

**AB BANKAS NORD/LB LIETUVA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004**

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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANKAS NORD/LB LIETUVA AB

1. We have audited the accompanying balance sheet of Bankas NORD/LB Lietuva AB ("the Bank") and its subsidiaries (together "the Group") as at 31 December 2004 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. The impairment provision for loans as at 31 December 2002 was established based on the full amount of the outstanding loan (as required by the prudential requirements of the Bank of Lithuania) and not on the estimated future cash flows from those borrowers and any associated collateral. Such policy was not in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. The application of IAS 39 requirements in 2003 resulted in a release of the loan provision and an overstatement of 2003 profit, which would have been approximately by LTL 19 million lower, if the provisions for loan impairment had been calculated in accordance with IAS 39 as at 31 December 2002. Our audit report on the financial statements for the year ended 31 December 2003 was modified accordingly.
4. In our opinion, except for the effect on the corresponding figures for the year ended 31 December 2003 of the matter referred to in paragraph 3, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2004 and of 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

Vilnius, Republic of Lithuania
28 February 2005

Ona Armalienė
Auditor's Certificate No. 000008

**AB BANKAS NORD/LB LIETUVA
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(all amounts are in LTL thousand, if not otherwise stated)

THE GROUP AND BANK INCOME STATEMENT

	Notes	Year ended			
		31 December 2004		31 December 2003	
		Group	Bank	Group	Bank
Interest income		127,951	122,027	99,729	94,544
Interest expense		(45,097)	(42,775)	(32,432)	(31,830)
Net interest income	1	82,854	79,252	67,297	62,714
Fee and commission income		42,100	41,224	39,037	36,300
Fee and commission expense		(8,619)	(8,031)	(8,026)	(6,684)
Net interest, fee and commission income		116,335	112,445	98,308	92,330
Net gain (loss) on operations with securities and financial instruments	2	321	259	(1,686)	(1,936)
Net foreign exchange gain		7,153	7,072	11,588	11,603
Net gain (loss) on investments in subsidiaries and associates accounted for using the equity method		(1,031)	(1,259)	650	1,292
Operating income		122,778	118,517	108,860	103,289
Operating expenses	3	(100,767)	(97,173)	(117,517)	(100,059)
Provisions for other assets and contingent liabilities	4	(956)	(623)	1,554	2,205
Other income		5,853	4,870	32,885	6,358
Loss on sale of discontinuing operations	36	(96)	(96)	-	-
Provisions for loans and accrued interest	5	11,278	11,337	20,223	20,200
Other expenses	6	(18,527)	(17,437)	(36,442)	(22,539)
Profit before tax		19,563	19,395	9,563	9,454
Income tax	7	(63)	-	5,891	6,000
Net profit		19,500	19,395	15,454	15,454
Earnings per share (in LTL per share)					
Basic	8	9.57		8.31	
Diluted	8	9.57		8.31	

The accounting policies and notes on pages 4 to 44 are an integral part of these financial statements.

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THE GROUP AND BANK BALANCE SHEET

	Notes	31 December 2004		31 December 2003	
		Group	Bank	Group	Bank
ASSETS					
Cash and balances with central banks	9	224,100	224,099	234,260	234,255
Treasury bills	10	15,032	14,587	51,115	36,525
Due from other banks and financial institutions	11	386,338	446,360	159,369	284,803
Trading securities	12	127,845	127,845	99,440	99,440
Derivative financial instruments	13	866	866	1,039	1,039
Loans	14	2,473,233	2,473,085	1,583,589	1,583,008
Leasing	15	215,854	-	132,992	-
Securities available-for-sale	16	89,021	88,295	83,904	67,856
Securities held-to-maturity	16	107,969	107,969	74,437	74,437
Investments in subsidiaries	17	-	7,299	-	22,324
Intangible assets	18	4,339	4,236	3,881	3,306
Fixed assets	19	108,141	100,127	117,095	108,302
Deferred tax asset	7	6,083	6,000	6,006	6,000
Other assets	20	20,630	15,154	39,432	20,209
Total assets		3,779,451	3,615,922	2,586,559	2,541,504
LIABILITIES					
Due to other banks and financial institutions	21	1,063,024	906,085	518,938	503,316
Derivative financial instruments	13	1,666	1,666	1,497	1,497
Deposits	22	1,961,640	1,961,640	1,573,895	1,573,895
Debt securities in issue	23	393,811	393,984	171,847	171,847
Special and lending funds	24	10,917	10,917	2,277	2,277
Other liabilities	25	45,347	38,689	55,764	26,331
Subordinated loans	26	89,773	89,773	87,100	87,100
Total liabilities		3,566,178	3,402,754	2,411,318	2,366,263
SHAREHOLDERS' EQUITY					
Share capital	27	195,117	195,117	176,585	176,585
Revaluation reserve	27	1,338	1,338	2,405	2,405
Reserve capital	27	-	-	2,816	2,816
Retained earnings	27	16,818	16,713	(6,565)	(6,565)
Total shareholders equity		213,273	213,168	175,241	175,241
Total liabilities and equity		3,779,451	3,615,922	2,586,559	2,541,504

These financial statements have been approved and on behalf of the Board on 28 February 2005 signed by:

Thomas Stephan Buerkle
Chairman of the Board

Hinrich Holm
Member of the Board, Chief Financial Officer

The accounting policies and notes on pages 5 to 44 are an integral part of these financial statements.

**AB BANKAS NORD/LB LIETUVA
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(all amounts are in LTL thousand, if not otherwise stated)

GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Revaluation reserve	Reserve capital	Retained earnings	Total
Balance at 1 January 2003	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
Increase of share capital	18,532	-	-	-	18,532
Transfer from revaluation reserve on tangible assets sold or fully depreciated	-	(1,067)	-	1,067	-
Transfer to retained earnings	-	-	(2,816)	2,816	-
Net profit for the year	-	-	-	19,500	19,500
Balance at 31 December 2004	195,117	1,338	-	16,818	213,273

BANK STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Revaluation reserve	Reserve capital	Retained earnings	Total
Balance at 1 January 2003	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
Increase of share capital	18,532	-	-	-	18,532
Transfer from revaluation reserve on tangible assets sold or fully depreciated	-	(1,067)	-	1,067	-
Transfer to retained earnings	-	-	(2,816)	2,816	-
Net profit for the year	-	-	-	19,395	19,395
Balance at 31 December 2004	195,117	1,338	-	16,713	213,168

The accounting policies and notes on pages 6 to 44 are an integral part of these financial statements.

