2003 Annual Report

NORD/LB

2003 Annual Report

BANK'S RATINGS (approved on 28 01 2004)

	Long-term credit / outlook	Short-term credit	Support	Individual
Fitch	BBB+ / Stable	F2	2	D/E

MAIN PERFORMANCE RATIOS OF AB BANKAS NORD/LB LIETUVA

	2002	2003
Assets (LTL million)	1898.8	2541.5
Net loans (LTL million)	1069.2	1583.0
Proportion of individual loans in the total portfolio (per cent)	23.1	32.6
Deposits (LTL million)	1389.5	1573.9
Proportion of individual deposits in the total portfolio (per cent)	46.7	46.6

BANK'S SHAREHOLDERS AS AT 31 12 2003

	Number of ordinary registered shares	Share capital	
		LTL thousand	per cent
Norddeutsche Landesbank Girozentrale	1 730 380	164 386	93.09
East Capital Asset Management Aktiebolag	124 028	11 783	6.67
Other natural and legal persons	4 386	416	0.24
Total:	1 858 794	176 585	100

KEY PROFITABILITY RATIOS of 2003

	Actual amount (per cent) NORD/LB Lietuva	NORD/LB Group
Return on assets (ROA)	0.71	0.68
Return on equity (ROE)	9.07	9.23
Return on share capital	8.75	8.75
Earning capacity of assets	6.85	8.06
Profit margin	10.43	8.48
Cost to income ratio	89.57	91.52

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Statement of the Chairman of the Management Board

Dear customers and shareholders,

The year 2003 was a year of success and positive changes for AB Bankas NORD/LB Lietuva – the Bank completed the re-branding and restructuring processes, and the branch network was restructured into an effective distribution system of banking products and services. The back-office functions in the branches were reduced to a maximum extent by focusing on service quality and development as well as customer service. In spite of the restructuring, all the business areas demonstrated a rather rapid growth in 2003, and the Bank finished the financial year with a profit.

Last year the shareholder structure of AB Bankas NORD/LB Lietuva changed too. In December 2003, *AB Vilniaus Bankas* sold 123 835 shares of AB Bankas NORD/LB Lietuva held by it, which accounted for 6.67 per cent of the share capital of the Bank. The total holding of 6.67 per cent was acquired by the Swedish investment fund management company *East Capital Asset Management Aktiebolag*. At the year-end, the largest shareholder of the Bank, *Norddeutsche Landesbank Girozentrale*, held 93.09 per cent of the total ordinary registered shares, *East Capital Asset Management Aktiebolag* – 6.67 per cent, and other individuals and legal entities held 0.24 per cent of the share capital of the Bank.

In 2003, AB Bankas NORD/LB Lietuva earned a net profit of LTL 15.5 million. The annual results were influenced by increasing volumes of the loan portfolio and banking services, recoveries from loans previously written off, as well as decreasing loan risk.

In line with a rapidly growing loan portfolio the assets of the Bank increased by LTL 532.3 million or 26.5 per cent and stood at LTL 2 541.5 million. As at 31 December 2003, the individual loan portfolio amounted to LTL 1 604.5 million or increased by 47 per cent compared with the start of the year. The individual loan portfolio doubled and totalled LTL 523.3 million. Corporate loans increased by LTL 243.2 million or 29 per cent and amounted to LTL 1 081.2 million.

In 2003, deposits increased by 13.3 per cent and stood at LTL 1 573.4 million as at 31 December 2003. Liabilities to banks and other credit and financial institutions increased by LTL 232.9 million over 2003 and made LTL 503.3 million at the end of the year.

In July 2003, *Norddeutsche Landesbank Girozentrale* issued a EUR 15 million subordinated loan to the Bank. The overall subordinated debt totalled LTL 87.1 million at the end of 2003. During the reporting year the Bank was expanding its funding resources. At the end of the year, the Bank, the first among the commercial banks of Lithuania, issued a bond issue for foreign markets. The three-year EUR 50 million (LTL 172 million) bond issue was acquired by the German bank *Bankgesellschaft Berlin AG*.

In the reporting year, the Bank continued to develop the virtual banking successfully – the number of INTERNETO LINIJA users of AB NORD/LB Lietuva increased as much as 6 times and totalled 22.4 thousand at the end of the year. The number of payment cards issued by the Bank was growing rapidly as well and totalled 212.4 thousand at the end of the year. It should be mentioned that not only the volume ratios improved – INTERNETO LINIJA was upgraded and new products and services were introduced in the payment card segment as well: revolving credit in payment card accounts was implemented in May 2003, a charge card was issued in June and in December a project on chip card issue in 2004 was registered with the international payment card organisation *Visa International*.

In line with expansion of the automated teller machine (ATM) network, the Bank installed 34 new ATMs in 2003. At the year-end, AB Bankas NORD/LB Lietuva had 128 ATMs throughout Lithuania. Signing of the Cooperation Agreement in March 2003 resulted in a joint ATM network of AB Bankas NORD/LB Lietuva and *AB Vilniaus Bankas*. Joining of the ATM networks solved the problem of ATM shortage in major cities.

In 2003, 3 new sub-branches launched their operations, 14 unprofitable cash desks at customs offices and 4 cash exchange outlets were closed. At the end of 2003, 46 branches and 36 sub-branches were operating.

On 19 August 2003, UAB NORD/LB Investicijų Valdymas, a subsidiary company, was established. The main function of the aforementioned company is accumulation and management of pension funds. NORD/LB Investicijų Valdymas made a successful start in the first stage of conclusion of agreements on pension funds with its share of 6 per cent in the pension funds market and was above the plans. From the very establishment of this company the Bank is a single shareholder thereof with a stake of 2 000 shares at par value of LTL 1000 each.

Also, the subsidiaries UAB NORD/LB Lizingas (2 000 shares, par value of LTL 1 000), UAB NORD/LB Draudimas (6 000 shares, par value of LTL 1 000) and UAB NORD/LB Gyvybės Draudimas (4 000 shares, par value of LTL 1 000) are 100 per cent owned by the Bank. In 2003, all the subsidiaries and associated companies, excluding UAB NORD/LB Investicijų Valdymas, operated with profit - the total result of the subsidiaries was a profit of about LTL 1 292 thousand. In April 2003, UAB NORD/LB

Elta photo

Lizingas paid out LTL 45.9 thousand of dividends to the Bank from the distributed profit of 2002, UAB NORD/LB Draudimas paid out LTL 116 thousand of dividends.

In May 2003, the Bank as a user of the services provided by the company *S.W.I.F.T*, acquired 5 *S.W.I.F.T* shares valued at EUR 9.8 thousand (about LTL 33.8 thousand).

Over the reporting period the Bank was compliant with all the prudential requirements set by the Bank of Lithuania. As the loan portfolio of the Bank kept growing and in order to ensure compliance with the capital adequacy requirement set by the Bank of Lithuania, in December 2003, the Meeting of the Shareholders of the Bank resolved to increase the share capital of the Bank by LTL 18.5 million up to LTL 195.1 million in 2004.

In 2003, the international rating agency *Fitch* upgraded the outlook of the long-term credit rating of NORD/LB Lietuva from stable to positive. *Fitch* assigned the other ratings to the Bank – long-term credit rating BBB, short-term credit rating F3, support rating 2, individual rating D/E. At the beginning of 2004, *Fitch* reviewed the Bank's ratings. The long-term borrowing rating was upgraded to BBB+ with the stable outlook.

The good results of 2003 suggest that the strategy of the Bank to focus on the customers and their growing needs as well as on the best-quality international banking services proved true. In 2004, the Bank will focus on the two main strategic business lines – retail banking and corporate banking.

Further reorganization and business development of the Bank, also investments in information technologies will contribute to improving the Bank's service quality and performance results.

The cooperation with NORD/LB Latvija, a member of NORD/LB Group, will be continued with a particular focus on information technologies and product development.

