balance sheet.

Borrowings

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

Debt securities issued

Debt securities issued are classified as held to maturity and are accounted for at amortised costs using the effective interest rate as applicable at the time of issue of these securities. Interest expenses related to the debt securities are charged to the expenses following the principle of accrual.

Debt securities are recognised and derecognised on the day of settlement.

Fiduciary activities

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

Fair value of assets and liabilities

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

Comparatives

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

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

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

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

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

Capital adequacy

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

The capital adequacy ratios for the year 2003 are presented below (calculated based on the requirements for accounting in banks in Lithuania):

	Group					Bank
	31 December 2003	31 December 2002	31 March 2003	30 June 2003	30 September 2003	31 December 2003
Capital base	228,448	154,326	162,575	163,126	205,739	207,431
Risk weighted assets and off balance sheet items	1,875,064	1,164,854	1,223,593	1,422,657	1,641,972	1,842,223
Capital adequacy ratio	12.18	13.25	13.29	11.47	12.53	11.26

Credit risk

The Group takes on exposure to credit risk which is the risk that a counter party will be unable to repay the amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and to the industry segments. Such risks are monitored on a rolling basis and are subject to an annual or more frequent review. The structures of borrowers and lessees by segment and type of assets are disclosed in Notes 14 and 15, respectively.

Credit related commitments

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

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

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

FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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

Note 31 analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's (Bank's) liabilities on demand exceed assets with similar duration, however, the Bank’s liquidity ratio, calculated using the methodology approved by the Bank of Lithuania, is 38.34%. The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. In the opinion of management of the Bank, the Group and Bank’s liquidity is sufficient to meet its operating needs. Such risks are monitored on a rolling basis and are subject to annual or more frequent review.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank’s exposure to foreign currency exchange rate risk is summarised in Note 32.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. Such risks are monitored on a rolling basis and are subject to annual or more frequent review The Bank’s exposure to interest rate risk is summarised in Note 33.

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

BUSINESS SEGMENTS

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

Below, there is a summary of major indicators from income statements for the year ended 31 December 2003 and balance sheets as at 31 December 2003 of the Group companies.

	Banking	Leasing	Insu-rance	Life In-surance	Investment mgt	Elimina-tions	Group
Internal	4,582	(3,047)	(322)	(97)	(9)	(1,107)	-
External	98,707	7,012	3,625	464	21	(970)	108,859
Net income from the main operations	103,289	3,965	3,303	367	12	(2,077)	108,859
Internal	-	(12)	(227)	(78)	-	317	-
External	(88,340)	(1,862)	(13,037)	(1,103)	(839)	970	(104,211)
Operating expenses	(88,340)	(1,874)	(13,264)	(1,181)	(839)	1,287	(104,211)
Depreciation charges	(11,719)	(1,134)	(507)	(48)	-	-	(13,408)
Internal	(503)	(236)	589	2	-	148	-
External	6,727	(288)	10,876	1,009	(1)	-	18,323
Net other income (expenses)	6,224	(524)	11,465	1,011	(1)	148	18,323
Profit (loss) before tax	9,454	433	997	149	(828)	(642)	9,563
Income tax	-	(115)	-	-	-	-	(115)
Change of deferred tax	6,000	6	-	-	-	-	6,006
Net profit (loss)	15,454	324	957	322	(819)	-	15,454
Total assets	2,541,504	152,058	33,918	8,785	3,589	(153,295)	2,586,559
Total liabilities	2,366,263	147,703	24,659	3,247	417	(130,971)	2,411,318
Shareholders’ equity	175,241	4,355	9,259	5,538	3,172	(22,324)	175,241
Capital additions	12,943	5,621	1,394	73	2	-	20,033

A significant amount of the Insurance company income is earned from the clients that enter into business transactions with the Bank. Consequently, many of the assets that are collateralised to the Bank are insured with this company.

Life insurance of borrowers is the main product of the Life Insurance company. Most of the insured are the customers of the Bank.

The management of the Group believes that reinsurance policies adopted in these companies are adequate to reduce the risk of the Group’s loss to an acceptable level. Furthermore, there are no practical procedures to estimate the dependence of the subsidiaries on the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Interest income:				
on loans to credit and financial institutions and placements with credit institutions	1,529	4,151	2,709	4,445
On other loans	80,038	72,810	77,320	72,103
On debt securities acquired	16,035	14,471	18,674	17,438
On Government debt securities for restructuring of banks	242	242	1,063	1,063
contract management fees	1,885	2,870	1,429	1,547
Total interest income	99,729	94,544	101,195	96,596
Interest expense				
on liabilities to credit and financial institutions and amounts due to credit institutions	9,315	8,713	8,861	7,641
On deposits and other repayable funds	20,811	20,811	27,731	27,731
On debt securities issued	40	40	-	-
On subordinated loans	2,234	2,234	2,342	2,342
contract management fees	32	32	160	160
Total interest expense	32,432	31,830	39,094	37,874
Net interest income	67,297	62,714	62,101	58,722

NOTE 2 EXPENSES FOR PROVISIONS FOR LOANS AND ACCRUED INTEREST

Group	**For loans**	**For general risk of loans**	**Total for loans**	**For accrued interest**	**Total**
Increase of provisions, net	43,278	8,981	52,259	650	52,909
Recovered previously written off loans	(16,812)	-	(16,812)	(200)	(17,012)
Expenses for provisions in 2002	26,466	8,981	35,447	450	35,897
Increase (decrease) of provisions, net	6,322	(42)	6,280	97	6,377
Reinstatement of previously written-off loans	(7,968)	-	(7,968)	-	(7,968)
Recovered previously written off loans	(18,536)	-	(18,536)	(96)	(18,632)
Expenses for provisions in 2003	(20,182)	(42)	(20,224)	1	(20,223)

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

NOTE 2 EXPENSES FOR PROVISIONS FOR LOANS AND ACCRUED INTEREST (continued)

Bank	**For loans**	**For general risk of loans**	**Total for loans**	**For accrued interest**	**Total**
Increase of provisions, net	43,278	8,981	52,259	650	52,909
Recovered previously written off loans	(16,812)	-	(16,812)	(200)	(17,012)
Expenses for provisions in 2002	26,466	8,981	35,447	450	35,897
Increase (decrease) of provisions, net	6,345	(42)	6,303	97	6,400
Reinstatement of previously written-off loans	(7,968)	-	(7,968)	-	(7,968)
Recovered previously written off loans	(18,536)	-	(18,536)	(96)	(18,632)
Expenses for provisions in 2003	(20,159)	(42)	(20,201)	1	(20,200)