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

THE GROUP AND BANK CASH FLOW STATEMENT

	Notes	Year ended			
		31 December 2004		31 December 2003	
		Group	Bank	Group	Bank
Operating activities					
Income (expense)					
Interest income		116,493	112,118	82,745	77,729
Interest expense		(28,984)	(28,274)	(27,003)	(25,632)
Collected previously written-off loans		14,437	14,437	16,347	16,347
Net income from operations in foreign currency		5,883	5,865	2,011	1,999
Net income from operations in securities		2,315	2,305	5,594	5,451
Net income from service and commission fees		33,481	33,193	31,011	29,616
Salaries and related expenses		(49,895)	(48,024)	(69,879)	(58,299)
Other expenses		(45,048)	(45,210)	(42,012)	(50,447)
Net cash flow from operating profits before changes in operating assets and liabilities		48,682	46,410	(1,186)	(3,236)
(Increase) decrease in operating assets					
(Increase) decrease in compulsory reserves with the central bank		(7,371)	(7,371)	48,139	48,139
(Increase) in loans to credit and financial institutions		(198,549)	(132,976)	(106,734)	(173,366)
(Increase) in loans granted		(900,562)	(900,937)	(494,707)	(493,999)
(Increase) decrease in securities		33,130	18,985	(23,302)	(11,113)
(Increase) in other short-term assets		(65,190)	2,888	(70,831)	(1,125)
Change in operating assets		(1,138,542)	(1,019,411)	(647,435)	(631,464)
Increase (decrease) in liabilities					
Increase in liabilities to credit and financial institutions		544,086	402,769	232,289	232,883
Increase in deposits and letters of credit		396,385	396,385	172,632	172,632
Increase (decrease) in other liabilities		(12,778)	11,684	2,008	(9,405)
Change in liabilities		927,693	810,838	406,929	396,110
Net cash flow from operating activities		(162,167)	(162,163)	(241,692)	(238,590)
Investing activities					
Acquisition of tangible and intangible assets		(14,598)	(10,857)	(20,033)	(12,943)
Disposal of tangible and intangible assets		3,607	3,298	2,894	2,864
Investments in securities and sale thereof, net		(87,171)	(89,288)	68,061	63,925
Disposal of associate		-	-	3,993	3,993
Disposal of subsidiaries, net of cash disposed	36	13,502	13,502	-	-
Investments in subsidiary		-	-	-	(4,000)
Dividends received		26	26	45	45
Interest received		9,823	8,340	11,719	9,696
Net cash flow from investing activities		(74,811)	(74,979)	66,679	63,580
Financing activities					
Own debt securities issued		221,964	222,137	171,847	171,847
Increase in share capital		18,532	18,532	-	-
Cash flow from other financing activities		(2,165)	(2,170)	51,792	51,792
Net cash flow from financing activities		238,331	238,499	223,639	223,639
Net increase (decrease) in cash and cash equivalents		1,353	1,357	48,626	48,629
Cash and cash equivalents at beginning of year		239,124	239,119	190,498	190,490
Cash and cash equivalents at 31 December	30	240,477	240,476	239,124	239,119

The accounting policies and notes on pages 7 to 44 are an integral part of these financial statements.

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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 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, Basanavičiaus str.26. At the end of the reporting period the Bank had 46 branches (2003: 46). As at 31 December 2004 the Bank had 1,001 employees (2003: 1,274). As at 31 December 2004 the Group had 1,026 employees (2003: 1,891).

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 (finance and operating leasing activities),
- UAB Nord/LB Investicijų Valdymas (investment management activities).

As at 31 December 2004 the Bank owned 100% of the share capital of the UAB "NORD/LB Lizingas" and UAB "NORD/LB Investicijų valdymas". The subsidiary UAB "NORD/LB Investicijų valdymas" 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 Vilnius Stock Exchange. As disclosed in Note 28, *Share capital*, Norddeutsche Landesbank Girozentrale (Germany) is the single largest shareholder holding 93.10% 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 Group and the Bank 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 and fixed assets.

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.

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

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

In 2004 the Group adopted IFRS 3 (2004) Business combinations and related IAS 36 (2004) Impairment of assets and IAS 38 (2004) Intangible assets. The early adoption of these standards did not result in substantial changes to the Group's accounting policies and presentation of the financial statements.

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

ACCOUNTING POLICIES (continued)

Consolidation

(a) Subsidiaries

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

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

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

Subsidiaries in the stand-alone financial statements are accounted for by the equity method of accounting. Investments in subsidiaries are recorded in the separate balance sheet line and net gain (loss) in the separate income statement line.

(b) Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

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 (that is fair value of amount paid or received) 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.

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ACCOUNTING POLICIES (continued)

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

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).

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.

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ACCOUNTING POLICIES (continued)

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.

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 and other assets 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.

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.

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

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.

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

ACCOUNTING POLICIES (continued)

Leases

Group company is the lessee

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

Group company is the lessor

Operating leases

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

Finance leases

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

Foreclosed assets

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

Assets / funds under management and related liabilities

Assets under management include loans that are managed by the Bank in the name of the Lithuanian Ministry of Finance and the Lithuanian Ministry of Agriculture. Assets under management equal funds under management and are accounted for 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 recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently debt securities issued 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 debt securities issued using the effective yield method.

Debt securities are recognised on the day of settlement.

Employee benefits

Social security contributions

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

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ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Termination benefits

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

Segment reporting

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

Provisions

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

Transfers between elements of shareholders equity

Transfers from revaluation reserve to retained earnings are performed when related fixed asset is fully depreciated or sold. All transfers from reserve capital to retained earnings are made only after the approval of the shareholders.

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.

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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% up to 1 December 2004 and 8% after this date.

The capital adequacy ratios for the year 2004 are presented below (calculated based on the requirements for accounting in banks in Lithuania):

	Group					Bank
	31	31	31	30	30	31
	December	December	March	June	September	December
	2004	2003	2004	2004	2004	2004
Capital base	298,707	207,431	210,109	239,777	277,406	292,136
Risk weighted assets and off balance sheet items	2,646,602	1,842,223	1,938,486	2,199,181	2,381,691	2,507,051
Capital adequacy ratio	11.29	11.26	10.84	10.90	11.65	11.65

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.

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FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

The Group is exposed to possible cash flows inconsistency risk arising out of usage of available cash resources for further objectives: repayment of overnight deposits, current accounts liabilities management, repayment of maturing deposits, granting committed loans, guarantees, to fulfil margin and other liabilities related to 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 41.71 %, the Group's liquidity ratio – 42.12 %. The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. In the opinion of management of the Bank, the Group and Bank's liquidity is sufficient to meet its operating needs. Such risks are monitored on a rolling basis and are subject to annual or more frequent review.

Currency risk

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

Interest rate risk

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

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SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into three main business segments: banking, leasing and investment management. In 2004, the Bank disposed of its investment in life and general insurance subsidiary undertakings thus exiting these business segments. Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinary reallocated between segments, resulting in funding cost transfers disclosed in operating income.

Year ended 31 December 2004

	Banking	Leasing	Insurance	Life Insurance	Investment mgt	Eliminations	Group
Internal	3,337	(3,304)	(12)	(12)	(413)	404	-
External	115,084	8,230	684	195	564	(2,075)	122,682
Net income from the main operations	118,421	4,926	672	183	151	(1,671)	122,682
Internal	(879)	(172)	(68)	(16)	(21)	1,156	-
External	(82,466)	(1,969)	(3,004)	(258)	(676)	3427	(84,946)
Operating expenses	(83,345)	(2,141)	(3,072)	(274)	(697)	4,583	(84,946)
Depreciation charges	(13,828)	(1,992)	(165)	(11)	(1)	176	(15,821)
Internal	193	-	(41)	-	-	(152)	-
External	(2,046)	(318)	1,367	310	(93)	(1,572)	(2,352)
Net other income (expenses)	(1,853)	(318)	1,326	310	(93)	(1,724)	(2,352)
Profit (loss) before tax	19,395	475	(1,239)	208	(640)	1,364	19,563
Income tax	-	(140)	-	-	-	-	(140)
Change of deferred tax	-	77	-	-	-	-	77
Net profit (loss)	19,395	412	(1,239)	208	(640)	1,364	19,500
Total assets	3,615,922	232,747	-	-	2,629	(71,847)	3,779,451
Total liabilities	3,402,754	227,980	-	-	97	(64,653)	3,566,178
Shareholders' equity	213,168	4,767	-	-	2,532	(7,194)	213,273
Capital additions	10,858	3,568	-	-	1	-	14,427

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SEGMENT INFORMATION (Continued)

Year ended 31 December 2003

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

Secondary reporting format – geographical segments

All Bank and Group assets and liabilities are based in Lithuania.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2004		2003	
	Group	Bank	Group	Bank
Interest income:				
on loans to credit and financial institutions and placements with credit institutions	3,651	6,290	1,529	4,151
on other loans	109,735	100,807	79,246	72,810
on debt securities acquired	10,669	10,608	16,035	14,471
on Government debt securities for restructuring of banks	-	-	242	242
contract management fees	3,896	4,322	2,677	2,870
Total interest income	127,951	122,027	99,729	94,544
Interest expense				
on liabilities to credit and financial institutions and amounts due to credit institutions	14,619	12,292	9,315	8,713
on deposits and other repayable funds	19,023	19,023	20,811	20,811
on debt securities issued	7,715	7,720	40	40
on subordinated loans	2,782	2,782	2,234	2,234
contract management fees	958	958	32	32
Total interest expense	45,097	42,775	32,432	31,830
Net interest income	82,854	79,252	67,297	62,714

Group interest income includes LTL 2,426 thousand (2003 – LTL 1,288 thousand) income from operating lease contracts.