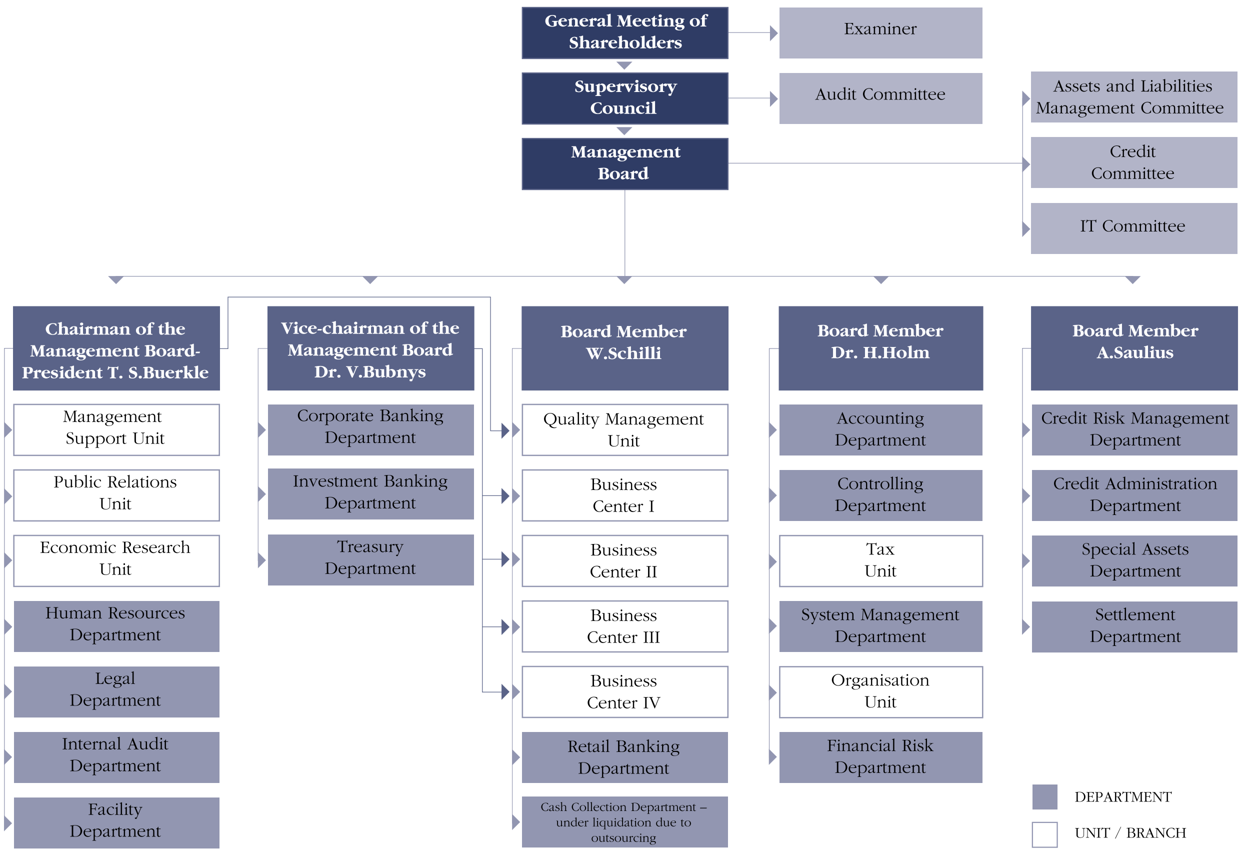
AB Bankas NORD/LB Lietuva will further aim at becoming the best bank for both the customers through offering them a wide range of high-quality financial services and the shareholders through achieving the goals set by them.

On behalf of the Management
Board of the Bank
Thomas Stephan Buerkle
Chairman of the
Management Board

Elta photo

From the left: Thomas S.Buerkle, Chairman of the Management Board-President; Werner H.Schilli, Board Member; Dr. Vygintas Bubnys, Vice-chairman of the Management Board; Alditas Saulius, Board Member; Dr. Hinrich Holm, Board Member; with the cup of European champions won by the Lithuanian Men's Basketball Team in 2003. In 2003 AB Bankas NORD/LB Lietuva supported the Lithuanian National Men's Basketball Team.

Organisational Management Structure of AB Bankas NORD/LB Lietuva



Major events in 2003

On May 2, 2003 the new name of AB Lietuvos Žemės Ūkio Bankas – AB Bankas NORD/LB Lietuva – was registered with the Enterprise Register as well as a new wording of the Bylaws of the Bank. The re-branding campaign of the Bank was accredited as one of the most successful and was nominated for an award for marketing achievements by Baltic Marketing & Advertising, the marketing magazine of the Baltic States.

On July 21, 2003 the international rating agency *Fitch* upgraded the support rating of AB Bankas NORD/LB Lietuva from 3 to 2 and, on November 4, the outlook of the long-term credit rating – from stable to positive.

On August 19, 2003 UAB NORD/LB Investicijų Valdymas, a subsidiary of AB Bankas NORD/LB Lietuva, was established with the function of management of pension funds.

On December 29, 2003 AB Bankas NORD/LB Lietuva allotted a three-year EUR 50 million bond issue at par value with the variable interest rate. The German bank *Bankgesellschaft Berlin AG* acquired the bonds. This is the first bond issue of the commercial bank registered in Lithuania allotted on the foreign capital market.

The strategy of AB Bankas NORD/LB Lietuva

Vision of AB Bankas NORD/LB Lietuva:

- a universal, modern, open and reliable bank;
- with the strong positions on the financial service market of Lithuania;
- reflecting the overall strategy of NORD/LB Group.

AB Bankas NORD/LB Lietuva aims at becoming the best bank in Lithuania:

- the best bank for the customers by providing them with a wide range of high-quality financial services;
- the best bank for the employees by ensuring their personal commitment as well as satisfaction in what they do;
- the best bank for the shareholders by satisfying their financial needs to an optimal extent;
- seeks to have customer orientated and efficient processes.

The main strategic guidelines of AB Bankas NORD/LB Lietuva are as follows:

- Retail banking;
- Corporate and Investment banking;
- Treasury banking.

The main focus will further remain on retail banking and corporate banking.

Macroeconomic review of Lithuania

In macroeconomic terms the last year was particularly successful for our country – by growth rates of the gross domestic product (GDP) Lithuania was in a leading position among EU member states and accession countries, the average income of individuals increased as well as the number of the employed went up considerably. Notwithstanding that the consumer price index kept decreasing 2 years in a run, the deflation process had no major negative effect on the Lithuanian economy. The current account deficit and the fiscal deficit of the national budget were slightly higher versus 2002, but that was not the cause for concern, and the state debt to GDP ratio decreased. Businesses and individuals were happy about low interest rates on loans granted by the banks, which did not exceed the EU average, and the average profitability of enterprises suggested a significant growth during the year.

It seems that Lithuania has surprised the world by its macroeconomic ratios of 2003 especially by a unique combination of a leap in GDP and deflation. Last year the economic development of Lithuania was not only rapid, but also rather sustainable – all key sectors grew visibly. Despite the unfavourable tendency related with the ailing US dollar, the Lithuanian enterprises increased exports of their production substantially. In line with that, the domestic consumption increased to a great extent – increasing employment, higher income of individuals, more positive expectations created favourable conditions for that. Given a low level of the total domestic debt, the volume of consumer and mortgage loans increased significantly, the leasing market was up by half as high again.

We expect that in the near future the growth rate of GDP will remain high, though slightly lower versus 2003. One of the reasons for the slowdown is an increasing shortage of qualified labour force and expectations for it to get more expensive. Due to the latter reason and future changes in the customs rates, and better conditions for exports of food products following the EU accession the consumer prices will start to rise. The unemployment rate will continue falling in the country, and that will be determined by economic developments and an increased outflow of labour force. A decrease of the unemployment rate and opening of the EU member states markets will have a significant effect on the labour force which will become more expensive, as the average wage quoted in Lithuania is approximately eight times lower compared to the EU. In the nearest future a fiscal deficit of the national budget should come closer to 3 per cent of GDP, i.e. to the limit indicated in the Maastricht Treaty, which can not be exceeded by Lithuania in order to join the Euro-zone. It is unlikely that the deficit would go down significantly because the EU accession would result in additional burden for the budget.

