Supervision Service of the Bank of Lithuania

26 03 2013

Annual confirmation of responsible persons

This confirmation of responsible persons regarding consolidated annual report, separate and consolidated financial statements of AB DNB Bankas for the year ended 31 December 2012 are provided following Law of Republic of Lithuania on securities, dated 18 January 2007 and Lithuanian Securities Commission resolution No. 1K-3 on rules of disclosure and submission of periodic and additional information, dated 23 February 2007.

We, responsible persons, confirm that to the best of our knowledge, provided separate and consolidated financial statements are prepared in accordance with International Financial Reporting standards, gives a true and fair view of the assets, liabilities, financial position, profit and cash flows of the Bank and consolidated subsidiaries, as well as the consolidated annual report includes a fair review of the development and performance of the business, a state of the Bank and consolidated subsidiaries together with a description of main risks and uncertainties that are being faced.

President Bjornar Lund

Chief Accountant Jurgita Šaučiūnienė

— AB DNB bankas
J. Basanavičiaus g. 26, LT-03601 Vilnius
Banko kodas 40100

Tel.: 1608, (8 5) 239 3444
Faksas (8 5) 213 9057
El. paštas info@dnb.lt, www.dnb.lt

Banko (įmonės) kodas 112029270
Duomenys kaupiami ir saugomi
Juridinių asmenų registre

AB DNB Bankas

CONSOLIDATED ANNUAL REPORT, SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

CONTENTS

UAB „Ernst & Young Baltic"
Subačiaus g. 7
LT-01302 Vilnius
Lietuva

Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com/lt

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania

Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com/lt

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholder of AB DNB Bankas

Report on the Financial Statements

We have audited the accompanying financial statements of AB DNB Bankas, a public limited liability company registered in the Republic of Lithuania (hereinafter "the Bank"), and the consolidated financial statements of the Bank together with its subsidiaries (hereinafter the "Group"), which are presented on pages 49 - 128 and comprise the statements of financial position as at 31 December 2012, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements, presented on pages 49 - 128, present fairly, in all material respects, the financial position of AB DNB Bankas and the Group as at 31 December 2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bank and the Group taken as a whole. The financial information of the Financial group in Note 41 *Compliance with regulatory requirements* is presented for the purposes of additional analysis and is not a required part of the financial statements mentioned above. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is properly prepared in all material respects in relation to the financial statements taken as whole.

Furthermore, we have read the accompanying Group's Consolidated Annual Report for the year ended 31 December 2012, presented on pages 4 - 48, and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2012.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 20 February 2013.

AB DNB BANKAS' GROUP CONSOLIDATED 2012 ANNUAL REPORT

1. REPORTING PERIOD COVERED BY THIS REPORT

This Consolidated Annual Report covers the period from 1 January 2012 to 31 December 2012.

2. THE ISSUER AND ITS CONTACT DETAILS

Name of the Issuer	*AB DNB Bankas*
Legal status	Joint stock company
Date and place of registration	Registered with the Bank of Lithuania on 13 September 1993, registration No. 29
Company code	112029270
Office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 34 44
Fax number	(+370 5) 213 90 57
E-mail	info@dnb.lt
Website	www.dnb.lt

3. MAIN ACTIVITIES OF THE ISSUER

AB DNB Bankas (hereinafter referred to as the "Bank" or the "Issuer"") is a credit institution holding a license for and is engaged in acceptance of deposits and other repayable funds from unprofessional market players and lending, as well as provision of other financial services, and assumes the risks and liabilities related thereto.

The Bank shall provide the following financial services:

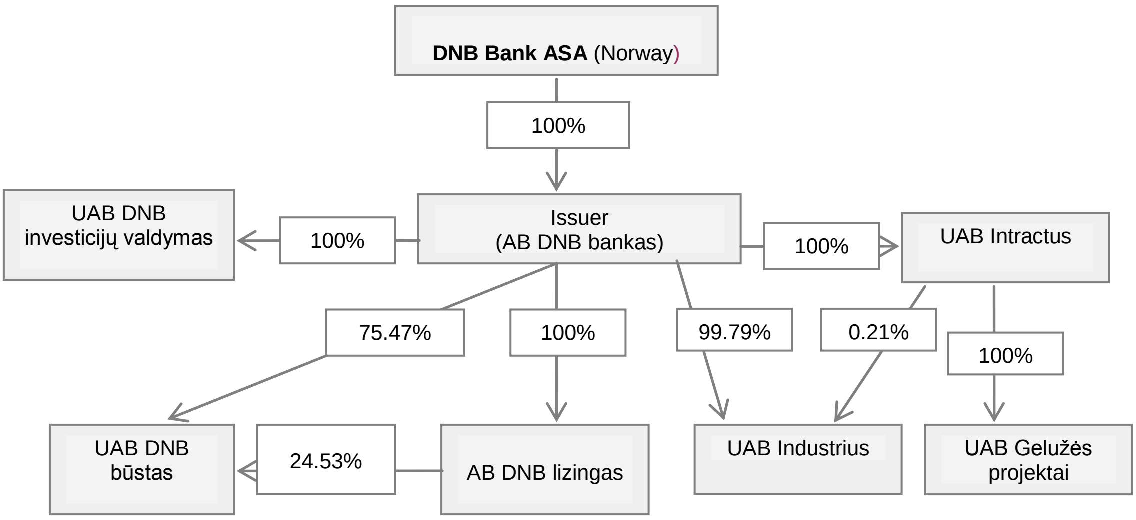
- taking of deposits and other repayable funds;
- lending (including mortgage loans);
- money transfers;
- issuing of payment cards and other payment vehicles and (or) execution of transactions with them;
- financial lease (leasing);
- issuing of financial indemnities and guarantees;
- trading, on its own account or on account of customers, in money market instruments (cheques, bills, certificates of deposits, etc.), foreign exchange, financial futures and options, foreign exchange and interest rate instruments, public trading securities, precious metals;
- investment services;
- financial brokerage (agent activities);
- cash handling;
- consultancy on credits and payments;
- rent of safe deposit lockers;
- currency exchange (cash);
- safekeeping and administration of monetary funds;
- advice to undertakings on the capital structure, manufacturing strategy and the issues related thereto as well as advice and services related to the reorganization, restructuring and acquisition of undertakings;
- provision of services related to issuance of securities;
- issuance and maintenance of electronic money;
- settlements of credit institutions (clearing);
- administration of investment funds or investment companies with a variable capital.

4. THE ORGANIZATIONAL STRUCTURE OF THE ISSUER AND THE GROUP

On 31 December 2012 Norway's *DNB Bank ASA* was a sole direct shareholder of *AB DNB Bankas* that held 100 percent direct ownership of the Bank's shares and voting rights.

In Lithuania AB DNB Bankas' group (hereinafter referred to as "the Group") consisted of AB DNB Bankas and its subsidiaries UAB DNB Investicijų Valdymas, AB DNB Lizingas, UAB DNB Būstas, UAB Industrius, UAB Intractus with its subsidiary UAB Gėlužės projektai. Comprehensive data regarding the subsidiaries of the Bank are described in the section 13 of this report.

AB DNB Bankas provided financial services to its customers in 78 banking outlets across Lithuania as at the end of 2012.



5. STRUCTURE OF THE AUTHORIZED CAPITAL

On 31 December 2012 the authorized capital of the Bank was LTL 656,665,410 (six hundred fifty six million six hundred sixty five thousand four hundred ten). It is divided into 5,710,134 (five million seven hundred ten thousand one hundred thirty four) ordinary registered shares with LTL 115 (one hundred and fifteen) par value each.

The authorized capital of AB DNB Bankas has not changed during the reporting period.

On 31 December 2012 the authorised capital of AB DNB Bankas consisted of:

Type and class of shares	ISIN code of securities	Number of issued shares	Nominal value per share, LTL	Aggregate nominal value, LTL	Share in authorized capital, percent
Ordinary registered shares	LT0000100174	5,710,134	115	656,665,410	100.00

The entire authorized capital of *AB DNB Bankas* is paid up and no restrictions apply to the shares of the Bank as to their disposal. *AB DNB Bankas* had not issued any convertible securities.

In 2012 *AB DNB Bankas* did not hold its own shares and did not sell the shares of its subsidiaries to the third parties. During the reported period *AB DNB Bankas* acquired shares of UAB *Industrius* from its subsidiary UAB *Intractus.*

No restrictions other than those provided by the legal acts if any apply to the securities of *AB DNB Bankas* and no other Issuer or other holders' requirements apply to the of securities.

The history of the Issuer's authorized capital formation:

Date	Authorized capital	Increase of the authorized capital	Description
2001	102,839,115	-	
2002	176,585,430	73,746,315	Increase of the authorized capital by additional contributions
2004	195,116,795	18,531,365	Increase of the authorized capital by additional contributions
2005	234,110,020	38,993,225	Increase of the authorized capital by additional contributions
2006	283,396,340	49,286,320	Increase of the authorized capital from undistributed profit
2006	311,735,790	28,339,450	Increase of the authorized capital by additional contributions
2007	363, 691,755	51,955,965	Increase of the authorized capital by additional contributions
2008	590,998,800	227,307,045	Increase of the authorized capital from undistributed profit and additional contributions
2009	656,665,410	65,666,610	Increase of the authorized capital by additional contributions

On 30 June 2011 Norway registered *DNB Bank ASA,* then operating under *DnB NOR Bank ASA* name, has acquired 100 percent of shares of the Bank from *Bank DnB NORD A/S*, controlled by *DnB NOR Bank ASA* and registered in Denmark, thus becoming direct shareholder of the Bank owning 100 percent of it's shares and voting rights.

6. SHAREHOLDERS

On 31 December 2012 Norway's *DNB Bank ASA was* the sole direct shareholder of *AB DNB Bankas* that held 100 percent of the Bank's registered authorized capital of LTL 656,665,410.

Shareholder	Office address	Type of the company	Code	Number of ordinary registered shares	Share of the authorized capital held and number of votes, percent	
					Owned	With associates
DNB Bank ASA	Dronning Eufemias gate 30, 0191 Oslo, Norway	Bank	984851006MVA	5,710,134	100	100

The shareholders of the Issuer shall have the following property rights:

- To receive a share of the profit of the Bank (dividend);
- To receive funds of the Issuer if the authorized capital of the Issuer is decreased on purpose to disburse funds of the Issuer to the shareholders;
- To receive a share of the assets of the Issuer in the event of liquidation;
- To receive shares free of charge when the authorized capital is increased from the Bank's own funds, except in the events stipulated in laws;
- In case the shareholder is a natural person, to devise and bequeath all or any part of the shares to one or several persons;
- To sell or otherwise transfer all or any part of the shares to the ownership of other persons in the procedure and under the conditions prescribed in laws;
- To exercise the pre-emption right in acquisition of the shares or convertible bonds issued by the Issuer unless the General Meeting decides to withdraw the pre-emption right from all the shareholders in the procedure prescribed in laws;
- To lend to the Issuer in the manner prescribed in laws; however, when borrowing from its shareholders, the Issuer shall not pledge its assets to the shareholders. When the Issuer borrows from a shareholder, the interest shall not be higher than the average interest rate offered by commercial banks of the place of residence or business of the lender effective on the date of conclusion of the loan agreement. Thus the Issuer and the shareholders shall be prohibited from negotiating a higher interest rate;
- Other property rights stipulated in laws.

The shareholders of the Issuer shall have the following non-property rights:

- To participate in the General Meetings of Shareholders;
- To cast the votes granted by the shares held in the General Meetings of Shareholder;
- To receive the information about the Bank to the extent specified in the Law on Companies;
- To appeal to the court for the compensation of the damage suffered by the Bank due to the failure to perform the obligations of the President and the Members of the Management Board of the Bank stipulated in laws and the Bylaws of the Bank, or to perform them duly, and in other cases stipulated in laws.
- Other non-property rights stipulated in laws.

Unless otherwise established by law, the shareholders of the Issuer shall only hold an obligation to pay to the Issuer the issue price for all subscribed shares under the established procedure.

The shareholders of the Issuer shall not have special control rights. No Issuer's restrictions shall apply to the voting rights of the shareholders of the Issuer.

The Issuer is not aware of any reciprocal agreements between the shareholders which might lead to any restrictions on the disposal of the Issuers securities and (or) voting rights.

7. ARRANGEMENTS THAT WOULD BE ENFORCED, CHANGED OR TERMINATED AS A RESULT OF CHANGE IN THE ISSUER'S CONTROL

As of 31 December 2012 the following ISDA Master Agreements and TBMA/ISMA Global Master Repurchase Agreement, whereby the counterparties thereto have the right to terminate the transactions with the Issuer in case of a change in the Issuer's control, were in force:

– ISDA Master Agreement with UBS Limited dated 13 January 2006;
– ISDA Master Agreement with UBS AG dated 13 January 2006;
– ISDA Master Agreement with Calyon dated 15 November 2007;
– ISDA 2002 Master Agreement with JPMorgan Chase Bank N.A. dated 19 May 2008;
– ISDA Master Agreement with Barclays Bank Plc dated 18 December 2008;
– ISDA 2002 Master Agreement with Deutsche Bank AG dated 19 February 2009;
– ISDA 2002 Master Agreement with BNP Paribas S.A. dated 22 June 2009;
– TBMA/ISMA Global Master Repurchase Agreement with AB SEB Bank dated 29 October 2009;
– ISDA 2002 Master Agreement with Svenska Handelsbanken AB (publ.) dated 2 June 2010.

As of 31 December 2012 the Issuer also had the Finance Contract dated 13 March 2009 with the European Investment Bank, whereby the European Investment Bank has the right to terminate the Finance Contract in case of a change in the Issuer's control if, in the reasonable opinion of the European Investment Bank, such a change in the Issuer's control has or is likely to have a material adverse effect on the future repayment of the loan received under the Finance Contract.

The terms and conditions of the aforementioned by-lateral contracts are deemed confidential with regards to the Bank and the other parties involved disclosure of which could cause damage to the Bank.

As of 31 December 2012 the Issuer had no other significant arrangements that would be enforced, changed or terminated as a result of the change in the Issuer's control.

8. INFORMATION ON SECURITIES LISTED ON REGULATED MARKETS

Shares of *AB DNB Bankas* or of the other companies of the Group are not traded on regulated markets.

As of 31 December 2012 the following debt securities of *AB DNB Bankas* were listed on regulated markets:

Name of securities (ISIN code)	Name in regulated market	Number of securities	Nominal value per unit	Aggregate nominal value	Maturity
Fixed rate notes issue No. 10/2013 (LT0000431132)	NASDAQ OMX Vilnius Stock Exchange list of debt securities	350,000	100 (LTL)	35,000,000 (LTL)	2013-10-07
Fixed rate notes issue No. 05/2015 (LT0000405052)	NASDAQ OMX Vilnius Stock Exchange list of debt securities	150,000	100 (LTL)	15,000,000 (LTL)	2015-05-07

The Issuer is engaged in public trading brokerage activities; relevant transactions are performed by the Markets Department of the Bank.

9. MAIN CHARACTERISTICS OF DEBT SECURITIES ISSUED FOR PUBLIC TRADING

As of 31 December 2012 the par value of debt securities issued by *AB DNB Bankas* for public trading constituted LTL 86.4 million.

All Issuer's debt securities for public trading were made available for public trading during the issues. No restrictions apply to those securities as to their negotiability. All these securities are non-convertible.
The main characteristics of the debt securities issued by the Issuer are provided in Annex 1 of this Consolidated 2012 Annual Report.

10. INFORMATION ON RELEVANT AGREEMENTS WITH RELATED PARTIES

Information on relevant transactions with related parties are provided in Note 39 of the consolidated 2012 financial statements.

11. MATERIAL EVENTS OVER THE REPORTING PERIOD

Material events of *AB DNB Bankas* that took place in full year 2012:

On 2 February 2012 *AB DNB Bankas* notified that on 1 February 2012 Anne Birgitte Prestholdt started her office of member of the Bank's management board and executive vice president in charge of credit and financial risk management, loan restructuring as well as special assets and asset valuation operations. She replaced the member of the Bank's management board Fredrik Johannes Borch in the position.

On 9 February 2012 *AB DNB Bankas* notified that according to preliminary unaudited data calculated in accordance with International financial reporting standards the Bank earned a net profit of LTL 81.0 million (EUR 23.5 million) in the full year 2011. *AB DNB Bankas* profit before taxes and provisions in the full year 2011 was LTL 157.2 million (EUR 45.5 million).

On 27 February 2012 *AB DNB Bankas* presented unaudited Group and Bank's interim condensed financial statements for the fourth quarter of 2011 prepared in accordance with International Financial Reporting Standards and approved by the management

On 30 March 2012 the sole shareholder of the Bank Norway's *DNB Bank ASA*:

1. acknowledged 2011 Consolidated Annual Report of the Bank;

2. approved separate and consolidated financial statements of the Bank of 2011;

3. approved distribution of the profit (loss) of the Bank. It was decided to allocate LTL 77.1 million (EUR 22.3 million) from the Bank's 2011 net profit of LTL 81 million (EUR 23.5 million) to cover the retained loss for the previous year and transfer LTL193 thousand (EUR 55.9 thousand) to the obligatory reserve. The remaining part of the net profit of LTL 3.7 million (EUR 1.1 million) shall be transferred to the next financial year.

4. elected closed stock company „Ernst & Young Baltic“ as an audit firm to perform audit of the annual financial statements of the Bank for the year 2012 and authorized the president of the Bank to establish the other terms and conditions of the Agreement on auditing services with audit firm according to the approved by the sole shareholder remuneration amount;

5. approved the amendments of the Bylaws of the Bank:

5.1. Regarding reduction of the number of the Bank’s Supervisory Council members from 7 to 5 and to set the Section 7.1 of Chapter VII of the Bylaws of the Bank to read as follows:

"7.1. The Supervisory Council of the Bank shall be a collegial supervisory body supervising the operation of the Bank. The Chairman of the Supervisory Council shall be in charge of the Supervisory Council. The General Meeting shall elect 5 Members of the Supervisory Council. At such election, every shareholder shall have the number of votes equal to the number of the votes granted by his/her shares multiplied by the number of the Supervisory Council Members to be elected. These votes shall be cast, at the shareholders’ sole discretion, for one or for several candidates. The candidates who receive the greatest number of votes shall be elected. Should the number of the candidates who have received an equal number of votes be greater than the number of the vacancies on the Supervisory Council, a repeat voting shall be held, and in such voting each shareholder shall vote only for one of the candidates who have received the equal number of votes. The Supervisory Council shall be elected for the period of four years."