NOTE 2 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES AND FINANCIAL INSTRUMENTS

	2004		2003	
	Group	Bank	Group	Bank
Debt securities, including treasury bills				
Realised gain	2,717	2,710	6,019	5,876
Unrealised (loss)	(1,007)	(1,059)	(3,129)	(3,236)
Net income from debt securities	1,710	1,651	2,890	2,640
Derivative financial instruments				
Realised (loss)	(1,303)	(1,303)	(5,563)	(5,563)
Unrealised (loss)	(361)	(361)	(115)	(115)
Net loss from derivative financial instruments	(1,664)	(1,664)	(5,678)	(5,678)
Equity securities				
Income from other equity securities	26	26	45	45
Realised gain (loss)	(306)	(309)	153	153
Unrealised gain	555	555	904	904
Net income from equity securities	275	272	1,102	1,102
Total	321	259	(1,686)	(1,936)

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NOTE 3 OPERATING EXPENSES

	2004		2003	
	Group	Bank	Group	Bank
Salaries, social insurance and other related expenses	52,572	50,701	67,070	55,490
Rent of premises and maintenance expenses	8,388	8,367	13,042	12,206
Transportation, post and communications expenses	6,171	6,120	7,545	5,994
Advertising and marketing expenses	4,732	4,381	7,258	5,554
Office equipment and maintenance expenses	6,314	6,970	3,580	3,547
Training and business trip expenses	923	910	1,826	1,484
Other operating expenses	5,846	5,896	3,788	4,065
Amortisation of intangible assets	1,220	1,146	2,431	2,203
Depreciation of fixed assets	14,601	12,682	10,977	9,516
Total	100,767	97,173	117,517	100,059

The Bank incurred LTL 11,674 thousand of social insurance expenses for the year ended 31 December 2004 (2003: LTL 13,596 thousand). Expenses for social insurance for the Group amounted to LTL 12,115 thousand (2003: LTL 16,228 thousand).

NOTE 4 PROVISIONS FOR OTHER ASSETS AND CONTINGENT LIABILITIES

	2004		2003	
	Group	Bank	Group	Bank
Expenses for provisions on:				
other doubtful assets	530	407	(2,095)	(2,118)
accrued interest on funds under management	-	-	(145)	(145)
finance leases	255	-	628	-
contingent liabilities	171	216	58	58
Total	956	623	(1,554)	(2,205)

NOTE 5 PROVISIONS FOR LOANS AND ACCRUED INTEREST

Group	For loans	For accrued interest	Total
Increase (decrease) of provisions, net	(1,688)	97	(1,591)
Recovered previously written off loans	(18,536)	(96)	(18,632)
Expenses for provisions in 2003	(20,224)	1	(20,223)
Increase of provisions, net (note 14)	3,819	160	3,979
Recovered previously written off loans	(15,104)	(153)	(15,257)
Expenses for provisions in 2004	(11,285)	7	(11,278)

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NOTE 5 PROVISIONS FOR LOANS AND ACCRUED INTEREST (continued)

Bank	For loans	For accrued interest	Total
Increase (decrease) of provisions, net	(1,665)	97	(1,568)
Recovered previously written off loans	(18,536)	(96)	(18,632)
Expenses for provisions in 2003	(20,201)	1	(20,200)
Increase of provisions, net	3,760	160	3,920
Recovered previously written off loans	(15,104)	(153)	(15,257)
Expenses for provisions in 2004	(11,344)	7	(11,337)

NOTE 6 OTHER EXPENSES

	2004		2003	
	Group	Bank	Group	Bank
Fees for compulsory insurance of individuals' deposits	7,859	7,856	6,457	6,456
Taxes other than income tax	8,445	7,890	13,679	10,874
Other expenses	2,223	1,691	16,306	5,209
Total	18,527	17,437	36,442	22,539

NOTE 7 INCOME TAX

	2004		2003	
	Group	Bank	Group	Bank
Current tax for the year (see below)	140	-	115	-
Change of deferred tax asset (see below)	(77)	-	(6,006)	(6,000)
Total	63	-	(5,891)	(6,000)

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:

	2004		2003	
	Group	Bank	Group	Bank
Profit before tax	19,563	19,395	9,563	9,454
Tax calculated at a tax rate of 15%	2,934	2,909	1,434	1,418
Income not subject to tax	(3,936)	(3,843)	(5,657)	(5,059)
Adjustments of prior year errors not subject to tax	-	-	(132)	-
Effect of differences with statutory accounts	-	-	(361)	-
Expenses not deductible for tax purposes	1,673	1,542	1,024	878
Recognition /utilisation of previously unrecognised tax losses	(608)	(608)	(2,199)	(3,237)
Tax charge/(credit)	63	-	(5,891)	(6,000)

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NOTE 7 INCOME TAX (continued)

Movement in deferred tax asset

At the beginning of the year	6,006	6,000	-	-
Income statement credit (charge)	77	-	6,006	6,000
At the end of the year	6,083	6,000	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

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2004	-	332	332
Charged/ (credited) to net profit	202	(220)	(18)
As at 31 December 2004	202	112	314

Group – deferred tax assets

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2004	-	93	6,059	186	6,338
Charged/ (credited) to net profit	7	(89)	11	130	59
As at 31 December 2004	7	4	6,070	316	6,397

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31 December 2004 the Group has unrecognized tax losses of LTL 6,499 thousand. (2003: LTL 8,398 thousand).

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

Year of expiry	Amount
2005	2,182
2007	58,819
2008	22,030
2009	760
	<u>83,791</u>

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

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NOTE 7 INCOME TAX (continued)

Bank – deferred tax liability

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2004	-	332	332
Charged/ (credited) to net profit	202	(220)	(18)
As at 31 December 2004	202	112	314

Bank – deferred tax assets

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2004	-	93	6,059	180	6,332
Total charged/ (credited) to net profit	7	(89)	11	53	(18)
As at 31 December 2004	7	4	6,070	233	6,314

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31 December 2004 the Bank has unrecognized tax losses of LTL 6,272 thousand (2003: LTL 7,320 thousand).

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

Year of expiry	Amount
2005	2,182
2007	58,819
2008	21,279
	<u>82,280</u>

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:

Deferred tax assets	2004		2003	
	Group	Bank	Group	Bank
Deferred tax assets	6,397	6,314	6,338	6,332
Deferred tax liabilities	(314)	(314)	(332)	(332)
	<u>6,083</u>	<u>6,000</u>	<u>6,006</u>	<u>6,000</u>

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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

	<u>2004</u>	<u>2003</u>
	Group	Group
Net profit (loss)	19,500	15,454
Weighted average number of issued shares (units)	<u>2,038,363</u>	<u>1,858,794</u>
Earnings per share (in LTL)	<u>9.57</u>	<u>8.31</u>

As at 31 December 2004 and 2003 the diluted earnings per share are the same as basic earnings per share.