Despite the fact that the nearest economic prospects of the country are really good, there are some doubts looking into the future. So far a rapid development of the Lithuanian economy was determined a lot by a relatively good economic infrastructure, a rather high level of education and professional skills of individuals, salaries which are lower a few times compared to the developed countries as well as by a surplus of labour force. However, due to expected changes on the labour force market as mentioned above, further rapid development of economy is possible only subject to large investments. Last year, the volume of capital investments, went up mainly due to increase in funds for construction. Unfortunately, irrespective of the low level of productivity, more and more visible lack of qualified labour force and its getting more expensive as well as rather favourable borrowing conditions, there has been almost no increase in capital investments in equipment for a second year in a run. In 2003, a flow of direct foreign investments (FDI) reached the lowest level since 1997. Although we hear a lot about a growing interest of foreign investors in Lithuania, so far there have been no major *green field* investments. Attractiveness of our country is lowered by a number of deep-rooted national problems: the education and vocational training system does not meet rapidly changing business needs, all attempts to eliminate red-tape obstacles for business, lower a high level of corrup-

Main macroeconomic indicators of Lithuania

	2001	2002	2003	2004[2]	2005[2]
Real GDP development per year (per cent)	6.5	6.8	9.0	7.5	6.7
Current account deficit (GDP per cent)	4.8	5.3	6.6	7.0	7.0
Inflation (per cent)	2.0	-1.0	-1.3	2.1	2.7
Average monthly wage (LTL) [1]	1087	1145	1208	1310	1440
Unemployment level (per cent) [1]	12.9	10.9	9.8	8.7	8.2
Average interest rate on loans in the national currency (per cent)	8.1	6.1	5.1	5.6	6.5
Fiscal balance of the national budget (GDP per cent)	-1.9	-1.4	-1.7	-2.8	-2.4

[1] At the end of the period [2] Forecast

tion in the country and improve law and order fail. More budget funds were necessary to solve those problems. It is a pity that over the last years the budget balancing was related more to cost-cutting rather than to more effective tax collection, and solution of the issues mentioned was postponed for the future. For a number of years Lithuania has rated the last among the EU member states and accession countries by national budget revenue to GDP ratio. Last year, the ratio of the national budget revenues to GDP decreased even more. More effective tax administration would make it easier for fair tax payers to compete on the local market, improve the work quality of the state governing sector and provide assumptions to reduce the tax rates, which would help not only to attract FDI to Lithuania but also increase competitiveness of the Lithuanian enterprises.

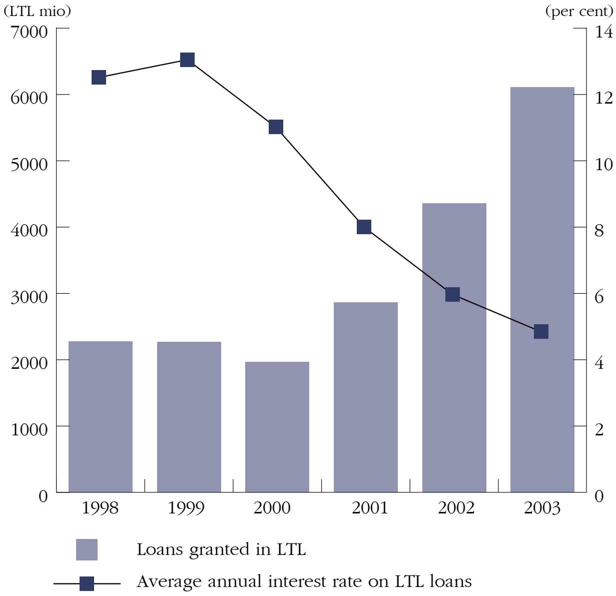
The year 2003 was successful not only for the real economy sector, the activities of credit institutions expanded rather significantly. Last year, the growth rates of the bank loan portfolio surpassed even the most optimistic expectations.

In 2003, long-term loans represented a major proportion of loans granted. Their relative weight in the bank loan portfolio increased from 72 per cent up to 77 per cent last year. Mortgage loans represented a significant proportion in individual loans – higher income of individuals and positive expectations resulted in the increase of the mortgage credit portfolio by 83.9 per cent. The growth of the consumer credit portfolio was even faster: in 2003, it grew 3.7 times up to LTL 444.6 million. At the end of 2003, the total consumer and mortgage credit portfolio of the commercial banks accounted for about 4.3 per cent of the previous year GDP of the country – higher by 2 percentage points versus a year ago. On the other hand, if compared with the relevant data of the developed foreign countries, this ratio in Lithuania is still rather low, so the potential for further rapid development of this market still remains.

The more active lending was influenced by both the economic growth of the country and particularly favourable interest rates on loans – at the end of 2003 they dropped down to 5.1 per cent (in the national currency, see Chart 1). Recently there have been many on-going discussions on the average interest rate of loans – the banks of the country say almost unanimously that it is too low at the moment. Therefore, on one hand, a positive adjustment might be expected, but on the other hand, this indicator, which is so important for the economic development, should not increase too high – the banks have enough resources and compete strongly among themselves for the market, and if the growth of the EU economy is too slow the European Central Bank would hardly increase a base interest rate in the nearest future. An increase of the risk premium by lending to enterprises is hardly to be expected because the financial situation of most enterprises keeps improving.

Development of the credit portfolio and interest rates on loans

Chart 1

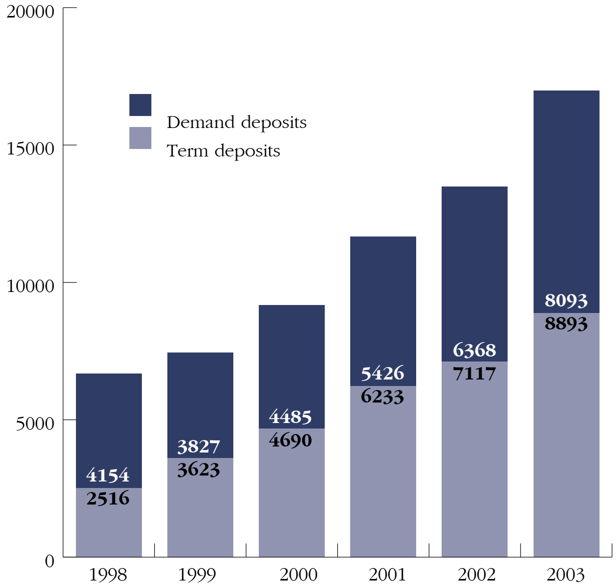


The further short-term outlook for the growth of the loan portfolio of the banking sector are perfect: co-financing of anticipated EU funds, increasing income of the households and more positive expectations of individuals and entities should increase the volume of loans further.

The growth in the financial market was mainly influenced by the lending conditions that have become visibly more favourable in Lithuania over the recent years. That was influenced by both short-term factors (the base interest rates reduced by the European Central Bank), and more steady factors (the higher credit rating of the country, the competition in the banking sector). More and more individuals become eligible for borrowing, as the banks in order to attract customers have been continuously removing obstacles to lending, which results in a higher and higher number of natural and legal persons which meet the eligibility requirements raised for them. Besides, borrowing costs have also decreased in terms of both time and money, the possibilities of consumer credits under more favourable conditions have been used wider (recently the so-called express credits, credit cards, etc. have become popular).

At the end of 2003, the deposits with the banks amounted to LTL 13.6 billion and during the year increased by LTL 1.9 billion or 16.2 per cent. During the year individual deposits grew by one billion Litas (14.7 per cent or twice as much versus a year ago) up to LTL 7.9 billion. However, even higher corporate deposits reduced the relative weight of individual deposits in the deposit structure from 58.9 per cent to 58.1 per cent. That relative decrease was influenced by the low interest rates on deposits, the rise of the alternative saving instruments (pension funds, endowment insurance, etc.) as well as the increased consumption, the drop in the USD exchange rate also produced a negative effect. Due to these reasons demand deposits keep growing faster for the two successive years already versus term deposits.

Deposit structure (LTL Mio)* Chart 2



In the nearest future the growth of deposits will be encouraged by growing income of individuals, including income from work abroad. In addition, deposits remain one of the most reliable and most easily available ways of saving by individuals.

**Note: Balances of deposits with commercial banks including deposits of banks and financial institutions.*

Bank performance in 2003

Operations on the individual and corporate customer market

In 2003, the growth of the sale volumes of services to individuals and economic entities was rapid in AB Bankas NORD/LB Lietuva. The total loan portfolio of the Bank increased 1.5 times, the deposit portfolio went up by 13.3 per cent.

The year 2003 was successful for the Bank in the area of lending to individuals. During the previous year the individual loan portfolio grew 2.1 times and amounted to LTL 523.3 Mio. A fast growth of the individual loan portfolio allowed to increase the share AB Bankas NORD/LB Lietuva in this market by 1.2 percentage points. At the end of 2003 AB Bankas NORD/LB Lietuva held a share of 21.84 per cent in the individual loan market. Consumer loans were growing most rapidly – their portfolio rose 3.8 times or LTL 82.5 million over the year. Favourable lending conditions and the economic growth resulted in the increase of mortgage loans – they went up 1.9 times or LTL 189.1 million. The average interest rate on credits stood at 6.43 per cent.