5.2. Regarding increase of the number of members of the Management Board from 6 to 7 and to set the Section 8.1 of Chapter VIII of the Bylaws of the Bank to read as follows:

"The Management Board shall be a collegial management body of the Bank consisting of 7 Members. It shall manage the Bank, handle the affairs thereof and represent it, and shall bear the liability for the performance of financial services in accordance with the laws."

5.3. Regarding the simplification of the procedure for the Adoption of the Decisions on the Establishment of the Branches, Representative Offices and Other Individual Outlets of the Bank and on the Termination of Their Operation and to set the Section X of the Bylaws of the Bank to read as follows:

"Section X. The Procedure for the Adoption of the Decisions on the Establishment of the Branches, Representative Offices and Other Individual Outlets of the Bank and on the Termination of Their Operation, the Procedure for the Appointment of the Managers of the Branches and Representative Offices of the Bank

10.1. The Bank shall have the right to establish branches and representative offices in the Republic of Lithuania.

10.2. The Bank shall also have the right to establish other individual outlets of the Bank which provide the financial services.

10.3. The decisions on the establishment, merger and termination of the operation of the branches, representative offices and other individual outlets of the Bank shall be taken by the Management Board. They shall operate in accordance with the laws, other legal acts, the Bylaws of the Bank and the Regulations approved by the Management Board.

10.4. The Bank may establish individual working places and automated points of sale subordinate to the Bank, a branch or any other individual outlet of the Bank in a location the same as or other than the Head Office, the branch or any other individual outlet of the Bank for provision of one or more financial services. The decision on the establishment of individual working places and automated points of sale, termination of the operation and approval of the Regulations thereof (if any) shall be made by the Management Board or a person duly authorised thereby to such extent.

10.5. The Management Board shall establish the procedure for appointment of managers of the branches and representative offices of the Bank and shall approve the candidate managers of the branches and representative offices of the Bank nominated by the President.

10.6. The branches, representative offices and other individual outlets of the Bank may have their seals.

10.7. The transactions made (financial services provided) by the branches and other individual outlets of the Bank including customer self service centres, individual working places and automated points of sale shall be included in the balance sheet of the Bank.

On 30 March 2012 *AB DNB Bankas* presented 2011 financial statements that included audited separate and consolidated financial statements prepared in accordance with International Financial Reporting Standards and consolidated annual report assessed by the auditors. The documents were approved by the Bank‘s sole shareholder *DNB Bank ASA* on 30 March 2012. The audited results of *AB DNB Bankas* for the full year 2011 did not differ from previously reported preliminary data**.**

On 30 March 2012 *AB DNB Bankas* notified that dr. Jekaterina Titarenko resigned from her position of a member of the Bank‘s Supervisory Council.

On 6 April 2012 AB *DNB Bankas* notified that the amended Bylaws of the Bank were registered with the Register of the Legal Entities on 5 April 2012.The Bylaws were amended in line with the decision of the sole shareholder of the Bank – *DNB Bank ASA* – as of 30 March 2012:

1. regarding reduction of the number of the Bank's Supervisory Council members from 7 to 5, therefore the Section 7.1 of Chapter VII of the Bylaws of the Bank was set as follows:

"7.1. The Supervisory Council of the Bank shall be a collegial supervisory body supervising the operation of the Bank. The Chairman of the Supervisory Council shall be in charge of the Supervisory Council. The General Meeting shall elect 5 Members of the Supervisory Council. At such election, every shareholder shall have the number of votes equal to the number of the votes granted by his/her shares multiplied by the number of the Supervisory Council Members to be elected. These votes shall be cast, at the shareholders' sole discretion, for one or for several candidates. The candidates who receive the greatest number of votes shall be elected. Should the number of the candidates who have received an equal number of votes be greater than the number of the vacancies on the Supervisory Council, a repeat voting shall be held, and in such voting each shareholder shall vote only for one of the candidates who have received the equal number of votes. The Supervisory Council shall be elected for the period of four years."

2. regarding increase of the number of members of the Management Board from 6 to 7 therefore the Section 8.1 of Chapter VIII of the Bylaws of the Bank was set as follows:

"The Management Board shall be a collegial management body of the Bank consisting of 7 Members. It shall manage the Bank, handle the affairs thereof and represent it, and shall bear the liability for the performance of financial services in accordance with the laws."

3. regarding the simplification of the procedure for the Adoption of the Decisions on the Establishment of the Branches, Representative Offices and Other individual Outlets of the Bank and on the Termination of Their Operation. The Section X of the Bylaws of the Bank was set as follows:

"Section X. The Procedure for the Adoption of the Decisions on the Establishment of the Branches, Representative Offices and Other Individual Outlets of the Bank and on the Termination of Their Operation, the Procedure for the Appointment of the Managers of the Branches and Representative Offices of the Bank

10.1. The Bank shall have the right to establish branches and representative offices in the Republic of Lithuania.

10.2. The Bank shall also have the right to establish other individual outlets of the Bank which provide the financial services.

10.3. The decisions on the establishment, merger and termination of the operation of the branches, representative offices and other individual outlets of the Bank shall be taken by the Management Board. They shall operate in accordance with the laws, other legal acts, the Bylaws of the Bank and the Regulations approved by the Management Board.

10.4. The Bank may establish individual working places and automated points of sale subordinate to the Bank, a branch or any other individual outlet of the Bank in a location the same as or other than the Head Office, the branch or any other individual outlet of the Bank for provision of one or more financial services. The decision on the establishment of individual working places and automated points of sale, termination of the operation and approval of the Regulations thereof (if any) shall be made by the Management Board or a person duly authorised thereby to such extent.

10.5. The Management Board shall establish the procedure for appointment of managers of the branches and representative offices of the Bank and shall approve the candidate managers of the branches and representative offices of the Bank nominated by the President.

10.6. The branches, representative offices and other individual outlets of the Bank may have their seals.

10.7. The transactions made (financial services provided) by the branches and other individual outlets of the Bank including customer self service centres, individual working places and automated points of sale shall be included in the balance sheet of the Bank."

On 27 April 2012 it was announced that according to preliminary unaudited data calculated in accordance with International financial reporting standards *AB DNB Bankas* earned LTL 21.7 million (EUR 6.3 million) net profit in the first quarter of 2012.

On 25 May 2012 *AB DNB Bankas* presented unaudited Group and Bank's interim condensed financial statements for the first quarter of 2012 prepared in accordance with International Financial Reporting Standards and approved by the management.

On 13 June 2012 *AB DNB Bankas* notified that on 12 June 2012 based on the decision of the Bank's sole shareholder – Norway's *DNB Bank ASA* - Olaf Tronsgaard was elected a member of the Supervisory Council of *AB DNB Bankas* until the expiry of term of office of the current Supervisory Council. Olaf Tronsgaard replaced Dr. Jekaterina Titarenko on the Supervisory Council after she resigned from the position on 30 March 2012 to continue her carrier in *DNB Bank ASA*.

On 12 July 2012 the Bank notified that according to preliminary unaudited data calculated in accordance to International financial reporting standards *AB DNB Bankas* earned LTL 55.3 million (EUR 16.0 million) net profit in the first six months of 2012. In the first six months of 2011 *AB DNB Bankas* net profit was LTL 36.2 million (EUR 10.5 million).

On 16 July 2012 *AB DNB Bankas* notified that on 16 July 2012 the Bank received a Statement of Objections by the Competition Council of the Republic of Lithuania regarding the investigation performed of the actions of *AB DNB Bankas* and other legal entities in compliance with the requirements of the Law on Competition of the Republic of Lithuania and Treaty on the Functioning of the

European Union. To the opinion of the evaluators, the actions of *AB DNB Bankas* could have limited competition in the cash collection and handling market. *AB DNB Bankas* informed it stood by opinion it had not violated legal acts on competition and shall provide to the Competition Council its arguments to ground the position according to the established procedure.

On 31 July 2012 it was notified that on 1 August 2012 Per Weidemann will take office of a member of the Bank's management board and executive vice president in charge of implementation of human resource management strategy.

On 28 August 2012 AB *DNB Bankas* presented its interim consolidated unaudited report for the first six months of 2012, unaudited interim condensed financial information prepared in accordance with International Financial Reporting Standards and confirmation of responsible persons.

On 25 October 25 2012 it was notified that according to preliminary unaudited data calculated in accordance to International financial reporting standards *AB DNB Bankas* earned LTL 75.98 million (EUR 22.01million) net profit in the first nine months of 2012.

On 28 November 2012 *AB DNB Bankas* presented unaudited Group and the Bank's interim condensed financial statements for the first nine months of 2012 prepared in accordance with International Financial Reporting Standards and confirmed by the management.

On 12 December 2012 *AB DNB Bankas* notified that on 11 December 2012 based on the decision of the Bank's sole shareholder – Norway's *DNB Bank ASA* – Eline Skramstad was elected as a member of the Supervisory Council of *AB DNB Bankas* until the expiry of term of office of the current Supervisory Council. Eline Skramstad replaced Ola Landmark on the Supervisory Council after he resigned from the position on 20 October 2012 to continue his carrier in *DNB Bank ASA* in Singapore.

On 20 December 2012 *AB DNB Bankas* notified that on 20 December 2012 the Competition Council of the Republic of Lithuania imposed a fine on a security solutions providing company and three Lithuanian banks for the arrangements that unreasonably limited the possibilities of the company's competitors to operate in the cash handling and collection services' market. *AB DNB Bankas* was imposed LTL8.6 million (EUR 2.49 million) fine. *AB DNB Bankas* notified it stood by the opinion that it had not violated legal acts on competition and will appeal this decision in line provided by the legal acts of the Republic of Lithuania.

Full information on material events related with the Issuer's activities is presented to the Bank of Lithuania, *AB NASDAQ OMX Vilnius* Stock Exchange, Central storage facility, the daily Lietuvos Rytas, news agencies BNS and ELTA and is available on the Bank's website www.dnb.lt.

12. INFORMATION ON PERFORMANCE RESULTS

AB DNB Bankas group operated profitably in 2012. The main driving factors behind the positive financial result were the growth of income in all major business lines and further improvement of quality of the loan portfolio. This came as a direct consequence of the continuous growth of number of customers who choose DNB as their home bank and more stable business environment. It is also positive to note that better economic sentiment of both private individuals and businesses stimulates the demand for financial services, mortgages and investment credits for business expansion.
In 2012 *AB DNB Bankas* signed new credit contracts worth LTL 2.1 billion so the Group's net loan portfolio rose 0.4 percent year-on-year to LTL 8.6 billion.

With a number of customers increasing and funds on individual and corporate deposit accounts growing, the Group's deposit portfolio rose 14.3 percent year-on-year to LTL 5.9 billion at the end 2012.

The Group's assets rose 3.0 percent year-on-year to LTL 11.5 billion as of the end of December 2012.

With demand for financial services increasing and number of customers rising the Group's net income rose 11.1 percent year-on-year to LTL 378.8 million. Net interest income made the largest relative weight of 63.8 percent of operating income in 2012. Non - interest income made 36.2 percent of the operating income of the Group and was 4.1 percentage points higher compared to the same period the year before. The Group's operating and other expenses amounted to LTL 255.1 million in 2012. In 2011 they made LTL 182.8 million. The rise of operating expenses reflected the Bank's investments to the development of new core banking systems that will provide solid technological basis for sustainable growth of the Bank in long-term perspective. The new core banking system will help to respond to the increasing customer needs more flexibly as it will allow developing new functionalities and assuring high quality of the Bank's services.

With economy returning to the growth path and customer risks declining, the Group set aside LTL 43.1 million for special provisions, almost half less compared to LTL 82.8 million the year before. As the result the Bank's net profit of the year was LTL 88.4 million and the Group's net profit was LTL 80.4 million. In 2011 the Bank's net profit was LTL 80.95 million and the Group's net profit was LTL 74.26 million.

As of 31 December 2012 the Group's return on equity (ROE) was 6.0 percent and its cost/income ratio (CIR) was 67.4 percent.

Year	2009		2010		2011		2012	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Return on equity (percent)	-46.5	-45.9	-13.5	-14.7	6.8	7.5	6.0	6.5
Cost/income ratio (percent)	44.4	41.3	61.5	57.0	53.6	52.9	67.4	66.4

Due to further implementation of customer oriented business model and concerted efforts aimed to increase the number of new and existing customers who use *DNB* as their home bank, the number of individual and corporate customers rose by more than 60 thousand to 777 thousand in the full year 2012. That contributed positively to the Group's income growth from its core business.

The Group served its private and corporate customers through the country's second largest nationwide customer service network in 2012. It consisted of 78 banking outlets across Lithuania with self-service terminals installed in each of them. *AB DNB Bankas* continued to invest into modernization of the branches and renewed two of its outlets closing one in the reporting year.

During the reporting year the Group's customers could use the country's largest ATM network under the same terms and conditions, the network that connects 541 DNB (182) and SEB (359) ATMs in 80 cities and towns thanks to the outstanding common ATM network agreement. *AB DNB Bankas* also extended installation of new ATMs with cash deposit function providing this convenient self- service option to its customers in Lithuania's top five cities. In December 2012, the Bank signed cooperation with *UAB Perlo Paslaugos* for cash in/cash out services so that Group's customers could use *Perlas* POS terminals across Lithuania to deposit or withdraw cash in places where there were no banking outlets or ATMs and during off-office hours or weekends.

The Bank issued 97 thousand new payment cards in 2012 so its outstanding payment cards' portfolio rose to 505 thousand as at the end of year. The turnover of payment cards of the Bank totaled LTL 4.9 billion in the full year 2012.

With active focus on payment cards business development the Bank further expanded its card acquiring network, signing agreements with 235 new merchants over the reporting year. Thus the Bank's entire network of payment card acquiring rose to 2 288 POS terminals at the end of the year. The turnover in payment card acquiring business totaled LTL 247.7 million LTL in 2012.

In the third quarter of 2012 the Bank upgraded its internet banking making it more user-friendly and functional. The number of customers using *AB DNB Bankas* internet banking services rose 17 percent year-on-year to 526 thousand as at the end of 2012. 93.1 percent of all money transfers were effected via the internet banking channel.

AB DNB Bankas continued implementation of the SEPA (Single Euro Payments Area) initiative in Lithuania, by actively participating in SEPA Coordination Committee. Starting from 3 January the Bank has implemented requirements of the Payments Law by improving value dating of SEPA credit transfer from two to one value date and extending cut-off time. *AB DNB Bankas* has improved cut-off time for express payments in US dollars and euro at the customer service branches and internet banking providing customers with exceptional terms in the market.

Deutsche Bank AG, one of the largest settlement banks worldwide, awarded *AB DNB Bankas* with the EUR/US Straight-Through-Processing Excellence Award for the exceptional quality of payment messages for the sixth year running. The quality of drafting and sending of a money order means that funds of customers at *AB DNB Bankas* constantly reach the beneficiary in a prompt and safe way.

To ensure high level of financial services *AB DNB Bankas* continued to perform the "Mystery Shopping" and customer satisfaction surveys in 2012. These surveys carried out among individual and corporate customers measured customer service quality and customer satisfaction in different aspects - from general service quality up to functionality of individual products and the bank's image. The surveys' results help the Bank to identify its strengths and set priority actions for further improvement.

AB DNB Bankas group that cherishes long-term relationships, has been fulfilling its obligations to its social partners including sponsorship for the national men's basketball team for the tenth year in a row clearly demonstrating that it is a reliable partner not only in business but also in the community life.

Retail banking

In the reporting year the Bank was offering the following range of services to individual customers: bank accounts in litas and foreign currencies, term deposits in litas and foreign currencies, mortgage loans, consumer credits, private credits, local and international transfers, payment cards of MasterCard and VISA international organizations, acceptance of bank cheques and traveller's cheques (American Express, Thomas Cook, Swiss Bankers), cash exchange services, cash operations, rent of individual safe-deposit boxes, financial brokerage services, electronic banking services, leasing services, and investment products.

Consistently aiming to increase the number of new and existing individual customers who use DNB as their home bank and encourage them to use various banking services more actively, in 2012 the Bank continued to focus on individual customer service quality and culture, implementation of customer segment approach that focuses on a more flexible response to customer needs and enhancement of the Bank's brand, service and product awareness. As the result the number of individual customers of *AB DNB Bankas* rose by 55 thousand to 716 thousand as at the end of the reporting year.

Pursuing responsible lending practices *AB DNB Bankas* continued its mortgage loan program *"Your first home"* in the reporting year, granting its customers with an option to defer a monthly payment of credit principal once a year or to repay the entire credit or part of it early free of charge. Due to the active sales of the programme that also embraced competitive lending rates *AB DNB Bankas* turned into one of the top new mortgage credit providers in Lithuania's banking market in 2012. The Bank also was active in consumer financing including consumer credit, leasing and credit limit with Power credit card.

In the reporting period the Bank also took active stance in the country's savings and investment market. The Bank offered Government bonds to retail investors initiating the promotion campaign "We believe in Lithuania" for those looking for alternative instruments for their deposits. In May the Bank started offering Government savings notes to retail customers after being picked up in a tender one of the three country's banks to sell this investment option backed by state guarantees.

Responding to the needs of different customer age groups the Bank presented a unique set of offers to young people in 2012 - youth program UP. To facilitate the first independent steps of life beginners, the Bank presented them a useful advice book "Deposits and zippers" free of charge. The Bank also offered a new credit card available to full-time students. The Bank continued to provide special offers for academic youth after launching a "Successful student" package. The Bank also extended credits to finance their studies under very competitive terms. The cooperation agreement with the Lithuanian Students' union also added to the Bank's range of services provided to the segment.

To provide customers with various financial services at the Bank, *AB DNB Bankas* continued collaboration with *ERGO Life Insurance SE, UAB DK PZU Lietuva* and *UAB DK PZU Lietuva Gyvybės Draudimas*. As a result of active sales of insurance services in the full year 2012 more than 50 percent of new mortgage borrowers of *AB DNB Bankas* were insured with life insurance and over 75 percent of them chose to insure their property. Within the reporting period over 80 percent of new express credit takers were insured with life insurance while the total number of insured payment cards topped 130 thousand.