NOTE 9 CASH AND BALANCES WITH CENTRAL BANKS

	<u>2004</u>		<u>2003</u>	
	Group	Bank	Group	Bank
Cash and other valuables:	96,206	96,205	111,394	111,389
Placements with Central Bank:				
Correspondent account with Central bank	-	-	2,641	2,641
Required reserves in national currency	76,074	76,074	75,776	75,776
Required reserves in foreign currency	<u>51,820</u>	<u>51,820</u>	<u>44,449</u>	<u>44,449</u>
Total placements with Central Bank	<u>127,894</u>	<u>127,894</u>	<u>122,866</u>	<u>122,866</u>
Total cash and balances with Central Bank	<u>224,100</u>	<u>224,099</u>	<u>234,260</u>	<u>234,255</u>

Required reserves are calculated on a monthly basis as a 6% share 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.

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 available-for-sale and carried at their fair value.

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NOTE 11 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004		2003	
	Group	Bank	Group	Bank
Due from banks:				
Correspondent bank accounts	35,392	35,392	6,370	6,370
Overnight deposits	32,805	32,805	33,364	33,364
Deposits with banks	221,328	221,328	82,418	80,968
Repurchase transactions	53,490	53,490	-	-
Total due from banks	343,015	343,015	122,152	120,702
Loans granted to banks and financial institutions	43,323	103,345	37,217	164,101
Total due from other banks and financial institutions	386,338	446,360	159,369	284,803

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

- Loans to NORD/LB Lizingas UAB, amounting to LTL 60,082 thousand (2003: LTL 125,384 thousand) falling due for repayment in 2005 – 2007;
- Loan to Ūkio Banko Lizingas UAB amounting to LTL 15,000 thousand (2003:LTL 15,000 thousand) and falling due for repayment in 2006;
- Loan to the Baltic-American Enterprise Fund, a US non-profit corporation amounting to LTL 23,193 thousand (2003:LTL 16,406 thousand) falling due for repayment in 2007.

NOTE 12 TRADING SECURITIES

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

NOTE 13 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES

The Group enters into transactions involving the following derivative instruments:

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

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NOTE 13 DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES (continued)

- 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 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
As at 31 December 2004				
Currency forwards and swaps	24,740	23,874	866	-
Interest rate swaps	89,773	89,773	-	1,666
Total	114,513	113,647	866	1,666

NOTE 14 LOANS

	2004		2003	
	Group	Bank	Group	Bank
Loans to corporate entities	1,554,392	1,554,059	1,081,939	1,081,231
Loans to individuals	939,188	939,188	523,276	523,276
Total gross loans granted	2,493,580	2,493,247	1,605,215	1,604,507
Total provisions	(20,347)	(20,162)	(21,626)	(21,499)
Total	2,473,233	2,473,085	1,583,589	1,583,008

Impairment of loans

Value of collateral pledged against the loans granted amounted to LTL 4,736,065 thousand as at 31 December 2004 (2003: LTL 2,930,643 thousand).

Impaired loans amounted to LTL 47,439 thousand at 31 December 2004 (2003: LTL 63,411 thousand). Value of collateral pledged against these loans amounted to LTL 98,021 thousand, of which LTL 25,865 thousand were applied as a deduction from principal outstanding in calculation of specific provisions (2003: LTL 149,348 thousand and 21,189 thousand respectively).

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NOTE 14 LOANS (continued)

Movement in provisions for impairment of loans is as follows:

	Group	Bank
<u>Balance sheet</u>		
Provisions as at 31 December 2002	21,393	21,243
Increase in provisions	6,280	6,303
Provisions for loans written off	(5,617)	(5,617)
Exchange rate adjustment on provisions	(430)	(430)
	<hr/>	<hr/>
Provisions as at 31 December 2003	21,626	21,499
	<hr/>	<hr/>
Increase in provisions (Note 5)	3,819	3,760
Provisions for loans written off	(5,092)	(5,092)
Exchange rate adjustment on provisions	(5)	(5)
Other adjustments	(1)	-
	<hr/>	<hr/>
Provisions as at 31 December 2004	20,347	20,162

Segment information

Group (Bank)	Group		Bank	
	2004	2003	2004	2003
Gross loans granted to legal entities by industry sectors:				
Agriculture, hunting and forestry	140,030	123,230	140,030	123,230
Manufacturing	475,747	342,084	475,747	341,743
Utilities	142,141	98,439	142,141	98,439
Construction	82,843	37,007	82,843	37,007
Trading	320,657	187,941	320,324	187,575
Transportation	48,746	58,019	48,746	58,019
Real estate, rent	128,193	65,325	128,193	65,324
State governance and compulsory social security	84,263	80,997	84,263	80,997
Other industry sectors	131,772	88,897	131,772	88,897
	<hr/>	<hr/>	<hr/>	<hr/>
Total gross loans to corporate entities	1,554,392	1,081,939	1,554,059	1,081,231

Gross loans amounting to LTL 2,477,039 thousand at 31 December 2004 (in 2003: LTL 1,596,271 thousand) were granted to corporates and individuals located in Lithuania and gross loans of LTL 16,208 thousand were granted to non-residents (in 2003: LTL 8,236 thousand).

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NOTE 15 LEASING

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2003	47,354	90,306	9,725	147,385
Change during 2004	32,114	55,175	2,041	89,330
Balance at 31 December 2004:	79,468	145,481	11,766	236,715
Unearned finance income on finance leases:				
Balance at 31 December 2003	5,441	6,990	787	13,218
Change during 2004	2,819	3,537	(141)	6,215
Balance at 31 December 2004:	8,260	10,527	646	19,433
Net investments in leasing before provisions:				
31 December 2003	41,913	83,316	8,938	134,167
31 December 2004	71,208	134,954	11,120	217,282
Changes in provisions:				
Balance as at 31 December 2002	250	429	34	713
Increase (decrease) in provisions	79	332	51	462
Balance as at 31 December 2003	329	761	85	1,175
Increase (decrease) in provisions in 2004	114	149	(10)	253
Balance as at 31 December 2004	443	910	75	1,428
Net investments in leasing after provisions:				
31 December 2003	41,584	82,555	8,853	132,992
31 December 2004	70,765	134,044	11,045	215,854

Segment information

	2004	2003
By type of lessees:		
Corporate enterprises	167,930	111,301
Individuals	44,971	9,821
Governmental institutions and public organisations	4,381	13,045
Net investments before provisions	217,282	134,167
By type of assets:		
Trucks and other vehicles	113,604	45,232
Real estate	44,259	29,477
Manufacturing facilities	35,887	28,460
Cars	18,771	27,313
Agricultural machinery	4,031	2,913
Office equipment and household appliances	730	772
Net investments before provisions	217,282	134,167

All lessees operate in Lithuania.

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NOTE 16 INVESTMENT SECURITIES

	2004		2003	
	Group	Bank	Group	Bank
Securities available-for-sale				
Debt securities:				
Government bonds of the Republic of Lithuania	40,359	39,633	67,839	53,090
Bonds of the banks	6,944	6,944	-	-
Unlisted corporate bonds	5,081	5,081	15,130	13,831
Government bonds of non-residents	36,600	36,600	-	-
Equity securities:				
Listed in the Official list of NSEL	-	-	785	785
Listed in the Current list of NSEL	-	-	113	113
Unlisted	37	37	37	37
Total securities available-for-sale	89,021	88,295	83,904	67,856
Securities held-to-maturity				
Government bonds of the Republic of Lithuania	107,969	107,969	74,437	74,437
Total investment securities	196,990	196,264	158,341	142,293

NOTE 17 INVESTMENTS IN SUBSIDIARIES

	Share	Nominal value	Acquisition cost	2004	2003
				Carrying value	Carrying value
Investments in consolidated subsidiaries:					
NORD/LB Lizingas UAB	100%	2,000	2,200	4,767	4,355
NORD/LB Investicijų Valdymas UAB	100%	2,000	4,000	2,532	3,172
NORD/LB Draudimas UAB	100%	6,000	5,000	-	9,259
NORD/LB Gyvybės Draudimas UAB	100%	4,000	5,000	-	5,538
Total				7,299	22,324

In April 2004 the Bank fully disposed of its shares of NORD/LB Draudimas UAB and NORD/LB Gyvybės draudimas UAB. For further disclosures refer to Note 36.