In 2003, the growth of individual deposits with the Bank represented LTL 103.8 million or 16 per cent. The growth of individual deposits was slightly faster versus the average growth rate of the national economy. The market share of the Bank in this area slightly increased during the year. The average interest rate on individual deposits was 1.93 per cent.

The main reasons for the relatively low growth of deposits were the consumption of the Lithuanian population, the lower and unfavourable, in terms of saving, interest rates on deposits as well as the fluctuations in the USD exchange rate – the value (denominated in Litas) of individual term deposits in USD with AB Bankas NORD/LB Lietuva decreased by about 40 per cent. Funds in individual bank accounts suggested a major growth (LTL 74.3 million or 47 per cent), and term deposits grew only by 6 per cent (LTL 29.5 million).

Last year AB Bankas NORD/LB Lietuva offered a wide range of new products and services to individuals:

- Express credits (consumer credits in the amount up to LTL 20 thousand with a maturity up to 3 years are granted without any security);
- The maturity of consumer credits backed up by indemnity was extended to 3 years, their amount was increased to LTL 40 thousand;
- Mortgage credits with 40-year maturity were launched;
- Express deposits;
- Revolving credits and charge cards;
- Programme on mortgage credits ”+100 friends”;
- Express credits for travels organized by *UAB Novaturas*;
- Signing of agreements on pension funds was organized throughout the network of the Bank.

At the end of 2003, the outstanding loans of small and medium enterprises (SMEs) amounted to LTL 216.3 million, during the year the SME loan portfolio grew by more than 80 per cent (LTL 96.0 million). The average interest rate on loans to SME was 6.44 per cent.

At the year-end, corporate deposits constituted LTL 372.1 million, during the year deposits went up more than 20 per cent (LTL 62.7 million), given the average interest rate of 0.74 per cent on deposits.

The rapid growth of individual and corporate deposits with the Bank produced a positive effect on the deposit structure – during the previous year the relative weight of demand deposits in the total deposit portfolio rose from 52.6 to 58.2 per cent.

In 2003, the segmentation of corporate customers was carried out in the Bank. Depending on volumes, total liabilities to the Bank and business, corporate customers of the Bank were divided into large corporate customers (with annual turnover above LTL 50 million), medium corporate customers (LTL 10 million to LTL 50 million) and small and medium enterprises (up to LTL 10 million).

In August 2003, the Small and Medium Enterprises Team took over the activities of lending to small and medium businesses from the credit facility granted by the German Development Bank *Kreditanstalt für Wiederaufbau* (KfW). In 2003, AB Bankas NORD/LB Lietuva entered into the agreements with *UAB Investicijų ir Verslo Garantjos* (INVEGA) and *UAB Žemės Ūkio Paskolų Garantijų Fondas* on issue of loans backed up by guarantees of the mentioned entities.

In 2003, the Corporate Banking Department kept developing actively the range of services and enhanced the relationship with businesses in Lithuania. In order to ensure a tailor-made and non-standard approach towards every customer and his needs and direct representation of customers in the Bank concerning all banking issues and active sales of the bank products AB Bankas NORD/LB Lietuva developed a new concept of dealing with VIP customers as well as investment projects.

In 2003, the business concept chosen by the Bank proved true: a number of new corporate customers was acquired, the loan portfolio of this segment was increased twice as much, in cooperation with the Project and Construction Finance Unit the first important investment projects (including acquisitions) were implemented, close cooperation with the other Lithuanian banks was established in the area of syndicated lending. However, the most important thing was that the image of the Bank as a financial partner was built up with the emphasis on the quality and particular attention to its customer.

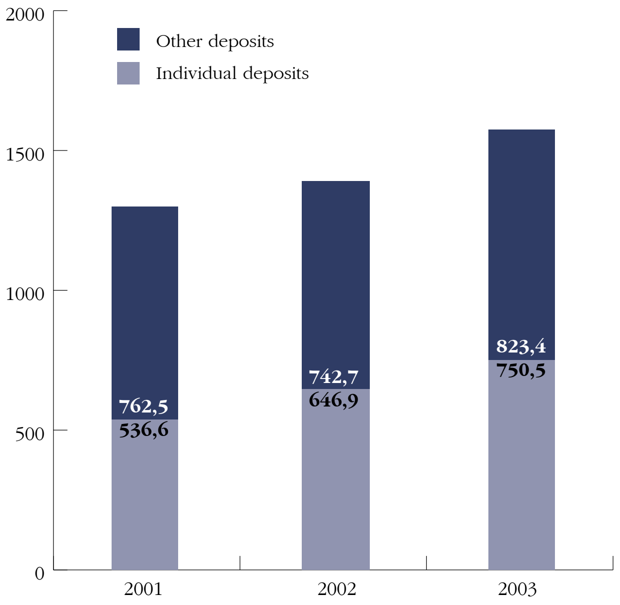
The active customer relationship management by the Corporate Banking Department resulted in the growth of the loan portfolio of the large corporate customer segment by 44.0 per cent up to LTL 455.0 million in 2003. The total number of large corporate customers grew from 151 to 237 during the year, i.e. was higher 1.5 times, and the number of accounts of the customers in this segment increased from 444 to 627, i.e. 1.4 times.

Last year, the Project and Construction Finance Unit established at the end of 2002 with the main task to ensure qualitative funding for investment and real estate projects, expanded its activities. In order to fulfil this task the activities were organized in five directions: drafting of new policies and procedures for project finance, particular focus on the analysis of the programmes for support funds (including the EU structural funds), and the latter analysis served as the basis for the Bank staff and customers to get familiar with the mentioned programmes, preparation and updates of the real estate market overviews, consultations on different issues, as well as direct handling of projects.

In 2004, it is projected to increase the large corporate customer loan portfolio by at least 30 per cent. The Bank will continue focusing on the improvement of the customer service standards in order to become a house bank for most of them. The perspective to rely on capacities of several syndication banks in a financial structure remains very positive. The Bank will aim at participation in a maximum possible number of large club deals. The share capital of the Bank, being continuously strengthened, should create the conditions for increasing the maximum exposure per customer and, respectively, the share held by the Bank in the loan market. Though the major privatisation processes (including their funding) are being finalised, it is expected that the growth rates of the national economy and sales of banking products will not decrease in 2004 as well.

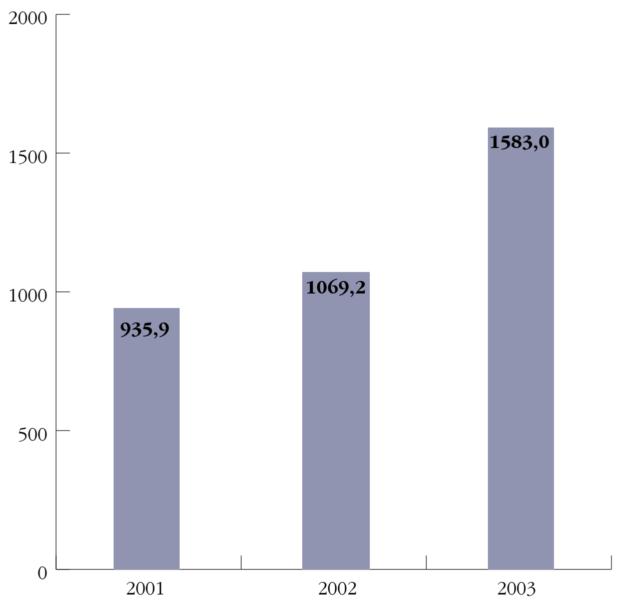
Growth of deposits, LTL thousand

Chart 3



Growth of the credit portfolio, LTL thousand

Chart 4



Availability of the Bank

In 2003, AB Bankas NORD/B Lietuva optimised and developed its network, virtual banking and payment card business.

The network of the Bank remained one of broadest throughout Lithuania (46 branches, 36 sub-branches). During the year, 3 new sub-branches were opened and the ATM network was expanded. Last year, the branch restructuring was continued in order to establish an efficient and customer-oriented branch network which would execute active sales and provide high-quality services.

Development of the Bank network

The year 2003 was a year of essential changes in the sub-branch network of AB Bankas NORD/LB Lietuva.

In order to enhance efficiency of the network of the Bank, 4 Business Centres were established in 2003 (in Vilnius, Kaunas, Klaipėda and Panevėžys), some organisational changes were made, the functions of the Head Office and the Business Centres were centralised, as well as too large and non-functional buildings of the branches were reconstructed.