Corporate banking

In 2012 the Bank maintained its strong position in corporate banking sector due to its long-term constructive relationships with its customers, being flexible decision maker and consistently focusing on service quality. Alongside with the increasing number of corporate customers who chose DNB as their home bank, the number of corporate customers rose by 5.4 thousand to 60.9 thousand. This clearly indicated the efficiency of the Bank's customer centric business model.

More stable operating environment and markedly better economic sentiment of businesses had stimulated higher demand for financial services and investment credits for business expansion in 2012. As a result at the end of December the Group's net loan portfolio to corporate customers rose 1.5 percent year-on-year to LTL 4.65 billion. In 2012 the Bank's loan portfolio to the food processing, energy related and public industries as well as export oriented economy sectors increased the most while financing of real estate, renting and transport sectors declined. The Bank's loan portfolio for manufacturing, trade and service sectors remained stable during the year 2012 due to credit restructuring efficiency.

In 2012, *AB DNB Bankas* paid prime attention to small and medium size enterprises (SMEs) by offering them solutions designed to meet their specific needs. *AB DNB Bankas* having an understanding of the difficulties the business start-ups are facing at the initial phase, it developed a special application "Establish Your Business" for i-Pads and regular PCs. This application provides all relevant information to key questions when developing a successful start-up business model – from fresh business idea to registration of the company. The Bank also offered start-ups with an option to register a new company and form its authorized capital online. As a result, in 2012 31.1 percent of all registered new companies chose DNB as their financial partner.

In the second half of 2012 *AB DNB Bankas* in cooperation with public company Versli Lietuva introduced to the market a free of charge financial business plan calculator, the instrument designed to assist entrepreneurs to assess their business prospects and likely results, calculate investment payback and check the probability of winning the financing for a particular project. To already operating enterprises *AB DNB Bankas* offered a special service package BANKO ABONEMENTAS™ designed to help the management of the enterprise's daily banking expenses more efficiently. For investment credit takers the Bank also offered a unique option to postpone a credit installment once a year. The Bank's relationships with SME segment were positively influenced by allocation of a personal relationship manager to each SME customer.

Agriculture and food processing sectors were also among the most important segments of *AB DNB Bankas*. For this reason, in 2012 the Bank extended its financing to farmers and agricultural enterprises for working capital and investments. The Bank continued close co-operation with the state agricultural credit fund *UAB „Žemės ūkio paskolų garantijos fondas",* extending credits secured by guarantees of this state institution. In the reporting year the Bank continued cooperation with partners trading in goods for agricultural sector implying more favorable financing conditions to farmers, agricultural companies and other enterprises purchasing products from these partners. The major advantage of these programmes was that farmers would get interest-free financing without collateral as the credits are backed by guarantees of the state rural credit guarantee fund while the seller of the production would pay the interest on the credit to the bank.

During the reporting year the Bank continued cooperation with *UAB „Investicijų ir verslo garantijos" and* extended micro credits and loans backed by guarantees of this state institution.

In 2012 *AB DNB Bankas* has successfully paid State company's *Deposit and Investment Insurance* insured deposits for bankrupt bank AB bankas Snoras corporate customers in Telšiai and Utena district. As of 31 December 2012 the Bank paid 99.5 percent of the amount allocated.

The Bank, in cooperation with leasing and investment management subsidiaries, offered corporate customers a variety of solutions that meet the borrowing, investment and settlement needs of companies. Favourable offers were made not only for businesses but also for employees of corporate customers.

Investment banking

AB DNB Bankas investment banking activity includes trading in securities, liquidity management, funding arrangement for the Bank and its subsidiaries, full service brokerage services, provision of leverage solutions for private and corporate customers including derivative and structured products, as well as corporate finance services, including M&A advisory and fund-raising.

In 2012, the main sources of investment banking income were foreign exchange, securities brokerage and commission income from DNB Trade™ on-line platform. Foreign exchange turnover in 2012 exceeded LTL 17.3 billion and generated LTL 11.6 million income for the Bank. Securities brokerage income reached LTL 9.5 million on turnover of LTL 7.53 billion.

The turnover through the DNB Trade™ on-line platform was LTL 22.28 billion and generated LTL 1.4 million income. DNB Trade™ is an electronic real-time trading platform, which offers wide choice of financial instruments worldwide including FOREX, equities (over 20 bourses), CFDs and futures.

13. SUBSIDIARIES

On 31 December 2012 *AB DNB Bankas* owned the following subsidiaries: *UAB DNB Investicijų Valdymas, AB DNB Lizingas, UAB DNB Būstas, UAB Industrius and UAB Intractus* with its subsidiary *UAB Gėlužės projektai.*

UAB DNB Investicijų Valdymas

Name	UAB DNB Investicijų Valdymas
Legal status	Limited company
Date and place of registration	Registered with the State enterprise Centre of Registers on 19 August 2003
Company code	226299280
Registered and actual office address	J. Basanavičiaus g. 26, Vilnius, Lietuvos Respublika
Telephone numbers	(+370 5) 239 3567
Fax number	(+370 5) 239 3473
E-mail	investicija@dnb.lt
Website	www.dnb.lt
Number of the permission to be engaged in the activities of a management company	VĮK –003

The Bank's subsidiary *UAB DNB Investicijų Valdymas* is specialized in management of pension, investment funds and client portfolios and is the country's third largest asset management company in terms of value of assets. 100 percent of *UAB DNB Investicijų Valdymas registered* authorized capital are owned by its sole shareholder *AB DNB bankas*

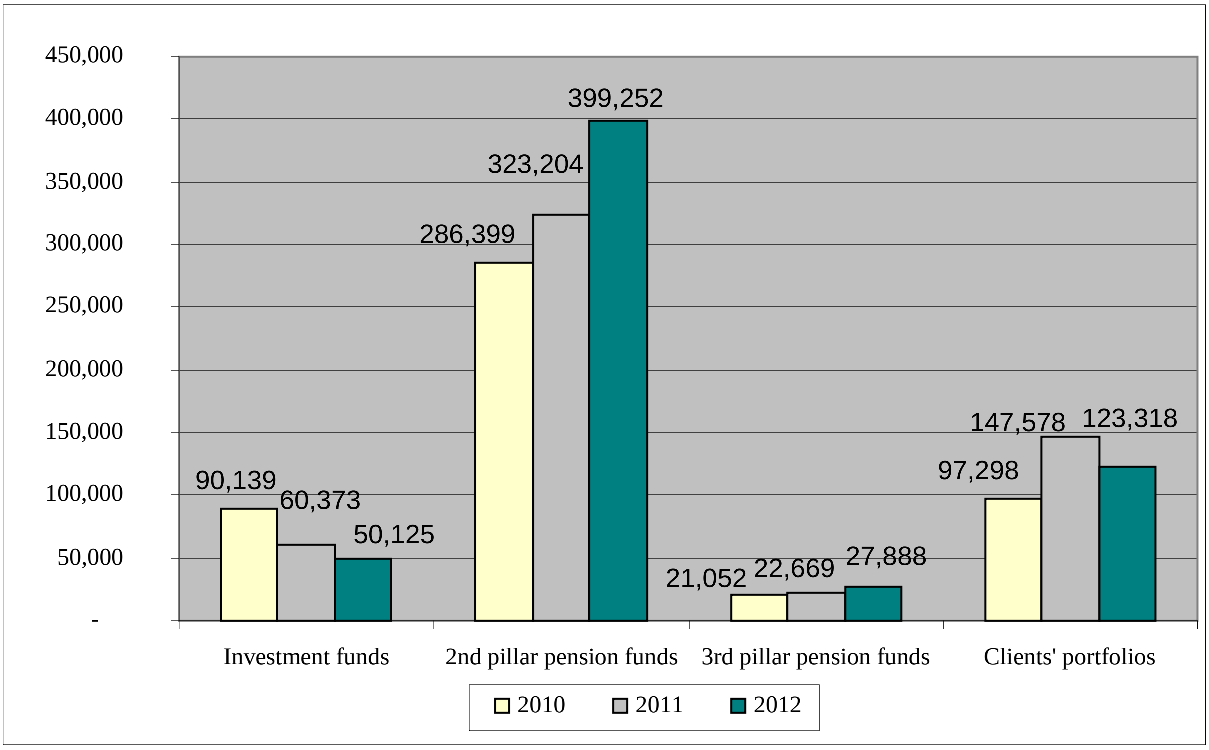
UAB DNB Investicijų Valdymas is ranked the country's third largest company in terms of assets under management. The company held about 97.2 thousand outstanding contracts and managed three own second pillar pension funds, two third pillar pension funds and two investment funds as at the end of 2012. Its total assets under management increased 8.4 percent year-on year or LTL 46.8 million to LTL 600.6 million as at the end of the reporting year.

UAB DNB investicijų valdymas also provided investment portfolio management services for UAGDB *PZU Lietuva life insurance* and AB *Ergo Lietuva* life insurance companies. According to these agreements the company has established 10 investment funds of different strategies. The company also has been providing investment portfolio management services to other legal customers.

DNB investicijų valdymas second-pillar pension funds market share, according to the data of Bank of Lithuania, rose to 8.3 percent as at the end of 2012 from 7.9 percent the year before, including life insurance companies managing second-pillar funds data. The company held 25.7 percent market share in third pillar pension funds segment, up from 24.1 percent the year before.

The company's net profit in 2012 totalled LTL 2.3 million. In the reporting year the company's return on equity (ROE) was 32.47 percent and its cost to income ratio (CIR) was 35.82 percent. These figures are counted according to International Financial Reporting Standards.

Structure of assets under management



The performance of the funds as of 30 December 2012

Fund	Equity part, %	YTD	Benchmark YTD
2nd Pillar Pension Funds			
DNB pensija 1	Government bonds	9,92%	4,54%
DNB pensija 2	Equities up to 25%	9,93%	6,52%
DNB pensija 3	Equities up to 50%	11,30%	8,75%
3rd Pillar Pension Funds			
DNB papildoma pensija	Equities up to 50%	8,72%	8,75%
DNB papildoma pensija 100	Equities up to 100%	10,65%	12,83%
Investment Funds			
DNB pinigų rinkos fondas	Short bonds and deposits	1,36%	0,41%
DNB akcijų fondų fondas	Equities	10,97%	12,83%

International investment market research agency “Morningstar” assigned DNB Money Market Fund the top 5 star rating which holds since 2009. DNB Equity Fund of Funds holds 3 stars rating. These rankings are granted based on the fund performance, investment portfolio and costs.

AB DNB Lizingas

Name	*AB DNB Lizingas*
Legal status	Joint stock company
Date and place of registration	Registered with the State enterprise Centre of Registers on 6 March 1998
Company code	124385737
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 239 3030
Fax number	(+370 5) 239 3031
E-mail	lizingas@dnb.lt
Website	www.dnb.lt

AB DNB Lizingas is the Bank's subsidiary that provides vehicle, agriculture machinery, equipment and real estate leasing services to corporates and private individuals. For customer convenience *AB DNB Lizingas* services are provided using nation-wide *AB DNB Bankas* branch network. *AB DNB Bankas* is the sole shareholder of the leasing subsidiary owning 100 percent of its LTL 130 150 000 registered authorized share capital.

As at the end of the reporting period *AB DNB Lizingas* leasing portfolio before provisions was LTL 331 million, 3.2 percent lower compared to the start of the year. Its leasing portfolio for private individuals rose over the year 3.1 percent to LTL 32.9 million as at the end of 2012. The company's leasing portfolio for legal entities dynamics matched the country's leasing market trend. It went down 3.9 percent compared to the start of the year and was LTL 298.1 million as at the end of 2012. *AB DNB Lizingas* market share was 6.6 percent at the end of the reporting period.

Responding to the market trend in the reporting year *AB DNB Lizingas* continued to focus on its portfolio quality, credit risk management, and further improvement of customer service quality and increase of new sales.

UAB DNB Būstas

Name	*UAB DNB Būstas*
Legal status	Limited liability company
Date and place of registration	Registered with the State enterprise Centre of Registers on 10 January 2007
Company code	300631876
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	Švitrigailos str. 11M, LT-03228 Vilnius, Republic of Lithuania
Telephone number	(+370 5) 2499 277
Fax number	(+370 5) 2499 276
E-mail	info@dnbbustas.lt
Website	www.dnbbustas.lt

UAB DNB Būstas is the subsidiary of *AB DNB Bankas* engaged in providing brokerage services in the country's real estate market. The company also sells franchises to real estate brokerage companies and individual brokers. On 31 December 2012 AB *DNB Bankas* owned 75.47 percent of *UAB DNB Būstas* registered authorized capital of LTL 1,378, 000 and the remaining 24.53 percent in the company was owned by the Bank's subsidiary *AB DNB Lizingas.*

UAB DNB Būstas carried out its activities in Vilnius, Kaunas, Klaipėda, Šiauliai, Druskininkai, Mažeikiai, Akmenė, Skuodas and the surrounding regions in 2012. At the end of the reporting period three real estate brokerage companies and 42 individual brokers were providing real estate brokerage services under franchise agreements with *UAB DNB Būstas*. During the reporting period *UAB DNB Būstas* retained its leading position in newly constructed residential segment and was among largest real estate brokerage companies in terms of sales and number of listings.

In 2012 *UAB DNB Būstas* income rose to 2.1 million litas, compared to 1.6 million litas the year before. During the reporting period *UAB DNB Būstas* brokers sold real estate assets worth 148.1 million litas and mediated to customers mortgage loans of the Bank worth 40.1 million litas.

UAB Intractus

Name	UAB *Intractus*
Legal status	Limited liability company
Date and place of registration	Registered with the state enterprise Centre of Registers on 6 August 2009
Company code	302424698
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	Liejyklos g.3, LT-01120 Vilnius, Republic of Lithuania
Telephone number	(+370 5) 243 1679
Fax number	(+370 5) 243 1681
E-mail	intractus@intractus.lt
Website	-

The Bank's subsidiary *UAB Intractus* is a limited liability company set up for efficient management of foreclosed real estate assets. The company is entitled to effect operations related to the efficient management of real estate, such as buying, selling, letting of real estate and planning its development. On 31 December 2012 AB *DNB Bankas* was the sole shareholder of *UAB Intractus* with a registered authorized share capital of LTL 101,643,100.

The real estate assets on the *UAB Intractus'* consolidated statement of financial position were LTL 203 million as of 31 December 2012 including land plots, buildings and premises. In 2012 UAB *Intractus* presented to the real estate market a new business center after investmenting LTL 4.6 million to develop the commercial premises into income generating asset.

UAB *Intractus* fully owned a limited liability company *UAB Gėlužės projektai* (company code 301135524) with authorized capital of LTL 24.9 million as at the end of the reporting period. *UAB Gėlužės projektai* develops one project.

On 31 December 2012 UAB *Intractus* owned 0.21 percent of UAB *Industrius* (company code 302593805) registered shares.

UAB Industrius

Name	UAB *Industrius*
Legal status	Limited liability company
Date and place of registration	Registered with the state enterprise Centre of Registers on 15 February 2011
Company code	302593805
Registered office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Actual office address	J. Basanavičiaus str. 26, Vilnius, Republic of Lithuania
Telephone number	(+370 5) 243 1679
Fax number	(+370 5) 243 1681
E-mail	-
Website	-

The Bank's subsidiary UAB *Industrius* is a limited liability company set up for efficient management of foreclosed real estate assets marked not for further development status. On 31 December 2012 UAB *Industrius* authorized capital was LTL 19 111 000 and 99.79 percent of its ordinary registered shares were owned by *AB DNB Bankas*. 0.21 percent of the company's shares were owned *UAB Intractus*.

UAB *Industrius* real estate assets on its statement of financial position were LTL 24 million as at the end of 2012 that included land plots, buildings and premises.

14. RISK MANAGEMENT AND INTERNAL CONTROL

The continualy functioning internal control system and risk management framework are implemented in the Group. The internal control – as a system of organisational measures, actions and internal procedures – ensures effective and efficient operations and prudent conduct of business, compliance with laws and regulations, adequate assessment and control of risks, as well as reliability of financial and non-financial information and submition thereof in a timely manner.

The aim of risk management in *AB DNB Bankas group* is assuring an acceptable return on equity pursuing the conservative policy of risk management.

Risk-related activity of the Bank and the Group has been strictly restricted by applying the system of limits. Limitations are set and supervision thereof is executed on a centralized basis at the Group level. The key principle of the risk management is to segregate the function of all-type risk management from risk assuming, i.e. from front-office units.

The Bank assesses and manages credit, liquidity, market (interest rate, foreign exchange rate, equity price), operational (including compliance and legal) and other risks it is exposed to in its activities. Credit risk is the dominant in the Bank's risk structure. Detailed information about financial risks assessment and management is provided in section Financial Risk Management of the *AB DNB Bankas* 2012 consolidated financial statements. The risk management principles have not changed significantly during the reporting period. The risk management processes were further improved with the aim to implement practice applied by the parent bank *DNB Bank ASA* and in order to use the more advanced methods for calculation of capital requirement for credit risk in the future.

As a result of pursuing the appropriate risk management policy over the reporting period the Bank was compliant with all prudential requirements set by the Bank of Lithuania.

Compliance with prudential requirements:

31 December 2012
(percent)

Ratio		Group	Bank
Liquidity		44.03	43.01
Capital adequacy		15.54	14.32
Overall open position		0.23	-0.19
Maximum position in one currency (NOK)		-0.13	-0.14
Maximum exposure to one borrower	< = 25 pct.	11.66	12.25
	< = 75 pct. (for subsidiaries)	-	56.18
Liquidity buffer covers net funding gap under stressed market conditions according to possible scenario during survival period (expressed as the number of times)		13.07	4.42

The duly established and regulated control function is operating in the Bank. The control function includes risk control, compliance and internal audit function. The risk control function is performed by the Operational Risk Department, Financial Risk Department and Markes and Treasury Support and Control Unit. The compliance function is performed by the Compliance Unit and the internal audit function – by the Internal Audit Department. Each control function periodicaly submits reports to the managemnt of the Bank and *DNB Bank ASA.*

15. RATINGS

With Norway's *DNB Bank ASA* becoming the sole shareholder of the Bank it has been decided that *AB DNB Bankas* shall use the ratings as assigned to the parent bank. No separate credit ratings are set for *AB DNB Bankas* starting 21 March 2011. Full rating's history of *DNB Bank ASA* and the latest reports are available on the Bank's website www.dnb.lt in the section About the Bank – Financial Reports – Ratings.

