

**AB BANKAS NORD/LB LIETUVA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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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 consolidated subsidiaries (together "the Group") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. The financial statements set out on pages 7 - 54 and the performance report set out on pages 4 - 6 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the financial statements.

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. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2005 and of the results of their operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted for use in the European Union.

4. We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
15 February 2006



Jurgita Kirvaitienė
Auditor's Certificate No.000447

REPORT ON THE PERFORMANCE OF THE BANK

In the environment of stronger than ever competition the year 2005 was the best year in the AB Bank NORD/LB Lietuva" history profit-wise. In the reporting year AB Bankas NORD/LB Lietuva according to International accounting standards earned a net profit of LTL 43.04 million thanks to a rapidly increasing customer base, fast rising loan portfolio and further improvement of the Bank's operating efficiency. The organic growth of the Bank was also ensured by rational allocation of the Bank's resources and balanced risk management policy.

In 2005 the Bank's assets topped LTL 5 billion benchmark for the first time in the Bank's history and the Bank firmly held its position among the country's top three banking institutions. The assets of AB Bankas NORD/LB Lietuva rose 42 percent year-on-year to LTL 5.13 billion as at the end of December, up from LTL 3.62 billion a year ago. The asset growth is largely attributed to a 51 percent loan portfolio to individuals and corporate growth (up to LTL 3.75 billion).

The corporate loan portfolio of AB Bankas NORD/LB Lietuva rose 46 per cent year-on year to LTL 2.25 billion as at the end of 2005. The growth resulted from a particularly increased financing of furniture and wood processing industry, food processing companies, wholesale and retail businesses and real estate projects. The Bank NORD/LB Lietuva will this year continue to focus on financing of residential housing construction in all major cities of Lithuania as well as small and medium size businesses. The Bank will also pay prime attention to partnership projects of public and private sectors thus creating higher value added to municipalities - the Bank's long-term partners.

The Bank's loan portfolio to individual customers had risen by LTL 562 million to LTL 1.5 billion during 2005, the increase reflecting not only the increasing purchasing power and positive expectations of the customers but also a positive impact of client loyalty programme as well as competitive lending terms offered by NORD/LB Lietuva Bank.

The centering on product and service quality to comply with the changing needs of the customers helped the Bank to augment the number of customers by about a fifth in 2005 (up to 499 thousand). A rapid development of NORD/LB Lietuva Internet banking is worth pointing out. Over the reporting year, the number of the Bank's internet banking customers increased 82 percent (to 120 thousand users) while the average turnover of each payment card issued by the Bank rose 18.6 percent year-on-year (to LTL 5100). In 2006 the Bank intends to strengthen its position in retail banking market by developing new banking products and services and investing into further improvement of customer service quality.

Over the reporting year the Bank continued to invest in training of the employees. The financial results achieved indicate that the strategy pays off as it allows to use the opportunities offered by the growing market better and gives a stronger foothold for business development in the future. The Bank intends to continue investing in annual customer satisfaction surveys to align adequately staff training programs and progress with employee loyalty programs. In the reporting year the number of the Bank's employees averaged 1016.

In 2005, the Bank earned LTL 102.2 million in net interest income, representing a 29 per cent rise year-on-year despite a decline in interest margins and consequently lower profitability of the total loan portfolio. The Bank's net commission income rose by 23.6 percent (to LTL 41 million) thanks to more intense cross selling of value-added banking products and services.

REPORT ON THE PERFORMANCE OF THE BANK (continued)

The rational distribution of the available resources have helped to reduce the Bank's operating expenses by LTL 3.1 million to LTL 94 million despite fast business growth. As at the end of 2005 the Bank's return on equity (ROE) rose to 18.4 per cent, up from 10.5 percent as at the end of 2004 while the cost/income ratio went down to 67.7 percent from 91 percent as at the end of 2004.

The Bank's deposits and letters of credit rose by LTL 657.3 million to LTL 2.6 billion as at the end of 2005. The deposit structure suggests the Bank has been increasingly used as a transaction bank.

The Bank NORD/LB Lietuva, a principal participant of Lithuania's debt securities market has successfully placed a 3-year LTL 50 million face value bond with a fixed interest rate (3.25 per cent). The Bank also offered to the market its 3-year EUR 3 million face value bonds linked to the European blue chip index – Dow Jones EURO STOXX 50. The Bank also lead-managed the LTL 20 million bond of Lithuania's largest clothing retailer Apranga. The issuance of debt securities let the Bank to offer its clients a wider range of investment possibilities and also diversify the Bank's financing base. As at the end of 2005 the Bank had outstanding bonds with book value of LTL 441 million.

The spectrum of services offered by the Bank was enlarged through cooperation with its 100 percent owned subsidiaries. The Bank's subsidiary UAB NORD/LB Lizingas augmented its leasing portfolio by 46 percent (up to LTL 324 million) in 2005 and earned a net profit of LTL 1.8 million. UAB NORD/LB Lizingas increased its local market share to 6.1 percent in 2005 (5.8 percent as at the end of 2004) and opened its first representative office abroad in Kaliningrad (Russia).

The UAB NORD/LB Investicijų Valdymas held 6 percent of Lithuania's market in terms of second-pillar pension fund participants. The investments to its third-pillar pension fund grew almost three times to LTL 5.7 million. Total assets under UAB NORD/LB Investicijų Valdymas management stood at LTL 50.7 million litas as at the end of 2005 and the company's reported result for last year was LTL 0.5 million loss, as it was planned.

In 2005 AB Bankas NORD/LB Lietuva raised LTL 73.88 million through the new share issue that further strengthened the Bank's capital base. The Bank's NORD/LB Lietuva share capital registered with the Register of Legal Entities is LTL 234.11 million. During the reporting period the Bank carried out its business through 85 customer service outlets throughout the country and was not engaged in the Bank's equity share trading nor traded the stock of its subsidiaries.

Due to the proper risk management policy the Bank met all prudential requirements of the Bank of Lithuania. Fitch Ratings, the international rating agency, has evaluated the progress and business efficiency demonstrated by NORD/LB Lietuva during the reporting year, and on 6 February 2006 upgraded the individual rating to D and outlook of the long-term borrowing rating A- from stable to positive as well as affirmed short-term rating at F2 and support rating at 1.

In 2005 the shareholders' structure of the Bank NORD/LB Lietuva has changed after Bank DnB NORD A/S registered in Denmark became the Bank's largest shareholder late last year. The Bank DnB NORD A/S was established by German bank Norddeutsche Landesbank Girozentrale (NORD/LB) and the largest Norwegian bank DnB NOR Bank ASA. On December 20 NORD/LB transferred 51 percent shares of the Bank DnB NORD A/S to Norwegian bank DnB NOR Bank ASA providing 51 percent of all voting shares in general meeting of shareholders of the Bank DnB NORD A/S. Thereby Norwegian bank DnB NOR Bank ASA acquired indirect control of AB Bankas NORD/LB Lietuva whereas the Bank DnB NORD A/S owns 93.11 percent shares of AB Bankas NORD/LB Lietuva.

REPORT ON THE PERFORMANCE OF THE BANK (continued)

We strongly believe that a combined experience, strong funding base and business know-how of two well established partners will provide for NORD/LB Lietuva's further rapid advance. This year we plan to investment in further upgrades of the Bank's IT systems, the Bank's re-branding campaign including expenses for adjusting the Bank's activities for Lithuania's planned litas/euro shift that we strongly support. Despite the planned one-off spending increase we are targeting to earn in 2006 a net profit in line with the 2005 result.

On behalf of the Management Board of NORD/LB Lietuva I would like to thank all customers, employees and shareholders of the Bank for confidence, good cooperation and contribution. We believe that through combined efforts we will continue successful business development this year consistently implementing our main goal - to become the country's leading bank in terms of service quality.

On behalf of the Management Board of the Bank

Werner Schilli
Chairman of the Management Board

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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 2005		31 December 2004	
		Group	Bank	Group	Bank
Interest income		175,007	166,377	127,951	122,027
Interest expense		(68,518)	(64,179)	(45,097)	(42,775)
Net interest income	1	106,489	102,198	82,854	79,252
Fee and commission income		53,752	51,565	42,100	41,224
Fee and commission expense		(10,558)	(10,528)	(8,619)	(8,031)
Net interest, fee and commission income	2	149,683	143,235	116,335	112,445
Net gain on operations with securities and financial instruments	3	1,315	1,313	1,187	1,177
Net foreign exchange gain		6,443	6,399	7,153	7,072
Provisions for other assets and contingent liabilities	4	1,064	820	(956)	(623)
Other income	5	9,062	8,595	5,853	4,870
Impairment losses on loans	6	(4,647)	(4,831)	11,278	11,337
Operating income		162,920	155,531	140,850	136,278
Operating expenses	7	(98,766)	(94,088)	(100,767)	(97,173)
Loss on sale of discontinuing operations		-	-	(1,127)	(1,127)
Other expenses	8	(21,617)	(20,260)	(18,527)	(17,437)
Profit before tax		42,537	41,183	20,429	20,541
Income tax	9	1,671	1,857	(63)	-
Net profit		44,208	43,040	20,366	20,541
Earnings per share (in LTL per share)					
Basic	10	20.25		9.99	
Diluted	10	20.25		9.99	

The accounting policies and notes on pages 12 to 54 are an integral part of these financial statements.