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES AND FINANCIAL INSTRUMENTS

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Debt securities, including treasury bills				
Realised gain	6,019	5,876	4,782	4,786
Unrealised gain (loss)	(3,129)	(3,236)	824	338
Net income from debt securities	2,890	2,640	5,606	5,124
Derivative financial instruments				
Realised (loss)	(5,563)	(5,563)	(402)	(402)
Unrealised (loss)	(115)	(115)	(856)	(856)
Net loss from derivative financial instruments	(5,678)	(5,678)	(1,258)	(1,258)
Equity securities				
Income from other equity securities	45	45	66	66
Realised gain	153	153	38	38
Unrealised gain (loss)	904	904	(573)	(573)
Net income (loss) from equity securities	1,102	1,102	(469)	(469)
Total	(1,686)	(1,936)	3,879	3,397

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

NOTE 4 OPERATING EXPENSES

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Salaries, social insurance and other related expenses	67,070	55,490	61,083	54,681
Rent of premises and maintenance expenses	13,042	12,206	8,317	8,008
Transportation, post and communications expenses	7,545	5,994	6,616	5,736
Advertising and marketing expenses	7,258	5,554	2,848	1,969
Office equipment and maintenance expenses	3,580	3,547	1,409	1,381
Training and business trip expenses	1,826	1,484	1,199	1,047
Other operating expenses	3,788	4,065	5,708	5,333
Amortisation of intangible assets	2,431	2,203	2,184	1,976
Depreciation of fixed assets	10,977	9,516	9,583	8,905
Total	117,517	100,059	98,947	89,036

NOTE 5 PROVISIONS FOR OTHER ASSETS AND CONTINGENT LIABILITIES

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Expenses for provisions on:				
other doubtful assets	(2,095)	(2,118)	5,223	5,223
accrued interest for funds under management	(145)	(145)	6	6
accrued income for debt securities	-	-	(6)	(6)
finance lease	628	-	506	-
contingent liabilities	58	58	563	563
Total	(1,554)	(2,205)	6,292	5,786

NOTE 6 OTHER EXPENSES

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Fees for compulsory insurance of individuals' deposits	6,457	6,456	5,528	5,528
Taxes	13,679	10,874	10,069	7,995
Net realised loss on sale of foreclosed assets	-	-	151	525
Impairment of fixed assets	-	-	13,327	13,327
Other expenses	16,306	5,209	11,944	3,343
Total	36,442	22,539	41,019	30,718

NOTE 7 INCOME TAX

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Current tax for the year (see below)	115	-	211	-
Change of deferred tax asset (see below)	(6,006)	(6,000)	2,560	2,560
Total	(5,891)	(6,000)	2,771	2,560

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

NOTE 7 INCOME TAX (continued)

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

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Profit before tax	9,563	9,454	(54,224)	(54,435)
Tax calculated at a tax rate of 15%	1,434	1,418	(8,134)	(8,165)
Income not subject to tax	(5,657)	(5,059)	(5,279)	(4,831)
Adjustments of prior year errors not subject to tax	(132)	-	-	-
Effect of differences with statutory accounts	(361)	-	-	-
Expenses not deductible for tax purposes	1,024	878	6,084	5,941
Write-off of deferred tax assets	-	-	2,560	2,560
Recognition /utilisation of previously unrecognised tax losses	(2,199)	(3,237)	7,540	7,055
Tax charge/(credit)	(5,891)	(6,000)	2,771	2,560
Movement in deferred tax asset				
At the beginning of the year	-	-	2,560	2,560
Income statement credit (charge)	6,006	6,000	(2,560)	(2,560)
At the end of the year	6,006	6,000	-	-

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

Group – deferred tax liabilities

	Valuation of securities	Total
As at 1 January 2003	1,009	1,009
Charged/ (credited) to net profit	(677)	(677)
As at 31 December 2003	332	332

Group – deferred tax assets

	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2003	223	10,919	900	12,042
Charged/ (credited) to net profit	(130)	3,538	(622)	2,741
Provision for deferred tax assets	-	(8,398)	(92)	(8,445)
As at 31 December 2003	93	6,059	186	6,338

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable profits is probable.

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

NOTE 7 INCOME TAX (continued)

The Group's tax losses carried forward expire as follows:

Year of expiry	Amount
2004	1,490
2005	4,741
2006	20
2007	59,299
2008	25,431
	90,981

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

Bank – deferred tax liability

	Valuation of securities	Total
As at 1 January 2003	1,009	1,009
Charged/ (credited) to net profit	(677)	(677)
As at 31 December 2003	332	332

Bank – deferred tax assets

	Valuation of securities	Tax losses	Accrued expenses	Total
As at 1 January 2003	223	10,705	900	11,828
Charged/ (credited) to net profit	(130)	2,674	(720)	1,824
Provision for deferred tax assets	-	(7,320)	-	(7,320)
As at 31 December 2003	93	6,059	180	6,332

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

Year of expiry	Amount
2004	1,490
2005	4,741
2007	59,105
2008	23,857
	89,193

NOTE 7 INCOME TAX (continued)

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:

	2003		2002	
Deferred tax assets	**Group**	**Bank**	**Group**	**Bank**
Deferred tax assets	6,338	6,332	-	-
Deferred tax liabilities	(332)	(332)	-	-
	6,006	6,000	-	

NOTE 8 EARNINGS PER SHARE

Earnings per share were calculated by dividing the Group's (Bank's) net profit (loss) for the period by the weighted average number of ordinary registered shares in issue during the period. Earnings per one litas (LTL) of a share were calculated by dividing earnings per share by the nominal value of one share, which is LTL 95.

Earnings per share

	2003	2003	2002
	Group	**Bank**	**Group/Bank**
Net profit (loss)	15,454	15,454	(56,995)
Weighted average number of issued shares (units)	1,858,794	1,858,794	1,116,546
Earnings per share (in LTL)	8.31	8.31	(51.05)

As at 31 December 2003 the diluted earnings per share are the same as basic earnings per share.