Last year, the network of the Bank was developed by establishing new sub-branches in customer-friendly locations with a positive perspective for banking business. In 2003, 3 new sub-branches started their operations, 1 sub-branch was closed, 1 sub-branch was reorganised and moved to more customer-friendly premises. In addition, 14 cash desks at customs offices and 4 cash exchange outlets were closed.

Development in the Bank network in 2003:

Name of structural units of the Bank network	2002	2003
Branches	46	46
Sub-branches	33	36
Cash desks at customs offices and cash exchange outlets	18	-

Aiming at sub-branch development in population-dense and SME-concentrated locations AB Bankas NORD/LB Lietuva established good relationship with the largest retailers. Last year, rapid establishment and restructuring of sub-branches continued in different supermarkets where 16 sub-branches are operating currently.

Development of the ATM network

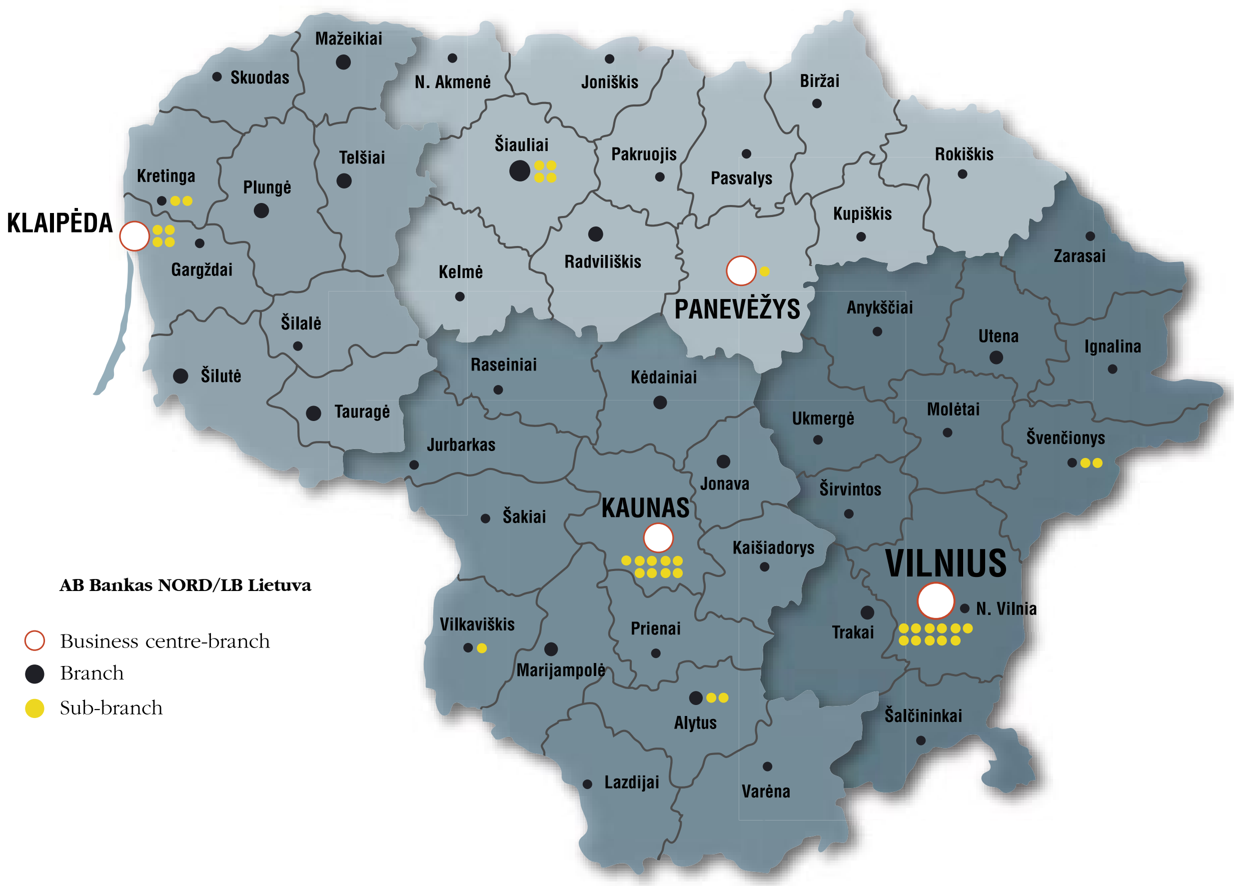
AB Bankas NORD/LB Lietuva has one of the widest ATM networks in Lithuania. At the end of 2003, the Bank NORD/LB Lietuva had 128 ATMs in Lithuania, their number increased by 35 per cent during the year.

At the beginning of quarter II of 2003, the Bank had signed the agreement with *Vilniaus Bankas*, which resulted in a joint ATM network of the two banks. That enabled the Bank to solve the problem of ATM shortage first of all in major cities. At the end of the year, the total number of ATMs of AB Bankas NORD/LB Lietuva and *Vilniaus Bankas* stood at 362, and this is currently the largest number in Lithuania.

Virtual banking

In 2003, AB Bankas NORD/LB Lietuva started upgrading its IT essentially following the IT strategy approved. The Bank sees constant development of IT systems, implementation of new software, centralisation of system management and banking operations, as well as improvement of technical platforms. Upgrading of IT allowed the Bank to enhance attractiveness and reliability of INTERNETO LINIJA significantly.

Moreover, in 2003, the services provided by means of virtual banking were further developed and improved: the main attention was paid to increase of the functionality of virtual banking, new solutions of electronic commerce were implemented, and a range of services provided via INTERNETO LINIJA was expanded. The number of the users of INTERNETO LINIJA increased by 18.5 thousand per year, which is more than 6 times.



Payment card business

AB Bankas NORD/LB Lietuva plays an important role in the payment card business in Lithuania, the market share held by the Bank accounts for 9.2 per cent. The number of payment cards issued by the Bank last year increased by 60 thousand and totalled 212.4 thousand.

Development of payment card business

	2002	2003	Increase per year (%)
Growth of payment card number (thousand)	152	212	39.5
ATM number (units)	95	128	34.7
Growth of balances in payment card accounts (thousand)	60	101	68.3
Growth of turnovers in payment card accounts (thousand)	373	650	74.3

In 2003, a project on issue of chip payment cards of the Bank, which is to be launched in 2004, was registered with the international payment card organisation *Visa International*.

Relations with financial institutions

In 2003, the international activity of AB Bankas NORD/LB Lietuva was focused on further development and strengthening of correspondent relations with banks and financial institutions, optimisation of correspondent accounts with other banks, raising of credit lines for the treasury activity and trade finance, as well as raising of long-term funds for lending to SME business and other projects in the country. In 2003, AB Bankas NORD/LB Lietuva strengthened its borrowing capacities on the international money and capital markets significantly.

In 2003, the money market limits granted to AB Bankas NORD/LB Lietuva by other banks increased 2.5 times up to LTL 796.4 million. In order to raise long-term credit resources at a lowest possible cost to finance a rapid growth of the Bank, AB Bankas NORD/LB Lietuva signed two loan agreements with foreign financial institutions under favourable conditions:

- on 11 February 2003, AB Bankas NORD/LB Lietuva and the German Development Bank *Kreditanstalt für Wiederaufbau* signed a six-year credit facility agreement for the amount of EUR 10 million to finance long-term SME investments;
- on 30 September 2003, AB Bankas NORD/LB Lietuva and the European Investment Bank (Luxembourg) signed a twelve-year global loan facility agreement for the amount of EUR 25 million to finance SME business development and projects related to environment, energy saving, infrastructure, industry, tourism, services, etc.

After signing the loan agreement with the German Development Bank *Kreditanstalt für Wiederaufbau*, AB Bankas NORD/LB Lietuva became a participant of the EU-supported programme for SME finance in Lithuania.

In 2003, AB Bankas NORD/LB Lietuva also received a ten-year subordinated loan of EUR 15 million from its main shareholder German bank *Norddeutsche Landesbank Girozentrale*. This loan strengthened the capital base of AB Bankas NORD/LB Lietuva and thus contributed to a rapid growth of the Bank.

In December 2003, the Bank made a successful debut on the international capital market by allotting a EUR 50 million bond issue at par value with a three-year maturity. Having issued these eurobonds the Bank not only expanded the range of its finance (fund-raising) instruments, but it also became the first commercial bank registered in Lithuania which allotted the bond issue on the foreign capital market.

Activity on the capital and money markets

Investment banking

In 2003, the investment banking services provided by the Bank were developed in three main directions: providing of financial brokerage, corporate finance and asset management services.