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THE GROUP AND BANK BALANCE SHEET

	Notes	31 December 2005		31 December 2004	
		Group	Bank	Group	Bank
ASSETS					
Cash and balances with central banks	11	339,610	339,604	224,100	224,099
Treasury bills	12	19,615	19,615	15,032	14,587
Due from other banks and financial institutions	13	234,862	456,570	386,392	447,068
Trading securities	14	54,566	54,566	127,845	127,845
Derivative financial instruments	15	2,011	2,011	866	866
Loans	16	3,749,607	3,749,607	2,475,965	2,475,800
Finance lease receivables	17	317,998	-	215,858	-
Securities available-for-sale	18	247,225	246,218	89,021	88,295
Securities held-to-maturity	18	143,512	143,512	107,969	107,969
Investments in subsidiaries	19	-	6,200	-	6,200
Intangible assets	20	3,915	3,778	4,339	4,236
Property and equipment	21	98,109	88,496	108,141	100,127
Deferred tax asset	9	8,178	8,000	6,083	6,000
Other assets	22	37,927	10,664	17,840	11,731
Total assets		5,257,135	5,128,841	3,779,451	3,614,823
LIABILITIES					
Due to other banks and financial institutions	23	1,684,074	1,583,203	1,066,618	908,755
Derivative financial instruments	15	337	337	1,666	1,666
Due to customers	24	2,624,625	2,624,625	1,967,361	1,967,361
Debt securities in issue	25	440,814	440,814	396,579	396,752
Special and lending funds	26	12,659	12,659	10,917	10,917
Other liabilities	27	64,114	39,061	32,175	26,441
Subordinated loans	28	99,658	99,658	90,862	90,862
Total liabilities		4,926,281	4,800,357	3,566,178	3,402,754
SHAREHOLDERS' EQUITY					
Share capital	29	268,999	268,999	195,117	195,117
Retained earnings	29	60,146	57,840	16,437	15,298
Other reserves	30	1,709	1,645	1,719	1,654
Total shareholders equity		330,854	328,484	213,273	212,069
Total liabilities and equity		5,257,135	5,128,841	3,779,451	3,614,823

W.Schilli

President

J. Šaučiūnienė

Chief Accountant

The accounting policies and notes on pages 12 to 54 are an integral part of these financial statements.

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

GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Reserve capital	Fixed assets revaluation reserve	Financial assets revaluation reserve	Mandatory reserve	Retained earnings	Total
Previously reported Balance at 1 January 2004	176,585	-	2,816	2,405	-	-	(6,565)	175,241
Adjustment of equity investments (effect of IAS 27 changes)	-	-	-	-	-	39	(39)	-
Adjustment of available for sale securities revaluation (effect of IAS 39 changes)	-	-	-	-	1,209	-	(1,209)	-
Adjusted Balance at 1 January 2004	176,585	-	2,816	2,405	1,209	39	(7,813)	175,241
Increase of share capital	18,532	-	-	-	-	-	-	18,532
Transfer to retained earnings	-	-	(2,816)	-	-	-	2,816	-
Transfer from revaluation reserve on tangible assets sold or fully depreciated	-	-	-	(1,067)	-	-	1,067	-
Net changes in available for sale securities revaluation	-	-	-	-	(866)	-	-	(866)
Net profit for the year	-	-	-	-	-	-	20,366	20,366
Adjusted Balance at 31 December 2004	195,117	-	-	1,338	343	39	16,436	213,273
Increase of share capital	38,993	34,889	-	-	-	-	-	73,882
Transfer to mandatory reserve	-	-	-	-	-	853	(853)	-
Transfer from revaluation reserve on tangible assets sold or fully depreciated	-	-	-	(355)	-	-	355	-
Net changes in available for sale securities revaluation	-	-	-	-	(509)	-	-	(509)
Net profit for the year	-	-	-	-	-	-	44,208	44,208
Balance at 31 December 2005	234,110	34,889	-	983	(166)	892	60,146	330,854

The accounting policies and notes on pages 12 to 54 are an integral part of these financial statements.

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BANK STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium	Reserve capital	Fixed assets revaluation reserve	Financial assets revaluation reserve	Mandatory reserve	Retained earnings	Total
Previously reported Balance at 1 January 2004	176,585	-	2,816	2,405	-	-	(6,565)	175,241
Adjustment of equity investments (effect of IAS 27 changes)	-	-	-	-	-	-	(1,327)	(1,327)
Adjustment of available for sale securities revaluation (effect of IAS 39 changes)	-	-	-	-	1,234	-	(1,234)	-
Adjusted Balance at 1 January 2004	176,585	-	2,816	2,405	1,234	-	(9,126)	173,914
Increase of share capital	18,532	-	-	-	-	-	-	18,532
Transfer to retained earnings	-	-	(2,816)	-	-	-	2,816	-
Transfer from revaluation reserve on Tangible assets sold or fully Depreciated	-	-	-	(1,067)	-	-	1,067	-
Adjustment of equity investments (effect of IAS 27 changes)	-	-	-	-	-	-	228	228
Net changes in available for sale securities revaluation	-	-	-	-	(918)	-	-	(918)
Net profit for the year	-	-	-	-	-	-	20,313	20,313
Adjusted balance at 31 December 2004	195,117	-	-	1,338	316	-	15,298	212,069
Increase of share capital	38,993	34,889	-	-	-	-	-	73,882
Transfer to mandatory reserve	-	-	-	-	-	853	(853)	-
Transfer from revaluation reserve on tangible assets sold or fully depreciated	-	-	-	(355)	-	-	355	-
Net changes in available for sale securities revaluation	-	-	-	-	(507)	-	-	(507)
Net profit for the year	-	-	-	-	-	-	43,040	43,040
Balance at 31 December 2005	234,110	34,889	-	983	(191)	853	57,840	328,484

The accounting policies and notes on pages 12 to 54 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 2005		31 December 2004	
		Group	Bank	Group	Bank
Operating activities					
Receipt (payments)					
Interest receipt		161,839	153,915	116,493	112,118
Interest payments		(49,625)	(44,774)	(28,984)	(28,274)
Collected previously written-off loans		10,632	10,632	14,437	14,437
Net receipt from operations in foreign currency		5,398	5,366	5,883	5,865
Net receipt from operations in treasury bills		1,764	1,764	2,315	2,305
Fee and commission receipt		53,752	51,565	42,100	41,224
Fee and commission payments		(10,558)	(10,528)	(8,619)	(8,031)
Salaries and related payments		(49,475)	(47,459)	(49,895)	(48,024)
Other payments		(47,215)	(46,045)	(45,048)	(45,210)
Net cash flow from operating profits before changes in operating assets and liabilities		76,512	74,436	48,682	46,410
(Increase) decrease in operating assets					
(Increase) decrease in mandatory reserves with the central bank		51,820	51,820	(7,371)	(7,371)
(Increase) in loans to credit and financial institutions		224,367	63,194	(198,549)	(132,976)
(Increase) in loans granted		(1,287,199)	(1,287,532)	(900,562)	(900,937)
(Increase) decrease in securities		4,382	3,937	33,130	18,985
(Increase) in other short-term assets		(123,984)	(631)	(65,190)	2,888
Change in operating assets		(1,130,614)	(1,169,212)	(1,138,542)	(1,019,411)
Increase (decrease) in liabilities					
Increase in liabilities to credit and financial institutions		616,132	672,200	544,086	402,769
Increase in deposits		657,136	657,136	396,385	396,385
Increase (decrease) in other liabilities		30,179	11,964	(12,778)	11,684
Change in liabilities		1,303,447	1,341,300	927,693	810,838
Net cash flow from operating activities before profit tax		249,345	246,524	(162,167)	(162,163)
Profit tax					
Net cash flow from operating activities		249,345	246,524	(162,167)	(162,163)
Investing activities					
Acquisition of tangible and intangible assets		(7,351)	(4,491)	(14,598)	(10,857)
Disposal of tangible and intangible assets		3,578	3,466	3,607	3,298
Investments in securities and sale thereof, net		(117,984)	(117,704)	(87,171)	(89,288)
Dividends received				26	26
Interest received		8,599	8,562	9,823	8,340
Disposal of subsidiaries, net cash of disposed				13,502	13,502
Net cash flow from investing activities		(113,158)	(110,167)	(74,811)	(74,979)
Financing activities					
Own debt securities issued		43,856	43,683	221,964	222,137
Increase in share capital		73,882	73,882	18,532	18,532
Cash flow from subordinated loans		(4,812)	(4,814)	(2,165)	(2,170)
Net cash flow from financing activities		112,926	112,751	238,331	238,499
Net increase (decrease) in cash and cash equivalents		249,113	249,108	1,353	1,357
Cash and cash equivalents at beginning of year		240,477	240,476	239,124	239,119
Cash and cash equivalents at 31 December	33	489,590	489,584	240,477	240,476

The accounting policies and notes on pages 12 to 54 are an integral part of these financial statements.

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GENERAL BACKGROUND

The name of AB Bankas NORD/LB Lietuva was registered on May 2, 2003 after the Bank's previous name AB Lietuvos Žemės Ūkio Bankas was changed. The Bank as a joint stock company was registered at the Enterprise Register of the Republic of Lithuania on September 13, 1993. The Bank possesses a license issued by the Bank of Lithuania, which entitles to provide financial services established in the Law of the Republic of Lithuania on Banks and the Law of the Republic of Lithuania on Financial Institutions.

The Head Offices of the Bank and subsidiaries are located in Vilnius, Basanavičiaus str. 26. At the end of the reporting period the Bank had 85 client service outlets, of which 15 customer service branches and 70 customer service subbranches (2004: 46). As at 31 December 2005 the Bank had 1,030 employees (2004: 1,001). As at 31 December 2005 the Group had 1,062 employees (2004: 1,026).

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 provides other financial services established in the Law of the Republic of Lithuania on Banks and the Law of the Republic of Lithuania on Financial Institutions.

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 2005 the Bank owned 100% of the share capital of the UAB "NORD/LB Lizingas" and UAB "NORD/LB Investicijų valdymas". Bank is the sole shareholder of these companies from their establishment.

As at 31 December 2005 2,053,861 number of the ordinary registered Bank's shares are involved in the Current trading List of Vilnius Stock Exchange and 410,455 the ordinary registered Bank's shares are not involved into trading lists of the Stock exchange. As disclosed in Note 29, *Share capital*, Bank DnB NORD A/S (DK) is the single largest shareholder holding 93.11% of the Bank's shares. The Bank DnB NORD, registered in Denmark, is a joint venture of the Norwegian largest Bank DnB NOR and the German Bank Norddeutsche Landesbank (NORD/LB).

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 as adopted for use in European Union. 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 require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

IT systems, used in the Group, are not supporting calculation of effective interest rates for each class of financial assets and liabilities.

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.

Following the changes of IAS 27 Consolidated and separate Financial Statement and IAS 39 Financial Instruments: Recognition and Measurement corresponding changes to the Group's accounting policies regarding investments into

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

ACCOUNTING POLICIES (continued)

subsidiaries and securities available for sale were made in the beginning of 2005 together with retrospective adjustments in previous years. All changes in the accounting policies have been made in accordance with transition provisions in the respective standards.