16. STRATEGY AND PLANS

AB DNB Bankas continues implementation of its Building the future strategy approved in 2012. The strategy is based on the common strategic platform for all DNB group's banks operating in the Baltic countries. This strategy reflects the vision and values of the entire DNB group and puts prime focus on a customer centric business model as well as long term value creation for customers, employees, shareholders and the society rather than product development or market share growth alone. For its customers *AB DNB Bankas* aims to be present and attentive, offer competitive prices, attractive products and be responsive and clear. This is aimed at to achieve a balanced growth of the customer portfolios and a higher penetration of all banking products and services.

The Bank also targets to further improve the quality of its loan portfolios, achieve better operational efficiency and continuously develop the competences of its employees. One of the key outstanding success factors remains the full scale implementation and migration of all existing applications to the new IT platform. The majority of private customer accounts were transferred to the new systems in 2012. The migration of the remaining private customers and all legal entities is planned to be finalized within the year 2013. The new banking systems provide for higher value creation to the Bank's customers and create solid technological basis for sutainable gorth of the bank in long term perspective. The bank also aims to capitalize on its affiliation to the *DNB group* by utilizing common product solutions and competences within the integrated organizational set-up.

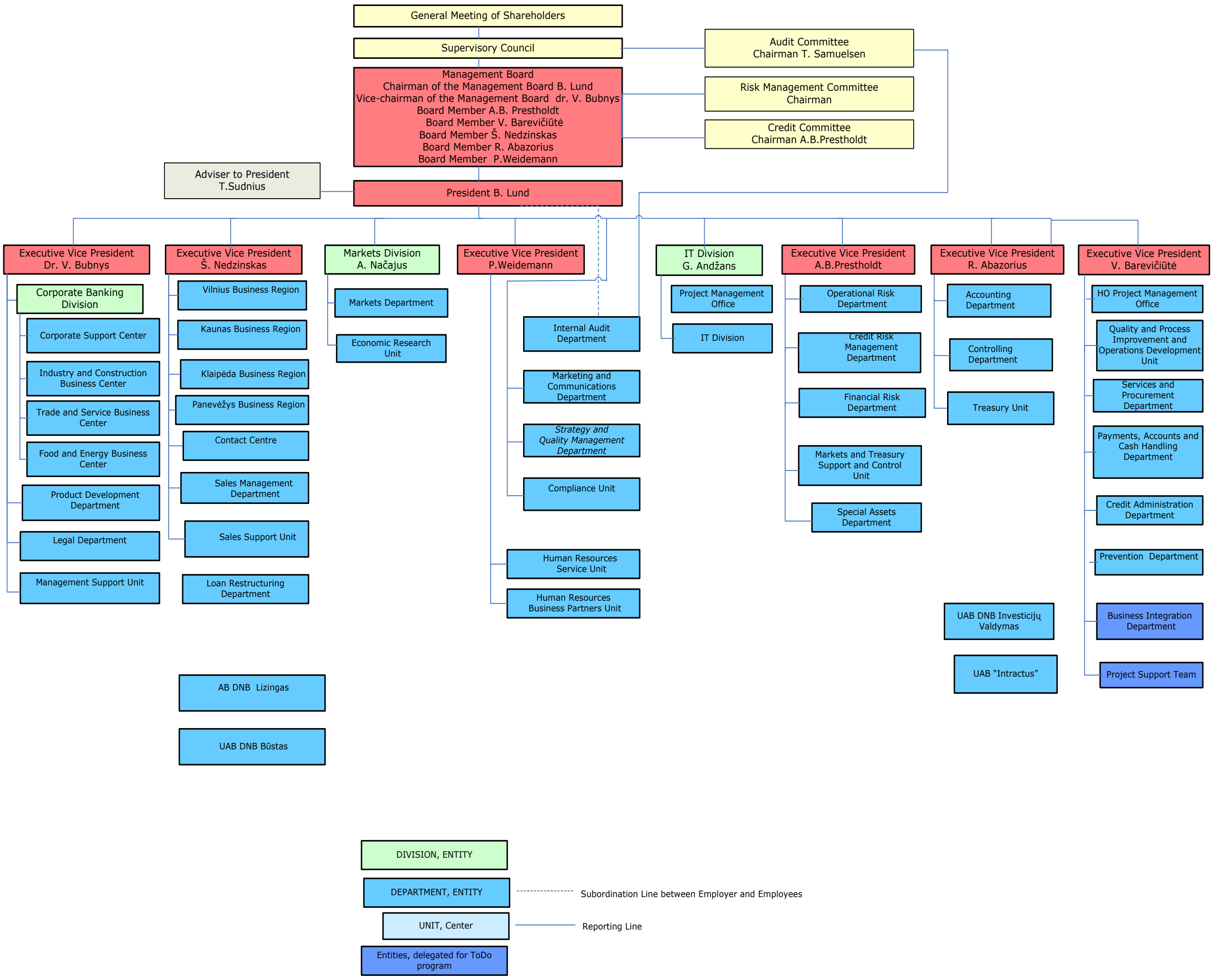
Furthermore *AB DNB Bankas* aims to contribute to maturing the Lithuanian financial market with clear stance on banking and economic issues, considering responsible banking and business ethics and promoting fundamentals of banking. To the Lithuanian society the bank aims to be perceived as transparent, socially responsible, educating people in financial and banking issues as well as supporting children and youth programmes and the Lithuania's men national basketball team.

17. IVESTMENTS

Investments into property, plant, equipment and intangible assets done during year 2012 are described in notes 20 and 22 of 2012 consolidated financial statements.

18. ORGANIZATIONAL MANAGEMENT STRUCTURE OF THE ISSUER

Organisational Management Structure of the Group of AB DNB Bankas
01 01 2013



No relevant changes to the organizational management structure were planned during the period of preparation of this report.

19. MANAGEMENT

The Bylaws of *AB DNB Bankas* provide that the bodies of the Issuer are the following: General Meeting of Shareholders, Supervisory Council, Management Board and Chief Executive Officer (President).

The General Meeting of Shareholders of the Issuer:

- amends the Bylaws of the Issuer, save for the exceptions stipulated in laws;
- elects the Supervisory Council or the individual Members thereof;
- removes the Supervisory Council or the individual Members thereof;
- elects and removes the audit company, establishes the terms and conditions of payment for audit services;
- approves the annual financial statements of the Issuer and the report on the performance of the Issuer;
- establishes the class, the number and sets the nominal value and the minimum issue price of the shares to be issued by the Bank;
- makes the decision to issue the convertible bonds;
- makes the decision to withdraw the pre-emptive right to acquire the shares or convertible bonds of the specific issue of the Issuer from all the shareholders;

- makes the decision to convert the Issuer's shares of one class into the shares of another class, to approve the share conversion procedure;
- adopts the decision on the profit (loss) distribution;
- adopts the decision on the formation, use, reduction and liquidation of reserves;
- adopts the decision to increase the authorised capital;
- adopts the decision to reduce the authorised capital save for the exceptions stipulated in laws;
- adopts the decision to acquire the Issuer's own shares;
- adopts the decision on the reorganization or division of the Issuer and to approve the terms and conditions of the reorganization or division;
- adopts the decision to transform the Issuer;
- adopts the decision to liquidate the Issuer, to cancel the liquidation of the Issuer, except in the events stipulated in laws;
- adopts the decision to elect and remove the liquidator of the Issuer, except in the events stipulated in laws.

The General Meeting of Shareholders may also make decisions on other issues unless they are attached to the competence of other bodies of the Issuer according to laws or the Bylaws of the Issuer and unless they are the functions of the management bodies of the Issuer by their essence. The General Meeting of Shareholders shall not delegate the issues attached to its competence for other bodies of the Issuer to decide.

The Supervisory Council of the Issuer shall be a collegial supervisory body supervising the operation of the Issuer. The Chairman of the Supervisory Council shall be in charge of the Supervisory Council. The General Meeting shall elect 5 Members of the Supervisory Council. At such election, every shareholder shall have the number of votes equal to the number of the votes granted by his/her shares multiplied by the number of the Supervisory Council Members to be elected. These votes shall be cast, at the shareholders' sole discretion, for one or for several candidates. The candidates who receive the greatest number of votes shall be elected. Should the number of the candidates who have received an equal number of votes be greater than the number of the vacancies on the Supervisory Council, a repeat voting shall be held, and in such voting each shareholder shall vote only for one of the candidates who have received the equal number of votes. The Supervisory Council shall be elected for the period of 4 years.

The Supervisory Council:

- elects the Management Board Members and removes them from the office, makes proposals to the Management Board with regard to the candidate Chairman of the Management Board. Establishment of the salaries and other terms and conditions of the respective employment contracts of the Management Board Members holding other offices in the Issuer, the President and the Executive Vice Presidents shall be subject to obtaining of the prior consent of the Supervisory Council. If operation of the Issuer generates losses, the Supervisory Council shall consider whether the Management Board Members are suitable to hold the office;
- supervises the activity of the Management Board and the President;
- approves the Regulations of the Supervisory Council;
- approves the business plans of the Issuer;
- ensures the existence of the effective internal control system in the Issuer;
- makes the proposals and comments to the General Meeting on the Issuer's business strategy, the Issuer's annual financial statements, the draft profit (loss) distribution and the report on the performance of the Issuer as well as on the performance of the Management Board and the President;
- approves the lending policy and establishes the procedure for the lending which is subject to the approval of the Supervisory Council;
- makes the proposal for the Management Board and the President to revoke their decisions which contradict laws and other legal acts, the Bylaws of the Issuer or the decisions of the General Meeting of Shareholders;
- establishes the transactions and the decisions which are subject to obtaining of the consent of the Supervisory Council prior to the conclusion or implementation thereof by the management bodies of the Issuer;
- takes the decisions on the issues within the competence of the Supervisory Council under the procedures, the approval whereof are delegated to the Supervisory Council under laws, the Bylaws of the Issuer and the decisions of the General Meeting of Shareholders;
- discusses or resolves other issues which under laws, the Bylaws of the Issuer and the decisions of the General Meeting of Shareholders shall be discussed and resolved by the Supervisory Council.

The Management Board of the Issuer is a collegial management body consisting of 7 Members. The Management Board shall be elected by the Supervisory Council for 4 years. Where individual Members of the Management Board are elected, they shall be elected for the period remaining until the expiry of the term of office of the current Management Board. A Member of the Management Board may resign from his/her office prior to the expiry of the term of office subject to a written notice thereof to the Issuer at least 14 days in advance.

The Management Board shall discuss and approve:

- the management structure of the Issuer and the job positions;
- the positions to be filled in by the way of competition;
- the regulations of the branches, representative offices and other individual outlets of the Issuer;
- the lending procedure of the Issuer, in accordance with the lending policy approved by the Supervisory Council;
- the Issuer's procedure for issuing of guarantees and sureties and assuming of other obligations;
- the procedure for writing off of loans and other debt obligations;
- the Regulations of the Credit and the Risk Management Committees.

The Management Board shall elect (appoint) and remove the President and the Executive Vice Presidents. The Management Board shall establish the salary of the President and other terms and conditions of his employment contract, approve his job description, apply incentives to or impose penalties on him. The Management Board shall determine what information shall be deemed to be a commercial secret of the Bank.
The Management Board shall adopt:

- the decisions for the Issuer to become a founder, a member of other legal persons;

- the decisions to establish branches, representative offices and other individual outlets of the Issuer and to terminate their operation;
- the decisions on the investment, transfer, lease of the fixed assets at the book value above 1/20 of the authorised capital of the Issuer (per each type of transaction);
- the decisions on the pledge and mortgage of the fixed assets at the book value above 1/20 of the authorised capital of the Issuer (in the aggregate amount);
- the decisions on the issuing of guarantees or sureties for the fulfillment of the obligations of other persons in the amount above 1/20 of the authorised capital of the Issuer;
- the decisions on the acquisition of the fixed assets for the price above 1/20 of the authorised capital of the Issuer;
- the decisions on the issuing of non-convertible bonds;
- the Regulations of the Management Board;
- the decisions on other issues which shall be discussed or resolved by the Management Board under laws and the Bylaws of the Issuer.

The Management Board shall establish:
- the terms and conditions of the share issue of the Issuer;
- the procedure for the issuing of bonds of the Issuer. Where the General Meeting of Shareholders takes the decision on the issuing of the convertible bonds, the Management Board shall have the right to establish additional terms and conditions of their issuing and to approve the bond subscription agreements to be signed by the President or the persons duly authorized thereby;
- the procedure for the recruitment of employees by the Issuer and the events when recruitment of employees by the Issuer shall be subject to the consent of the Management Board.

The Management Board shall implement the decisions taken by the General Meeting of Shareholders and the Supervisory Council. The Management Board shall analyse and assess the information submitted by the President on the following issues:
- the implementation of the business strategy of the Issuer;
- the organisation of the business of the Issuer;
- the financial state of the Issuer;
- the results of the business activities, the income and expenditure estimates, the stocktaking data and other accounting data of the changes in the assets.

The Management Board shall analyse and assess the draft annual financial statements of the Issuer and the draft profit (loss) distribution, and shall submit them to the Supervisory Council and the General Meeting of Shareholders. The Management Board shall establish the methodology for the calculation of the depreciation of the tangible assets and the amortization of the intangible assets to be applied in the Bank.
The President shall be a single person management body of the Issuer. The President shall act as follows:
- organise the daily operation of the Issuer;
- hire and dismiss the employees of the Bank, conclude and terminate the employment contracts with them, apply incentives to and impose penalties on them;
- establish the rates applied in the calculation of the depreciation of the assets in the Bank;
- represent the Bank in the relations with other persons, the court and the arbitrage without a special power of attorney;
- issue and revoke the powers of attorney and powers of procuration of the Bank;
- issue orders;
- perform any other actions necessary to perform his functions, to implement the decisions of the bodies of the Bank and to ensure of the operation of the Bank.

The President shall be responsible:
- for the organization of the operation and the realization of the objectives of the Issuer;
- for the drawing up of the annual financial statements;
- for the drawing up of the contract with the audit company;
- for the submission of the information and documents to the General Meeting of Shareholders, the Supervisory Council and the Management Board in the events stipulated in laws or upon their request;
- for the submission of the documents and particulars of the Issuer to the administrator of the register of legal persons;
- for the submission of the documents to the Securities Commission and the Central Securities Depository of Lithuania;
- for the publishing of the information stipulated in laws and other legal acts in the daily stipulated in the Bylaws if the Issuer;
- for the submission of the information to the shareholders;
- implementation of the provisions of the Law on Money Laundering Prevention;
- for the performance of other duties stipulated in laws and legal acts, the Bylaws of the Issuer and the job description of the President.

The President shall act on behalf of the Issuer and shall have the right to conclude transactions at his own discretion save for the exceptions stipulated herein or in the decisions of the bodies of the Issuer.

20. SUPERVISORY COUNCIL

According to the Bylaws the Supervisory Council of *AB DNB Bankas* consists of five members. The term of office of the existing Supervisory Council expires on 18 March 2014.

In 2012 the following changes took place in the Bank's Supervisory Council:

- On 30 March Jekaterina Titarenko, Chief Financial Officer of the Baltic Division of *DNB Bank ASA*, resigned from the position of the member and the vice-chairperson of the Supervisory Council.

- On 12 June Olaf Tronsgaard, the head of staff of *DNB* Bank ASA Baltic Division was elected to the Supervisory Council.
- On 11 December Eline Skramstad, the senior credit officer of *DNB Bank ASA* was elected to the Supervisory Council; she replaced Ola Landmark who had resigned from this position on 20 October.

Eleven meetings of the Supervisory Council were held during the reporting period. None of the members of the Supervisory Council missed more than half of the Supervisory Council meetings during the financial year 2012.

Information about position, office term, education, professional qualification and management competence of the members of the Supervisory Council:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Start	End		
Terje Turnes	Chairman of the Supervisory Council	01 03 2011	18 03 2014	Tronheim School of Economics; Diploma in economics and administration; the Norwegian School of Marketing Diploma in Marketing; Norwegian School of Economics and Business administration, MBA	Den norske Bank ASA, DnB NOR Bank ASA, various positions (1997-2010); DnB NOR Bank ASA, Head of Baltic and Poland Division (since 2010)
Tony Samuelsen	Member of the Supervisory Council	18 03 2010	18 03 2014	Norwegian School of Economics and Business Administration, diploma in economics and business administration	DnB NOR, New York, CEO, (1995-1998); DnB NOR, London, CEO (2000-2005); DnB NORD A/S, Chief financial officer (2006-2008); DnB NOR vice-president (since 2008)
Margrethe Melbye Gronn	Member of the Supervisory Council	18 03 2010	18 03 2014	University of Oslo, diploma in philosophy; Norwegian School of Management, master in business administration.	DnB NOR, vice-president and senior vice-president (2001-2010); Bank DnB NORD group, chief operating officer (since 2010).
Eline Skramstad	Member of the Supervisory Council	11 12 2012	18 03 2014	Science and Technology University of Norway, Master degree	DNB Bank ASA/Den norske Bank ASA account manager (2001-2005); DNB Bank ASA vice president (2005-2009)DNB BANK ASA senior vice president (2009 - 2012); *DNB Bank ASA* senior credit officer (since 2012)
Olaf Tronsgaard	Member of the Supervisory Council	12 06 2012	18 03 2014	Norwegian School of Management, Business and Economics MBA	E.ON AG (1995-1997); DnB NOR Bank ASA, Energy Section, vice-president (1997-2009); Special and Work-out Finance Section, senior vice president (2009-2012); DNB Bank ASA Baltic Division, head of staff (since 2012)

21. MANAGEMENT BOARD

According to the Bylaws the Management Board of *AB DNB Bankas* consists of seven members. All members of the Management Board were appointed until the end of the term of office of the Bank's Supervisory Council that expires on 18 March 2014.