The financial brokerage activity of the Bank covers intermediary services to customers in making investments in securities both on the Lithuanian and foreign capital markets, and a number of services related to these investments starting from custody of investment accounts and ending up with professional consultations for investors. The Bank maintained its position as one of the largest intermediaries on the fixed-income securities market (in 2003, the Bank held 22.1 per cent of trading in debt securities on the National Stock Exchange). With the recovery of the Lithuanian capital market the volumes of the Bank's trading in shares increased almost 4 times.

The corporate finance activity of the Bank was concentrated first of all on mergers and acquisitions. The Bank participates in such transactions as a financial adviser and provides consultations to its customers on all the aspects of the transaction, including due diligence, negotiations, finance structure of a deal, and fund raising. In 2003, the Bank as a strategic financial adviser provided consultations to the bidders of the privatisation tenders of the major Lithuanian alcohol companies, participated in the acquisition transactions of the information technologies, dairy and transport companies.

The investment banking services provided by the Bank are intended for both institutional and private investors. The Bank offered individual investment portfolios and collective investment instruments (joint money market portfolio of the customers) to its customers.

The Bank was actively penetrating the pension fund management market and in August 2003 established the asset management company UAB NORD/LB Investicijų Valdymas which subsequently overtook all its asset management business.

Money, capital and foreign exchange markets

In 2003, the main treasury activity of the Bank was focused on the following areas:
- Ensure liquidity of the Bank;
- Ensure the prudential requirements set by the Bank of Lithuania for other than credit risk;
- Investment in debt securities.

In 2003, the Bank kept developing its activities on the money, capital and foreign exchange markets and complied with all the prudential requirements.

AB Bankas NORD/LB Lietuva is one of the most active market players trading in debt securities. The Bank's trading volumes of debt securities accounted for 21.8 per cent of the total trading of debt securities on the National Stock Exchange.

A lot of attention was also paid to the interest rate risk management. In October 2003, the Bank launched a new product, i.e. an interest rate swap (IRS).

In 2003, the Bank earned a profit of LTL 9.1 million from trading in foreign exchange and derivative instruments (including the income from the base currency exchange) as well as a profit of LTL 2.6 million from transactions with debt securities.

As in the previous year, AB Bankas NORD/LB Lietuva remained one of the leaders on the internal money and FX markets. Interbank interest rates announced by the Bank are used in calculating VILIBID and VILIBOR.

Risk management

Lending and market risk

The overall objective of risk management in the Bank is to ensure a sufficient return on equity while managing the risk effectively. The Bank aims at ensuring a safe and reliable operation and effective risk management. Prudent risk management is one of the top priorities for the Bank management. Risk-related activities of the Bank are restricted strongly by the applicable limit system. While implementing an advanced risk management policy the Bank aims not only at minimised potential risk, but also at improving pricing and achieving efficient capital distribution. In order to assess possible losses conditioned by liquidity, exchange rate, interest rate, operational, equity investment and credit risks, the Bank introduced quarterly Stress Testing in 2003. Standard, possible and worst case scenarios are used for risk capital and possible risk calculations.

In 2003, the Bank implemented the main risk management principle, i.e. to separate the function of management of all types of risks from risk, i.e. from the front-office units. The risk structure of the Bank is presented in chart 5:

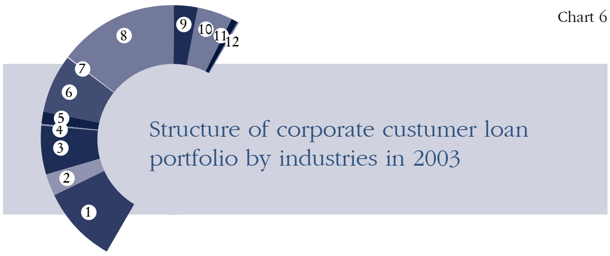
Chart 5

1. Foreign exchange risk 3%
2. Interest rate risk 13%
3. Equity investment risk 1%
4. Operational risk 12%
5. Liquidity risk 4%
6. Credit risk 67%

Credit risk

Credit risk is the risk to incur losses due to default of the debtors towards the Bank. In order to limit the risk, not only each customer is appraised individually, but industry limits are set as well. In 2003, individual loans accounted for 32.6 per cent of the loan portfolio of the Bank, whereas corporate loans made up 67.4 per cent. In 2002, these ratios accounted for 23.1 and 76.9 per cent, accordingly. The corporate loan portfolio structure of 2003 by industries is presented in chart 6.

Chart 6

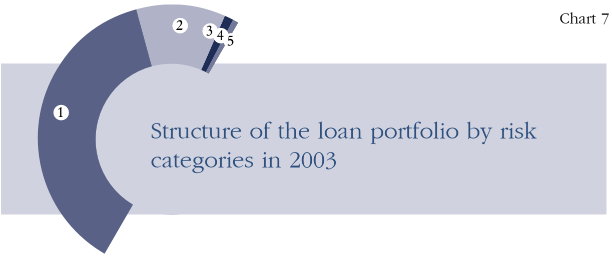


1. Wholesale and retail; transport repair 18.8%
2. Transport, storage, distant communications 5.4%
3. Public administration, defence; compulsory social insurance 11.9%
4. Health care, social activity 0.4%
5. Other untilities, social, personal services 3.0%
6. Agriculture, hunting, forestry, fishing 14.3%
7. Mining, quarrying 0.3%
8. Manufacturing 29.4%
9. Electricity, gas, and water supply 5.8%
10. Constructions; real estate, rent, other business activities 8.6%
11. Hotels, restaurants 1.6%
12. Other 0.4%

During 2003, the loans granted for agriculture, hunting, forestry, and fishing (81.4 per cent) and for manufacturing (60.0 per cent) saw the biggest increase, and their share in all the corporate customer loan portfolio increased respectively by 3.4 and 4.1 percentage points.

All borrowers are grouped into the five risk categories (see charts 7, 8).

Chart 7



1 Risk category 74.86%
2 Risk category 21.59%
3 Risk category 2.18%
4 Risk category 1.32%
5 Risk category 0.05%

Chart 8

1 Risk category 65.49%
2 Risk category 28.00%
3 Risk category 5.23%
4 Risk category 1.28%
5 Risk category 0.00%

The improved quality of the loan portfolio of the Bank is reflected by the decrease in the provisions to loans ratio from 1.95 to 1.34 during the year.

Credit risk management

In 2003, the process of reorganization of the credit activities in the Bank was completed, which was aimed at implementation of the uniform standards applied by the NORD/LB Group, in compliance with the supervision requirements for the German banks and the new requirements of the Basel Committee on Banking Supervision. The main principle followed in managing all kinds of risks is separating of risk management from the front office structures. In order to implement these requirements, credit risk management and credit risk appraisal was centralized, which resulted in the establishment of the new Credit Risk Management Department.

In order to improve the risk assessment and customer service quality, the new system for credit application analysis and decision making was implemented, policies and procedures related to the credit activities, which allow to optimize the decision making and credit risk management, were improved.

Market risk

The stress-testing module is used for assessment of market risk. This model is to determine the market risk caused by the changes of the currency exchange rates, interest rates, cost of equity investments, and market volatility in the market. The parameters of the stress-testing module reflect the worst dynamics of the market variables of one day. The parameters of the module are approved by the Management Board, in accordance with the parameters approved by the Management Board of *Norddeutsche Landesbank Girozentrale*. The structure of the market risk is in chart 9 :

Chart 9

1. Interest rate risk 77%
2. Foreign exchange risk 18%
3. Equity investment risk 5%

The market risk is restrained by the limits determined by the Management Board of the Bank in the Trading and Banking Books. The decreasing limit principle is applied to these limits, i.e. in case of negative results, the limits decrease. The limits are daily controlled by the Financial Risk Department.

Liquidity risk

Liquidity risk is a risk of failure by the Bank to meet the financial liabilities in due time and risk to suffer losses due to a sudden decrease in financial resources and increase of cost of new funds intended to cover them. The liquidity risk management in the Bank is divided into:

- Current liquidity management (up to 1 month), the objective of which is to meet the daily need for funds, to ensure the compliance with the reserve and liquidity requirements set by the Bank of Lithuania. This is the liquidity management based on the analysis of the future cash flow and planning of the projected cash flow up to 1 month.
- Short-term liquidity management – liquidity management based on the analysis of 1 year future cash flow of the Bank and cash flow projection.
- Long-term liquidity management – liquidity management based on the analysis of the long-term liquidity GAP.