The adjustments of IAS 27 changes resulted in:

	2005		2004	
	Group	Bank	Group	Bank
- Increase (decrease) in investments in subsidiaries	-	(1,273)	-	228
- Increase (decrease) in net gain (loss) on investments in subsidiaries	-	(1,273)	-	228
- Increase (decrease) in retained earnings	-	(1,273)	-	228

The adjustments of IAS 39 changes resulted in:

	2005		2004	
	Group	Bank	Group	Bank
- Decrease in reserves	(509)	(507)	(866)	(918)
- Decrease of deferred tax	(101)	(101)	-	-
- Increase in net gain (loss) on operations with securities	610	608	866	918
- Increase in retained earnings	509	507	866	918
- Increase in basic earnings per share	0.23	-	0.42	-

The IFRS 7 Financial Instruments: Disclosure is effective for annual periods beginning on or after January 2007. IFRS 7 was not applied in the Group for 2005. The Group plans to apply the standard for annual period beginning on 1 January 2007.

Critical accounting estimates

The Bank and the Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Consolidation

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.

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ACCOUNTING POLICIES (continued)

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 at cost – that is the income from the investment is recognized only to the extent that the bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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.

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.

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. Income tax rate valid for 2006 is 19%.

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%, valid until 30 06 2005, 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.

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ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Financial assets

Financial assets are classified into 4 groups: financial assets at fair value through profit and loss (the Group and the Bank has the only one sub-category here – held for trading), investments held to maturity, loans and receivables, financial assets available for sale.

Trading securities

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

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

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at their fair value. 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.

Fair values of the derivative financial instruments are disclosed in Note 15.

Securities available for sale and held to maturity

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

Available for sale securities are initially recognised and 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 directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

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ACCOUNTING POLICIES (continued)

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

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.

Reverse repurchase agreements

The securities purchased under agreements to resell are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Reverse repurchase agreements are classified as held to maturity and are accounted for using the amortised cost method.

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 and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

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

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

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

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.

Property and equipment

Property and equipment 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.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

Debt securities issued

Debt securities issued are recognised initially at fair value, 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)

Termination benefits

Termination benefits are payable when an employee's employment is terminated on initiative of employer or the employment is terminated by mutual employee's and employer's agreement. 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 fixed assets revaluation reserve to retained earnings are performed when related fixed asset is fully depreciated or sold. All transfers 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.

Offsetting financial instruments

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

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 Bank's and the Group's activities are principally related to the use of financial instruments including derivatives. The Bank and 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 Bank and the Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank and the Group also seeks to raise its interest margins by obtaining above average margins, net of impairment losses, 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 (Basel I). The Bank of Lithuania requires local commercial banks to maintain a minimum capital adequacy ratio of 8%.

The capital adequacy ratios for the year 2005 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
	2005	2004	2005	2005	2005	2005
Capital base	425,344	292,136	296,493	322,897	405,670	417,531
Risk weighted assets and off balance sheet items	4,036,008	2,507,051	2,690,937	2,937,587	3,272,275	3,910,959
Capital adequacy ratio	10.54	11.65	11.02	10.99	12.40	10.68

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 16 and 17, 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 34 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 37.16 %, the Group's liquidity ratio – 36.85 %. 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.

Market risk

Market risk – is the risk that the Bank incurs losses as a consequence of changes of market variables (interest rates, foreign exchange rates, stock prices). Scenario model is used to evaluate market risk exposure. Sensitivity to changes in market variables is calculated using scenario model. Market risk is limited by the market risk limits, set by the Management Board of the Bank. Self-consuming principle is applied to market risk limits – the limit decreases in case of negative result.

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. Currency risk is the risk that the Bank incurs losses as a consequence of unfavorable changes in foreign exchange rates. Scenario model used for assessment of foreign exchange risk. Bank follows very conservative currency risk management policy. Currency risk is insignificant due to low volumes of open positions in foreign currencies. The Bank's exposure to foreign currency exchange rate risk is summarized in Note 35.

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 rate risk is the risk that the Bank incurs losses as a consequence of unfavorable changes in interest rates. Scenario model and interest rate gap method used for interest rate assessment and management in the Bank. 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 summarized in Note 36.

Operational risk

Upon normal business conditions operational risk exists in all Group activities. The Bank treats operational risk as the risk of loss resulting from inadequate or failed internal procedures, people and technology, or from external events. In 2004 the Management Board approved Operational Risk management policy, where minimum requirements for management and controlling of operational risk in the Bank, methodology of operational risk management, the management process and responsibility levels were defined. Now the Bank is further developing the philosophy of operational risk management and control system and implementing the system of operational risk management and control. The Bank manages Operational risk by mitigating the risk, i.e. insurance, by outsourcing, i.e. buying of services from third parties, and by making the provisions for operational risk.

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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 2005

	Banking	Leasing	Investment mgt	Eliminations	Group
Internal	4,551	(3,223)	(481)	(847)	-
External	146,783	10,042	785	218	157,828
Net income from the main operations	151,334	6,819	304	(629)	157,828
Internal	(847)	(215)	(23)	1,085	-
External	(81,202)	(2,239)	(686)	(218)	(84,345)
Operating expenses	(82,049)	(2,454)	(709)	867	(84,345)
Depreciation and amortisation charges	(12,039)	(2,375)	(7)	-	(14,421)
Internal	238	-	-	(238)	-
External	(16,301)	(30)	(89)	(105)	(16,525)
Net other income (expenses)	(16,063)	(30)	(89)	(343)	(16,525)
Profit (loss) before tax	41,183	1,960	(501)	(105)	42,537
Income tax	(42)	(281)	-	-	(323)
Change of deferred tax	1899	95	-	-	1,994
Net profit (loss)	43,040	1,774	(501)	(105)	44,208
Total assets	5,128,841	357,002	2,291	(230,999)	5,257,135
Total liabilities	4,800,357	350,461	262	(224,799)	4,926,281
Shareholders' equity	328,484	6,541	2,029	(6,200)	330,854
Capital additions	4,490	5,368	129	-	9,987

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SEGMENT INFORMATION (Continued)

Year ended 31 December 2004

	Banking	Leasing	Insu- rance	Life In- surance	Investment mgt	Elimina- tions	Group
Internal	4,596	(3,304)	(12)	(12)	(413)	(855)	-
External	114,971	8,230	684	195	512	(1,044)	123,548
Net income from the main operations	119,567	4,926	672	183	99	(1,899)	123,548
Internal	(879)	(172)	(68)	(16)	(21)	1,156	-
External	(82,466)	(1,969)	(3,004)	(258)	(676)	3,427	(84,946)
Operating expenses	(83,345)	(2,141)	(3,072)	(274)	(697)	4,583	(84,946)
Depreciation and amortisation 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	20,541	475	(1,239)	208	(692)	1,136	20,429
Income tax	-	(140)	-	-	-	-	(140)
Change of deferred tax	-	77	-	-	-	-	77
Net profit (loss)	20,541	412	(1,239)	208	(692)	1,136	20,366
Total assets	3,614,823	232,747	-	-	2,629	(70,748)	3,779,451
Total liabilities	3,402,754	227,980	-	-	97	(64,653)	3,566,178
Shareholders' equity	212,069	4,767	-	-	2,532	(6,095)	213,273
Capital additions	10,858	3,568	-	-	1	-	14,427

Secondary reporting format – geographical segments

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

Year ended 31 December 2005	Total assets	Total liabilities
Lithuania (home country)	4,945,156	3,023,131
Germany	54,246	964,565
Luxemburg	254	432,523
Austria	32,597	183,330
Poland	35,432	86,566
United Kingdom	32,739	38,629
Other foreign countries	156,711	197,537
Total	5,257,135	4,926,281
Year ended 31 December 2004	Total assets	Total liabilities
Lithuania (home country)	3,444,890	2,295,854
Germany	114,897	925,432
Luxemburg	9	86,408
Austria	26,794	117,563
Poland	10,224	51,992
United Kingdom	88,282	38,635
Other foreign countries	94,355	50,294
Total	3,779,451	3,566,178

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	2005		2004	
	Group	Bank	Group	Bank
Interest income:				
on loans to credit and financial institutions and placements with credit institutions	6,345	9,664	3,651	6,290
on other loans	153,888	141,748	109,735	100,807
on debt securities acquired	11,950	11,913	10,669	10,608
contract management fees	2,824	3,052	3,896	4,322
Total interest income	175,007	166,377	127,951	122,027
Interest expense				
on liabilities to credit and financial institutions and amounts due to credit institutions	26,451	22,110	14,619	12,292
on deposits and other repayable funds	24,099	24,099	19,023	19,023
on debt securities issued	13,132	13,134	7,715	7,720
on subordinated loans	3,156	3,156	2,782	2,782
contract management fees	1,680	1,680	958	958
Total interest expense	68,518	64,179	45,097	42,775
Net interest income	106,489	102,198	82,854	79,252

NOTE 2 NET FEE AND COMMISSION INCOME

	2005		2004	
	Group	Bank	Group	Bank
Fee and commission income:				
on assets under management	4,019	4,019	4,462	4,462
money transfer operations	21,834	21,847	17,593	17,604
payment cards services	9,919	9,919	7,221	7,221
securities operations	603	602	637	577
base currency exchange	4,209	4,209	3,100	3,100
other	13,168	10,969	9,087	8,260
Total fee and commission income	53,752	51,565	42,100	41,224
Fee and commission expense:				
money transfer operations	1,494	1,494	1,555	1,555
payment cards services	8,163	8,163	5,800	5,800
securities operations	270	268	188	188
base currency exchange	150	150	86	86
other	481	453	990	402
Total fee and commission expense	10,558	10,528	8,619	8,031
Net fee and commission income	43,194	41,037	33,481	33,193

Group other fee and commission income includes LTL 3,090 thousand (2004 – LTL 2,426 thousand) income from operating lease contracts.