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

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NOTE 18 INTANGIBLE ASSETS

	Group	Bank
31 December 2003		
Cost	14,018	12,765
Accumulated amortisation	(10,137)	(9,459)
Net book value	3,881	3,306
Year ended 31 December 2004		
Net book value at 1 January	3,881	3,306
Acquisitions	2,129	2,076
Write-offs after selling of subsidiaries	(451)	-
Amortisation charge	(1,220)	(1,146)
Net book value at 31 December	4,339	4,236
31 December 2004		
Cost	11,866	11,606
Accumulated amortisation	(7,527)	(7,370)
Net book value	4,339	4,236
Economic life (in years)	3-5	5

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 2003					
Cost	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
Year ended 31 December 2004					
Net book value at 1 January	81,412	5,056	30,612	15	117,095
Acquisitions	-	3,451	8,297	550	12,298
Transfers from construction in progress	620	-	-	(525)	95
Disposals and write-offs	(3,590)	(541)	(547)	-	(4,678)
Disposals and write-offs after selling of subsidiaries	(707)	(153)	(1,208)	-	(2,068)
Depreciation charge	(2,846)	(1,257)	(10,498)	-	(14,601)
Net book value at 31 December	74,889	6,556	26,656	40	108,141
31 December 2004					
Cost	88,670	8,716	68,089	40	165,515
Accumulated depreciation	(13,781)	(2,160)	(41,433)	-	(57,374)
Net book value	74,889	6,556	26,656	40	108,141
Economic life (in years)	50	6-10	3-27	-	-

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NOTE 19 FIXED ASSETS (continued)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
<u>31 December 2003</u>					
Cost	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
<u>Year ended 31 December 2004</u>					
Net book value at 1 January	80,705	424	27,158	15	108,302
Acquisitions	-	-	8,232	550	8,782
Transfers from construction in progress	620	-	-	(525)	95
Disposals and write-offs	(3,590)	(253)	(527)	-	(4,370)
Depreciation charge	(2,846)	(100)	(9,736)	-	(12,682)
Net book value at 31 December	74,889	71	25,127	40	100,127
<u>31 December 2004</u>					
Cost	88,670	100	65,660	40	154,470
Accumulated depreciation	(13,781)	(29)	(40,533)	-	(54,343)
Net book value	74,889	71	25,127	40	100,127
Economic life (in years)	50	6-10	3-27	-	-

No fixed assets were pledged to a third party as at 31 December 2004 and 31 December 2003.

Vehicles caption for the Group includes mainly assets leased under operating lease.

The Bank (Group) had ownership title to all of the fixed assets at 31 December 2004 and 31 December 2003.

NOTE 20 OTHER ASSETS

	2004		2003	
	Group	Bank	Group	Bank
Accrued income, net of provisions:				
Accrued interest income	3,046	3,700	2,181	3,194
Other accrued income	321	105	503	1,416
Total accrued income	3,367	3,805	2,684	4,610
Deferred expenses	4,027	2,740	6,921	1,950
Receivables from foreclosed assets sold on instalment basis	1,669	1,669	3,187	3,187
Foreclosed assets, net	1,533	1,533	2,423	2,423
Other assets, net				
Prepayments for long lived assets	1,579	1,579	3,235	3,235
Amounts receivable	4,180	-	4,485	-
Other assets	4,275	3,828	16,497	4,804
Total other assets, net	10,034	5,407	24,217	8,039
Total	20,630	15,154	39,432	20,209

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NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2004		2003	
	Group	Bank	Group	Bank
<u>Funds of credit and financial institutions</u>				
Correspondent accounts and demand deposits	99,033	102,649	36,258	37,900
Term deposits	415,762	415,762	347,320	347,320
Total funds	514,795	518,411	383,578	385,220
Loans from credit and financial institutions	548,229	387,674	135,360	118,096
Total due to other banks	1,063,024	906,085	518,938	503,316

NOTE 22 DEPOSITS

	2004		2003	
	Group	Bank	Group	Bank
<u>Demand deposits:</u>				
National government institutions	208,736	208,736	109,306	109,306
Local government institutions	171,930	171,930	71,377	71,377
Governmental and municipality companies	56,998	56,998	54,056	54,056
Legal entities	468,020	468,020	432,919	432,919
Non-profit organisations	23,044	23,044	15,768	15,768
Individuals	330,412	330,412	232,871	232,871
Total demand deposits	1,259,140	1,259,140	916,297	916,297
<u>Term deposits:</u>				
National government institutions	9,568	9,568	11,519	11,519
Local government institutions	626	626	543	543
Governmental and municipality companies	13,391	13,391	30,004	30,004
Legal entities	101,267	101,267	90,743	90,743
Non-profit organisations	6,294	6,294	7,118	7,118
Individuals	571,354	571,354	517,671	517,671
Total term deposits	702,500	702,500	657,598	657,598
Total deposits	1,961,640	1,961,640	1,573,895	1,573,895

As at 31 December 2004, demand deposits of national government institutions included LTL 63,087 thousand (2003: LTL 60,404 thousand) of deposits of compulsory social and health insurance funds.

NOTE 23 DEBT SECURITIES IN ISSUE

	2004		2003	
	Group	Bank	Group	Bank
Debentures denominated in EUR with floating interest rate EURIBOR+0.52 p.a., maturity December 2006	-	-	171,847	171,847
Mortgage bonds denominated in LTL with floating interest rate VILIBOR+0.23 p.a., maturity July 2007	49,803	49,976	-	-
Debentures denominated in EUR with floating interest rate EURIBOR+0.32 p.a., maturity July 2007	344,008	344,008	-	-
Total debts securities in issue	393,811	393,984	171,847	171,847

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NOTE 24 SPECIAL AND LENDING FUNDS

	2004		2003	
	Group	Bank	Group	Bank
Funds of the Government of the Republic of Lithuania	1,986	1,986	839	839
Funds of international organisations	8,931	8,931	1,438	1,438
Total	10,917	10,917	2,277	2,277

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 the terms provided for in the management contracts, i.e. amounts repaid by the borrowers are transferred to relevant funds on a monthly basis.

NOTE 25 OTHER LIABILITIES

	2004		2003	
	Group	Bank	Group	Bank
Accrued expenses	20,959	19,914	12,809	13,381
Deferred income	1,140	588	3,543	1,212
Other liabilities:				
Specific provisions for off balance sheet items	873	918	712	712
Technical insurance provisions	-	-	16,272	-
Transit accounts	9,242	9,242	618	618
Other liabilities	13,133	8,027	21,810	10,408
Total other liabilities	23,248	18,187	39,412	11,738
Total	45,347	38,689	55,764	26,331

NOTE 26 SUBORDINATED LOANS

Loan provider:	2004		2003	
	Group	Bank	Group	Bank
Norddeutsche Landesbank Girozentrale, Hannover	51,792	51,792	51,792	51,792
European Bank for Reconstruction and Development (EBRD)	37,981	37,981	26,481	26,481
Deutsche Investitions- und Entwicklungsgesellschaft, mbH (DEG)	-	-	8,827	8,827
Total	89,773	89,773	87,100	87,100

All subordinated loans are denominated in Euro (EUR).

In August 2004, the Bank and EBRD signed a subordinated loan agreement that replaced the previous subordinated loan agreement. According to a new agreement the Bank received a further EUR 3,330 thousand loan in September 2004. This loan is repayable in full in 2014. Interest rate on the loan is equal to 6 month LIBOR + 1.4 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.