NOTE 9 CASH AND BALANCES WITH CENTRAL BANKS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables:	111,394	111,389	105,209	105,201
Placements with Central Bank:				
Correspondent account with central bank	2,641	2,641	1,761	1,761
Required reserves in national currency	75,776	75,776	66,013	66,013
Required reserves in foreign currency	44,449	44,449	26,575	26,575
Total placements with Central Bank	122,866	122,866	94,349	94,349
Total cash and balances with Central Bank	234,260	234,255	199,558	199,550

Required reserves are calculated on a monthly basis as a 6% share (8% until May 2002) of the average balance of deposits of the previous month. The required reserves are held with the Bank of Lithuania in the form of non-interest bearing deposits under the Bank of Lithuania's regulations. Required reserves in foreign currency are not available to finance the Bank's day-to-day operations.

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

NOTE 10 NOTE 10 TREASURY BILLS

Treasury bills are debt securities issued by the Republic of Lithuania for a term equal to or less than a year. The T-bills are categorised as assets held for trading and carried at their fair value.

NOTE 11 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Due from banks:				
Correspondent bank accounts	6,370	6,370	11,101	11,101
Overnight deposits	33,364	33,364	29,165	29,165
Deposits with banks	82,418	80,968	11,912	11,508
Total due from banks	122,152	120,702	52,178	51,774
Loans granted to banks and financial institutions	37,217	164,101	989	60,195
Total due from other banks and financial institutions	159,369	284,803	53,167	111,969

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

- Loans to NORD/LB Lizingas UAB, amounting to LTL 125,384 thousand (2002: LTL 59,206 thousand) falling due for repayment in 2004 – 2007;
- Loan to FMĮ Finasta AB amounting to LTL 861 thousand (2002: LTL 989 thousand) falling due for repayment in 2004;
- Loan to Ūkio Banko Lizingas UAB amounting to LTL 15,000 thousand (2002: nil) and falling due for repayment in 2006;
- Subordinated loan to NORD/LB Draudimas UAB amounting to LTL 1,500 thousand (2002: nil) falling due for repayment in 2008;
- Loan to the Baltic-American Enterprise Fund, a US non-profit corporation amounting to LTL 16,406 thousand as at 31 December 2003 and falling due for repayment in 2007.

NOTE 12 TRADING SECURITIES

Trading securities consist of debt securities issued by the Republic of Lithuania and debentures of corporate entities with the term of more than one year, which are held for trading.

NOTE 13 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES

The Group enters into transactions involving the following derivative instruments:

- Currency forwards, which represent commitments to purchase and/or sell foreign and domestic currency in the future at a fixed price.
- Currency swaps, which are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Group's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses the creditworthiness of the counter parties.
- Foreign currency options which are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at a set date a specific amount of a foreign currency at a predetermined price. In consideration for the assumption of foreign exchange, the seller receives a premium from the purchaser. Generally the options are negotiated between the Group and a customer. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.
- Interest rate swaps, which are contractual agreements according to which cash flow based on the fixed interest rate calculated on the notional amount is replaced with the cash flow based on the floating interest rate calculated on the same notional amount or vice versa. In addition, interest rate swaps of floating vs floating or fixed vs. fixed interest rate cash flows as well as those that currencies are swapped in addition to the interest rates can be contracted.

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

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments are set out in the following table.

	Contract amounts		**Fair values**	
	Purchase	**Sale**	**Assets**	**Liabilities**
As at 31 December 2002				
Currency forwards and swaps	75,422	76,256	472	1,322
As at 31 December 2003				
Currency forwards and swaps	9,950	9,518	1,022	618
Interest rate swaps	89,773	89,773	17	879
Total	99,723	99,291	1,039	1,497

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

NOTE 14 LOANS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Loans to corporate entities	1,081,939	1,081,231	840,109	838,723
Loans to individuals	523,276	523,276	251,723	251,723
Total gross loans granted	1,605,215	1,604,507	1,091,832	1,090,446
Specific provisions	(13,020)	(12,893)	(12,521)	(12,371)
General provision	(8,606)	(8,606)	(8,872)	(8,872)
Total provisions	(21,626)	(21,499)	(21,393)	(21,243)
Total	1,583,589	1,583,008	1,070,439	1,069,203

In 2002, the Bank acquired a number of loans from Nord/LB Vilnius branch amounting to LTL 107.9 million. The Board of the Bank made a decision to keep these loans until their maturity. The balance outstanding of these loans was equal to LTL 106.5 million at 31 December 2003.

All other loans are originated by the Bank.

Impairment of loans

Value of collateral pledged against the loans granted amounted to LTL 2,930,643 thousand as at 31 December 2003 (2002: LTL 1,495,162 thousand).

Impaired loans amounted to LTL 63,411 thousand at 31 December 2003 (2002: LTL 79,136 thousand). Value of collateral pledged against these loans amounted to LTL 149,348 thousand, of which LTL 21,189 thousand were applied as a deduction from principal outstanding in calculation of specific provisions (2002: LTL 176,249 thousand and 27,455 thousand respectively).

The principal amount outstanding of loans on which interest income is no longer accrued amounted to LTL 23,256 thousand at 31 December 2003 (2002: LTL 5,757 thousand).

According to the rules of provisioning for loan losses set by the Bank of Lithuania, which are described in Accounting Policies, section *Originated loans and provisions for loan impairment*, the Bank wrote off LTL 5 million loss category loans in 2003 (2002: LTL 39 million). Following the above rules the Bank wrote-off approximately LTL 159 million loss category loans in total during the period from 1999 to 2003. A number of various assets remain pledged to the Bank for the written off loans. The value of these assets is not accounted for in the balance sheet. The Bank puts efforts into the recovery of both impaired loans, which are accounted for on balance sheet and those written off; in cash or by foreclosing and re-selling the assets. The recoveries of loans previously written-off are disclosed in Note 2.