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

	2005		2004	
	Group	Bank	Group	Bank
Debt securities, including treasury bills				
Realised gain	1,769	1,767	2,717	2,710
Unrealised (loss)	(881)	(881)	(141)	(141)
Net income (loss) from debt securities	888	886	2,576	2,569
Derivative financial instruments				
Realised (loss)	(1,409)	(1,409)	(1,303)	(1,303)
Unrealised (loss)	1,839	1,839	(361)	(361)
Net income (loss) from derivative financial instruments	430	430	(1,664)	(1,664)
Equity securities				
Income from equity securities	-	-	26	26
Realised gain (loss)	(3)	(3)	(306)	(309)
Unrealised gain	-	-	555	555
Net income (loss) from equity securities	(3)	(3)	275	272
Total	1,315	1,313	1,187	1,177

As at 31 December 2005 the Group net realised gain (amounted to LTL 1,769 thousand) from debt securities included LTL 1,289 thousand of realised gain from trading securities, LTL 166 thousand net realised gain (gain amounted to LTL 392 thousand, losses amounted to LTL 226 thousand) from available for sale securities, LTL 351 thousand income from operations with index rights and LTL 37 thousand realised loss from bonds selling. Unrealised loss (amounted to LTL 881 thousand) is related with changes in the fair value of trading securities.

NOTE 4 PROVISIONS FOR OTHER ASSETS AND CONTINGENT LIABILITIES

	2005		2004	
	Group	Bank	Group	Bank
Expenses for provisions on:				
other doubtful assets	33	83	530	407
finance leases	(239)	-	255	-
contingent liabilities	(858)	(903)	171	216
Total	(1,064)	(820)	956	623

NOTE 5 OTHER INCOME

	2005		2004	
	Group	Bank	Group	Bank
On sale of movable or immovable property and other security	2,435	2,247	2,737	2,007
Interest for late payments, penalties	994	994	256	256
On rent of movable or immovable property	496	734	465	658
Other	5,137	4,620	2,395	1,949
Total	9,062	8,595	5,853	4,870

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NOTE 6 IMPAIRMENT LOSSES ON LOANS

	2005		2004	
	Group	Bank	Group	Bank
Increase (decrease) of impairment losses, net	15,279	15,463	3,979	3,920
Recovered previously written off loans	(10,632)	(10,632)	(15,257)	(15,257)
Total impairment losses	4,647	4,831	(11,278)	(11,337)

NOTE 7 OPERATING EXPENSES

	2005		2004	
	Group	Bank	Group	Bank
Salaries, social insurance and other related expenses	49,685	47,669	52,572	50,701
Rent of premises and maintenance expenses	8,830	8,777	8,388	8,367
Transportation, post and communications expenses	5,732	5,540	6,171	6,120
Advertising and marketing expenses	3,914	3,675	4,732	4,381
Office equipment and maintenance expenses	6,995	7,627	6,314	6,970
Training and business trip expenses	1,018	972	923	910
Other operating expenses	8,171	7,789	5,846	5,896
Amortisation of intangible assets	1,423	1,322	1,220	1,146
Depreciation of fixed assets	12,998	10,717	14,601	12,682
Total	98,766	94,088	100,767	97,173

The Bank incurred LTL 10,579 thousand of social insurance expenses for the year ended 31 December 2005 (2004: LTL 11,674 thousand). Expenses for social insurance for the Group amounted to LTL 11,053 thousand (2004: LTL 12,115 thousand).

Bank operating expenses includes LTL 847 thousand (2004 – LTL 879 thousand) expenses from operating lease contracts.

NOTE 8 OTHER EXPENSES

	2005		2004	
	Group	Bank	Group	Bank
Fees for compulsory insurance of individuals' deposits	10,173	10,170	7,859	7,856
Taxes other than income tax	7,310	6,784	8,445	7,890
Other expenses	4,134	3,306	2,223	1,691
Total	21,617	20,260	18,527	17,437

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NOTE 9 INCOME TAX

	2005		2004	
	Group	Bank	Group	Bank
Current tax for the year	323	42	140	-
Change of deferred tax asset (see below)	(1,994)	(1,899)	(77)	-
Total	(1,671)	(1,857)	63	-

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:

	2005		2004	
	Group	Bank	Group	Bank
Profit before tax	42,537	41,183	20,429	20,541
Tax calculated at a tax rate of 15%	6,381	6,177	3,064	3,081
Income not subject to tax	(1,512)	(1,626)	(3,936)	(3,843)
Expenses not deductible for tax purposes	998	980	1,673	1,542
Recognition /utilisation of previously unrecognised tax losses	(7,538)	(7,388)	(738)	(780)
Tax charge/(credit)	(1,671)	(1,857)	63	-

Movement in deferred tax asset

At the beginning of the year	6,083	6,000	6,006	6,000
Charge (credit) to equity	101	101	-	-
Income statement credit (charge)	1,994	1,899	77	-
At the end of the year	8,178	8,000	6,083	6,000

In 2005 LTL 45 thousand of deferred tax (out of 8,178 thousand) is related to revaluation of available for sale securities (in 2004 LTL 56 thousand).

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 2005	202	112	314
Charged/ (credited) to net profit	202	-	202
Charged/ (credited) to equity	-	(101)	(101)
As at 31 December 2005	404	11	415

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NOTE 9 INCOME TAX (continued)

Group – deferred tax assets

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2005	7	4	6,070	316	6,397
(Charged)/ credited to net profit	32	77	1,830	257	2,196
As at 31 December 2005	39	81	7,900	573	8,593

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31 December 2005 the Group has unrecognized tax losses of LTL 1,108 thousand. (2004: LTL 6,499 thousand).

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

Year of expiry	Amount
2007	24,216
2008	22,087
2009	621
2010	487
	<u>47,411</u>

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

Bank – deferred tax liability

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2005	202	112	314
Charged/ (credited) to net profit	202	-	202
Charged/ (credited) to equity	-	(101)	(101)
As at 31 December 2005	404	11	415

Bank – deferred tax assets

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2005	7	4	6,070	233	6,314
Total (charged)/credited to net profit	32	77	1,830	162	2,101
As at 31 December 2005	39	81	7,900	395	8,415

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NOTE 9 INCOME TAX (continued)

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. As at 31 December 2005 the Bank has unrecognized tax losses of LTL 744 thousand (2004: LTL 6,272 thousand).

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

Year of expiry	Amount
2007	24,216
2008	<u>21,279</u>
	<u>45,495</u>

The Bank is expecting to utilize LTL 6,000 thousand deferred tax asset in 2006 by using tax losses carried forward.

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	2005		2004	
	Group	Bank	Group	Bank
Deferred tax assets	8,593	8,415	6,397	6,314
Deferred tax liabilities	<u>(415)</u>	<u>(415)</u>	<u>(314)</u>	<u>(314)</u>
	<u>8,178</u>	<u>8,000</u>	<u>6,083</u>	<u>6,000</u>

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NOTE 10 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 share

	<u>2005</u>	<u>2004</u>
	Group	Group
Net profit (loss)	44,208	20,366
Weighted average number of issued shares (units)	<u>2,183,182</u>	<u>2,038,363</u>
Previously reported Earnings per share (LTL per share)		<u>9.57</u>
Earnings per share (LTL per share) after adjustments through retained earnings	<u>20.25</u>	<u>9.99</u>

As at 31 December 2005 and as at 31 December 2004 the diluted earnings per share are the same as basic earnings per share.

Adjustments through retained earnings were made according to changes of IAS 27 and IAS 39. The changes of IFRS and corresponding changes of accounting policy resulted an increase in earnings per share of the Group in 2005 by LTL 0.23.

NOTE 11 CASH AND BALANCES WITH CENTRAL BANKS

	<u>2005</u>		<u>2004</u>	
	Group	Bank	Group	Bank
Cash and other valuables:	139,364	139,358	96,206	96,205
Placements with Central Bank:				
Correspondent account with Central bank	20,668	20,668	-	-
Required reserves in national currency	179,578	179,578	76,074	76,074
Required reserves in foreign currency	-	-	<u>51,820</u>	<u>51,820</u>
Total placements with Central Bank	<u>200,246</u>	<u>200,246</u>	<u>127,894</u>	<u>127,894</u>
Total cash and balances with Central Bank	<u>339,610</u>	<u>339,604</u>	<u>224,100</u>	<u>224,099</u>

Required reserves held with the bank of Lithuania are calculated monthly on a basis of previous month end liabilities and 6% required reserves rate is applied. According to the changed regulations of the Bank of Lithuania in 2005, all required reserves are held in LTL. The Bank of Lithuania pays interest for the required reserves.

NOTE 12 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.

	<u>2005</u>		<u>2004</u>	
	Group	Bank	Group	Bank
Trading securities	8,210	8,210	14,140	14,140
Securities available-for-sale	<u>11,405</u>	<u>11,405</u>	<u>892</u>	<u>447</u>
Total	<u>19,615</u>	<u>19,615</u>	<u>15,032</u>	<u>14,587</u>

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NOTE 13 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2005		2004	
	Group	Bank	Group	Bank
Due from banks				
Demand deposits	141,015	141,015	68,199	68,199
Term deposits	4,273	4,273	221,355	221,355
Repurchase transactions	60,032	60,032	53,497	53,497
Long term loans	4,950	4,950	4,945	4,945
Total due from banks	210,270	210,270	347,996	347,996
Due from financial institutions (except banks)				
Term deposits	18	18	18	18
Short term loans	1,959	1,959	3	3
Long term loans	22,615	244,323	38,375	99,051
Loans granted to banks and financial institutions	24,592	246,300	38,396	99,072
Total	234,862	456,570	386,392	447,068

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

- As at 31 December 2005 Loans to NORD/LB Lizingas UAB, amounting to LTL 221,708 thousand (2004: LTL 60,676 thousand) falling due for repayment in 2005 – 2007;
- Loan to Ūkio Banko Lizingas UAB amounting to LTL 15,002 thousand (2004: LTL 15,000 thousand) and falling due for repayment in 2006;
- As at 31 December 2005 Loan to the Baltic-American Enterprise Fund, a US non-profit corporation amounting to LTL 7,458 thousand (2004: LTL 23,170 thousand) falling due for repayment in 2007.

NOTE 14 TRADING SECURITIES

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

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

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 15 DERIVATIVE FINANCIAL INSTRUMENTS (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.
- Stock index option is an agreement where under, in theoretical terms, the seller grants the buyer a right, but not an obligation to purchase (or sell) corresponding basket of stock (substituted with a stock index) on a certain date in the future at a pre-agreed price. Settlement of the stock index option is made in cash only - the option seller pays the buyer the difference between the current market price and the pre-agreed price of the stock basket. The buyer pays a premium to the seller for this privilege.