Operational risk

The Bank considers operational risk as a risk to suffer direct or indirect losses due to the improper or inoperative internal processes, systems, technologies, employee actions, or external forces. Legal risk is treated as a component part of the operational risk. Operational risk does not include business and strategic risks.

At the beginning of 2003, the Bank established the Operational Risk Unit, responsible for planning of the methods for managing the operational risk and centralized independent control of this risk. At the end of 2003, the implementation of the operational risk management and control system was commenced. The operational risk in the Bank is managed by mitigating it (insurance), avoiding it (cancellation of services, operations), transferring (outsourcing), or assuming it (making of specific provisions). The process was started with the inventory of the operational risk – description of the scenarios and making of the operational risk map, in order to find out the most critical business lines, which bear the highest risk to suffer losses.

Staff and training

In 2003, the organizational structure of the Bank was improved, and the Head Office of the Bank was also restructured: the organizational structure was simplified, the number of the departments was decreased, the divisions were deleted, non-banking functions were outsourced, some functions were centralized.

In 2003, the headcount was reduced by 20 per cent, down to 1274. The Bank supported its staff in seeking higher and high education, and created conditions to improve their qualification: in 2003 the staff members received training covering innovations in banking and marketing.

Professional and attentive employees and smooth workflow ensure the high quality of the services provided by the Bank. In order to determine the quality of the customer services in different outlets of the Bank, the professional knowledge of the front-office employees was evaluated according to the specially prepared professional knowledge tests, and the special market analysis was initiated, which helped the Bank to monitor and improve the Bank and customer communication. The survey showed that the Bank is flexible in respect of its customers, that customers feel appreciated and respected by the Bank, and information supplied by the employees of the Bank is useful and accomodated to the individual needs of customers.

In 2003, the implementation of the management assessment, used in the NORD/LB system, was launched, also the annual staff appraisal was launched in accordance with the approved Procedure for the Staff Appraisal.

In 2004, the Human Resources Department will focus on:

- Creation of a personnel development system and implementation of its instruments (setting requirements for the key positions, career planning, loyalty development, implementation of a staff assessment system);
- Developing of the personnel motivation system;
- Improving of training efficiency (search, evaluation, and application of new training channels);
- Improving of the personnel administration efficiency (choice and implementation of a new information system).

Performance of the Bank subsidiaries

AB Bankas NORD/LB Lietuva is the sole shareholder of its subsidiaries – UAB NORD/LB Lizingas (Leasing), UAB NORD/LB Draudimas (Insurance), UAB NORD/LB Gyvybės Draudimas (Life Assurance), and UAB NORD/LB Investicijų Valdymas (Investment Management). With the aim to focus its activity only on the banking area, AB Bankas NORD/LB Lietuva sold 34 per cent of shares of *UAB Mokėjimo Kortelių Sistemos* (hereinafter referred to as MKS). The Bank will continue the cooperation with MKS: currently the company provides authorization services to the Bank, as the issuer and receiver of the payment cards, clearing services, installs and supports POS terminals, ATMs, and provides other services.

In 2003, all the subsidiaries belonging to the Bank (except the newly established UAB NORD/LB Investicijų Valdymas) were profitable, with increasing sale volumes of services and growing market shares.

UAB NORD/LB Lizingas

In 2003, the leasing market of Lithuania rapidly increased – it went up by 54 per cent during the year – and amounted to LTL 2 697 million. The volumes of UAB NORD/LB Lizingas increased significantly.

Last year the portfolio of UAB NORD/LB Lizingas increased by 83 per cent – up to LTL 138,9 million, the company earned LTL 324 thousand of net audited profit, and the company's share in the market increased from 4.36 to 5.16 per cent.

In 2003, UAB NORD/LB Lizingas focused on developing the sales of leasing services, improving the quality of the services provided to the customers, fast and flexible financing of the customers, improving the risk management and internal control systems in the company.

The year 2003 was not only a year of successful development, but also a year of significant changes. Rebranding of AB Lietuvos Žemės Ūkio Bankas also resulted in the rebranding of the Bank's subsidiaries. At the end of the year, Šiauliai office of UAB NORD/LB Lizingas launched its operations.

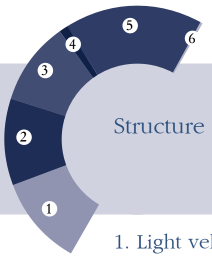
After the cooperation agreement with the international transport and logistics company *DFDS Transport* was signed, the customers were offered the competitive conditions for delivery of acquired objects. Besides, special service fees were started to be applied not only to the customers of the leasing company, but also to the partners of the company – sellers of technological equipment, who import it from abroad. In order to improve the customer service, the cooperation agreement with *UAB MAI Draudimo Brokeris*, the insurance broker, was signed in 2003.

In 2003, in total 1497 leasing applications were received, 1184 leasing agreements were signed for LTL 131.0 million, including LTL 111.7 million of financed amount. In 2003, 1.8 thousand customers were enjoying the services provided by the company. SME customers represent the greater part of them.

The structure of the portfolio of UAB NORD/LB Lizingas by type of assets did not change much (see chart 10). The main types of assets to be financed are heavy vehicles, which make up 33.7 per cent of the leasing portfolio, light vehicles – 22.0 per cent, technological equipment – 20.4 per cent, and real estate – 21.2 per cent. The leasing company continued focusing on financing SMEs.

During 2003, the ratio of provisions to total leasing portfolio improved.

Chart 10



Structure of the leasing portfolio

1. Light vehicles 22.0%
2. Real estate 21.2%
3. Technological equipment 20.4%
4. Agricultural machinery 2.2%
5. Heavy vehicles 33.7%
6. Other 0.6%

UAB NORD/LB Draudimas

In 2003, the amount of insurance premiums subscribed was less by 0.1 per cent in the non-life insurance market of Lithuania, and the number of claims increased by 31.9 per cent as compared to 2002. During the year, LTL 600.5 million insurance premiums of non-life insurance were subscribed and LTL 290.7 million claims were paid out.

By amounts of subscribed insurance premiums in 2002, UAB NORD/LB Draudimas held a share of 6.6 per cent in the Lithuanian insurance market and ranked the fifth in Lithuania. Although the company did not insure aviation hull, financial losses, rail freights, vessel third party liability, and, unlike other non-life insurance companies, did not develop higher-risk indemnity insurance, it subscribed 53 per cent more direct insurance premiums in 2003 than in the previous year. The insurance portfolio of UAB NORD/LB Draudimas was increasing most rapidly compared to the other players on the market, and its market share increased by 2.3 percentage points. The separate direct insurance groups (for example, transport insurance) increased even 2.4 times during the last year.

In 2003, 236.3 thousand (44 per cent more than in 2002) of direct insurance agreements were concluded. During 2003 insurance services were sold for LTL 40.3 million, of which direct insurance agreements made a major part (98 per cent).

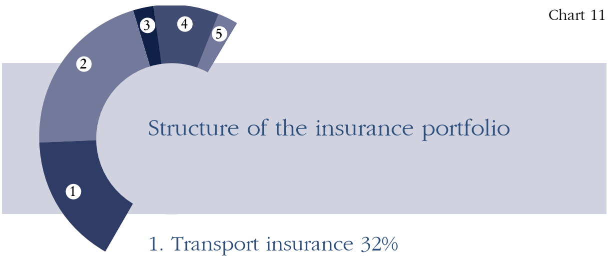
The structure of the insurance portfolio changed during the year: the share of compulsory MTPL insurance decreased from 52 per cent in 2002 to 42 per cent in 2003, property insurance decreased respectively from 19 to 16.6 per cent, the shares of other types of insurance increased (see chart 11).

In 2003, the policy holders were paid LTL 15.1 million direct claims, 35.1 per cent of which were claims paid for compulsory MTPL insurance, 32.5 per cent - transport insurance, 6.8 per cent of all claims – property insurance.

In 2003, the company earned LTL 997 thousand of the audited profit.

According to the approved re-insurance program in 2003, the proportionate and disproportionate re-insurance agreements were concluded with *Swiss Re* (AAA), *Converium* (AAA), *Polich Re*, *Transatlantic Re* (AAA) companies. These agreements covered the re-insurance of the most loss-making types of insurance.

Chart 11



Structure of the insurance portfolio

1. Transport insurance 32%
2. Compulsory MTPL insurance 42%
3. Accident and medical expenses insurance 5%
4. Property insurance 16%
5. Other types 5%

UAB NORD/LB Gyvybės Draudimas

The Lithuanian life assurance market was the most rapidly growing market in the Baltic States in 2003 – its increase represented 54 per cent.