Movement in provisions for impairment of loans is as follows:

	Group	**(Bank)**
Balance sheet		
Provisions as at 31 December 2001	8,156	8,006
Increase in provisions	52,259	52,259
Provisions for loans written off	(38,778)	(38,778)
Exchange rate adjustment on general provision	(110)	(110)
Exchange rate adjustment on specific provision	(134)	(134)
Provisions as at 31 December 2002	21,393	21,243
Increase in provisions (Note 2)	6,280	6,303
Provisions for loans written off	(5,617)	(5,617)
Exchange rate adjustment on general provision	(224)	(224)
Exchange rate adjustment on specific provision	(206)	(206)
Provisions as at 31 December 2003	21,626	21,499

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

NOTE 14 LOANS (continued)

Segment information

Group (Bank)	**2003**		**2002**	
	Group	**Bank**	**Group**	**Bank**
Gross loans granted to legal entities by industry sectors:				
Agriculture, hunting and forestry	123,230	123,230	97,230	97,230
Manufacturing	342,084	341,743	224,225	223,623
Utilities	98,439	98,439	96,075	96,075
Construction	37,007	37,007	45,764	45,764
Trading	187,941	187,575	107,410	106,654
Transportation	58,019	58,019	57,808	57,780
Real estate, rent	65,325	65,324	51,420	51,420
State governance and compulsory social security	80,997	80,997	101,392	101,392
Other industry sectors	88,897	88,897	58,785	58,785
Total gross loans to corporate entities	1,081,939	1,081,231	840,109	838,723

Gross loans amounting to LTL 1,596,271 thousand at 31 December 2003 (in 2002: LTL 1,087,271 thousand) were granted to corporates and individuals located in Lithuania and gross loans of LTL 8,236 thousand were granted to non-residents (in 2002: LTL 3,175 thousand).

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

NOTE 15 LEASING

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2002	27,986	46,796	3,824	78,606
Change during 2003	19,368	43,510	5,901	68,779
Balance at 31 December 2003:	47,354	90,306	9,725	147,385
Unearned finance income on finance leases:				
Balance at 31 December 2002	4,088	4,694	472	9,254
Change during 2003	1,353	2,296	315	3,964
Balance at 31 December 2003:	5,441	6,990	787	13,218
Net investments in leasing before provisions:				
31 December 2002	23,898	42,102	3,352	69,352
31 December 2003	41,913	83,316	8,938	134,167
Changes in provisions:				
Balance as at 31 December 2001	215	301	100	616
Increase (decrease) in provisions	35	128	(66)	97
Balance as at 31 December 2002	250	429	34	713
Increase (decrease) in provisions in 2003	79	332	51	462
Balance as at 31 December 2003	329	761	85	1,175
Net investments in leasing after provisions:				
31 December 2002	23,648	41,673	3,318	68,639
31 December 2003	41,584	82,555	8,853	132,992

Segment information

	2003	2002
By type of lessees:		
Corporate enterprises	111,301	65,296
Individuals	9,821	2,835
Governmental institutions and public organisations	13,045	1,221
Net investments before provisions	134,167	69,352
By type of assets:		
Cargo vehicles	45,232	25,292
Real estate	29,477	14,829
Manufacturing facilities	28,460	13,882
Automobiles	27,313	13,217
Agricultural machinery	2,913	1,404
Office equipment and household appliances	772	728
Net investments before provisions	134,167	69,352

All lessees operate in Lithuania.

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

NOTE 16 INVESTMENT SECURITIES

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Securities available-for-sale				
Debt securities:				
Government bonds of the Republic of Lithuania	67,839	53,090	247,263	228,224
Bonds of the Russian Ministry of Finance (Min-Fin 8)	-	-	2,794	2,794
Unlisted corporate bonds	15,130	13,831	30,645	29,179
Equity securities:				
Listed in the Official list of NSEL	785	785	775	775
Listed in the Current list of NSEL	113	113	474	474
Unlisted	37	37	4	4
Total securities available-for-sale	83,904	67,856	281,955	261,450
Securities held-to-maturity				
Government bonds of the Republic of Lithuania	74,437	74,437	-	-
Government bonds for restructuring of the Banks' assets	-	-	13,325	13,325
Total investment securities	158,341	142,293	295,280	274,775

The Government bonds for restructuring of the Bank's assets were redeemed in 2003. The interest rate on the these securities is calculated monthly as the average interest rate on term deposits in Lithuania plus 4.5 percentage points p.a.

NOTE 17 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATE

				2003	2002
	Share	**Nominal value**	**Acquisition cost**	**Carrying value**	**Carrying value**
Investments in associated company:					
Mokėjimo Kortelių Sistemos UAB	34%	2,530	2,530	-	4,312
Total (Group)				-	4,312
Investments in consolidated subsidiaries:					
NORD/LB Lizingas UAB	100%	2,000	2,200	4,355	4,086
NORD/LB Draudimas UAB	100%	6,000	5,000	9,259	8,319
NORD/LB Gyvybės Draudimas UAB	100%	4,000	5,000	5,538	5,389
NORD/LB Investicijų Valdymas UAB	100%	2,000	4,000	3,172	-
Total (Bank)				22,324	22,106

The Bank owned 34% of Mokėjimo Kortelių Sistemos share capital in issue at 31 December 2002. The investment was disposed on 19 December 2003 to an entity that is not related to the Bank or Group.

On 19 August 2003, the Bank established a subsidiary Nord/LB Investicijų Valdymas UAB. This subsidiary will primarily undertake the business of accumulating the pension funds, investment in securities, fund management and financial advisory services.

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

NOTE 18 INTANGIBLE ASSETS

	Group	Bank
31 December 2002		
Cost	11,879	10,825
Accumulated amortisation	(7,706)	(7,256)
Net book value	4,173	3,569
Year ended 31 December 2003		
Net book value at 1 January	4,173	3,569
Acquisitions	2,139	1,940
Write-offs:		
Amortisation charge	(2,431)	(2,203)
Net book value at 31 December	3,881	3,306
31 December 2003		
Cost	14,018	12,765
Accumulated amortisation	(10,137)	(9,459)
Net book value	3,881	3,306
Economic life (in years)	3-5	3-4

Intangible assets include purchased computer software and software licences.