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 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
As at 31 December 2005				
Currency forwards, swaps, index options	114,462	113,118	2,011	337
Interest rate swaps	-	-	-	-
Total	114,462	113,118	2,011	337

NOTE 16 LOANS

	2005		2004	
	Group	Bank	Group	Bank
Loans to corporate entities	2,276,978	2,276,978	1,555,609	1,555,259
Loans to individuals	1,498,539	1,498,539	940,954	940,954
Total gross loans granted	3,775,517	3,775,517	2,496,563	2,496,213
Total impairment losses:	(25,910)	(25,910)	(20,598)	(20,413)
to corporate entities	(22,513)	(22,513)	(12,512)	(12,327)
to individuals	(3,397)	(3,397)	(8,086)	(8,086)
Total	3,749,607	3,749,607	2,475,965	2,475,800

Mortgage loans pledged as collateral for mortgage bonds amounted to LTL 53,452 thousand as at 31 December 2005 (2004: LTL 53,388 thousand).

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NOTE 16 LOANS (continued)

Impairment of loans

Value of collateral pledged against the loans granted amounted to LTL 6,849,882 thousand as at 31 December 2005 (2004: LTL 4,736,065 thousand). Impaired loans amounted to LTL 51,115 thousand at 31 December 2005.

Due to deteriorated financial strength and evaluation of likely recovery the Bank has material impairment losses on an individual loan (assigned to the banking business segment of the Group). Gross loan amounted to LTL 15,061 thousand, impairment losses for it amounted to LTL 12,417 thousand in 2005. Fair value was determined using discounting cash flow method as it is described in the accounting policy.

Material recovery on an individual item (assigned to the banking business segment of the Group) amounted to LTL 10,467 thousand. Realization of collateral let the reversal of the impairment loss.

Movement of impairment losses on loans is as follows:

	Group	Bank
<u>Balance sheet</u>		
Impairment losses as at 31 December 2003	21,772	21,645
Increase	3,979	3,920
Impairment losses on loans written off	(5,147)	(5,147)
Exchange rate adjustment	(5)	(5)
Other adjustments	(1)	-
	<u>20,598</u>	<u>20,413</u>
Impairment losses as at 31 December 2004		
Increase, net (Note 6)	15,279	15,463
Impairment losses on loans written off	(10,021)	(10,021)
Exchange rate adjustment	54	55
	<u>25,910</u>	<u>25,910</u>
Impairment losses as at 31 December 2005	<u>25,910</u>	<u>25,910</u>

Group (Bank)	Group		Bank	
	2005	2004	2005	2004
Net loans granted to legal entities by industry sectors:				
Agriculture, hunting and forestry	220,073	138,181	220,073	138,181
Manufacturing	601,458	472,795	601,458	472,795
Utilities	183,549	141,598	183,549	141,598
Construction	183,294	82,731	183,294	82,731
Trading	472,578	318,366	472,578	318,201
Transportation	77,457	48,658	77,457	48,658
Real estate, rent	282,295	128,055	282,295	128,055
State governance and compulsory social security	72,466	84,203	72,466	84,203
Other industry sectors	161,295	128,510	161,295	128,510
	<u>2,254,465</u>	<u>1,543,097</u>	<u>2,254,465</u>	<u>1,542,932</u>
Total net loans to corporate entities	2,254,465	1,543,097	2,254,465	1,542,932

Net loans amounting to LTL 3,728,991 thousand at 31 December 2005 (in 2004: LTL 2,459,715 thousand) were granted to corporates and individuals located in Lithuania and net loans of LTL 20,616 thousand were granted to non-residents (in 2004: LTL 16,250 thousand).

Interest rates valid for loans as of 31 December 2005 were from 3.72% to 9.98%.

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NOTE 17 FINANCE LEASE RECEIVABLES

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2004	79,472	145,481	11,766	236,719
Change during 2005	29,380	58,246	27,786	115,412
Balance at 31 December 2005:	108,852	203,727	39,552	352,131
Unearned finance income on finance leases:				
Balance at 31 December 2004	8,260	10,527	646	19,433
Change during 2005	3,252	7,482	2,777	13,511
Balance at 31 December 2005:	11,512	18,009	3,423	32,944
Net investments in leasing before provisions:				
31 December 2004	71,212	134,954	11,120	217,286
31 December 2005	97,340	185,718	36,129	319,187
Changes in provisions:				
Balance as at 31 December 2003	329	761	85	1,175
Increase (decrease) in provisions	114	149	(10)	253
Balance as at 31 December 2004	443	910	75	1,428
Increase (decrease) in provisions	(91)	(209)	61	(239)
Balance as at 31 December 2005	352	701	136	1,189
Net investments in leasing after provisions:				
31 December 2004	70,769	134,044	11,045	215,858
31 December 2005	96,988	185,017	35,993	317,998

Segment information

	<u>2005</u>	<u>2004</u>
By type of lessees:		
Corporate enterprises	291,606	167,930
Individuals	20,050	44,975
Governmental institutions and public organisations	7,531	4,381
Net investments before provisions	319,187	217,286
By type of assets:		
Trucks and other vehicles	156,801	113,604
Real estate	54,877	44,259
Manufacturing facilities	41,035	35,887
Cars	59,292	18,771
Agricultural machinery	6,381	4,035
Office equipment and household appliances	801	730
Net investments before provisions	319,187	217,286

As at 31 December 2004 all lessees operated in Lithuania. As at 31 December 2005 agreements amounted LTL 397 thousand are done with lessees in Kaliningrad region.

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NOTE 18 INVESTMENT SECURITIES

	2005		2004	
	Group	Bank	Group	Bank
Securities available-for-sale				
Debt securities:				
Government bonds of the Republic of Lithuania	97,622	96,665	40,359	39,633
Bonds of the banks	9,149	9,149	6,944	6,944
Unlisted corporate bonds	-	-	5,081	5,081
Government bonds of non-residents	140,355	140,355	36,600	36,600
Equity securities:				
Unlisted	99	49	37	37
Total securities available-for-sale	247,225	246,218	89,021	88,295
Securities held-to-maturity				
Government bonds of the Republic of Lithuania	143,512	143,512	107,969	107,969
Total investment securities	390,737	389,730	196,990	196,264

Fair value of held to maturity securities as at 31 December 2005 approximated LTL 148,776 thousand.

NOTE 19 INVESTMENTS IN SUBSIDIARIES

	Share	2005		2004	
		Nominal value	Acquisition cost	Carrying value	Carrying value
Investments in consolidated subsidiaries:					
NORD/LB Lizingas UAB	100%	2,000	2,200	2,200	2,200
NORD/LB Investicijų Valdymas UAB	100%	2,000	4,000	4,000	4,000
Total				6,200	6,200

In 2004 subsidiaries were accounted for using the equity method of accounting. From the beginning of the year 2005 the subsidiaries are accounted at cost. Therefore in the Bank financial statements the Bank made adjustments of equity investments amounting LTL 1,099 thousand through the Bank previous years retained earnings (2004 - increase of LTL 228 thousand, before 2004 decrease of LTL 1,327 thousand). The changes of accounting policy resulted in the decrease of retained earnings of the Bank by LTL 1,273 thousand in 2005.

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NOTE 20 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
Year ended 31 December 2005		
Net book value at 1 January	4,339	4,236
Acquisitions	1,021	885
Reclassification	(21)	(21)
Amortisation charge	(1,424)	(1,322)
Net book value at 31 December	3,915	3,778
31 December 2005		
Cost	11,631	11,235
Accumulated amortisation	(7,716)	(7,457)
Net book value	3,915	3,778
Economic life (in years)	3-5	5

Intangible assets include purchased computer software and software licences.

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NOTE 21 PROPERTY AND EQUIPMENT

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
<u>31 December 2003</u>					
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
<u>Year ended 31 December 2004</u>					
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
<u>31 December 2004</u>					
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
<u>Year ended 31 December 2005</u>					
Net book value at 1 January	74,889	6,556	26,656	40	108,141
Acquisitions	325	4,585	4,056	-	8,966
Reclassification	-	-	21	-	21
Impairment losses	(283)	-	(81)	-	(364)
Disposals and write-offs	(3,356)	(1,481)	(795)	(25)	(5,657)
Depreciation charge	(2,030)	(1,537)	(9,431)	-	(12,998)
Net book value at 31 December	69,545	8,123	20,426	15	98,109
<u>31 December 2005</u>					
Cost	84,039	10,552	55,299	15	149,905
Accumulated depreciation	(14,494)	(2,429)	(34,873)	-	(51,796)
Net book value	69,545	8,123	20,426	15	98,109
Economic life (in years)	50	6-10	3-27	-	-

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NOTE 21 PROPERTY AND EQUIPMENT (continued)

From the total Group assets amount stated above the assets under operating lease agreements as at 31 December 2005 amounted to LTL 8,951 thousand (in 2004 LTL 7,615 thousand) and are as follows:

	Vehicles	Office equipment	Total
<u>31 December 2003</u>			
Cost	5,398	2,130	7,528
Accumulated depreciation	1,035	-	1,035
Net book value	4,363	2,130	6,493
<u>Year ended 31 December 2004</u>			
Net book value at 1 January	4,363	2,130	6,493
Acquisitions	3,287	-	3,287
Disposals and write-offs	(365)	-	(365)
Depreciation charge	(1,090)	(710)	(1,800)
Net book value at 31 December	6,195	1,420	7,615
<u>31 December 2004</u>			
Cost	8,244	2,130	10,374
Accumulated depreciation	2,049	710	2,759
Net book value	6,195	1,420	7,615
<u>Year ended 31 December 2005</u>			
Net book value at 1 January	6,195	1,420	7,615
Acquisitions	4,463	384	4,847
Disposals and write-offs	(1,347)	-	(1,347)
Depreciation charge	(1,454)	(710)	(2,164)
Net book value at 31 December	7,857	1,094	8,951
<u>31 December 2005</u>			
Cost	10,158	2,514	12,672
Accumulated depreciation	(2,301)	(1,420)	(3,721)
Net book value	7,857	1,094	8,951
Economic life (in years)	6	3	-

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NOTE 21 PROPERTY AND EQUIPMENT (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
<u>Year ended 31 December 2005</u>					
Net book value at 1 January	74,889	71	25,127	40	100,127
Acquisitions	-	-	3,605	-	3,605
Reclassification	-	-	21	-	21
Impairment losses	(283)	-	(81)	-	(364)
Disposals and write-offs	(3,356)	-	(795)	(25)	(4,176)
Depreciation charge	(2,030)	(20)	(8,667)	-	(10,717)
Net book value at 31 December	69,220	51	19,210	15	88,496
<u>31 December 2005</u>					
Cost	83,714	100	52,437	15	136,266
Accumulated depreciation	(14,494)	(49)	(33,227)	-	(47,770)
Net book value	69,220	51	19,210	15	88,496
Economic life (in years)	50	6-10	3-27	-	-

No assets were pledged to a third party as at 31 December 2005 and 31 December 2004.