In 2012 the following changes took place in the Bank's Management Board:

- On 1 February 2012 Anne Birgitte Prestholdt was elected as a member of the Management Board and executive vice-president of *AB DNB Bankas* responsible for risk management, special assets and loan restructuring.
- On 1 August 2012 Per Weidemann was elected as a member of the Management Board and executive vice-president of *AB DNB Bankas* responsible for implementation of human resource management strategy.

Information about position, office term, education, professional qualification and management competence of the members of the Management Board:

Name	Position	Information on start and end of holding the office		Education	Information about management competence and experience
		Beginning	End		
Bjørnar Lund	Chairman of the Management Board, president	06 05 2011	18 03 2014	Norwegian School of management, economist	DnB NOR Bank ASA, various positions (1987 – 2011)
Dr. Vygintas Bubnys	Vice-chairman of the Management Board, Executive	18 03 2010	18 03 2014	Vilnius University, PhD, Economist-mathematician	AB Lietuvos Taupomasis Bankas, Chairman of the Management Board (1991 – 1997); FBC Balticum

	Vice-president				Managament, Advisor, Deputy Manager, Manager (1997-2000); AB Lietuvos Žemės Ūkio Bankas, Advisor to the Chairman of the Management Board (2000-2002); AB Lietuvos žemės ūkio bankas (later AB bankas NORD/LB Lietuva), member of the Management Board (2002-2003); AB bankas NORD/LB Lietuva, (later AB DnB NORD bankas), vice-chairman of the Management Board (since 2003)
Ramūnas Abazorius	Member of the Management Board, Executive Vice-president	18 03 2010	18 03 2014	Vilnius University, master in finance	AB Lietuvos žemės ūkio bankas, manager of the Asset and Liability Management Team (1999-2001); AB Lietuvos žemės ūkio bankas, manager of the Asset and Liability Management Unit of the Financial Risk Department (2001-2003); NORD/LB, manager of the Credit Risk Unit of the Financial Risk Department (2003-2004); DnB NORD bankas, manager of the Controlling Department (2004-2010)
Šarūnas Nedzinskas	Member of the Management Board, Executive Vice-president	18 03 2010	18 03 2014	Vilnius University, Diploma in Economics; Vytautas Magnus University, MBA	AB Lietuvos Žemės ūkio bankas, Manager of the Stock Brokerage Division, Deputy Director of the Deposits and Credit Department, Director of the Credit Department, Member of the Management Board (1994-1997); AB bankas Hermis, vice-chairman of the Management Board (1998-2000); SEB Vilniaus bankas, Director of the Business Development Department, Director of the Financial Institutions Department, Director of the Special Loans Department (2000-2003); UAB Švyturys – Utenos alus, Sales Director (2003-2004); AB Lietuvos draudimas, Member of the Board, Director of Business and Risk Department (2004-2007); AB FMĮ Finasta, Director, chairman of the Board (2007-2008); AB DnB NORD bankas advisor to the president (2008-2009), member of the Management Board (since 2009)
Vaineta Barevičiūtė	Member of the Management Board, Executive Vice-president	01 07 2011	18 03 2014	Vilnius University, law diploma; ISM university, MBA	Vilnius municipality, lawyer (1998-1999); State Tax Inspectorate at the Ministry of Finance, lawyer, deputy unit head (1999-2003); AB bankas NORD/LB Lietuva, DnB NORD bankas, unit manager, Internal audit department manager (2003-2011)
Anne Birgitte Prestholdt	Member of the Management Board, Executive Vice-president	01 02 2012	18 03 2014	The Norwegian School of Economics and Business Administration	DnB NOR Corporate Clients department, manager (1999-2003); SME Sarpsborg, manager (2003-2009); Assets Restructuring, manager (2009); Retail Norge, Akershus Østfold, Head of Quality (2009-2012)
Per Weidemann	Member of the Management Board, Executive Vice-president	01 08 2012	18 03 2014	Oslo Business school, Master of business administration and marketing	DNB Bank ASA senior relationship manager (1994 – 2008); DNB Bank ASA senior vice president (2008-2011); AB DNB bankas, advisor to the president (2012)

The members of the Supervisory Council and the Management Board have no shares of the Issuer.
The members of the Supervisory Council, the Management Board and the administrative bodies are not connected by any family relationship between any of them.
The members of the Supervisory council, the Management Board and the administrative bodies of the Bank have not been convicted for any crimes of forgery. They have not been publicly officially incriminated or imposed any sanctions by any regulatory authority over the period of past five years. They have not been disqualified by a court from holding office as the member of the bank's administrative, management or supervisory body acting in the management or conduct of the affairs of any Issuer.

The members of the Supervisory Council, the Management Board and the administrative bodies of the Bank have no interests of conflict between any duties to the Issuer and their private interests and/or other duties. The Issuer has not entered into any deal with the above mentioned persons outside his/her principal activities.

Additional information about the Chairman of the Management Board-and and the Bank's president and Chief Financier:
Bjørnar Lund (Chairman of the Management Board and the president of the Bank): holds diploma in economics from BI Norwegian School of Management. He has been working in the Bank since 2011. Previous work record:

Bjørnar Lund has been working in Norway's *DnB NOR Bank ASA* since 1987. He has extensive experience working in various managerial positions in corporate and retail banking in Norway. In addition, he has international experience working abroad as the head of the Nordic Desk of *DnB NOR Bank ASA* in Singapore.

Jurgita Šaučiūnienė (Chief Accountant, Manager of the Accounting Department): Master's degree in business management from Vilnius University. Start of holding the office as Manager of the Accounting Department at the Bank in 2004. Previous work record:

Auditor Assistant, audit company TŪB "J. Kabašinskas ir partneriai" (1997 - 1998);
Member of KŪB, J. Kabašinsko KŪB "JKP konsultacijos" (1998 - 1999);
Agency NORD/LB bank / NORD/LB Vilniaus branch – Account, Chief Accountant (1999-2003);
Head of the Accounting Policy and Accountability Unit, *AB bankas NORD/LB Lietuva* (2003 - 2004).

Jurgita Šaučiūnienė has no shares of the Issuer.

22. FORMATION ON THE ACTIVITIES OF THE COMMITTEES OF THE ISSUER

In the reporting period Internal audit, Risk management, Credit and Remuneration committees were operating in *AB DNB Bankas.*

Internal audit committee

AB DNB Bankas Internal audit committee is established by the Supervisory Council of the Bank.

Internal audit committee supervises the functioning of the internal control system and risk management of the Bank, ensures the efficiency of internal audit functions, approves the annual audit plan for the Internal audit department and supervises the audit process. With regard to the auditing procedure and accounting policy, the Internal audit committee observes the integrity of financial information, reviews the conclusions and recommendations of the external auditor, monitors their independence and impartiality, determines the risk areas of the Bank's operations to be audited by the Internal audit department and by the external auditor, supervises compliance of the Bank's performance with the laws and regulations, the strategy and operating policy of the Bank.

In 2012 five meetings of the Bank's Internal audit committee were held.

Internal audit committee consists of three members:

Chairman	**Tony Samuelsen.** Employer - *DNB Bank ASA.*
Members	**Margrethe Melbye Gronn.** Employer - *DNB Bank ASA.*
	Leif Rene Hansen, the independent member.

Members of Internal audit committee have no shareholdings in *AB DNB Bankas.*

Risk management committee

Risk management committee (hereinafter referred to as the RMC) is a non-structural unit of the Bank established by the resolution of the Management Board of the Bank. The chairman, the vice- chairman and the members of the RMC are appointed by the Management Board of the Bank. The RMC reports to the Management Board of the Bank. RMC is responsible for ensuring effective formation of optimal capital structure, financial risk management and control, Optimization of the Bank's asset and liability structure with regards to acceptable risk and return.

Competence areas of RMC:

- capital management of the Bank,
- market risk management,
- liquidity risk management,
- Internal fund pricing,
- Operational risk (including compliance and legal risk).

In 2012 fourteen meetings of the Bank's Risk management committee were held.

Risk management committee consists of 10 members:

Chairwoman	**Anne Birgitte Prestholdt**, Executive Vice president of the Bank.
Vice-chairman	**Ramūnas Abazorius**, Executive Vice-president of the Bank.

Members	**Dalius Darulis**, Manager of the Corporate Banking Department, **Mantas Gikys**, Manager of the Treasury Unit, **Michail Leontjev**, Manager of Markets and Treasury Support and Control Unit, **Andrius Načajus**, Manager of the Markets Division, **Šarūnas Nedzinskas**, Executive Vice-president of the Bank, **Šarūnas Vaineikis**, Manager of the Prevention Department, **Vaidas Žiedelis**, Manager of the Operational Risk Department, **Vytautas Danta**, Manager of the Compliance Unit.

Members of the Risk management committee have no shareholdings in *AB DNB Bankas*.

Credit committee

The regulations of the Credit committee of AB *DNB Bankas* and its composition are approved by the Management Board of the Bank. Its functions are as follows:

- to assess the overall credit risk situation in the Bank;
- to assess and approve action plans for work with problem clients of the Bank;
- to approve the calculation of provisions for the loans evaluated individually and in a pool;
- regularly provide the reports regarding the implementation of credit risk management objectives to the Management Board of the Bank.

In 2012 three meetings of the Credit Committee were held.

Credit committee consists of:

Chairwoman	**Anne Birgitte Prestholdt**, Executive Vice-president of the Bank
Vice-Chairman	**Ramūnas Abazorius,** Executive Vice-president of the Bank
Members	**Bjørnar Lund,** President of the Bank **Vaidotas Aleksius,** Manager of the Special Assets Department **Šarūnas Nedzinskas,** Executive Vice-president of the Bank **Dr.Vygintas Bubnys,** Executive Vice-president of the Bank **Daiva Lideikienė,** Manager of Credit Risk Management Department **Aušra Aleknavičienė,** Manager of Loans Restructuring Department

Members of the Credit committee have no shareholdings in *AB DNB Bankas*

Remuneration committee

The Remuneration committee is set up by the Bank's supervisory council.

The committee is authorized to evaluate the variable remuneration policy and application thereof with the aim to manage the Bank's assumed risk, equity and liquidity, submit proposals on components of the remuneration package of the Bank's employees, supervise the variable remunerations of executives responsible for risk management and compliance control, prepare draft decisions regarding variable remuneration to be adopted, after approval of the Management Board of the Bank, by the Supervisory Council of the Bank with regard to long-term goals of the Bank, shareholders and investors.

The Bank's Remuneration committee consists of five members:

Chairwoman	**Sigutė Dindaitė-Kairienė**, Manager of the Human Resources Department
Members	**Dalius Darulis**, Manager of the Corporate Banking Department **Vytautas Jūras**, Manager of the Financial Risk Department **Lijana Žmoginaitė**, Manager of the Sales Management Department, **Vytautas Naruševičius**, Manager of the Controlling Department

Members of the Remuneration committee have no shareholdings in *AB DNB Bankas*.

23. EMPLOYEES

In 2012 the Group's human resources management was focused on fostering further the implementation of DNB vision – creating value through the art of serving the customer – among employees and implementation of the group's values in daily work with customer and colleagues.

As of 31 December 2012 the number of employees in the Group was 1,395 employees, 1 364 of them were employees of *AB DNB Bankas*. The average gross monthly salary in the Group was LTL 4 220 and in 2012 increased 5.6 percent year-on-year largerly due to the fixed salary review to the best performers and the job families the salaries of which compared to the market were non-competitive enough.

Changes in the number of employees and salaries

	31 12 2009	31 12 2010	31 12 2011	31 12 2012
Number of staff in the Bank	1,263	1,276	1,325	1,364
Number of staff in the Group	1,282	1,300	1,353	1,395
Average monthly salary in the Group in LTL	3,855	3,895	3,995	4,220

In the reporting year, the number of *AB DNB Bankas Group* employees averaged 1,380. As at 31 December 2012, the average monthly salary by main staff groups was as follows: LTL 7,850 to the administration (Members of the Management Board excluded); LTL 3,450 to specialists; LTL 2,380 to clerical staff; and workers.

The Group's staff by groups of positions as of 31 December 2012

	Number of employees	Staff structure by education		
		Higher	Specialised secondary (high)	Secondary
Administration	226	217	6	3
Specialists	1,155	830	150	175
Clerical staff and workers	14	4	4	6
Total	**1,395**	**1,051**	**160**	**184**

24. REMUNERATION POLICY

This information is prepared and published in implementation of Paragraph 25 of Resolution No. 03-175 dated 23 December 2010 of the Board of the Bank of Lithuania on Amending the Minimal Requirements for Remuneration Policies in Credit Institutions approved by Resolution No.228 of 10 December 2009 of the Board of the Bank of Lithuania as well as Resolution No.1K-9 Regarding the Requirements for Remuneration Policies Applied to the Financial Brokerage Firms, Management Companies and Investment Companies of the Securities Commission dated 3 February 2011.

AB *DNB Bankas'* Remuneration Policy also applied to the Bank's subsidiaries reflects the Bank's vision and values and is consistent with the policy of the Bank's sole shareholder, Norwegian *DNB Bank ASA* .

The Bank's Remuneration Policy was approved by the Bank's Supervisory Council on 10 April 2012. Its goal is to set the Bank's overall remuneration system to help implement the set business strategy, form the corporate business culture, and affirm the Bank's reputation as an attractive employer. The goal is to have a consistent and transparent remuneration system enabling for proper evaluation of each employee's contribution taking into consideration the results achieved, encouraging proper risk management and control, preventing from the possibility to assume too high risk and helping to avoid conflict of interest.

On 10 April 2012, the Supervisory Council of the Bank approved the regulations and composition of Bank's Remuneration Committee.
No external consultants' services were used to draft the Remuneration Policy. No interested persons contributed to drafting the Remuneration Policy.
Major structural parts of the Remuneration Policy:

- definitions;
- fixed remuneration;
- variable remuneration;
- other benefits
- Remuneration Committee;
- remuneration of controlling units;
- disclosure of information.

Remuneration consists of:

- Fixed remuneration means the salary fixed in an the employment contract

- Variable remuneration means the variable part of the salary depending on the results which is set in accordance with fulfilment of the set goals, as well as the rights to the Bank's shares, equity linked financial instruments. Variable remuneration can be paid on a monthly, quarterly basis or upon the year-end.
- Collective bonuses mean the remuneration which is granted for exceptionally high annual/long-term operating results, sharing the profit. It is paid in the following year by the decision of the Management Board of the Bank;
- Other benefits mean accident insurance, health insurance, pension insurance etc.

The remuneration principles in the Bank are related with the employee appraisal results. The annual business goals are set for DNB group, the Bank and the employees at the beginning of each year. A uniform process is applied for appraising the working culture and operating results.

The Remuneration Policy sets forth that the variable remuneration depends on fulfilment of key performance indicators (KPIs).

Variable annual remuneration including bonuses for the Bank employees may not exceed 50 percent of the annual fixed salary, including any payments to pension funds. Variable annual remuneration for the Markets Department may not exceed 90 percent of the overall annual salary.

The variable remuneration is paid by the decision of the Management Board of the Bank or of the Group only when the Bank is in a sustainable financial standing and the set performance of the business unit and/ or employees is fulfilled.

Principles of the variable remuneration for positions influencing the risk assumed by the Bank

The fixed remuneration to executive managers (the Bank's president, executive vice presidents, division managers, subsidiaries' directors) and to risk takers must comprise a considerable portion of the overall salary.

Calculation of the variable remuneration to risk takers is based on the annual evaluation of the KPIs and on the overall annual business evaluation. At least three years' performance appraisal results of the employee are taken as the basis.

Given the potential risk related to the evaluated performance of the employee, payment of at least 50 percent of the variable remuneration is deferred to be made in *DNB Bank ASA* shares or in other financial instruments. Deferred incentive amounts shall be subject to a 3 year period.

A third of the distributed shares is transferred to the beneficiary in one year from the share distribution date, another third is transferred in two years from the distribution date, and one third is transferred in three years from the distribution date. Thus, the ownership right to the shares will go the beneficiary after the shares are transferred thereto. Before transferring the ownership to the shares, the beneficiary has only relative rights to the shares.

Within this period the rights to the shares are relative and further risk assessment must be carried out in order to analyse whether or not the initial risk adjustment was correct. In case the assessment shows that the initial risk assessment was not correct, the rights to the conditionally distributed shares may be cancelled in full or in part.

In case there is a basis to suspect fraud or a serious breach of the internal or external rules, when the employee is accused or charged or in case other circumstances occur under which appointing of a variable remuneration may be treated as unreasonable or controversial, payment of the remuneration may be suspended or cancelled in part or in full, or it may be demanded to repay it after the distribution (refunding).

The annual calculation of the variable remuneration is based on the goals set during the performance review and on the overall assessment. The fulfilment of the annual goals is assessed. At least three years' term must be taken to assess the achieved goals in terms of the variable remuneration. The overall calculation is based on the average arithmetical calculations for the reporting period.

An assessment is carried out in respect of payment of each deferred variable remuneration portion.

The employees may not have signed agreements or employment agreements which are effective as insurance against unreceived variable remuneration.

The employees who resign from their position and who hold shares under minimum holding period must follow the rules regulating minimum holding periods, deferred payments reduction, and repayments. In case of the employee's death, the remuneration will be paid to the heirs.

The remuneration to employees performing independent control functions does not depend on the financial results of the business field controlled.

In order to attract, retain and motivate the best-qualified employees, the remuneration should reflect competences, experiences, market practice, and achievements.

The fixed remuneration portion must account for a considerable portion of the total remuneration to ensure a competitive remuneration in respect of the market research data.

The maximum percentage of a variable remuneration in relation to the fixed remuneration should reflect the levels of remuneration for various job categories.

Overall quantitative information on remuneration divided by employee groups (total remuneration amount, total variable remuneration amount, number of employees

Information for 2012 is based on the data available on 31 December 2012. All amounts indicated are before taxes

AB DNB Bankas	Fixed remuneration (thousand LT)	Variable remuneration (thousand LT)	Number of recipients
Bank administration	1,879	300	7
Employees risk takers *	2,147	920	10
Employees	62,741	5,150	1,322
Total:	66,767	6,370	1,339

Variable remuneration was paid in 2012 to the Bank's administration members for performance results of 2011. No payments for performance results of 2012 were made.