NOTE 19 FIXED ASSETS

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
31 December 2002					
Cost/valuation	93,964	10,133	63,390	139	167,626
Accumulated depreciation	(12,357)	(5,869)	(35,764)	-	(53,990)
Net book value	81,607	4,264	27,626	139	113,636
Year ended 31 December 2003					
Net book value at 1 January	81,607	4,264	27,626	139	113,636
Acquisitions	548	3,387	12,357	1,602	17,894
Transfers from construction in progress	1,726	-	-	(1,726)	-
Disposals and write-offs	(1,433)	(1,069)	(956)	-	(3,458)
Depreciation charge	(1,036)	(1,526)	(8,415)	-	(10,977)
Net book value at 31 December	81,412	5,056	30,612	15	117,095
31 December 2003					
Cost/valuation	94,461	8,999	67,940	15	171,415
Accumulated depreciation	(13,049)	(3,943)	(37,328)	-	(54,320)
Net book value	81,412	5,056	30,612	15	117,095
Economic life (in years)	40-100	5-9	2-36	-	-

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

NOTE 19 FIXED ASSETS (continued)

Bank	**Buildings and premises**	**Vehicles**	**Office equipment**	**Construction in progress**	**Total**
31 December 2002					
Cost/valuation	93,799	6,776	61,803	139	162,517
Accumulated depreciation	(12,354)	(5,314)	(35,092)	-	(52,760)
Net book value	81,445	1,462	26,711	139	109,757
Year ended 31 December 2003					
Net book value at 1 January	81,445	1,462	26,711	139	109,757
Acquisitions	-	-	9,401	1,602	11,003
Transfers from construction in progress	1,726	-	-	(1,726)	
Disposals and write-offs	(1,433)	(572)	(937)	-	(2,942)
Depreciation charge	(1,033)	(466)	(8,017)	-	(9,516)
Net book value at 31 December	80,705	424	27,158	15	108,302
31 December 2003					
Cost/valuation	93,748	2,907	63,415	15	160,085
Accumulated depreciation	(13,043)	(2,483)	(36,257)	-	(51,783)
Net book value	80,705	424	27,158	15	108,302
Economic life (in years)	6-100	5-10	2-36	-	-

No fixed assets were pledged to a third party at 31 December 2003 and 31 December 2002.

The Bank (Group) had ownership title to all of the fixed assets at 31 December 2003 and 31 December 2002.

NOTE 20 OTHER ASSETS

	2003		**2002**	
	Group	**Bank**	**Group**	**Bank**
Accrued income, net of provisions:				
Accrued interest income	2,181	3,194	1,676	2,315
Other accrued income	503	1,416	338	230
Total accrued income	2,684	4,610	2,014	2,545
Deferred expenses	6,921	1,950	4,297	2,067
Receivables from foreclosed assets sold on instalment basis	3,187	3,187	4,803	4,803
Foreclosed assets (see the table below)	2,423	2,423	4,239	4,239
Other assets, net	24,217	8,039	14,668	3,575
Total	39,432	20,209	30,021	17,229

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

NOTE 20 OTHER ASSETS (continued)

Movements in assets foreclosed by the Bank were as follows:

	Commercial premises	Industrial premises	Dwelling premises	Construction in progress	Other	Total
Acquisition cost						
31 December 2002	1,380	3,675	623	2,023	4,850	12,551
Additions	526	502	1,757	47	1,330	4,162
Disposals	1,198	2,323	653	1,851	5,687	11,712
31 December 2003	708	1,854	1,727	219	493	5,001
Provisions						
31 December 2002	370	2,839	400	157	4,546	8,312
Increase in provisions	21	384	35	-	1,078	1,518
Provisions related to disposed assets	74	1,676	4	112	5,386	7,252
31 December 2003	317	1,547	431	45	238	2,578
Net book value						
31 December 2002	1,010	836	223	1,866	304	4,239
31 December 2003	391	307	1,296	174	255	2,423

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Funds of credit and financial institutions				
Correspondent accounts and demand deposits	36,258	37,900	21,829	22,877
Term deposits	347,320	347,320	139,348	139,348
Total funds	383,578	385,220	161,177	162,225
Loans from credit and financial institutions	135,360	118,096	125,472	108,208
Total due from other banks	518,938	503,316	286,649	270,433

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

NOTE 22 DEPOSITS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	109,306	109,306	77,150	77,150
Local government institutions	71,377	71,377	47,573	47,573
Governmental and municipality companies	54,056	54,056	57,787	57,787
Legal entities	432,919	432,919	377,527	377,527
Non-profit organisations	15,768	15,768	11,556	11,556
Individuals	232,871	232,871	158,626	158,626
Total demand deposits	916,297	916,297	730,219	730,219
Term deposits:				
National government institutions	11,519	11,519	6,829	6,829
Local government institutions	543	543	128	128
Governmental and municipality companies	30,004	30,004	3,455	3,455
Legal entities	90,743	90,743	156,190	156,190
Non-profit organisations	7,118	7,118	4,470	4,470
Individuals	517,671	517,671	488,224	488,224
Total term deposits	657,598	657,598	659,296	659,296
Total deposits	1,573,895	1,573,895	1,389,515	1,389,515

As at 31 December 2003, demand deposits of national government institutions included LTL 60,404 thousand (2002: LTL 30,264 thousand) of deposits of compulsory social and health insurance funds.

NOTE 23 DEBT SECURITIES IN ISSUE

On 29 December 2003 the Bank issued debentures with maturity date in December 2006. 500 debentures denominated in Euro have been issued at par value of EUR 100,000 each. The coupun interest rate is set at 6-months EURIBOR + 0.52 p.a. The issue has been underwritten by Bankgesellschaft Berlin AG.

NOTE 24 SPECIAL AND LENDING FUNDS

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Funds of the Government of the Republic of Lithuania	839	839	4,057	4,057
Funds of international organisations	1,438	1,438	9,968	9,968
Total	2,277	2,277	14,025	14,025

Special funds have to be available to their providers on their first demand.

Lending funds, including soft loans that are serviced by the Bank under management contracts, are repaid under terms provided for in the management contracts, i.e. amounts repaid by the borrowers are transferred to relevant funds every month.

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

NOTE 25 OTHER LIABILITIES

	2003		2002	
	Group	**Bank**	**Group**	**Bank**
Accrued expenses	12,809	13,381	7,420	7,223
Deferred income:				
Deferred reinsurance commission	-	-	42	-
Other deferred income	3,543	1,212	234	234
Total deferred income	3,543	1,212	276	234
Other liabilities:				
Amounts payable for finance lease	-	-	-	4,225
Specific provisions for off balance sheet items	712	712	952	952
Technical insurance provisions	16,272	-	13,845	-
Other provisions	-	-	5,999	5,999
Other liabilities	22,428	11,026	17,181	9,788
Total other liabilities	39,412	11,738	37,977	20,964
Total	55,764	26,331	45,673	28,421

Other provisions were established in 2002 to provide for the expenses and commitments related to the restructuring plan which had been approved by the Board of the Bank and executed in 2003.