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NOTE 27 SHARE CAPITAL

The share capital of the Bank is divided into 2,053,861(2003: – 1,858,794) ordinary registered shares with a par value of LTL 95 each. On 29 January 2004, a new issue of 195,067 ordinary registered shares with a par value of LTL 95 each was issued. All shares were subscribed and fully paid for.

The shareholders of the Bank as of 31 December 2004 are listed in the table below:

	Number of shares	Nominal value, LTL thousand	%
Norddeutsche Landesbank Girozentrale	1,912,106	181650	93.10
EAST Capital Management	91,440	8,687	4.45
AS HANSAPANK	43,897	4,170	2.14
Other	6,418	610	0.31
Total	2,053,861	195,117	100.00

Reserve capital

The reserve capital is established in accordance with statutory requirements to 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 355 thousand at 31 December 2004. 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

Assets under management and related liabilities are accounted for off- balance sheet.

Assets under management totalling to LTL 90,155 thousand as at 31 December 2004 (2003: LTL 99,256 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 2004, 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 1,130 thousand. The Bank established a provision of LTL 44 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 28,524 thousand, LTL 565 thousand and LTL 409,192 thousand, respectively at 31 December 2004 (2003: LTL 41,423 thousand, LTL 6,390 thousand and LTL 309,401 thousand, respectively). Other commitments amounted to LTL 2,582 thousand at that date (2003: LTL 37,467 thousand). Provisions of LTL 918 thousand (2003: LTL 712 thousand provisions), accounted for under Other liabilities, were made for possible losses in relation to these commitments.

Commitments to grant finance leases and acquire assets. As of 31 December 2004, NORD/LB Lizingas UAB had leasing contracts to a total value LTL 7,987 thousand (in 2003: LTL 15,380 thousand) under which assets have not been transferred to the customers. As at 31 December 2004, client's prepayments under these agreements amounting to LTL 1,128 thousand (in 2003: LTL 1,512 thousand) are shown in the balance sheet as Other assets.

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NOTE 29 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Correspondingly, NORD/LB Lizingas UAB had agreements signed with vendors regarding the assets designated for finance lease for the total amount of LTL 1,180 thousand (in 2003: LTL 1,731 thousand). Assets already received under these agreements, amounting to LTL 1,781 thousand (in 2003: LTL 2,533 thousand) are accounted for as Other assets. NORD/LB Lizingas UAB has preliminary leasing agreements signed with clients regarding the above-mentioned assets.

The management of the Bank considers the level of provisions to be sufficient to cover possible losses, which may crystallise as a result of the above contingencies.

Operating lease commitments – where the Bank is the lessee

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

	2004		2003	
	Group	Bank	Group	Bank
Not later than 1 year	-	1,010	-	1,120
Later than 1 year and not later than 5 years	-	1,192	-	2,228
Total	-	2,202	-	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:

	2004		2003	
	Group	Bank	Group	Bank
Not later than 1 year	1,880	-	2,144	-
Later than 1 year and not later than 5 years	1,621	-	3,725	-
Total	3,501	-	5,869	-

NOTE 30 CASH AND CASH EQUIVALENTS

	2004		2003	
	Group	Bank	Group	Bank
Cash	96,204	96,203	111,392	111,387
Other valuables	2	2	2	2
Correspondent accounts with other banks	35,392	35,392	6,370	6,370
Correspondent accounts with the central bank	-	-	2,641	2,641
Short-term securities	-	-	9,579	9,579
Overnight deposits	32,805	32,805	33,364	33,364
Compulsory reserves with the central bank LTL	76,074	76,074	75,776	75,776
Total	240,477	240,476	239,124	239,119

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NOTE 31 LIQUIDITY RISK

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2004 is as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and balances with central banks	172,279	-	-	-	-	-	-	51,820	224,099
Treasury bills	-	599	3,991	447	9,550	-	-	-	14,587
Due from other banks	35,392	307,612	3,520	18	46,555	53,179	66	18	446,360
Trading securities	-	1,484	2,823	8,962	579	56,846	57,151	-	127,845
Derivative financial instruments	-	9	-	293	564	-	-	-	866
Loans	-	48,125	122,826	172,972	385,571	698,515	1,022,328	22,748	2,473,085
Securities available-for-sale	-	122	9,051	43,670	203	34,898	314	37	88,295
Securities held-to-maturity	-	2,089	534	9,745	1,918	21,573	72,110	-	107,969
Investments in subsidiaries	-	-	-	-	-	-	-	7,299	7,299
Intangible assets	-	-	-	-	-	-	-	4,236	4,236
Fixed assets	-	-	-	-	-	-	-	100,127	100,127
Deferred tax assets	-	-	-	-	-	-	-	6,000	6,000
Other assets	3	2,865	269	650	764	731	196	9,676	15,154
Total assets	207,674	362,905	143,014	236,757	445,704	865,742	1,152,165	201,961	3,615,922
Liabilities									
Due to other banks	19,322	255,253	105,874	100,611	3,351	233,639	188,035	-	906,085
Derivative financial instruments	-	-	-	-	-	1,106	560	-	1,666
Deposits	1,263,111	166,899	187,876	162,727	130,498	43,631	6,898	-	1,961,640
Debt securities in issue	-	-	-	-	-	393,984	-	-	393,984
Special and lending funds	10,915	-	-	-	-	-	2	-	10,917
Other liabilities	10,331	14,184	4,419	2,923	3,562	746	456	2,068	38,689
Subordinated loans	-	-	-	-	-	-	89,773	-	89,773
Shareholders' equity	-	-	-	-	-	-	-	213,168	213,168
Total liabilities and shareholders' equity	1,303,679	436,336	298,169	266,261	137,411	673,106	285,724	215,236	3,615,922
Net liquidity gap	(1,096,005)	(73,431)	(155,155)	(29,504)	308,293	192,636	866,441	(13,275)	-

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NOTE 31 LIQUIDITY RISK (continued)

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2003 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	196,181	148,825	86,438	168,289	284,399	740,748	706,772	209,852	2,541,504
Total liabilities and shareholders' equity	937,900	280,072	256,769	274,080	208,098	241,659	155,976	186,950	2,541,504
Net liquidity gap	(741,719)	(131,247)	(170,331)	(105,791)	76,301	499,089	550,796	22,902	-

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 2003	588,691	1,535,470	38.34
31 January 2004	523,071	1,546,630	33.82
28 February 2004	528,078	1,587,069	33.27
31 March 2004	587,878	1,713,161	34.32
30 April 2004	533,174	1,648,219	32.35
31 May 2004	603,514	1,820,992	33.14
30 June 2004	605,319	1,923,438	31.47
31 July 2004	623,210	1,928,851	32.31
31 August 2004	586,352	1,783,353	32.88
30 September 2004	612,632	1,878,652	32.61
31 October 2004	597,967	1,860,209	32.15
30 November 2004	649,647	1,987,470	32.69
31 December 2004	864,591	2,072,985	41.71

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NOTE 31 LIQUIDITY RISK (continued)