The Bank (Group) had ownership title to all of the property and equipment at 31 December 2005 and 31 December 2004.

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NOTE 22 OTHER ASSETS

	2005		2004	
	Group	Bank	Group	Bank
Accrued income	652	421	577	382
Deferred expenses	4,005	2,922	4,027	2,740
Receivables from foreclosed assets sold on instalment basis	830	830	1,669	1,669
Foreclosed assets, net	447	447	1,533	1,533
Other assets, net				
Prepayments for property and equipment	8,886	2,138	2,722	1,579
Assets bought for leasing activities	15,922	-	2,096	-
Other assets	7,185	3,906	5,216	3,828
Total other assets, net	31,993	6,044	10,034	5,407
Total	37,927	10,664	17,840	11,731

NOTE 23 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2005		2004	
	Group	Bank	Group	Bank
<u>Funds of banks</u>				
Demand deposits	181,227	181,227	84,203	84,203
Term deposits	572,962	572,962	412,468	412,468
Loans	897,258	793,477	549,928	388,449
Total funds of Banks	1,651,447	1,547,666	1,046,599	885,120
<u>Funds of financial institutions (except banks)</u>				
Demand deposits	14,214	17,124	14,835	18,451
Term deposits	18,413	18,413	5,184	5,184
Total funds of financial institutions	32,627	35,537	20,019	23,635
Total	1,684,074	1,583,203	1,066,618	908,755

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NOTE 24 DUE TO CUSTOMERS

	2005		2004	
	Group	Bank	Group	Bank
<u>Demand deposits:</u>				
National government institutions	182,413	182,413	208,736	208,736
Local government institutions	140,179	140,179	171,930	171,930
Governmental and municipality companies	52,598	52,598	56,998	56,998
Legal entities	773,433	773,433	468,020	468,020
Non-profit organisations	25,040	25,040	23,044	23,044
Individuals	607,458	607,458	330,425	330,425
Total demand deposits	1,781,121	1,781,121	1,259,153	1,259,153
<u>Term deposits:</u>				
National government institutions	7,127	7,127	9,638	9,638
Local government institutions	1,777	1,777	627	627
Governmental and municipality companies	30,445	30,445	13,452	13,452
Legal entities	112,952	112,952	101,800	101,800
Non-profit organisations	5,639	5,639	6,320	6,320
Individuals	685,564	685,564	576,371	576,371
Total term deposits	843,504	843,504	708,208	708,208
Total deposits	2,624,625	2,624,625	1,967,361	1,967,361

As at 31 December 2005, demand deposits of national government institutions included LTL 95,717 thousand (2004: LTL 63,087 thousand) of deposits of compulsory social and health insurance funds.

Interest rates valid for term deposits of individuals as at 31 December 2005 were from 1.2 % to 4.9% and for term deposits of legal entities (except banks and other financial institutions) – from 1.3% to 3.55%.

NOTE 25 DEBT SECURITIES IN ISSUE

	2005		2004	
	Group	Bank	Group	Bank
Bonds denominated in EUR with floating interest rate 6 month EURIBOR+0.52 p.a., maturity 2006	172,428	172,428	-	-
Mortgage bonds denominated in LTL with floating interest rate 6 month VILIBOR+0.23 p.a., maturity 2007	40,894	40,894	50,512	50,685
Bonds denominated in EUR with floating interest rate 6 month EURIBOR+0.32 p.a., maturity 2007	174,391	174,391	346,067	346,067
Bonds denominated in LTL with fixed interest rate 3.25 p.a., maturity 2008	43,095	43,095	-	-
Bonds denominated in EUR, linked with Dow Jones EURO STOXX 50 Index, zero coupon, maturity 2008 m.	10,006	10,006	-	-
Total debts securities in issue	440,814	440,814	396,579	396,752

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NOTE 26 SPECIAL AND LENDING FUNDS

	2005		2004	
	Group	Bank	Group	Bank
Funds of the Government of the Republic of Lithuania	10,929	10,929	1,986	1,986
Funds of international organisations	1,730	1,730	8,931	8,931
Total	12,659	12,659	10,917	10,917

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 27 OTHER LIABILITIES

	2005		2004	
	Group	Bank	Group	Bank
Accrued expenses	9,499	8,964	7,787	7,666
Deferred income	1,749	566	1,140	588
Other liabilities:				
Specific provisions for off balance sheet items	25	25	873	918
Transit accounts	7,980	7,980	9,242	9,242
Liabilities for transactions with payment cards	8,688	8,688	753	753
Liabilities to suppliers	16,528	-	1,016	-
Other liabilities	19,645	12,838	11,364	7,274
Total other liabilities	52,866	29,531	23,248	18,187
Total	64,114	39,061	32,175	26,441

NOTE 28 SUBORDINATED LOANS

Loan provider:	2005		2004	
	Group	Bank	Group	Bank
Norddeutsche Landesbank Girozentrale, Hannover	52,426	52,426	52,436	52,436
European Bank for Reconstruction and Development (EBRD)	38,464	38,464	38,426	38,426
Stiftung der NORD/LB und der Oeffentlichen Versicherung fuer Braunschweig	8,768	8,768	-	-
Total	99,658	99,658	90,862	90,862

All subordinated loans are denominated in Euro (EUR).

In February 2005, the Bank and Stiftung der NORD/LB und der Oeffentlichen Versicherung fuer Braunschweig fund, founded by Norddeutsche Landesbank Girozentrale, signed a subordinated loan agreement. According to this agreement the Bank got 10years EUR 2,500 thousand (LTL 8,632 thousand) loan. This loan is repayable in full in 2015. Interest rate on the loan is 4.39% until 24 February 2010 and 5.9% from 25 February 2010.

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NOTE 28 SUBORDINATED LOANS (continued)

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 got a further EUR 3,330 thousand loan in September 2004. This loan (EUR 11,000 thousand / LTL 37,981 thousand) is repayable in full in 2014. Interest rate on the loan is equal to 6 month EURIBOR + 1.4 p.a. until 28 September 2009 and 6 month EURIBOR + 2.4 p.a from 29 September 2009.

The subordinated loan from Norddeutsche Landesbank Girozentrale (EUR 15,000 thousand / LTL 51,792 thousand) is repayable in full in 2013. The interest rate on this loan is equal to 6-month EURIBOR + 0.61 p.a.

NOTE 29 SHARE CAPITAL

The share capital of the Bank is divided into 2,464,316 (2004: – 2,053,861) ordinary registered shares with a par value of LTL 95 each. On 8 September 2005, the Bank has registered the amendments to the Bank's Bylaws with the Register of Legal Entities regarding the increase of the Bank's authorised share capital by LTL 38.99 million by issuing 410,455 ordinary registered shares with a par value of LTL 95 each. The new shares have been allotted at LTL 180 each. All shares were subscribed and fully paid for. Share premium amounted to LTL 34,889 thousand as at 31 December 2005.

The shareholders of the Bank as of 31 December 2005 are listed in the table below:

	Number of shares	Nominal value, LTL thousand	%
BANK DNB NORD A/S (DK)	2,294,643	217,991	93,11
EAST Capital Asset Management	160,857	15,281	6,53
Other	8,816	838	0,36
Total	2,464,316	234,110	100,00

NOTE 30 OTHER RESERVES

Mandatory reserve

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

Fixed assets revaluation reserve

Fixed assets 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 76 thousand at 31 December 2005. Management of the Bank plans to propose to the shareholders' meeting to approve the transfer of this amount to retained earnings.

Financial assets revaluation reserve

Financial assets revaluation reserve relates to unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale which are recognised directly in equity through the statement of changes in equity (in 2004 through profit (loss) statement directly). Therefore the Group made adjustments amounting LTL 343 thousand through previous years retained earnings (2004 - increase of LTL 866 thousand, before 2004 decrease of LTL 1,209 thousand) in the Group financial statements. The changes of accounting policy resulted an increase of retained earnings of the Group in 2005 by LTL 509 thousand.

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NOTE 31 ASSETS / FUNDS UNDER MANAGEMENT

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

Assets under management totalling to LTL 78,923 thousand as at 31 December 2005 (2004: LTL 90,155 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 32 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims. As at 31 December 2005, 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 259 thousand. The Bank established a provision of LTL 31,3 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 40,251 thousand, LTL 3,291 thousand and LTL 789,250 thousand, respectively at 31 December 2005 (2004: LTL 28,489 thousand, LTL 565 thousand and LTL 248,462 thousand, respectively). Other commitments amounted to LTL 37,314 thousand at that date (2004: LTL 8,367 thousand). Provisions of LTL 25 thousand (2004: LTL 873 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 2005, NORD/LB Lizingas UAB had leasing contracts to a total value LTL 36,655 thousand (in 2004: LTL 7,987 thousand) under which assets have not been transferred to the customers. As at 31 December 2005, client's prepayments under these agreements amounting to LTL 5,224 thousand (in 2004: LTL 1,128 thousand) are shown in the balance sheet as Other assets.