NOTE 26 SUBORDINATED LOANS

	2003		2002	
Loan provider:	**Group**	**Bank**	**Group**	**Bank**
European Bank for Reconstruction and Development (EBRD)	26,481	26,481	26,481	26,481
Deutsche Investitions- und Entwicklungsgesellschaft, mbH (DEG)	8,827	8,827	8,827	8,827
Norddeutsche Landesbank Girozentrale, Hannover	51,792	51,792	-	-
Total	87,100	87,100	35,308	35,308

All subordinated loans are denominated in Euro (EUR).

The subordinated loans from DEG and EBRD are repayable in full in 2004 and 2005, respectively. The interest rate on these loans is equal to 6-month LIBOR + 2 p.a.

The subordinated loan from Norddeutsche Landesbank Girozentrale is repayable in full in 2013. The interest rate on this loan is equal to 6-month EURIBOR + 0.61 p.a.

NOTE 27 SHARE CAPITAL

The share capital of the Bank is divided into 1,858,794 (up to 16 December 2002 – 1,082,517) ordinary registered shares with a par value of LTL 95 each.

In December 2002, the Bank increased its capital by the issue of 776,277 shares at par value of LTL 95 each for the total amount of LTL 73,746 thousand. All shares were subscribed and fully paid by Norddeutsche Landesbank Girozentrale.

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

NOTE 27 SHARE CAPITAL (continued)

The shareholders of the Bank as of 31 December 2003,are listed in the table below:

	Number of shares	Nominal value, kLTL	%
Norddeutsche Landesbank Girozentrale	1,730,380	164,386	93.09
EAST Capital Management	124,028	11,783	6.67
Other	4,386	416	0.24
Total	1,858,794	176,585	100.00

Reserve capital

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

Revaluation reserve

Revaluation reserve relates to the revaluation of tangible fixed assets. The balance of reserve related to the assets, which have been disposed of or fully depreciated, amounted to LTL 1,067 thousand at 31 December 2003. Management of the Bank plans to propose to the shareholders' meeting to approve the transfer of this amount to retained earnings.

NOTE 28 ASSETS / FUNDS UNDER MANAGEMENT

In 2003, management of the Bank took a decision to change the accounting policy in relation to assets under management and related liabilities and to account for these off balance sheet. In 2002 and previous years assets and funds under management (of the same amount) were reported in a separate caption on the balance sheet.

Assets under management totalling to LTL 99,256 thousand (2002: LTL 110,344 thousand) consist of loans granted to legal entities and individuals, including farmers and house building associations and other companies. These loans were granted from the Lithuanian Agricultural Support Fund, the Farmers' Support Fund, the Agricultural Support Fund (proceeds from sale of grain received from the USA) and the Common Mortgage Support Fund.

The Bank manages these loans on behalf of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. The Bank's credit risk in respect these loans is limited to the customer's failure to pay the accrued interest margin. The Bank is not subject to any interest or currency risk on these loans.

NOTE 29 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims. As at 31 December 2003, contingent liabilities that may arise as a result of pending court proceedings in which the Group (Bank) would appear as a respondent amounted to LTL 1,017 thousand. The Bank established a provision of LTL 197 thousand against potential losses in relation to the outcome of legal claims.

Guarantees letters of credit, commitments to grant loans and other commitments. The Bank had outstanding guarantees, letters of credit and commitments to grant loans amounting to LTL 41,423 thousand, LTL 6,390 thousand and LTL 309,401 thousand, respectively at 31 December 2003 (2002: LTL 30,153 thousand, LTL 13,356 thousand and LTL 205,828 thousand, respectively). Other commitments amounted to LTL 37,467 thousand at that date (2002: LTL 2,787 thousand). Provisions of LTL 712 thousand (2002: LTL 952 thousand), accounted for under Other liabilities, were made for possible losses in relation to these commitments.

As at 31 December 2003 (same in 2002) the Bank had a comfort letter issued to Vereins-und-Westbank Vilnius branch, where it provided a guarantee to cover the indebtedness of NORD/LB Lizingas UAB in case the latter is not able to do so.

NOTE 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Commitments to grant finance leases and acquire assets. As of 31 December 2003, NORD/LB Lizingas UAB had leasing contracts to a total value LTL 15,380 thousand (in 2002: LTL 7,325 thousand) under which assets have not been transferred to the customers. As at 31 December 2003, client's prepayments under these agreements amounting to LTL 1,512 thousand (in 2002: LTL 1,627 thousand) are shown in the balance sheet as Other assets.

Correspondingly, NORD/LB Lizingas UAB had agreements signed with vendors regarding the assets designated for finance lease for the total amount of LTL 1,731 thousand (in 2002: LTL 2,603 thousand). Assets already received under these agreements, amounting to LTL 2,533 thousand (in 2002: LTL 1,742 thousand) are accounted for as Other assets. NORD/LB Lizingas UAB has preliminary leasing agreements signed with clients regarding the above-mentioned assets.

Operating lease commitments – where the Bank is the lessee

The future aggregate minimum lease payments under non-cancellable operating lease agreements are as follows:

	2003		2002	
	Group	Bank	Group	Bank
Not later than 1 year	-	1,120	-	370
Later than 1 year and not later than 5 years	-	2,228	-	618
Total	-	3,348	-	988

Amounts receivable under operating lease – where the Group is the lessor

The future lease payments receivable under non-cancellable operating lease agreements can be specified as follows:

	2003		2002	
	Group	Bank	Group	Bank
Not later than 1 year	2,144	-	707	-
Later than 1 year and not later than 5 years	3,725	-	1,272	-
Total	5,869	-	1,979	-

NOTE 30 CASH AND CASH EQUIVALENTS

	2003		2002	
	Group	Bank	Group	Bank
Cash	111,392	111,387	105,208	105,200
Other valuables	2	2	1	1
Correspondent accounts with other banks	6,370	6,370	11,101	11,101
Correspondent accounts with the central bank	2,641	2,641	1,761	1,761
Short-term securities	9,579	9,579	43,262	43,262
Overnight deposits	33,364	33,364	29,165	29,165
Total	163,348	163,343	190,498	190,490