The structure of the Group's assets and liabilities by the remaining maturity as at 31 December 2004 is as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets									
Cash and balances with central banks	172,280	-	-	-	-	-	-	51,820	224,100
Treasury bills	-	599	4,140	447	9,846	-	-	-	15,032
Due from other banks	35,392	307,612	16	18	27	43,189	66	18	386,338
Trading securities	-	1,484	2,823	8,962	579	56,846	57,151	-	127,845
Derivative financial instruments	-	9	-	293	564	-	-	-	866
Loans	-	48,125	122,826	172,972	385,571	698,515	1,022,328	22,896	2,473,233
Leasing	-	9,545	12,456	16,693	31,529	96,566	48,533	532	215,854
Securities available-for-sale	-	139	9,058	43,670	203	35,049	865	37	89,021
Securities held-to-maturity	-	2,089	534	9,745	1,918	21,573	72,110	-	107,969
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	4,339	4,339
Fixed assets	-	-	-	-	-	-	-	108,141	108,141
Deferred tax assets	-	-	-	-	-	-	-	6,083	6,083
Other assets	3	3,316	397	816	764	731	196	14,407	20,630
Total assets	207,675	372,918	152,250	253,616	431,001	952,469	1,201,249	208,273	3,779,451
Liabilities									
Due to other banks	15,744	255,215	105,874	100,611	106,935	290,610	188,035	-	1,063,024
Derivative financial instruments	-	-	-	-	-	1,106	560	-	1,666
Deposits	1,263,111	166,899	187,876	162,727	130,498	43,631	6,898	-	1,961,640
Debt securities in issue	-	-	-	-	-	393,811	-	-	393,811
Special and lending funds	10,915	-	-	-	-	-	2	-	10,917
Other liabilities	10,331	14,240	4,778	3,646	3,710	1,193	456	6,993	45,347
Subordinated loans	-	-	-	-	-	-	89,773	-	89,773
Shareholders' equity	-	-	-	-	-	-	-	213,273	213,273
Total liabilities and shareholders' equity	1,300,101	436,354	298,528	266,984	241,143	730,351	285,724	220,266	3,779,451
Net liquidity gap	(1,092,426)	(63,436)	(146,278)	(13,368)	189,858	222,118	915,525	(11,993)	-

The structure of the Group's assets and liabilities by the remaining maturity as at 31 December 2003 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	196,200	154,994	101,819	187,525	299,312	705,381	735,767	205,561	2,586,559
Total liabilities and shareholders' equity	936,258	284,122	258,431	275,918	211,430	244,071	175,645	200,684	2,586,559
Net liquidity gap	(740,058)	(129,128)	(156,612)	(88,393)	87,882	461,310	560,122	4,877	-

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NOTE 31 LIQUIDITY RISK (continued)

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

	Liquid assets	Current liabilities	Liquidity ratio (per cent)
31 December 2003	620,307	1,553,921	39.92
31 March 2004	621,127	1,735,788	35.78
30 June 2004	612,730	1,948,052	31.45
30 September 2004	623,406	1,934,502	32.23
31 December 2004	874,666	2,076,390	42.12

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 Group's open positions of prevailing currencies as at 31 December 2004 were as follows:

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	55,804	7,090	1,922	11	896	65,723	158,377	224,100
Treasury bills	-	-	-	-	-	-	15,032	15,032
Due from other banks	34,239	265,253	1,054	79	7,112	307,737	78,601	386,338
Trading securities	-	85,060	-	-	-	85,060	42,785	127,845
Derivative financial instruments	-	-	-	-	-	-	866	866
Loans	75,645	1,108,720	-	-	-	1,184,365	1,288,868	2,473,233
Securities available-for-sale	3,442	205,711	-	-	-	209,153	6,701	215,854
Securities held-to-maturity	-	40,895	-	-	-	40,895	48,126	89,021
Investments in subsidiaries	-	6,952	-	-	-	6,952	101,017	107,969
Intangible assets	-	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	-	4,339	4,339
Deferred tax assets	-	-	-	-	-	-	108,141	108,141
Other assets	-	-	-	-	-	-	6,083	6,083
	302	2,040	7	3	22	2,374	18,256	20,630
Total assets	169,432	1,721,721	2,983	93	8,030	1,902,259	1,877,192	3,779,451
Liabilities								
Due to other banks	30,215	964,902	8	35	167	995,327	67,697	1,063,024
Derivative financial instruments	-	1,666	-	-	-	1,666	-	1,666
Deposits	133,385	175,784	2,525	20	2,243	313,957	1,647,683	1,961,640
Debt securities in issue	-	343,835	-	-	-	343,835	49,976	393,811
Special and lending funds	-	-	-	-	-	-	10,917	10,917
Other liabilities	919	9,253	24	-	50	10,246	35,101	45,347
Subordinated loans	-	89,773	-	-	-	89,773	-	89,773
Shareholders' equity	-	-	-	-	-	-	213,273	213,273
Total liabilities and shareholders' equity	164,519	1,585,213	2,557	55	2,460	1,754,804	2,024,647	3,779,451
Net balance sheet position	4,913	136,508	426	38	5,570	147,455	(147,455)	-
Off-balance sheet position	(4,611)	26,760	(369)	-	(5,534)	16,246	(15,384)	-
Net open position	302	163,268	57	38	36	163,701	(162,839)	-

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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The Bank's open positions of prevailing currencies as at 31 December 2004 were as follows:

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	55,804	7,090	1,922	11	896	65,723	158,376	224,099
Treasury bills	-	-	-	-	-	-	14,587	14,587
Due from other banks	37,746	295,144	1,054	79	7,112	341,135	105,225	446,360
Trading securities	-	85,060	-	-	-	85,060	42,785	127,845
Derivative financial instruments	-	-	-	-	-	-	866	866
Loans	75,645	1,108,720	-	-	-	1,184,365	1,288,720	2,473,085
Securities available-for-sale	-	40,895	-	-	-	40,895	47,400	88,295
Securities held-to-maturity	-	6,952	-	-	-	6,952	101,017	107,969
Investments in subsidiaries	-	-	-	-	-	-	7,299	7,299
Intangible assets	-	-	-	-	-	-	4,236	4,236
Fixed assets	-	-	-	-	-	-	100,127	100,127
Deferred tax assets	-	-	-	-	-	-	6,000	6,000
Other assets	226	1,834	7	3	4	2,074	13,080	15,154
Total assets	169,421	1,545,695	2,983	93	8,012	1,726,204	1,889,718	3,615,922
Liabilities								
Due to other banks	30,215	804,346	8	35	167	834,771	71,314	906,085
Derivative financial instruments	-	1,666	-	-	-	1,666	-	1,666
Deposits	133,385	175,784	2,525	20	2,243	313,957	1,647,683	1,961,640
Debt securities in issue	-	344,008	-	-	-	344,008	49,976	393,984
Special and lending funds	-	-	-	-	-	-	10,917	10,917
Other liabilities	970	8,047	24	-	28	9,069	29,620	38,689
Subordinated loans	-	89,773	-	-	-	89,773	-	89,773
Shareholders' equity	-	-	-	-	-	-	213,168	213,168
Total liabilities and shareholders' equity	164,570	1,423,624	2,557	55	2,438	1,593,244	2,022,678	3,615,922
Net balance sheet position	4,851	122,071	426	38	5,574	132,960	(132,960)	-
Off-balance sheet position	(4,611)	26,760	(369)	-	(5,534)	16,246	(15,384)	-
Net open position	240	148,831	57	38	40	149,206	(148,344)	-

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	190,014	853,669	3,106	152	3,344	1,050,285	1,491,219	2,541,504
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 position	(14,599)	9,370	(285)	(85)	(845)	(6,444)	6,858	-
Net position	(99)	21,149	46	9	785	21,890	(21,476)	-

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

NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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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.