The structure of the variable remuneration:

AB DNB Bankas	Variable remuneration paid in cash (thousand LT)	Allocated deferred variable remuneration in shares (thousand LT)	Non-allocated deferred variable remuneration in shares (thousand LT)
Bank administration	150	50	100
Employees risk takers *	530	120	270
Employees	5,142	0	8
Total:	5,822	170	378

*Indicated variable remuneration paid in 2012

Amount of deferred variable remuneration allocated in the financial year, paid out and adjusted in respect of the performance results

In 2012 no such adjustments were made

Amount of guaranteed variable remuneration provided under new agreements and severance payments in the financial year and the number of recipients of such payments

No guaranteed variable remuneration was provided.

Amounts of severance pays allocated in the financial year, number of recipients of such pays and the largest allocated amount per person:

AB DNB Bankas	Number of recipients	Severance payments amount (thousand LT)	Largest amount per person (thousand LT)
	22	520	112

The Bank has no special commitments for employees regarding severance payment except the listed below:

a) The employment contract of two members of the Management Board who also act as executive vice-presidents of the Bank provide that the Bank shall pay to the employee a severance pay amounting to his/her three average monthly salaries, unless a higher severance pay amount is established by law, when the employment contract terminates or is cancelled on one of the following grounds:(a) on the Employers' will, (b) on the Employer's initiative, when the Employee is not at fault, (c) when the Employee refuses to be transferred together with the Bank (its unit) to another location, (d) when the Employee refuses to work after the introduction of changes to the employment conditions, (e) when the medical commission or the commission for the establishment of disability concludes that the Employee is unable to work under the employment contract.

b) The employment contract of two members of the Management Board who also act as executive vice-presidents of the Bank provide that the Bank shall pay to the employee a severance pay amounting to his/her six average monthly salaries, unless a higher severance pay amount is established by law, when the employment contract terminates or is cancelled on one of the following grounds:(a) on the Employers' will, (b) on the Employer's initiative, when the Employee is not at fault, (c) when the Employee refuses to be transferred together with the Bank (its unit) to another location, (d) when the Employee refuses to work after the introduction of changes to the employment conditions, (e) when the medical commission or the commission for the establishment of disability concludes that the Employee is unable to work under the employment contract.

c) The employment contract of the advisor to president of the Bank provide that the Bank shall pay to the employee a severance pay amounting to his/her nine average monthly salaries, unless a higher severance pay amount is established by law, when the employment contract terminates or is cancelled on one of the following grounds:(a) on the Employers' will, (b) on the Employer's initiative, when the Employee is not at fault, (c) when the Employee is not returned to the position of Executive Vice President of the Bank.

Additional retirement benefit or early retirement scheme does not apply for Members of Management Board.

Information on amounts allocated within the reporting period to the Bank's Management Board Members holding other positions at the Bank and to the Chief Financier

In 2012 no assets were gratuitously transferred or guarantees granted to these employees on behalf of the Bank. The information below shows the amounts allocated to these persons in total and the average amounts allocated to the Bank's executives, chief executive officer, and chief financial officer. Information on amounts paid individually to each person is not submitted following the requirements relating to the Bank's secret and personal data protection.

	Allocated amounts (thousand LT)
Overall amount to the Bank's all executives and to the chief financier.	**2,816**
Under employment agreement	2,273
Employer's social insurance contributions	543
Other payments including the employer's social insurance contributions*	**598**
Average per executive and chief financier of the Bank.	**352**
Under employment agreement	284
Employer's social insurance contributions	68

*expences related with car rent, accommodation and settling

25. DIVIDENDS

Over the period of the past five years the Issuer paid no dividend.

26. INFORMATION ON HARMFUL TRANSACTIONS CARRIED OUT ON BEHALF OF THE ISSUER DURING THE REPORTING PERIOD

During the reporting period *AB DNB Bankas* and Group were not engaged into harmful transactions that would be contradictory to the goals of the company, were carried out opposite to usual market terms or could harm the interests of the Bank‘s shareholder or other groups of interested persons.

27. PROCEDURE FOR AMENDING THE BYLAWS

Following the effective Bylaws of the Issuer (the recent wording of the Bylaws registered with the Register of Legal Entities on 5 April 2012), and the Law on Joint Stock Companies, the Bylaws of the Issuer may be amended by decision of the General Meeting of Shareholders taken by at least 2/3 of the votes of all the shareholders participating in the General Meeting of Shareholders, save for the exceptions established by law.

28. INFORMATION ON LEGAL OR ARBITRAL PROCEEDINGS

During the period from 1 January 2012 to 31 December 2012 the number of litigation (arbitration) proceedings, where Bank is a party, has not increased significantly. The legal cases are related to the financial services provided by the Bank, i.e. executions of the obligations assumed by the customers to the Bank are disputed.

As at the end of the reporting period the Bank was a defendant in 19 civil cases, the total disputed amount being approximately LTL 33.9 million. The disputes are related to equity linked bond issued by the Bank, which were acquired by the claimants from the funds borrowed from the Bank. Due to unfavorable market terms the bonds did not record sufficient returns while the obligation of the customers to pay interest on the granted loans remained. The customers state that the relevant risks and circumstances were not properly disclosed, i.e. the Bank provided investment services not in compliance with legal requirements. The Bank consistently takes the position that the information was properly disclosed and the investment services were rendered to the clients in accordance with the legal requirements. At the moment of preparation of the report there was one final court decision, confirming that the Bank had properly implemented its obligations.

On 30 April 2009 the Securities Commission of the RoL (hereinafter – SC) decided to impose a LTL 15 000 (EUR 4 344) fine upon the Bank as it identified some deficiencies in provision of investment services to 4 customers. The Bank appealed against aforementioned decision to the court. On 14 April 2011 the Supreme Administrative Court of Lithuania passed a mandatory and unappeasable decision that the decision of the SC and accordingly the sanction were ungrounded. On 19 December 2011 the case was reopened; the court announced its decision on 16 April 2012, this decision changed the previous decision of the court, i.e. the decision of SC was recognized as partially grounded, the fine was reduced to LTL 5 000 (EUR 1 448).

On 20 December 2012 the Competition council of the Republic of Lithuania adopted the Resolution No. 2S-15 regarding SEB Bank, Swedbank AB, DNB bank, UAB First Data Lithuania and UAB Lithuania G4S 'operational compliance with the requirements of the article 5 of the Lithuanian competition law and requirments of article 101 of the Treaty on the Functioning of the European Union and declared that AB DNB Bankas has violated the aforementioned requirements of the 5 article of the Lithuanian competition law and the requirements of the article 101 of the Treaty on the Functioning of the European Union. The Competetion council imposed the fine of 8,630,200 litas to the Bankas. It should be noted that the Bank does not agree with the decision and applied to the court.

29. SOCIAL PROJECTS

AB DNB Bankas supports relevant future-oriented local and nation-wide social initiatives and activerly shares its expertise and skills with the society.

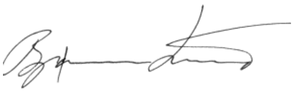
In 2012 the Bank launched an educational project Liftas dedicated to promotion of youth entrepreneurship which attracted active participation of 51 gymnasiums of Lithuania. This educational project is planned to be continued. Moreover, in 2012 the Bank continued close cooperation with the association "Langas į ateitį“ and ISM University by contributing to their program called 100 Talents. The Bank traditionally awards the Best Thesis along with the Lithuanian Society of Young Researchers. ISM University, DNB Bankas and SE Versli Lietuva (the agency Enterprise Lithuania) are collectively running a number of projects aimed at improvement of business environment in Lithuania, promotion of entrepreneurship and development of practical instruments for business start-ups.

To contribute to the rise of national administrative culture – the key factor influencing national welfare, for a number of years already the Bank supports the nomination for the State Officer of the Year award initiated by the weekly magazine Veidas. The Bank and and its employees are active participants in Christmas charity events. In 2012 the Bank as a partner contributed to the Christmas campaign "Christmas of Books" initiated by the Republic of Lithuania President D.Grybauskaitė and donated to all Lithuania's school libraries the books nominated for the Best Lithuanian Book award.

To promote and support the culture and arts in 2012 the Bank sponsored the staging of the most recent performance by D.Ibelhauptaitė and the Bohemians' Group - G.Puccini's opera "Manon Lescaut“. The Bank aims to contribute to the life of each community in larger and smaller towns and sponsors their cultural events and such events like Klaipėda Castle JAZZ festival, the festival "Operetta in Kaunas Castle”.

Marking its comtment to long term-partnership, in 2012 the Bank celebrated a 10-year partnership with the Lithuanian Basketball Federation jubilee - sponsorship of the Lithuanian National Men's Basketball Team is the main sports sponsorship project of the Bank. The Bank also promotes physical activity and supports events aimed at propagating a healthy lifestyle, such as the running event "I Run Vilnius“, street basketball games in major cities of Lithuania.

President of AB DNB Bankas



Bjørnar Lund

Annex I

Main characteristics of debt securities issued for public trading

As of 31 December 2012 the following debt securities issues were made by the Issuer for public trading:

Name of securities (ISIN code)	Number of securities	Nominal value per unit	Issue price per unit	Aggregate nominal value	Interest (gain) amount, percent	Maturity	Redemption price, terms and procedure	Coupons paid in 2012 (LTL)
Fixed rate note issue No. 5/2015 (LT0000405052)	150,000	100 (LTL)	99.3519 (LTL)	15,000,000 (LTL)	5.00	07 05 2015	Par	747,000
Fixed rate note issue No. 5/2013 (LT0000431033)	96,134	100 (LTL)	99.95-100.00 (LTL)	9,613,400 LTL	4.10	28 05 2013	Par	392,226
Fixed rate note issue No. 10/2013 (LT0000431132)	350,000	100 (LTL)	99.7195 (LTL)	35,000,000 (LTL)	3.50	07 10 2013	Par	1,228,500
Security and commodity index linked notes								
Global equity-linked note issue No. 39-LV (LT1000430033)	3,903	100 (EUR)	100.00 (EUR)	390,300 (EUR)	Subject to index change	02 04 2013	Par +/- premium	-
Global equity-linked note issue No. 40-LV (LT1000430041)	2,567	100 (EUR)	110.00 (EUR)	256,700 (EUR)	Subject to index change	02 04 2013	Par +/- premium	-
Global equity-linked note issue No. 41-LV (LT1000430066)	10,000	100 (EUR)	110.00 (EUR)	1,000,000 (EUR)	Subject to index change	15 04 2013	Par +/- premium	-
Asia eguity-linked note issue No. 6 (LT0000430993)	50,828	100 (LTL)	99.43-100.00 (LTL)	5,082,800 (LTL)	Subject to index change	06 05 2013	Par	-
Commodity exporter equity-linked note issue No. 1-LV (LT1000430082)	3,900	100 (EUR)	100.00 (EUR)	390,000 (EUR)	Subject to index change	14 06 2013	Par	-
Nothern Europe equity-linked note issue No. 1 (LT1000430215)	5,669	100 (EUR)	100.00 (EUR)	566,900 (EUR)	Subject to index change	10 03 2014	Par +/- premium	-
USA equity-linked note issue No. 1 (LT1000430231)	9,565	100 (EUR)	100.00 (EUR)	956,500 (EUR)	Subject to index change	21 04 2014	Par +/- premium	-
Germany eguity-linked note issue No. 1 (LT1000430371)	3,203	100 (EUR)	103.00 (EUR)	320,300 (EUR)	Subject to index change	16 05 2014	Par +/- premium	-
Germany eguity-linked note issue No. 2 (LT0000431280)	27,513	100 (LTL)	100.00 (LTL)	2,751,300 (LTL)	Subject to index change	16 05 2014	Par +/- premium	-
Nothern Europe equity-linked note issue No. 2 (LT0000431363)	56,427	100 (LTL)	100.00 (LTL)	5,642,700 (LTL)	Subject to index change	25 10 2014	Par +/- premium	-

Annex II

DISCLOSURE OF *AB DNB BANKAS* CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE FOR THE COMPANIES LISTED ON NASDAQ OMX VILNIUS

AB DnB NORD Bankas (hereinafter referred to as "the Bank", "the Company" or "the Issuer"), following paragraph 3 of Article 21 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules *of AB NASDAQ OMX Vilnius,* discloses its compliance with the Governance Code for the companies listed on *NASDAQ OMX Vilnius* and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it is specified which provisions are not complied with and the reasons of non-compliance.

On 31 December 2012 two issues of notes were listed on NASDAQ OMX Vilnius list of debt securities, the data of which is specified in Part 8 of this Consolidated Annual Report.

PRINCIPLES/RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions *The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.*		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The Bank adopts and annually updates the Strategy of the Bank. The provisions of the Strategy, which do not contain confidential information, are disclosed in the Annual Report of the Bank.
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	
Principle II: The corporate governance framework *The corporate governance framework shoud ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the sharehorders' interests.*		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the Supervisory Council and the Management Board are elected in the Bank.
2.4. The collegial supervisory body to be elected by the	Yes	

general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.		
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Bylaws of the Bank establishes that the Management Board consists of 7 (seven) members, the Supervisory Council consists of 5 (five) members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The Supervisory Council is elected for the term of 4 (four) years. The Bylaws and practice of the Bank does not prohibit a re-election of the members of the Supervisory Council for a new term.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting *The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.*		
3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Not applicable	All the shares are owned by one shareholder.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Not applicable	All the shares are owned by one shareholder.

3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	No	In regard with the situation that the Bank is controlled by one shareholder, the Supervisory Council of the Bank doesn't contain independent members.
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);	Not applicable	Please see the remark for item 3.6.

4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	Please see the remark for item 3.6.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Not applicable	Please see the remark for item 3.6.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	Please see the remark for item 3.6.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting *The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.*		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best knowledge of the Bank all the members of the Supervisory Council act in good faith, with care and responsibility not for their own or third parties' interests, but for the benefit and in the interests of the Bank and its shareholders.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Not applicable	All the shares are owned by one shareholder.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The Bylaws of the Bank provide that the Audit Committee and Remuneration Committee are formed by the Supervisory Council of the Bank. Nomination Committees is not established. The functions of this committee are performed by the Supervisory Council.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Please see the remarks for items 4.12 - 4.14.

4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	The information regarding committee's activities is disclosed annually as a part of annual report. Audit committee reviews independence matters, including discussions with Bank's independent external auditors. Also please see the remark for items 4.12 - 4.14.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Not applicable	The Nomination Committee is not established in the Bank.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes,	Yes	Before 10 April 2012 the Remuneration Committee acted on DNB Group level, inter alia deciding the most important issues of remuneration for management members of subsidiary companies. On 10 April 2012 the Supervisory council approved the members and regulations of the Remuneration Committee. The Remuneration committee have 5 members and reports to the Supervisory Council of

pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 4) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		the Bank at least annually, in written form.

4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured	Yes	The Audit Committee reports to the Supervisory Council of the Bank at least annually. The Audit Committee also submits reports upon request of the Supervisory Council. There are 3 (three) members in the Audit Committee appointed by the Supervisory Council, 1 (one) of them is an independent member.

with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	The Supervisory Council in the Meeting to be held before every ordinary general meeting of shareholders performs the annual self-assessment.
Principle V: The working procedure of the company's collegial bodies *The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.*		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	
Principle VI: The equitable treatment of shareholders and shareholder rights *The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.*		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The ordinary registered shares consisting the authorised capital of the Bank grant equal rights to all the owners of the shares of the Bank. On 30 June 2011 *DNB Bank ASA* registered in Norway has acquired 100 percent of shares of AB DNB bankas from *Bank DnB NORD A/S*, registered in Denmark and controlled by *DNB Bank ASA,* thus becoming direct shareholder of the Bank owning 100 percent of it's shares and voting rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	Pursuant to the Law on Companies and the Bylaws of the Bank the approval of transactions indicated in this item is attached to the competence of the Management Board. According to the internal regulations of the Bank significant transactions shall also be approved by the Supervisory Council.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Not applicable	All the shares are owned by one shareholder.

6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Not applicable	All the shares are owned by one shareholder.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	Taking into consideration that the Bank has the sole shareholder there is no need to implement measures indicated in this item.
Principle VII: The avoidance of conflicts of interest and their disclosure *The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.*		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	

7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy *Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.*		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	Yes	According to the decision of the Management Board of the Bank of Lithuania to approve the Minimal requirements for remuneration policy of the employees of the credit institutions, the Bank publishes the remuneration statement as a part of annual report and it is posted on the company's website. Submitted volume of information does not disclose any sensitive information.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	Yes	
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors. 13) Remuneration statement should not include commercially sensitive information.	Yes	

8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Yes	
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special servines outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.	Yes	

8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Yes	
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	No	No such provision were included in the agreements, but is discussed in the Remuneration Policy, so if such facts would emerge, the Bank would take all necessary actions to recover the allegedly received remuneration.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	
8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Yes	
8.13. Shares should not vest for at least three years after their award.	Yes	The variable remuneration amounts are subject to 3 years of delay period. 50 percent of any variable remuneration should be paid in DNB Bank ASA shares.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Yes	
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	No	In regard that the Bank is controlled by the sole shareholder, the remunerations for Bank administration managers (who in the same time are the members of Management Board) are considered in the Supervisory council.

8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	In regard that the Bank is controlled by the sole shareholder, the Remuneration Policy is changed/confirmed in the Supervisory Council of the Bank.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Considering the fact that the Bank is controlled by the sole shareholder, the schemes are approved by the Supervisory Council of the Bank.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	The Supervisory Council of the Bank is responsible for the approval of the Remuneration Policy and the Management Board is responsible for its implementation.
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Not applicable	Considering the fact that the Bank is controlled by the sole shareholder, information is provided for the Supervisory Council of the Bank.