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

NOTE 31 LIQUIDITY RISK

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefi-ned	Total
Assets									
Cash and balances with central banks	189,806	-	-	-	-	-	-	44,449	234,255
Treasury bills	-	-	2,953	11,077	22,495	-	-	-	36,525
Due from other banks	6,370	114,321	-	-	15,379	120,816	27,906	11	284,803
Trading securities	-	972	1,759	1,324	6,610	39,952	48,823	-	99,440
Derivative financial instruments	-	130	45	-	318	546	-	-	1,039
Loans	-	25,676	63,009	151,311	212,528	533,339	585,822	11,323	1,583,008
Securities available-for-sale	-	40	17,100	1,288	21,518	23,848	3,127	935	67,856
Securities held-to-maturity	-	4,229	442	3,021	5,116	21,529	40,100	-	74,437
Investments in subsidiaries	-	-	-	-	-	-	-	22,324	22,324
Intangible assets	-	-	-	-	-	-	-	3,306	3,306
Fixed assets	-	-	-	-	-	-	-	108,302	108,302
Deferred tax assets	-	-	-	-	-	-	-	6,000	6,000
Other assets	5	3,457	1,130	268	435	718	994	13,202	20,209
Total assets	196,181	148,825	86,438	168,289	284,399	740,748	706,772	209,852	2,541,504
Liabilities									
Due to other banks	17,900	110,744	85,738	87,787	93,051	13,611	94,472	13	503,316
Derivative financial instruments	-	274	24	-	320	357	522	-	1,497
Deposits	916,297	157,787	169,063	175,396	112,586	28,889	8,541	5,336	1,573,895
Debt securities in issue	-	-	-	-	-	171,847	-	-	171,847
Special and lending funds	2,275	-	-	-	-	-	2	-	2,277
Other liabilities	1,428	11,267	1,944	2,070	2,141	474	647	6,360	26,331
Subordinated loans	-	-	-	8,827	-	26,481	51,792	-	87,100
Shareholders' equity	-	-	-	-	-	-	-	175,241	175,241
Total liabilities and shareholders' equity	937,900	280,072	256,769	274,080	208,098	241,659	155,976	186,950	2,541,504

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

NOTE 31 LIQUIDITY RISK (continued)

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2002 was as follows

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefi-ned	Total
Total assets	184,105	118,856	44,875	201,056	239,117	509,963	417,922	182,917	1,898,811
Total liabilities and shareholders' equity	762,356	261,699	284,043	192,118	151,864	75,518	2,626	168,587	1,898,811

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

	Liquid assets	Current liabilities	Liquidity ratio (per cent)
31 December 2002	556,942	1,301,964	42.78
31 January 2003	437,544	1,209,544	36.17
28 February 2003	484,992	1,350,059	35.92
31 March 2003	445,741	1,266,905	35.18
30 April 2003	487,650	1,335,677	36.51
31 May 2003	508,435	1,389,260	36.60
30 June 2003	516,759	1,415,273	36.51
31 July 2003	480,301	1,394,314	34.45
31 August 2003	513,997	1,492,161	34.45
30 September 2003	535,060	1,509,845	35.44
31 October 2003	535,704	1,615,570	33.16
30 November 2003	546,650	1,679,807	32.54
31 December 2003	588,691	1,535,470	38,34

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

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

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

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	58,547	11,260	1,551	8	1,899	73,265	160,990	234,255
Treasury bills	-	-	-	-	-	-	36,525	36,525
Due from other banks	25,334	232,260	1,551	142	1,444	260,731	24,072	284,803
Trading securities	-	26,268	-	-	-	26,268	73,172	99,440
Derivative financial instruments	318	17	-	-	-	335	704	1,039
Loans	105,669	574,985	-	-	-	680,654	902,354	1,583,008
Securities available-for-sale	-	6,886	-	-	-	6,886	60,970	67,856
Securities held-to-maturity	-	-	-	-	-	-	74,437	74,437
Investments in subsidiaries	-	-	-	-	-	-	22,324	22,324
Intangible assets	-	-	-	-	-	-	3,306	3,306
Fixed assets	-	-	-	-	-	-	108,302	108,302
Deferred tax assets	-	-	-	-	-	-	6,000	6,000
Other assets	146	1,993	4	2	1	2,146	18,063	20,209
Total assets	190,014	853,669	3,106	152	3,344	1,050,285	1,491,219	2,541,504
Liabilities								
Due to other banks	13,910	420,949	110	33	162	435,164	68,152	503,316
Derivative financial instruments	320	879	-	-	-	1,199	298	1,497
Deposits	160,153	154,837	2,647	25	1,524	319,186	1,254,709	1,573,895
Debt securities in issue	-	171,847	-	-	-	171,847	-	171,847
Special and lending funds	-	139	-	-	-	139	2,138	2,277
Other liabilities	1,131	6,139	18	-	28	7,316	19,015	26,331
Subordinated loans	-	87,100	-	-	-	87,100	-	87,100
Shareholders' equity	-	-	-	-	-	-	175,241	175,241
Total liabilities and shareholders' equity	175,514	841,890	2,775	58	1,714	1,021,951	1,519,553	2,541,504
Net balance sheet position	14,500	11,779	331	94	1,630	28,334	(28,334)	-
Off-balance sheet position	(14,599)	9,370	(285)	(85)	(845)	(6,444)	6,858	-
Net open position	(99)	21,149	46	9	785	21,890	(21,476)	-

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

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets	260,845	375,742	3,806	286	4,093	644,772	1,254,039	1,898,811
Liabilities and shareholders' equity	282,208	311,022	3,673	301	1,996	599,200	1,299,611	1,898,811
Net balance sheet position	(21,363)	64,720	133	(15)	2,097	45,572	(45,572)	-
Off balance position	21,440	(57,210)	-	-	-	(35,770)	35,770	-
Net position	77	7,510	133	(15)	2,097	9,802	(9,802)	-