In 2003, volumes of UAB NORD/LB Gyvybės Draudimas increased 1.5 times compared to 2002. At the end of the year the company had a share of 1.5 per cent of the life assurance market and earned LTL 149 thousand of net audited profit.

In June 2003, the company changed its brand name of UAB Lietuvos Žemės Ūkio Banko Gyvybės Draudimas to UAB NORD/LB Gyvybės Draudimas.

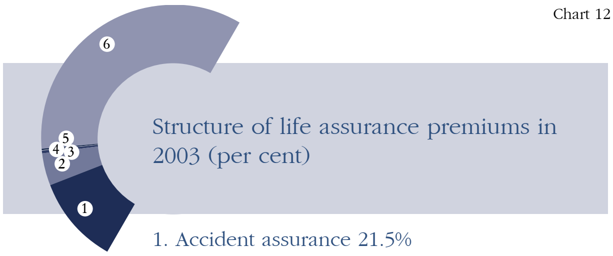
In 2003, the company offered two new life assurance services to the market – life assurance with investment risk and pension insurance. At the end of the year the life assurance with investment risk was successfully developed, and became the core product of the company's newly concluded agreements.

In 2003, the insurance company concluded agreements on the following five types of insurance services: mixed (endowment) life assurance, study insurance, accident assurance, pension insurance, and life assurance with investment risk. In 2003 the insurance premiums amounting to LTL 2.8 million were subscribed in total, more than 5.7 thousand of new insurance agreements were concluded. According to the insurance types, the insurance premiums subscribed for the various types of life assurance made up the greatest part (78 per cent) – LTL 2.2 million (see chart 12).

In order to diversify the assumed risk, the company is successfully cooperating with the foreign company *Munich Re* in the field of re-insurance.

At the end of 2003, the solvency reserve ratio of the insurance company was 9 (the requirement – more than 1).

Chart 12



Structure of life assurance premiums in 2003 (per cent)

1. Accident assurance 21.5%
2. Borrower's life assurance 7.9%
3. Life assurance with investment risk 0.7%
4. Pension insurance 0.1%
5. Study insurance 0.3%
6. Mixed (endowment) life assurance 69.5%

UAB NORD/LB Investicijų Valdymas

After the restructuring of the Asset Management Unit of AB Bankas NORD/LB Lietuva, UAB NORD/LB Investicijų Valdymas was established on October 19, 2003. The newly established company took over all the liabilities previously assumed by the Asset Management Unit and further develops investment management services.

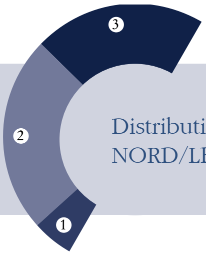
The main purpose for establishing the company was the participation in the pension reform, which was launched last year. There are 9 more companies next to UAB NORD/LB Investicijų Valdymas which participate in the pension reform: 3 subsidiaries of banks, 5 life assurance companies, and one subsidiary of the financial broker.

During the first stage of conclusion of agreements on pension funds, which started on September 15, 2003 (when SODRA started registration of the agreements) and ended on December 31, 2003, more than 441.6 thousand of agreements on pension funds were concluded in total. UAB NORD/LB Investicijų Valdymas concluded agreements with almost 27 thousand of the employed individuals, and after the first stage held 6 per cent of the total market. Among all the companies, having a license to manage pension funds in Lithuania, UAB NORD/LB Investicijų Valdymas ranked the fifth by number of the customers. Also, in 2003, the company continued providing investment portfolio management services to the institutional investors.

In 2004, the company plans to continue developing the investment portfolio management activity by establishing the money market fund. UAB NORD/LB Investicijų Valdymas expects to remain one of the most important companies of pension funds in the Lithuanian market, by establishing the voluntary pension funds of the third stage, and by drawing new participants of the pension reform to the already existing funds.

The company offers three pension funds of different risk and profitability:
- Honorary Consul pension (NORD/LB 1)
- Diplomat pension (NORD/LB 2)
- Ambassador pension (NORD/LB 3)

Chart 13



Distribution of pension agreements by NORD/LB pension funds

1. Honorary Consul pension (NORD/LB 1) 10%
2. Diplomat pension (NORD/LB 2) 48%
3. Ambassador pension (NORD/LB 3) 42%

AB Bankas NORD/LB Lietuva

FINANCIAL STATEMENTS

for the year ended 31 December 2003

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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 he 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 Bank of Lithuania. This caused us to qualify our opinion on the financial statements for that year. These 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 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 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)

(all 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	6,000	6,000	-	-
Other assets	20	39,438	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 26 February 2004 and signed on its behalf by:

Thomas Stephan Buerkle
Chairman of the Board

Hinrich Holm
Member of the Board, Chief Financial Officer

(all 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

(all 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)	(1,126)	(41,246)	(2,250)
Change in operating assets		(723,211)	(707,241)	(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)	(314,367)	11,156	186
Investing activities					
Acquisition of tangible and intangible assets		(20,033)	(12,942)	(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	63,581	(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 1 January		190,498	190,490	141,356	141,316
Cash and cash equivalents at 31 December	30	163,348	163,343	190,498	190,490

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

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 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 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 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 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 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 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 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 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.

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. The Bank's exposure to interest rate risk is summarised in Note 33.

(all 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	Insurance	Life Insurance	Investment mgt	Eliminations	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	-	(109)	-	-	-	-	(109)
Change of deferred tax	6,000	-	-	-	-	-	6,000
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)	2,586,675
Total liabilities	2,366,263	147,703	24,660	3,247	417	(130,972)	2,411,318
Shareholders' equity	175,241	4,355	9,258	5,538	3,172	(22,323)	175,241
Capital additions	12,942	5,622	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 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 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 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	67,050	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	117,497	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)	109	-	211	-
Change of deferred tax asset (see below)	(6,000)	(6,000)	2,560	2,560
Total	(5,891)	(6,000)	2,771	2,560

(all 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	(667)	2,741
Provision for deferred tax assets	-	(8,353)	(92)	(8,445)
As at 31 December 2003	93	6,104	141	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 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	(765)	1,779
Provision for deferred tax assets	-	(7,275)	-	(7,275)
As at 31 December 2003	93	6,104	135	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

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

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 amounts are in LTL thousand, if not otherwise stated)

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 1,500 thousand (2002: nil) and falling due for repayment in 2006;
- Subordinated loan to NORD/LB Draudimas UAB amounting to LTL 15,000 thousand (2002: nil) falling due for repayment in 2008, and
- 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.

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

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 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 3,060,218 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 amounts are in LTL thousand, if not otherwise stated)

NOTE 14 LOANS (continued)

Segment information

Group (Bank)	**Group**		**Bank**	
	2003	**2002**	**2003**	**2002**
Gross loans granted to legal entities by industry sectors:				
Agriculture, hunting and forestry	123,230	97,230	123,230	96,230
Manufacturing	342,084	224,225	341,743	223,623
Utilities	98,439	96,075	98,439	96,075
Construction	37,007	45,764	37,007	45,764
Trading	187,941	107,410	187,575	106,654
Transportation	58,019	57,808	58,019	57,780
Real estate, rent	65,325	51,420	65,324	51,420
State governance and compulsory social security	80,997	101,392	80,997	101,392
Other industry sectors	88,897	58,785	88,897	58,785
Total gross loans to corporate entities	1,081,939	840,109	1,081,231	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 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 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 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	2,138	1,939
Write-offs:		
Amortisation charge	(2,430)	(2,202)
Net book value at 31 December	3,881	3,306
31 December 2003		
Cost	14,016	12,763
Accumulated amortisation	(10,135)	(9,457)
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	12,358	1,602	17,895
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)	(8,416)	-	(10,978)
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 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	24,223	8,039	14,668	3,575
Total	39,438	20,209	30,021	17,229

(all 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	0	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 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 interest rate is set at 6-months EURIBOR + 0.52 p.a. The issue has been underwritten by Bankgesellshaft 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 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 Entwicklungs-Gesellschaft (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 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, LTL	%
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.

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

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 1,502 thousand (in 2002: LTL 1,627 thousand) are shown in the balance sheet as Other liabilities. 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	-	-

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 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 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 undefined	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	36.10
30 November 2003	546,650	1,679,807	32.54
31 December 2003	588,691	1,535,470	38,34

(all 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	243,255
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 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 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 reprising 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 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	22,097	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.

(all 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 its structural unit of the Business Clients Service: 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.

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