Correspondingly, NORD/LB Lizingas UAB had agreements signed with vendors regarding the assets designated for finance lease for the total amount of LTL 5,623 thousand (in 2004: LTL 1,180 thousand). Assets already received under these agreements, amounting to LTL 15,922 thousand (in 2004: LTL 1,781 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:

	2005		2004	
	Group	Bank	Group	Bank
Not later than 1 year	-	981	-	1,010
Later than 1 year and not later than 5 years	-	151	-	1,192
Total	-	1,132	-	2,202

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NOTE 32 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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:

	2005		2004	
	Group	Bank	Group	Bank
Not later than 1 year	2,530	-	1,880	-
Later than 1 year and not later than 5 years	2,431	-	1,621	-
Total	4,961	-	3,501	-

The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period 1998 to 2000). There were no made significant remarks or disputes.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

NOTE 33 CASH AND CASH EQUIVALENTS

	2005		2004	
	Group	Bank	Group	Bank
Cash	139,363	139,357	96,204	96,203
Other valuables	1	1	2	2
Correspondent accounts with other banks	13,223	13,223	35,392	35,392
Correspondent accounts with the central bank	20,668	20,668	-	-
Short-term securities	8,965	8,965	-	-
Overnight deposits	127,792	127,792	32,805	32,805
Mandatory reserves with the central bank LTL	179,578	179,578	76,074	76,074
Total	489,590	489,584	240,477	240,476

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NOTE 34 LIQUIDITY RISK

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2005 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	339,604	-	-	-	-	-	-	-	339,604
Treasury bills	-	-	9,471	1,353	8,791	-	-	-	19,615
Due from other banks	13,223	190,407	4,278	241,047	17	7,573	7	18	456,570
Trading securities	-	132	1,611	3,898	11,312	12,287	25,326	-	54,566
Derivative financial instruments	-	296	503	531	-	681	-	-	2,011
Loans	-	85,675	129,691	245,482	392,529	1,244,358	1,630,755	21,117	3,749,607
Securities available-for-sale	-	4,216	5,884	21,375	4,076	73,424	137,194	49	246,218
Securities held-to-maturity	-	2,347	1,757	2,847	8,524	29,234	98,803	-	143,512
Investments in subsidiaries	-	-	-	-	-	-	-	6,200	6,200
Intangible assets	-	-	-	-	-	-	-	3,778	3,778
Property and equipment	-	-	-	-	-	-	-	88,496	88,496
Deferred tax assets	-	-	-	-	-	-	-	8,000	8,000
Other assets	260	748	201	279	549	381	98	8,148	10,664
Total assets	353,087	283,821	153,396	516,812	425,798	1,367,938	1,892,183	135,806	5,128,841
Liabilities									
Due to other banks	20,210	306,139	528,935	197,356	39,041	400,886	90,636	-	1,583,203
Derivative financial instruments	-	93	30	208	-	6	-	-	337
Due to customers	1,783,464	235,645	200,622	179,780	163,932	46,176	15,006	-	2,624,625
Debt securities in issue	-	2,483	615	45	172,383	265,288	-	-	440,814
Special and lending funds	12,659	-	-	-	-	-	-	-	12,659
Other liabilities	10,412	24,500	628	582	1,137	-	20	1,782	39,061
Subordinated loans	-	634	619	-	-	-	98,405	-	99,658
Shareholders' equity	-	-	-	-	-	-	-	328,484	328,484
Total liabilities and shareholders' equity	1,826,745	569,494	731,449	377,971	376,493	712,356	204,067	330,266	5,128,841
Net liquidity gap	(1,473,658)	(285,673)	(578,053)	138,841	49,305	655,582	1,688,116	(194,460)	-

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NOTE 34 LIQUIDITY RISK (continued)

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2004 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	207,674	362,905	143,014	236,757	445,704	865,742	1,152,165	200,862	3,614,823
Total liabilities and shareholders' equity	1,303,679	436,336	298,169	266,261	137,411	673,106	285,724	214,137	3,614,823
Net liquidity gap	(1,096,005)	(73,431)	(155,155)	(29,504)	308,293	192,636	866,441	(13,275)	-

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 2004	864,591	2,072,985	41.71
31 January 2005	625,043	1,888,763	33.09
28 February 2005	702,804	2,109,898	33.31
31 March 2005	680,653	2,140,297	31.80
30 April 2005	704,038	2,179,640	32.30
31 May 2005	785,686	2,304,906	34.09
30 June 2005	849,233	2,408,559	35.26
31 July 2005	741,922	2,304,600	32.19
31 August 2005	794,577	2,380,435	33.38
30 September 2005	747,424	2,296,741	32.54
31 October 2005	781,028	2,355,591	33.16
30 November 2005	1,084,633	2,601,904	41.69
31 December 2005	1,040,984	2,801,533	37.16

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NOTE 34 LIQUIDITY RISK (continued)

The structure of the Group's assets and liabilities by the remaining maturity as at 31 December 2005 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	339,610	-	-	-	-	-	-	-	339,610
Treasury bills	-	-	9,471	1,353	8,791	-	-	-	19,615
Due from other banks	13,223	189,786	4,278	19,960	17	7,573	7	18	234,862
Trading securities	-	132	1,611	3,898	11,312	12,287	25,326	-	54,566
Derivative financial instruments	-	296	503	531	-	681	-	-	2,011
Loans	-	85,675	129,691	245,482	392,529	1,244,358	1,630,755	21,117	3,749,607
Finance lease receivables	-	12,051	17,101	24,283	42,986	128,207	92,717	653	317,998
Securities available-for-sale	-	4,231	5,896	21,375	4,078	73,724	137,822	99	247,225
Securities held-to-maturity	-	2,347	1,757	2,847	8,524	29,234	98,803	-	143,512
Investments in subsidiaries	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	3,915	3,915
Property and equipment	-	-	-	-	-	-	-	98,109	98,109
Deferred tax assets	-	-	-	-	-	-	-	8,178	8,178
Other assets	260	19,525	5,944	430	871	381	98	10,418	37,927
Total assets	353,093	314,043	176,252	320,159	469,108	1,496,445	1,985,528	142,507	5,257,135
Liabilities									
Due to other banks	17,344	306,095	528,935	197,552	142,626	400,886	90,636	-	1,684,074
Derivative financial instruments	-	93	30	208	-	6	-	-	337
Due to customers	1,783,464	235,645	200,622	179,780	163,932	46,176	15,006	-	2,624,625
Debt securities in issue	-	2,483	615	45	172,383	265,288	-	-	440,814
Special and lending funds	12,659	-	-	-	-	-	-	-	12,659
Other liabilities	10,442	43,429	4,788	582	1,883	987	183	1,820	64,114
Subordinated loans	-	634	619	-	-	-	98,405	-	99,658
Shareholders' equity	-	-	-	-	-	-	-	330,854	330,854
Total liabilities and shareholders' equity	1,823,909	588,379	735,609	378,167	480,824	713,343	204,230	332,674	5,257,135
Net liquidity gap	(1,470,816)	(274,336)	(559,357)	(58,008)	(11,716)	783,102	1,781,298	(190,167)	-

The structure of the Group's assets and liabilities by the remaining maturity as at 31 December 2004 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	207,675	372,918	152,250	253,616	431,001	952,469	1,201,249	208,273	3,779,451
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)	-

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NOTE 34 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 2004	874,666	2,076,390	42.12
31 March 2005	692,061	2,149,519	32.20
30 June 2005	861,085	2,451,854	35.12
30 September 2005	759,708	2,405,253	31.59
31 December 2005	1,053,456	2,858,728	36.85

NOTE 35 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 2005 were as follows:

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	7,475	10,039	8,212	23	6,054	31,803	307,807	339,610
Treasury bills	-	-	-	-	-	-	19,615	19,615
Due from other banks	3,934	162,165	79	290	2,112	168,580	66,282	234,862
Trading securities	-	3,497	-	-	-	3,497	51,069	54,566
Derivative financial instruments	-	637	-	-	-	637	1,374	2,011
Loans	44,417	1,915,213	-	-	-	1,959,630	1,789,977	3,749,607
Finance lease receivables	1,936	310,987	-	-	-	312,923	5,075	317,998
Securities available-for-sale	-	150,777	-	-	-	150,777	96,448	247,225
Securities held-to-maturity	-	25,042	-	-	-	25,042	118,470	143,512
Investments in subsidiaries	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	3,915	3,915
Property and equipment	-	-	-	-	-	-	98,109	98,109
Deferred tax assets	-	-	-	-	-	-	8,178	8,178
Other assets	39	3,268	13	2	27	3,349	34,578	37,927
Total assets	57,801	2,581,625	8,304	315	8,193	2,656,238	2,600,897	5,257,135
Liabilities								
Due to other banks	7,580	1,604,966	34	45	7	1,612,632	71,442	1,684,074
Derivative financial instruments	-	-	-	-	-	-	337	337
Due to customers	150,214	265,017	3,787	253	5,795	425,066	2,199,559	2,624,625
Debt securities in issue	-	356,824	-	-	-	356,824	83,990	440,814
Special and lending funds	-	6	-	-	-	6	12,653	12,659
Other liabilities	206	1,934	13	1	14	2,168	61,946	64,114
Subordinated loans	-	99,658	-	-	-	99,658	-	99,658
Shareholders' equity	-	(305)	-	-	-	(305)	331,159	330,854
Total liabilities and shareholders' equity	158,000	2,328,100	3,834	299	5,816	2,496,049	2,761,086	5,257,135
Net balance sheet position	(100,199)	253,525	4,470	16	2,377	160,189	(160,189)	-
Off-balance sheet position	99,602	(93,833)	(4,362)	-	(1,871)	(464)	1,812	1,348
Net open position	(597)	159,692	108	16	506	159,725	(158,377)	1,348

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NOTE 35 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

The Bank's open positions of prevailing currencies as at 31 December 2005 were as follows:

	USD	EUR	GBP	RUB	Other currencies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	7,475	10,039	8,212	23	6,054	31,803	307,801	339,604
Treasury bills	-	-	-	-	-	-	19,615	19,615
Due from other banks	5,870	269,759	79	290	2,112	278,110	178,460	456,570
Trading securities	-	3,497	-	-	-	3,497	51,069	54,566
Derivative financial instruments	-	637	-	-	-	637	1,374	2,011
Loans	44,417	1,915,213	-	-	-	1,959,630	1,789,977	3,749,607
Securities available-for-sale	-	150,777	-	-	-	150,777	95,441	246,218
Securities held-to-maturity	-	25,042	-	-	-	25,042	118,470	143,512
Investments in subsidiaries	-	-	-	-	-	-	6,200	6,200
Intangible assets	-	-	-	-	-	-	3,778	3,778
Property and equipment	-	-	-	-	-	-	88,496	88,496
Deferred tax assets	-	-	-	-	-	-	8,000	8,000
Other assets	47	507	13	2	27	596	10,068	10,664
Total assets	57,809	2,375,471	8,304	315	8,193	2,450,092	2,678,749	5,128,841
Liabilities								
Due to other banks	7,580	1,501,185	34	45	7	1,508,851	74,352	1,583,203
Derivative financial instruments	-	-	-	-	-	-	337	337
Due to customers	150,214	265,017	3,787	253	5,795	425,066	2,199,559	2,624,625
Debt securities in issue	-	356,824	-	-	-	356,824	83,990	440,814
Special and lending funds	-	6	-	-	-	6	12,653	12,659
Other liabilities	206	1,731	13	1	13	1,964	37,097	39,061
Subordinated loans	-	99,658	-	-	-	99,658	-	99,658
Shareholders' equity	-	(305)	-	-	-	(305)	328,789	328,484
Total liabilities and shareholders' equity	158,000	2,224,116	3,834	299	5,815	2,392,064	2,736,777	5,128,841
Net balance sheet position	(100,191)	151,355	4,470	16	2,378	58,028	(58,028)	-
Off-balance sheet position	99,602	(93,833)	(4,362)	-	(1,871)	(464)	1,812	1,348
Net open position	(589)	57,522	108	16	507	57,564	(56,216)	1,348

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	169,421	1,545,695	2,983	93	8,012	1,726,204	1,888,619	3,614,823
Liabilities and shareholders' equity	164,570	1,423,624	2,557	55	2,438	1,593,244	2,021,579	3,614,823
Net balance sheet position	4,851	122,071	426	38	5,574	132,960	(132,960)	-
Off balance position	(4,611)	26,760	(369)	-	(5,534)	16,246	(15,384)	-
Net position	240	148,831	57	38	40	149,206	(148,344)	-

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

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NOTE 35 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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 36 INTEREST RATE RISK

The table below summarises the Bank's interest rate risks as at 31 December 2005. 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	339,604	-	-	-	-	-	-	339,604
Treasury bills	-	9,471	1,353	8,791	-	-	-	19,615
Due from other banks	216,037	4,279	236,236	-	-	-	18	456,570
Trading securities	132	1,611	3,898	11,312	12,287	25,326	-	54,566
Derivative financial instruments	296	503	531	-	681	-	-	2,011
Loans	348,210	936,232	1,727,671	236,647	290,116	189,135	21,596	3,749,607
Securities available-for-sale	4,216	5,884	21,375	4,076	73,424	137,194	49	246,218
Securities held-to-maturity	2,347	1,757	2,847	8,524	29,234	98,803	-	143,512
Investments in subsidiaries	-	-	-	-	-	-	6,200	6,200
Intangible assets	-	-	-	-	-	-	3,778	3,778
Property and equipment	-	-	-	-	-	-	88,496	88,496
Deferred tax assets	-	-	-	-	-	-	8,000	8,000
Other assets	1,008	201	279	549	381	98	8,148	10,664
Total assets	911,850	959,938	1,994,190	269,899	406,123	450,556	136,285	5,128,841
Liabilities								
Due to other banks	326,350	641,162	542,625	34,725	38,341	-	-	1,583,203
Derivative financial instruments	93	30	208	-	6	-	-	337
Due to customers	2,019,109	200,622	179,780	163,932	46,176	15,006	-	2,624,625
Debt securities in issue	215,064	43,316	172,423	5	10,006	-	-	440,814
Special and lending funds	12,659	-	-	-	-	-	-	12,659
Other liabilities	34,912	628	582	1,137	-	20	1,782	39,061
Subordinated loans	52,426	38,600	-	-	-	8,632	-	99,658
Shareholders' equity	-	-	-	-	-	-	328,484	328,484
Total liabilities and shareholders' equity	2,660,613	924,358	895,618	199,799	94,529	23,658	330,266	5,128,841
Interest rate sensitivity gap	(1,748,763)	35,580	1,098,572	70,100	311,594	426,898	(193,981)	-

The Bank's interest rate risks as at 31 December 2004 was as follows:

	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	1,087,377	714,952	869,585	217,319	260,445	264,278	200,867	3,614,823
Total liabilities and shareholders' equity	2,013,774	722,864	438,265	134,390	80,011	11,369	214,150	3,614,823
Interest rate sensitivity gap	(926,397)	(7,912)	431,320	82,929	180,434	252,909	(13,283)	-

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NOTE 36 INTEREST RATE RISK (continued)

The Group's interest rate risk as at 31 December 2005 is as follows:

	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	339,610	-	-	-	-	-	-	339,610
Treasury bills	-	9,471	1,353	8,791	-	-	-	19,615
Due from other banks	215,416	4,279	15,149	-	-	-	18	234,862
Trading securities	132	1,611	3,898	11,312	12,287	25,326	-	54,566
Derivative financial instruments	296	503	531	-	681	-	-	2,011
Loans	348,210	936,232	1,727,671	236,647	290,116	189,135	21,596	3,749,607
Finance lease receivables	34,038	94,033	179,539	7,171	2,381	184	652	317,998
Securities available-for-sale	4,281	5,896	21,375	4,078	73,724	137,822	49	247,225
Securities held-to-maturity	2,347	1,757	2,847	8,524	29,234	98,803	-	143,512
Investments in subsidiaries	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	3,915	3,915
Property and equipment	-	-	-	-	-	-	98,109	98,109
Deferred tax assets	-	-	-	-	-	-	8,178	8,178
Other assets	19,785	5,944	430	871	381	98	10,418	37,927
Total assets	964,115	1,059,726	1,952,793	277,394	408,804	451,368	142,935	5,257,135
Liabilities								
Due to other banks	323,440	744,747	542,821	34,725	38,341	-	-	1,684,074
Derivative financial instruments	93	30	208	-	6	-	-	337
Due to customers	2,019,109	200,622	179,780	163,932	46,176	15,006	-	2,624,625
Debt securities in issue	215,064	43,316	172,423	5	10,006	-	-	440,814
Special and lending funds	12,659	-	-	-	-	-	-	12,659
Other liabilities	53,871	4,788	582	1,883	987	183	1,820	64,114
Subordinated loans	52,426	38,600	-	-	-	8,632	-	99,658
Shareholders' equity	-	-	-	-	-	-	330,854	330,854
Total liabilities and shareholders' equity	2,676,662	1,032,103	895,814	200,545	95,516	23,821	332,674	5,257,135
Interest rate sensitivity gap	(1,712,547)	27,623	1,056,979	76,849	313,288	427,547	(189,739)	-

The Group's interest rate risks as at 31 December 2004 was as follows:

	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	1,074,490	762,282	993,653	215,083	257,117	265,229	211,597	3,779,451
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 37 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 2005, 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 2005	31 December 2004	2005	2004	31 December 2005	31 December 2004	2005	2004
Management of the Bank	282	530	1.68%	2.40%	913	2,942	3.14%	3.22%
Related parties	524	221	1.17%	0.61%	2,103	1,238	3.38%	3.59%

In 2005, the total remuneration of the Group management approximated LTL 3,973 thousand (in 2004 – LTL 3,213 thousand). In 2005 the total remuneration of the Bank's management approximated LTL3,443 thousand (in 2004 – LTL 2,699 thousand).

The following balances were outstanding with DnB NOR Group and NORD/LB Group companies:

Assets	2005	2004
Correspondent bank accounts	685	4,721
Overnight deposits	34,855	-
Term deposits	4,273	95,072
Liabilities		
Correspondent bank accounts	330	68
Derivative financial instruments	-	1,666
Overnight deposits	52,099	22,812
Term deposits	121,386	121,536
Subordinated loans	52,426	52,436
Syndicated loan	17,287	-
Income	2005	2004
Interest	1,773	262
Net gain (loss) from operations with financial instruments	324	(596)
Expenses		
Interest	4,609	824
Fee and commission	282	-
Operating	882	483

Transactions with other companies within DnB NOR Group and NORD/LB Group are entered into at interest rates comparable to those of the market.

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NOTE 37 RELATED PARTY TRANSACTIONS (continued)

The following balances were outstanding with subsidiaries:

Assets	2005	2004
Demand deposits	2,910	3,616
Loans	221,708	60,676
Debt securities	-	173
Equity securities	6,200	6,200
Other assets	181	83

Liabilities and equity		
Demand deposits	2,910	3,616
Loans	221,708	60,676
Debt securities	-	173
Other liabilities	181	83
Bank's investments	6,200	6,200

The main income/expenses from transactions with subsidiaries are as follows:

Income	2005	2004
Interest	3,567	3,682
Fee and commission	1,869	1,831

Expenses		
Interest	3,567	3,717
Fee and commission	1,240	917
Operating	867	1,072

NOTE 38 CONCENTRATION EXPOSURE

As at 31 December 2005, 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 14,85% of the Bank's calculated capital (2004: LTL 62 million and 21.2% respectively).

NOTE 39 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, NORD/LB Bonds fund and individual customers' funds.

As at 31 December 2005, assets allocated to NORD/LB Money market fund amounted to LTL 10 million, NORD/LB Bonds fund amounted to LTL 1 million, NORD/LB Pension funds - LTL 33 million. Value of funds in the individually managed securities portfolios of financial institutions amounted to LTL 7 million.

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NOTE 40 POST BALANCE SHEET EVENTS

On 23 January 2006, the Bank issued 3 mln euro tranche of three year notes linked to stock indices of the world's most advanced economies – US S&P 500, Japan NIKKEI 225 Stock Average and Western Europe Dow Jones STOXX 50. The bonds are being placed through the Banks client service outlets from 23 January 2006 to 02 March 2006.

On 23 January 2006, the Bank issued 3 mln euro tranche of three year notes, which are linked to Russia's RDX and Central Europe's CECE stock indices. The bonds are being placed through the Banks client service outlets from 23 January 2006 to 02 March 2006.

On 23 January 2006, the Bank issued 9 mln euro tranche of three year notes is linked to US S&P 500, Japan NIKKEI 225 Stock Average, Eurozone Dow Jones EURO STOXX 50 and Southeast Asia Hang Seng indices. The bonds were placed on 23 January 2006.

On 19 January 2006 the Bank registered the mandatory non-competing tender offer to acquire the target securities. The period of the tender offer expires on 24 February 2006.