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

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

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

NOTE 33 INTEREST RATE RISK

The table below summarises the Bank's interest rate risks as at 31 December 2003. The Group's assets and liabilities shown at their carrying amounts categorised by the earlier of contractual repricing or maturity dates.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	189,806	-	-	-	-	-	44,449	234,255
Treasury bills	-	2,953	11,077	22,495	-	-	-	36,525
Due from other banks	209,541	5,000	-	10,379	49,872	10,000	11	284,803
Trading securities	972	1,759	1,324	6,610	39,952	48,823	-	99,440
Derivative financial instruments	130	45	-	318	546	-	-	1,039
Loans	242,502	448,655	570,870	156,667	100,307	52,659	11,348	1,583,008
Securities available-for-sale	40	17,100	1,288	21,518	23,848	3,127	935	67,856
Securities held-to-maturity	4,229	442	3,021	5,116	21,529	40,100	-	74,437
Investments in subsidiaries	-	-	-	-	-	-	22,324	22,324
Intangible assets	-	-	-	-	-	-	3,306	3,306
Fixed assets	-	-	-	-	-	-	108,302	108,302
Deferred tax assets	-	-	-	-	-	-	6,000	6,000
Other assets	3,462	1,130	268	435	718	994	13,202	20,209
Total assets	**650,682**	**477,084**	**587,848**	**223,538**	**236,772**	**155,703**	**209,877**	**2,541,504**
Liabilities								
Due to other banks	130,738	86,935	90,549	88,045	12,564	94,472	13	503,316
Derivative financial instruments	274	24	-	320	357	522	-	1,497
Deposits	1,074,084	169,063	175,396	112,586	28,889	8,541	5,336	1,573,895
Debt securities in issue	-	-	-	171,847	-	-	-	171,847
Special and lending funds	2,275	-	-	-	-	2	-	2,277
Other liabilities	12,695	1,944	2,070	2,141	474	647	6,360	26,331
Subordinated loans	51,792	26,481	8,827	-	-	-	-	87,100
Shareholders' equity	-	-	-	-	-	-	175,241	175,241
Total liabilities and shareholders' equity	**1,271,858**	**284,447**	**276,842**	**374,939**	**42,284**	**104,184**	**186,950**	**2,541,504**
Interest rate sensitivity gap	(621,176)	192,637	311,006	(151,401)	194,488	51,519	22,927	-

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Total assets	313,753	46,367	215,736	238,887	493,644	407,518	182,906	1,898,811
Total liabilities and shareholders' equity	1,011,549	307,630	196,640	147,235	38,244	2,456	195,057	1,898,811
Interest rate sensitivity gap	(697,796)	(261,263)	19,096	91,652	455,400	405,062	(12,151)	-

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

NOTE 34 RELATED PARTY TRANSACTIONS

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

For the purposes of these financial statements, parties are also considered to be related if one party has the ability to control, or exercise significant influence over, the other party in making financial or operational decisions. Below disclosures do not include entities related to the Ministry of Finance of the Republic of Lithuania (a shareholder).

In the normal course of business, the Bank enters into banking transactions with large shareholders, members of the Council and the Board as well as subsidiaries.

During 2003, a number of banking transactions were entered into with related parties in the normal course of business. These include settlements, loans, deposits and foreign currency transactions.

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

	Balances of deposits		Average annual interest rates		Principal of loans outstanding		Average annual interest rates	
	31 December 2003	31 December 2002	2003	2002	31 December 2003	31 December 2002	2003	2002
Council members and related parties	-	-	-	-	-	-	-	-
Board members and related parties	2,637	793	1.97%	3.58%	256	85	3.12%	5.0%
Other related parties	243	1,990	0.84%	2.32%	2,589	1,830	4.16%	5.19%

The following balances were outstanding with NORD/LB Group companies:

	2003	2002
Assets		
Correspondent bank accounts	1,696	52
Derivative financial instruments	17	-
Term deposits	80,795	11,763
Liabilities		
Correspondent bank accounts	87	228
Derivative financial instruments	879	-
Term deposits	69,056	103,575
Subordinated loans	51,792	-

Transactions with other companies within NORD/LB Group are entered into at interest rates comparable to those of the market.

NOTE 35 CONCENTRATION EXPOSURE

As at 31 December 2003, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, amounted to LTL 33 million (total amount represents commitments to provide credit facilities), which is 15.8% of the Bank’s calculated capital (2002: LTL 29,7 million and 19.27% respectively).

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

NOTE 36 INVESTMENT BANKING DEPARTMENT ACTIVITIES

The licence held by the Bank entitles the Bank to carry on operations in securities. The Bank is a member of the National Stock Exchange, a participant of Lithuania's Central Securities Depository, a participant of the Auction of Government Securities organised by the Bank of Lithuania and an authorised by the Ministry of Finance of the Republic of Lithuania distributor of the Government Savings Bonds.

In these activities the Bank is represented by the Investment Banking Department. This department acts as a broker on clients' behalf in the securities market, manages client accounts of securities and of money for operations in securities, maintains accounting of securities issued by issuers. The Investment Banking Department also provides consultations to its clients on investments in securities and on matters of public trading in securities. Business clients also receive consultations on raising funds and the structure of finance. The Investment Banking Department is authorised to manage the portfolio of trading equity securities of the Bank.

During 2003, the turnover of secondary trading in securities carried out by the Investment Banking Department, on the account of both the Bank and its clients, totalled LTL 626 million, i.e. 15.79% of the total turnover of the National Stock Exchange, which means that the Bank ranked third among 23 market players by the overall turnover and in terms of the volume of trade in treasury bills and government bonds (2002: LTL 523 million and 12.92% respectively).

NOTE 37 POST BALANCE SHEET EVENTS

The Bank registered the Prospectus on new issue of shares with the Lithuanian Securities Commission on 29 January 2004, according to which the share capital will be increased by LTL 18,531 thousand: 195,067 shares at par value of LTL 95 each will be issued. At the moment of issuing these financial statements, the subscription for shares was in progress.

Certain arrangements to dispose investments in the wholly owned subsidiaries NORD/LB Draudimas UAB and NORD/LB Gyvybės Draudimas UAB were entered into and were in progress at the end of 2003.

On 28 January 2004, Fitch credit rating agency approved the following new credit ratings for the Bank:

- long term borrowings: BBB+
- short term borrowings: F2
- support: 2
- Individual rating D/E.