NOTE 33 INTEREST RATE RISK

The table below summarises the Bank's interest rate risks as at 31 December 2004. 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	172,279	-	-	-	-	-	51,820	224,099
Treasury bills	599	3,991	447	9,550	-	-	-	14,587
Due from other banks	423,334	3,519	18	9,328	10,077	66	18	446,360
Trading securities	1,484	2,823	8,962	579	56,846	57,151	-	127,845
Derivative financial instruments	9	-	293	564	-	-	-	866
Loans	484,593	694,765	805,800	194,413	136,320	134,441	22,753	2,473,085
Securities available-for-sale	122	9,051	43,670	203	34,898	314	37	88,295
Securities held-to-maturity	2,089	534	9,745	1,918	21,573	72,110	-	107,969
Investments in subsidiaries	-	-	-	-	-	-	7,299	7,299
Intangible assets	-	-	-	-	-	-	4,236	4,236
Fixed assets	-	-	-	-	-	-	100,127	100,127
Deferred tax assets	-	-	-	-	-	-	6,000	6,000
Other assets	2,868	269	650	764	731	196	9,676	15,154
Total assets	1,087,377	714,952	869,585	217,319	260,445	264,278	201,966	3,615,922
Liabilities								
Due to other banks	274,562	492,588	100,611	330	34,528	3,453	13	906,085
Derivative financial instruments	-	-	-	-	1,106	560	-	1,666
Deposits	1,430,010	187,876	162,727	130,498	43,631	6,898	-	1,961,640
Debt securities in issue	221,980	-	172,004	-	-	-	-	393,984
Special and lending funds	10,915	-	-	-	-	2	-	10,917
Other liabilities	24,515	4,419	2,923	3,562	746	456	2,068	38,689
Subordinated loans	51,792	37,981	-	-	-	-	-	89,773
Shareholders' equity	-	-	-	-	-	-	213,168	213,168
Total liabilities and shareholders' equity	2,013,774	722,864	438,265	134,390	80,011	11,369	215,249	3,615,922
Interest rate sensitivity gap	(926,397)	(7,912)	431,320	82,929	180,434	252,909	(13,283)	-
	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	650,682	477,084	587,848	223,538	236,772	155,703	209,877	2,541,504
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	-

NOTE 33 INTEREST RATE RISK (continued):

The Group's interest rate risk as at 31 December 2004 is as follows:

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	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	172,280	-	-	-	-	-	51,820	224,100
Treasury bills	599	4,140	447	9,846	-	-	-	15,032
Due from other banks	386,106	15	18	28	87	66	18	386,338
Trading securities	1,484	2,823	8,962	579	56,846	57,151	-	127,845
Derivative financial instruments	9	-	293	564	-	-	-	866
Loans	484,593	694,765	805,800	194,413	136,320	134,441	22,901	2,473,233
Leasing	23,872	50,550	123,902	6,768	6,511	400	3,851	215,854
Securities available-for-sale	139	9,058	43,670	203	35,049	865	37	89,021
Securities held-to-maturity	2,089	534	9,745	1,918	21,573	72,110	-	107,969
Investments in subsidiaries	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	4,339	4,339
Fixed assets	-	-	-	-	-	-	108,141	108,141
Deferred tax assets	-	-	-	-	-	-	6,083	6,083
Other assets	3,319	397	816	764	731	196	14,407	20,630
Total assets	1,074,490	762,282	993,653	215,083	257,117	265,229	211,597	3,779,451
Liabilities								
Due to other banks	292,996	527,135	204,223	388	34,773	3,496	13	1,063,024
Derivative financial instruments	-	-	-	-	1,106	560	-	1,666
Deposits	1,430,010	187,876	162,727	130,498	43,631	6,898	-	1,961,640
Debt securities in issue	221,807	-	172,004	-	-	-	-	393,811
Special and lending funds	10,915	-	-	-	-	2	-	10,917
Other liabilities	24,571	4,778	3,646	3,710	1,193	456	6,993	45,347
Subordinated loans	51,792	37,981	-	-	-	-	-	89,773
Shareholders' equity	-	-	-	-	-	-	213,273	213,273
Total liabilities and shareholders' equity	2,032,091	757,770	542,600	134,596	80,703	11,412	220,279	3,779,451
Interest rate sensitivity gap	(957,601)	4,512	451,053	80,487	176,414	253,817	(8,682)	-

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NOTE 34 RELATED PARTY TRANSACTIONS

For these financial statements parties are considered to be related if one party has an ability to control or significantly influence the other party when making decisions re financial or operating activities.

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 2004, 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 2004	31 December 2003	2004	2003	31 December 2004	31 December 2003	2004	2003
Management of the Bank	530	2,637	2.40%	1.98%	2,942	256	3.22%	3.12%
Related parties	221	243	0.61%	0.84%	1,238	2,589	3.59%	4.16%

In 2004, the total remuneration of the Group management approximated LTL 3,213 thousand (in 2003 – LTL 3,286 thousand). In 2004 the total remuneration of the Bank's management approximated LTL 2,699 thousand (in 2003 – LTL 2,792 thousand).

The following balances were outstanding with NORD/LB Group companies as at 31 December 2004:

	2004	2003
Assets		
Correspondent bank accounts	4,721	1,696
Derivative financial instruments	-	17
Term deposits	95,054	80,795
Liabilities		
Correspondent bank accounts	68	87
Overnight deposits	22,811	-
Derivative financial instruments	1,666	879
Term deposits	120,848	69,056
Subordinated loans	51,792	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 2004, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, amounted to LTL 62 million (total amount represents commitments to provide credit facilities), which is 21.2% of the Bank's calculated capital (2003: LTL 33 million and 15.8% respectively).

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NOTE 36 DISCONTINUING OPERATIONS

The insurance subsidiaries NORD/LB Draudimas UAB and NORD/LB Gyvybės draudimas UAB were fully disposed of in April 2004 (following the decision of the Management Board of the Bank as of January 20, 2004) and are reported in these financial statements as a discontinuing operation. Income from operations, operating expenses, cash flows and net assets of the insurance segment were as follows:

	3 months to 31 March 2004	12 months to 31 Dec 2003
Net interest income	294	1,590
Net fee and commission income	417	1,851
Gains (losses) from financial operations	144	229
Administrative expense	(3,522)	(15,000)
Net other income	1,636	12,476
(Loss)/profit before tax	(1,031)	1,146
Tax	-	-
(Loss)/profit after tax	(1,031)	1,146
Operating cash flows	(1,729)	4,658
Investing cash flows	15,231	(6,042)
Financing cash flows	-	1,384
Total cash flows	13,502	-
	At 31 March 2004	At 31 Dec 2003
Due from other banks	3,059	1,955
Trading and available for sale securities	26,514	28,065
Intangible and fixed assets	2,439	2,518
Other assets	10,814	10,165
Total assets	42,826	42,703
Total liabilities	(29,060)	(27,906)
Net assets	13,766	14,797
The loss on disposal was determined as follows:		
Net assets sold	13,766	
Less: costs of disposals	1,480	
Proceeds from sale	15,150	
Loss on disposal	96	
Tax thereon	-	
After-tax loss on disposal	96	
The net cash inflow on sale is determined as follows:		
Proceeds from sale	15,150	
Less: cash and cash equivalents in subsidiary sold	(1,648)	
Net cash inflow on sale	13,502	

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NOTE 37 FUNDS UNDER MANAGEMENT BY NORD/LB INVESTICIJŲ VALDYMAS UAB

NORD/LB Investicijų valdymas UAB manages the following pension funds: NORD/LB Pension funds 1, 2, 3 and NORD/LB papildoma pensija. In addition the Company is also managing NORD/ LB Money market fund and individual customers' funds.

As at 31 December 2004, assets allocated to NORD/LB Money market fund amounted to LTL 26.3 million, NORD/LB Pension funds 1, 2, 3 and NORD/LB papildoma pensija - LTL 9.8 million. Value of funds in the individually managed securities portfolios of financial institutions amounted to LTL 24.7 million.

NOTE 38 POST BALANCE SHEET EVENTS

On 13 January 2005, the Bank announced an issue of 50,000 debentures with a nominal value LTL 100 each. Coupon interest on the bonds is payable twice a year at the fixed rate of 3.25% p.a. The bonds are being sold through the Banks subdivisions from 17 January 2005 to 16 March 2005.