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Bank complies with all requirements of legal acts regarding rights of the stakeholders to participate in the corporate governance of the Bank. However, no group of stakeholders, entitled according to the laws to participate in the corporate governance of the Bank, has implemented its rights according to the procedures set in the laws.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.		
9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timelyand accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material foreseeable risk factors; 6)Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Material issues regarding employees and other stakeholders; 8) Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.	Yes	

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	All the information indicated in this item is published on the website of the Bank. The shares of the Bank are not listed on the regulated market.
Principle XI: The selection of the company's auditor *The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.*		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	

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

THE GROUP AND BANK INCOME STATEMENT

	Notes	Group 2012	Group 2011	Bank 2012	Bank 2011
Interest income		365,007	404,193	357,107	398,420
Interest expense		(123,413)	(172,788)	(123,413)	(172,791)
Net interest income	1	**241,594**	**231,405**	**233,694**	**225,629**
Fee and commission income	2	102,741	89,307	104,284	91,441
Fee and commission expense	2	(21,709)	(19,483)	(21,354)	(19,085)
Net interest, fee and commission income		**322,626**	**301,229**	**316,624**	**297,985**
Net gain (loss) on operations with securities and derivative financial instruments	3	12,207	(753)	14,583	2,109
Net foreign exchange result		25,669	21,904	25,757	21,727
Impairment losses and provisions	4	(43,115)	(82,778)	(36,309)	(75,179)
Other income	5	18,248	18,504	14,593	11,889
Personnel expenses	6	(108,620)	(93,964)	(105,677)	(91,445)
Depreciation and amortisation	7	(12,125)	(13,958)	(11,980)	(13,491)
Other administrative expenses	8	(134,371)	(74,894)	(129,163)	(71,577)
Profit (loss) before income tax		**80,519**	**75,290**	**88,428**	**82,018**
Income tax	9	(95)	(1,028)	-	(1,067)
Net profit (loss) for the year		**80,424**	**74,262**	**88,428**	**80,951**
Profit (loss) attributable to:					
Equity holders of the parent		80,424	74,262	88,428	80,951
Earnings per share (in LTL per share)					
Basic	10	14.08	13.01		
Diluted	10	14.08	13.01		

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

THE GROUP AND BANK STATEMENT OF COMPREHENSIVE INCOME

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Profit (loss) for the year	**80,424**	**74,262**	**88,428**	**80,951**
Other comprehensive income (expenses), net of tax available for sale assets revaluation	115	2,654	-	2,819
Total other comprehensive income, net of tax	115	2,654	-	2,819
Total comprehensive income (expenses) for the year, net of tax	**80,539**	**76,916**	**88,428**	**83,770**
Attributable to:				
Equity holders of the parent	80,539	76,916	88,428	83,770

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

THE GROUP AND BANK STATEMENT OF FINANCIAL POSITION

		Group		Bank	
	Notes	31 December 2012	31 December 2011	31 December 2012	31 December 2011
ASSETS					
Cash and balances with central banks	11	535,163	763,428	535,163	763,428
Due from banks	12	1,017,603	836,215	1,017,603	836,215
Financial assets held for trading	13	50,848	32,189	50,848	32,189
Financial assets designated at fair value throught profit or loss	14	626,978	388,287	619,743	388,287
Derivative financial instruments	15	16,643	11,533	16,643	11,533
Financial assets - available for sale	16	952	6,049	952	915
Loans and advances to customers	17	8,560,769	8,524,185	8,967,084	8,882,706
Finance lease receivables	18	295,793	295,823	-	-
Investments in subsidiaries	19	-	-	201,225	155,671
Investment property	21	227,047	138,899	-	-
Property, plant and equipment	20	89,827	91,018	89,466	90,616
Intangible assets	22	8,987	6,265	8,958	6,231
Deferred income tax asset	9	29,755	29,839	29,804	29,804
Other assets	23	50,494	63,793	32,780	45,209
Non-current assets and disposal groups held for sale	24	14,722	871	10,404	2
Total assets		**11,525,581**	**11,188,394**	**11,580,673**	**11,242,806**
LIABILITIES AND EQUITY					
Due to banks	25	4,099,366	4,506,051	4,099,366	4,506,051
Derivative financial instruments	15	26,222	31,463	26,222	31,463
Due to customers	26	5,884,500	5,146,575	5,886,161	5,149,173
Debt securities in issue	27	70,558	114,954	70,558	114,954
Subordinated loans	28	-	38,544	-	38,544
Provisions	29	5,883	1,168	58,246	57,736
Other liabilities	30	51,955	43,081	43,140	36,333
Total liabilities		**10,138,484**	**9,881,836**	**10,183,693**	**9,934,254**
Equity attributable to equity holders of parent					
Ordinary shares	31	656,665	656,665	656,665	656,665
Share premium	31	282,929	282,929	282,929	282,929
Retained earnings		82,009	1,777	92,092	3,856
Reserves	32	365,494	365,187	365,294	365,102
		1,387,097	1,306,558	1,396,980	1,308,552
Total equity		**1,387,097**	**1,306,558**	**1,396,980**	**1,308,552**
Total liabilities and equity		**11,525,581**	**11,188,394**	**11,580,673**	**11,242,806**

These Financial Statements were signed on 20 February 2013:

B. Lund
President

J. Šaučiūnienė
Chief Accountant

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
	Issued shares	Share premium	Financial assets revalua-tion reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011	**656,665**	**282,929**	**(2,769)**	**200**	**173,474**	**(245,127)**	**865,372**
Total comprehensive income	-	-	2,654	-	-	74,262	76,916
Depreciation transfer for land and buildings	-	-	-	-	(2)	2	-
Increase of reserve capital (by additional contributions of shareholders)	-	-	-	-	364,270	-	364,270
Transfer of reserves	-	-	-	-	(172,640)	172,640	-
Balance at 31 December 2011	**656,665**	**282,929**	**(115)**	**200**	**365,102**	**1,777**	**1,306,558**
Total comprehensive income	-	-	115	-	-	80,424	80,539
Depreciation transfer for land and buildings	-	-	-	-	(1)	1	-
Transfer to mandatory reserve	-	-	-	193	-	(193)	-
Balance at 31 December 2012	**656,665**	**282,929**	**-**	**393**	**365,101**	**82,009**	**1,387,097**

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
	Issued shares	Share premium	Financial assets revaluation reserve	Mandatory reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2011	**656,665**	**282,929**	**(2,819)**	**-**	**173,474**	**(249,737)**	**860,512**
Total comprehensive income	-	-	2,819	-	-	80,951	83,770
Depreciation transfer for land and buildings	-	-	-	-	(2)	2	-
Increase of reserve capital (by additional contributions of shareholders)	-	-	-	-	364,270	-	364,270
Transfer of reserves	-	-	-	-	(172,640)	172,640	-
Balance at 31 December 2011	**656,665**	**282,929**	**-**	**-**	**365,102**	**3,856**	**1,308,552**
Total comprehensive income	-	-	-	-	-	88,428	88,428
Depreciation transfer for land and buildings	-	-	-	-	(1)	1	-
Transfer to mandatory reserve	-	-	-	193	-	(193)	-
Balance at 31 December 2012	**656,665**	**282,929**	**-**	**193**	**365,101**	**92,092**	**1,396,980**

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

GROUP AND BANK STATEMENT OF CASH FLOWS

	Notes	Group 2012	Group 2011	Bank 2012	Bank 2011
Operating activities					
Interest receipt		337,881	376,619	329,833	370,321
Interest payments		(130,388)	(171,191)	(131,188)	(171,574)
Collected previously written-off loans		5,232	4,027	5,232	4,027
Net receipt from FX trading and operations in securities		13,702	(618)	13 433	429
Fee and commission receipt		102,741	89,307	104,284	91,441
Fee and commission payments		(21,709)	(19,483)	(21,354)	(19,085)
Salaries and related payments		(107,096)	(89,572)	(104,381)	(87,216)
Other payments		(116,123)	(56,388)	(114,570)	(59,731)
Net cash flows from operating activities before changes in operating assets and liabilities		**84,240**	**132,701**	**81,289**	**128,612**
(Increase) decrease in operating assets:					
(Increase) decrease in loans to credit and financial institutions		(104,956)	(464,147)	(101,073)	(208,574)
(Increase) decrease in loans granted		(44,630)	105,787	(96,958)	71,252
(Purchase) of trading securities		(2,835,724)	(2,321,607)	(2,835,724)	(2,321,607)
Proceeds from trading securities		2,817,055	2,318,857	2,817,055	2,318,857
(Increase) decrease in other assets		(91,916)	(5,296)	(40,332)	27,484
Change in operating assets		**(260,171)**	**(366,406)**	**(257,032)**	**(112,588)**
Increase (decrease) in liabilities:					
(Decrease) in liabilities to credit and financial institutions		(466,254)	(785,864)	(467,864)	(784,918)
Increase (decrease) in deposits		806,483	787,962	807,133	788,079
Increase (decrease) in other liabilities		2,982	2,833	1,758	(67,368)
Change in operating liabilities		**343,211**	**4,931**	**341,027**	**(64,207)**
Income tax paid		**-**	**(150)**	**-**	**(1)**
Net cash flows from operating activities		**167,280**	**(228,924)**	**165,284**	**(48,184)**
Investing activities					
Acquisition of property, plant , equipment and intangible assets		(13,629)	(7,756)	(13,566)	(7,738)
Disposal of property, plant, equipment and intangible assets		290	799	-	32
Purchase of securities		(612,461)	(484,989)	(608,225)	(482,959)
Proceeds from securities		396,436	869,270	392,037	867,075
Dividends received		15	12	2,660	1,827
Interest received		9,472	16,488	9,301	16,276
Investment in subsidiaries		-	-	-	(190,275)
Disposal of subsidiaries shares		-	-	-	8,669
Net cash flows from investing activities		**(219,877)**	**393,824**	**(217,793)**	**212,907**

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

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

GROUP AND BANK STATEMENT OF CASH FLOWS (CONTINUED)

	Notes	Group 2012	Group 2011	Bank 2012	Bank 2011
Financing activities					
Own debt securities redemption		(45,202)	(62,823)	(45,202)	(62,823)
Own debt securities issued		-	38,605	-	38,605
Increase in reserve capital		-	364,270	-	364,270
Interest paid		(3,084)	(5,831)	(3,084)	(5,831)
Repaid subordinated loans		(37,981)	(364,270)	(37,981)	(364,270)
Net cash flows from financing activities		**(86,267)**	**(30,049)**	**(86,267)**	**(30,049)**
Net increase (decrease) in cash and cash equivalents		**(138,864)**	**134,851**	**(138,776)**	**134,674**
Net foreign exchange difference on cash and cash equivalents		(9,945)	(8,751)	(10,033)	(8,574)
Cash and cash equivalents at 1 January		819,384	693,284	819,384	693,284
Cash and cash equivalents at 31 December	35	**670,575**	**819,384**	**670,575**	**819,384**

The accounting policies and notes on pages 56 to 128 are an integral part of these financial statements.

GENERAL BACKGROUND

The name of AB DNB Bankas was registered on November 11, 2011. The Bank as a joint stock company was registered 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 on Banks of the Republic of Lithuania and the Law on Financial Institutions of the Republic of Lithuania.

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 on Financial Institutions.

As at 31 December 2012 the Bank owned the following subsidiaries:

- AB DNB Lizingas (leasing activities),
- UAB DNB Investicijų Valdymas (investment asset management activities),
- UAB DNB Būstas (real estate brokerage),
- UAB Intractus (real estate management, development and sale). UAB Intractus owned (0.21% of shares) company UAB Industrius (Company was registered in Legal Entities, State enterprise Centre of Register on 15 February 2011) and subsidiary UAB Gelužės projektai (acquired from Bank on 19 October 2011);
- UAB Industrius (real estate management, development and sale); Company capital increase was registered in Legal Entities, State enterprise Centre of Register on 21 December 2012.

As at 31 December 2012 the Bank owned 100% of the share capital of AB DNB Lizingas, UAB DNB Investicijų Valdymas, UAB Intractus, 99,.9% UAB Industrius and 75.47% of the share capital of UAB DNB Būstas. AB DNB Lizingas owned 24.53% of the share capital of UAB DNB Būstas. UAB DNB Intractus owned 100% of the share capital of UAB Gėlužės projektai and 0.21% UAB Industrius. As at 31 December 2012 AB DNB Bankas Group (hereinafter referred to as “the Group”) in Lithuania consisted of AB DNB Bankas and its subsidiaries UAB Investicijų Valdymas, UAB DNB Lizingas, UAB DNB Būstas, UAB Intractus, UAB Industrius, UAB Gėlužės projektai.

The head offices of the Bank and subsidiaries UAB DNB Investicijų Valdymas and AB DNB Lizingas are located in Vilnius, Basanavičiaus str. 26, the head office of UAB Intractus, UAB Industrius and UAB Gelužės projektai are located in Vilnius, Vilniaus str. 18, the head office of UAB DNB Būstas is located in Vilnius, Švitrigailos str. 11 M.

At the end of the reporting period the Bank had 78 client service outlets (2011: 79 client service outlets) of which 15 customer service branches and 63 customer service subbranches. As at 31 December 2012 the Bank had 1,364 employees (2011: 1,325 employees). As at 31 December 2012 the Group had 1,395 employees (2011: 1,353 employees).

As at 31 December 2012 the authorized capital of the Bank is LTL 656,665,410 (2011: 656,665,410), which is divided into 5,710,134 (2011: 5,710,134) ordinary registered shares with LTL 115 par value each. As at 30 June 2011 Bank DnB NORD A/S (DK) was the single shareholder holding 100% of the Bank’s shares (2010; 100%). On 30 June 2011 Norway registered DNB Bank ASA (until November 11, 2011 named DnB NOR Bank ASA) has acquired 100 percent of shares of AB DNB bankas from Denmark registered Bank DNB NORD A/S, controlled by DNB Bank ASA. As disclosed in Note 31, *Share capital* DNB Bank ASA has become direct shareholder of the Bank owning 100 percent of its shares and voting rights.

After Bank DnB NORD A/S completed the squeeze-out procedure of AB DnB NORD Bankas and became the sole shareholder of the Issuer having 100 percent ownership of its shares and votes, on 12 February 2010 AB DnB NORD Bankas shares were delisted from the Secondary List of the stock exchange.

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of preparation of financial statements

The financial statements of the Group and the Bank are prepared in accordance with International Financial Reporting Standards effective as of 31 December 2012 that have been adopted for use in European Union. The financial statements are prepared on a historical cost basis, except for available-for-sale investment securities, securities designated at fair value through profit or loss, financial assets and financial liabilities held for trading, derivative financial instruments and investment properties, that have been measured at fair value.

These financial statements combine the consolidated financial statements for the Group and stand-alone financial statements of the parent Bank. In addition the financial information of Financial Group is presented in Note 41 in accordance with the requirements of the Bank of Lithuania.

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.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

During the year the Group has adopted the following IFRS amendments:
- *amendment to IFRS 7 Financial Instruments - Enhanced Derecognition Disclosure Requirements,*
- *amendment to IAS 12 Income tax* - Deferred tax - Recovery of Underlying Assets.

The amendments did not impact the financial statements of the Group, because the Group did not have items or transactions addressed by these changes.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

Amendment to IAS 1 *Financial Statement Presentation* - Presentation of Items of Other Comprehensive Income (effective for financial years beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The Group has not yet evaluated the impact of the implementation of this amendment.

Amendment to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 January 2013)

There are numerous amendments to IAS 19, they range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 27 *Separate Financial Statements* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 Separate Financial Statements requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The Bank has not yet evaluated the impact of the implementation of this amendment.

Amendment to IAS 28 *Investments in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2014)

As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. The implementation of this amendment will not have any impact on the financial statements of the Group.

Amendment to IAS 32 *Financial Instruments: Presentation* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group has not yet evaluated the impact of the implementation of this amendment.

ACCOUNTING POLICIES (continued)

Amendment to IFRS 7 *Financial Instruments: Disclosures* - Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2013)

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Group has not yet evaluated the impact of the implementation of this amendment.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2015, once endorsed by the EU)

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after 1 January 2014)

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and, therefore, are required to be consolidated by a parent. Examples of areas of significant judgment include evaluating de facto control, potential voting rights or whether a decision maker is acting as a principal or agent. IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements and replaces SIC 12 Consolidation — Special Purpose Entities. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 11 Joint Arrangements (effective for financial years beginning on or after 1 January 2014)

IFRS 11 eliminates proportionate consolidation of jointly controlled entities. Under IFRS 11, jointly controlled entities, if classified as joint ventures (a newly defined term), must be accounted for using the equity method. Additionally, jointly controlled assets and operations are joint operations under IFRS 11, and the accounting for those arrangements will generally be consistent with today's accounting. That is, the entity will continue to recognize its relative share of assets, liabilities, revenues and expenses. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 12 *Disclosures of Interests in Other Entities* (effective for financial years beginning on or after 1 January 2014)

IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures also will be required such as disclosing the judgments made to determine control over another entity. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities (effective for financial years beginning on or after 1 January 2014, once endorsed by the EU)

The amendments apply to entities that qualify as investment entities. The amendments provide an exception to the consolidation requirements of IFRS 10 by requiring investment entities to measure their subsidiaries at fair value through profit or loss, rather than consolidate them. The implementation of this amendment will not have any impact on the financial statements of the Group, as the parent of the Group is not an investment entity.

IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after 1 January 2013)

The main reason of issuance of IFRS 13 is to reduce complexity and improve consistency in application when measuring fair value. It does not change when an entity is required to use fair value but, rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Group has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs (effective for financial years beginning on or after 1 January 2013, once endorsed by the EU)

In May 2012 IASB issued omnibus of necessary, but non-urgent amendments to its five standards:

- IFRS 1 *First-time adoption of IFRS*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 16 *Property, Plant and Equipment*;
- IAS 32 *Financial instruments: Presentation*;
- IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group.

IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for financial years beginning on or after 1 January 2013)

This interpretation applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Interpretation will have no impact on the Group's financial statements, as the Group is not involved in mining activity.

ACCOUNTING POLICIES (continued)

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

Use of estimates in the preparation of financial statements

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.

Going concern

The Bank's management is fully convinced of stable and balanced performance going forward and based on that prepared these financial statements on the going basis.

Impairment losses on loans

The Bank and the Group review their its loan and finance lease receivable 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 the portfolios of loans and finance lease receivables before the decrease can be identified with an individual loan in those portfolios.

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 loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when assessing 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.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For fair value of financial assets and liabilities see Notes 13-16.

Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. The Group engaged independent valuation specialists to determine fair value as at 31 December 2012 to the major part of properties. For the investment properties the valuers used a valuation technique based on comparable value (comparative sale-prices) method. Using this method, fair value of investment properties is estimated comparing actual market deals' prices for similar property objects. The valuation model for the Group's investment properties was formed based on comparable property objects sold during the years 2011 and 2012.

For fair value of investment properties refer to the Note 21.

Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For carrying amounts see Note 9.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Consolidation

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.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

ACCOUNTING POLICIES (continued)

Business combinations

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. 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. Acquisition costs incurred are expenses and included in administrative expenses.

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.

Subsidiaries in the stand-alone financial statements are accounted at cost.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in litas, which is the Bank's and subsidiaries' functional and presentation currency.

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. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

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

<u>Interest income and expense</u>

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method. 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 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

<u>Fee and commission income and expense</u>

Income and expense of fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans and other credit related fees are deferred (together with any incremental costs) and accounted for as an adjustment to the effective interest rate calculation for each issued loan separately.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

<u>Other expenses</u>

Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

Dividend income

Dividends are recognised in the income statement when entity's right to receive payments is established.

ACCOUNTING POLICIES (continued)

Taxation

Income tax

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

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principle temporary differences arise from securities revaluation and intangible assets, property, plant and equipment accounting (for tax purposes VAT is not added to the value of those items).

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities. The losses from disposal of securities can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Other taxes

Other taxes are included in other expenses in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, 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 original maturity term of less than three months.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets

Financial assets are classified into these groups: financial assets designated at fair value through profit or loss, loans and receivables, financial assets available for sale. Management determines the classification of its investments at initial recognition.

Financial assets designated at fair value through profit or loss

Securities designated at fair value through profit or loss

Securities classified in this category are designated at fair value through profit or loss on initial recognition when the following criterias are met:

- that type of classification eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing gains or losses on them on different bases; or
- a group of securities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group of these assets is provided internally to Bank’s management.

Securities designated at fair value through profit or loss are recognized at settlement date, which is the date that an asset is delivered to or by the Group. They are initially recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain (loss) on operations with securities. Interest earned whilst holding securities is reported as interest income.

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

ACCOUNTING POLICIES (continued)

are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income or expenses. 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 settlement date, which is the date that an asset is delivered to or by the Group**.**

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 statement of financial position at their fair value. Fair values are determined according to the model, based on market observable inputs. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Certain derivatives embedded in other financial instruments, such as index linked options in bond issued or deposits, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policy, 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 net trading income.

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

Available for sale securities

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale securities are initially recognised at fair value based on transaction price. 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. Foreign exchange gains and losses on equity available for sale securities are recognized in other comprehensive income, but foreign exchange gains and losses on debt available for sale securities are recognized in profit and loss. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Interest calculated using the effective interest rate is recognised in profit or loss. Interest earned whilst holding securities is reported as interest income. Dividends receivable are included separately in dividend income when the right of the payment has been established.

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

Repurchase and reverse repurchase agreements

The securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank.

The securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Reverse repurchase agreements are classified as loans and receivables to other banks or customers, and are accounted for using the amortised cost method. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost using the effective interest method.

Loans and advances are recognised at their settlement date, when cash is advanced to borrowers. From the date of signing a contractual agreement till the settlement date they are accounted for as off-balance sheet items.

ACCOUNTING POLICIES (continued)

Impairment losses on loans, available for sale assets, finance lease receivables and other assets

Losses on loan impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, based on financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. The criteria that the Group uses to determine whether there is objective evidence of an impairment include:

- Delinquency in contractual payments of principal or interest;
- Significant financial difficulties of the borrower or issuer;
- Due to economic or legal reasons pertaining to financial difficulties of the borrower the latter benefits from allowance, which otherwise would not be granted by the Bank;
- Initiation of bankruptcy or reorganisation process against the borrower or issuer;
- Cessation of the active market of debt securities caused by financial difficulties;
- Breach of loan conditions, infringement of other covenants related to loan issue;
- Default on obligations by persons related to the borrower;
- Suspension or revocation of the license held by the borrower or issuer engaged in licensed activity (production and sales of alcoholic beverages, trade in oil products, medical, educational and training practice, sale of electricity to independent consumers, etc.);
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

In order to assess whether the financial assets are impaired collectively they are grouped into homogeneous groups according to customer segment, type of assets and delinquency in contractual payments. The Group also collectively assesses the impairment for the financial assets, when a loss event has occurred but it cannot be attributed either to particular type of assets or to the particular group of assets.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all necessary procedures have been completed and the amount of the loss has been determined.

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

For available-for-sale financial investments, the bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for sale, the bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in equity.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due.

ACCOUNTING POLICIES (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank and the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank and the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank and the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank and the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank and the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's and the Group's continuing involvement is the amount of the transferred asset that the Bank and the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's and the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over their estimated useful life.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains and losses on disposals of property, plant and equipment 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 statement of financial position date.

ACCOUNTING POLICIES (continued)

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.

Non – current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale and the sale is expected to be completed within one year from the date of classification.
Non – current assets classified as held for sale are not depreciated or amortised.

Fair values of the non-current assets held for sale are disclosed in Note 24.

Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group company is the lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease and included into other administrative expenses.

Group company is the lessor

Operating leases

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Initial direct costs are included in the initial measurement of the lease receivables.

Assets / funds under management and related liabilities

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.

Bank's 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.

Debt issued and other borrowed funds

Issued financial instruments and their components, which are not classified at fair value through profit or loss, are classified as financial liabilities, where the substance of the contractual arrangement results in the Bank and the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Borrowings (including debt securities issued) 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. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. Borrowings are recognised on the day of settlement.

The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on valuation technique whose variables include only data from observable markets.
The Group has issued index linked bonds where fair value of the embedded derivative is determined by comparison with observable current market transactions in the same instrument. The fair value of the host contract is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of the fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value is deferred and is not recognised immediately in the profit and loss.

ACCOUNTING POLICIES (continued)

Debt securities are subsequently measured at amortised cost, adjusted for the deferred profit or loss.

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. Social security contributions each year are allocated by the Fund for pension, health, sickness, maternity and unemployment payments.

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 statement of financial position date are discounted to present value. Termination benefits are included within staff costs in the income statement and within other liabilities in the statement of financial position.

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 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. The expense relating to any provision is recognised in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Financial guarantees and credit-related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of the financial guarantee on the initial recognition does not include the gross receivable for future premiums not yet due. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee or the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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. The Group is in accordance with IAS 39 using a mark-to-model approach for the measurement of fair value of their bond portfolio. IAS 39 stipulates that in the case of active markets the measurement of fair value has to be carried out by using market prices and other relevant information available for the financial instrument. For financial instruments traded in organised financial markets the fair value is determined by reference to quoted market prices. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. In the case of inactive markets the establishment of valuation techniques for measuring the fair value is provided.

ACCOUNTING POLICIES (continued)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Off-balance sheet items

Off-balance sheet derivative transactions are marked to market at the reporting date and any arising profit or loss is recognised in the income statement for the period and treated as an asset or liability in the statement of financial position respectively.

All liabilities that give rise to statement of financial position exposures are accounted for as off-balance sheet liabilities. This allows the Bank and the Group to assess capital requirement and to allocate funds required to cover those obligations.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Earnings per share

Basic earnings per share amounts are calculated by dividing net result for the year attributable to ordinary equity holders of the parent by the weighted number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net result attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Subsequent events

Post-year-end events that provide additional information about the Bank’s position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

FINANCIAL RISK MANAGEMENT

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

The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, business risk and operational risk. Concentration risk is assessed as part of credit risk. Other types of concentration are considered immaterial by the Group and, therefore, are not assessed. Market risk includes currency risk, interest rate and equity price risk.

In the Internal Capital Adequacy Assessment Process (ICAAP) the Group assesses the material risks it is exposed to that are not captured or are not fully captured by the Pillar I requirements for the capital adequacy calculation. The most significant risks that were identified during ICAAP are the following:

- concentration risk and residual risk as part of the credit risk;
- interest rate risk arising from the banking book as part of the market risk;
- business risk covering economic cycle and strategic risks;
- funding margin risk;
- operational risk (including compliance and legal risks).

The main risk management principles are revealed in the Risk Management Strategy:

- risk management is based on the best practice of the institutions having similar complexity of the products, services and extent of the activities and follows uniform risk management principles of the international DNB Group;
- if the situation is unclear or if any doubts occur with respect to appropriateness of risk management the Group follows principles of precaution, conservatism and prudence;
- risk management is organized in such a way that any possible conflicts of interest among the personnel or between the structural units would be avoided. The principle is being taken into action by designing Bank's organisational structure, defining functions and resposibilities as well as subordination links. The Bank aims to design an organizational structure which would ensure effective and reliable governance both at the Bank and the Group level.

Risk management process in the Group includes:

- Risk identification. The identification of new risks is performed during internal risks self assessment process.
- Quantitative evaluation of risks and calculation of internal capital for covering them. The major part of risk the Group is exposed to in its activities is evaluated quantitatively (credit, market, partly operational);other risks, which depend on multiple factors and outcomes of which can not be reliably forecasted quantitatively, are evaluated qualitatively (operational risk). Internal capital is calculated taking into account possible outcomes for the Group due to realization of risks.
- Consolidation (aggregation) of risks.
- Ex-ante control is performed by setting operations' limits, planning pricing, selecting suitable for the Group customers or segments of customers. Ex-ante control of risks also covers planning of crisis management and business continuity, stress testing.
- Risk monitoring. Continuous supervision and control should ensure that assumed risks comply with acceptable for the Group risk level and structure. Risk restricting limits set by the Group are monitored on a regular basis. Processes and compliance with qualitative requirements are tracked in case of risks which can not be measured quantitatively.
- Ex-post control. Internal reports play an important role in control of outcomes, which allows for timely evaluation of occurrence and dimension of risks and implemention of appropriate measures for avoiding the risk or mitigating it in the future. The Group deals with this type of control by transfering risk or part of risk (hedging), increasing capital, diversifying risks.

New types of activity or products as well as financial instruments are incorporated into the Group's activity after these conditions are met:

- the market analysis for the new product was done;
- the procedure for usage, evaluation and accounting of new type of activity, product or financial instrument is prepared;
- the risk, internal control, possible need of capital was evaluated and/or risk limits were aproved.

The risk management function of the Group is organised in such a way that ensures efficient risk management and facilitates the realisation of the tasks stipulated in the Risk management strategy. The management of separate risks of the Group is under responsibility of structural units within their competence limits. The function of all-type risk control is segregated from risk taking, i.e. from the front-office units.

The control function for the major material risk – credit risk – is under responsibility of the Financial Risk Department. Special attention was paid to strengthening of the control of operational risk management in the Group in 2011-2012. The new separate structural unit – Operational Risk Department - was established by the beginning of the year 2012. In order to strengthen control and enhance support of DNB Markets value chain, the separate Markets and Treasury Support and Control Unit was established in October 2012. All three organizational units responsible for the control of financial risks – Financial Risk Department, Operational Risk Department and Markets and Treasury Support and Control unit – report directly to the Chief Risk Officer, who is as well the member of the Management Board.

Ensuring that the business activities of the Group comply with the laws and other external rules and regulations, an independent Compliance Unit identifies, assesses, advises on, monitors, tests and reports on compliance risks. The Compliance Unit directly

FINANCIAL RISK MANAGEMENT (continued)

reports by the structure to the Chief Executive Officer (Chairman of the Management Board) and functionally reports to DNB Bank ASA Chief Compliance Officer.

The aims of internal control system are to avoid mistakes, losses and various violations in the Bank and the Group. The Management Board is responsible for creation and maintenance of effective internal control system in the Group.

Risk management processes and efficiency of internal control are assessed by the Internal Audit Department.

The Management Board approves the procedures having significant impact on risk management and risk mitigation measures associated with the risk management.

The functions of decision making and regulation regarding liquidity and market risk are delegated to the non-structural unit - Risk Management Committee (hereinafter referred to as, RMC'). The aim of RMC is to adopt and implement decisions of international DNB Group ALCO in operations of the Group as well as to regulate assets and liabilities management via transfer price system, setting of internal limits and using other measures. In 2012 RMC functions were enhanced by adding operational risk into the scope of responsibilities and by dedicating monitoring of all financial risks. Risk reports containing analysis on all financial risks are presented to RMC on a regular basis.

Credit Committee was founded for the improvement of overall credit risk management quality in the Group and for regular reporting to the Management Board on achievement of targets set in relation with credit risk management. In 2012 the functions of the Credit Committee were expanded by delegating approval of action plans for high risk customers as well as approval of impairment losses results for the loans and leasing assets.

1. Credit risk

Credit risk means the risk for the Group to incur losses due to the customers' failure to fulfill their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's business. The losses resulting from the credit risk had weaker impact on the Group's results in 2012 as economic conditions and business environment were stabilizing.

The key elements of credit risk management are Group Credit Policy, Credit strategy for business customers and Credit strategy for private individuals, which are based on the uniform international DNB Group guidelines for credit activity and its credit strategies. Practical aspects of the application of the principles of the documents in credit activity and decision making processes are regulated in detail by Credit Manual.

According to the Group's Credit Policy and credit strategies, the principal objective for credit activity is that the loan portfolio should have a quality and a composition which ensure profitability in the short and long term. The target loan portfolio should maintain the credit risk profile varying from low to moderate. The assessment of creditworthiness should be based on customer's ability to perform on its financial obligations as well as cash flows from customers' activities dedicated for loan payments should be clearly understandable and sustainable.

Credit risk arises as well from investment activities (e.g., debt securities), the Group's assets as well as from the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

Credit risk management is an independent function from the front-office. Decisions for granting of loans are made at the different levels of competence, depending on the loan volume, the significance of the customer and the level of risk to be taken.

The Group's management bodies are kept informed on level and developments of the assumed credit risk by means of regular reports.

1.1. Credit risk measurement

(a) Loans and advances

Credit risk is managed by carrying out a thorough analysis of the customer before issuing credits and by monitoring thereof after the credit disbursement. All customers granted credits must be classified according to risk every time a commitment is renewed or, unless otherwise decided, at least once a year.

The credit risk is assessed by using customer / product segment specific scoring and rating instruments, which are used for homogeneous groups of customers:

- large corporates,
- small and medium-sized enterprises (SMEs),
- single ownership companies,
- companies starting business,
- individual customers,
- real estate projects of the legal entities.

Scoring and rating models are approved both at international DNB Group level and by the Bank's Management Board. These instruments are constantly improved following the results of the analysis of historical data on the credit risk related losses and tested for reliability (validated).

In the year 2012 more emphasis was put on development of risk measurement tools for the business customers whereas in the forthcoming year it is planned to switch focus to the portfolio of private individuals.

FINANCIAL RISK MANAGEMENT (continued)

The internal scoring and rating instruments are applied for decision making, pricing, monitoring and risk reporting as well as for economic capital (risk adjusted capital, hereinafter referred to as RAC) calculation. RAC is used for decision making with respect to strategic capital allocation, i.e. for determining the strategic segments in credit activity as well as for the capital planning for the Bank and the Group.

Whenever the large business customers are granted loans, in addition the risk adjusted profitability for the Group is assessed both at the individual loan and at the customer level, i.e. the return on risk adjusted capital (RORAC) is measured. For this purpose the new advisory tool was implemented in the year 2012 playing an important role in the pricing and decision making. It is planned as well to extend the RAC-based pricing as well as RORAC-based profitability assessment to the other segments of loan portfolio in the year 2013.

(b) Debt securities

Debt securities are in the region of 5 per cent of the total assets of the Group. The credit risk arising from them is considered as being immaterial. Credit risk is managed by carrying out issuer analysis when decision for acquisition of securities is made. Ratings of external rating agencies as well as internal ratings assigned by the parent DNB Bank ASA are important factors in decision making in case the issuer is a bank. The concentration risk arising from debt securities portfolio is analysed and monitored on a regular basis as well.

1.2. Risk limit control and mitigation policies

(a) Concentration risk

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

The Group’s portfolio of the products bearing credit risk is well diversified with respect to lending to the groups of the connected borrowers and a single borrower.

Concentration risk of lending to the economic sectors is regarded as being higher and is monitored and controlled more strictly. Complimentary to the Bank of Lithuania requirements to limit the exposures to a single borrower or the group of related borrowers and large exposures, the Group also sets limits to economic sectors, i.e. a possible concentration in certain economic sectors at the Group level is restricted by the internal lending limits. Percentage and volume (when lending to certain economic sectors is feasible only in extremely exceptional cases by decision of higher competence level) lending limits are set for individual industries. These limits, which are approved by the Management Board, are set based on macroeconomic analysis, current loan portfolio structure, incured losses by economic sectors, the Group’s strategic plans.

At the end of the year 2012, the loan portfolio of the Group was well diversified by economic sectors and none of the set limits was exceeded.

The geographical concentration risk is not recognised in the Group’s business as being material since the principle of focusing on domestic customers is followed. The limits are set and monitored centrally at the Group level. The limits imposed on the loans issued are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary.

Some other specific risk control and mitigation measures are outlined further on.

(b) Collateral

The Group prefers the customer’s ability to repay the loan in the lending process, giving less importance to the pledged collateral measure.

The Group mitigates credit risk through taking of security for funds advances. Types of collateral considered by the Group as the most acceptable for securing loans and advances are the following:

- Real estate (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles);
- Property rights over financial instruments (debt securities, equities, cash);
- Guarantees.

The terms of the loans are taken into account when considering the type of collateral, a priority for long-term loans being the long-term property, mainly residential properties.

Long-term financing and lending to business customers are generally secured; revolving facilities and consumer loans to private individuals are usually unsecured. In order to minimise the credit loss as the impairment indicators for certain individual loans and advances are noticed the Group may seek for additional collateral from the counterparty.

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

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

FINANCIAL RISK MANAGEMENT (continued)

(c) Derivative financial instruments

The credit risk arising from derivative instruments is managed by strict control on net open derivative positions. Collateral is less frequently used to mitigate credit risk of these financial instruments.

(d) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The aforementioned commitments are collateralised either by the funds in the Bank's account, by material assets (real estate being the preference) or other collaterals such as third party guarantees. With respect to credit risk arising from commitments to extend credit, the Group is exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customer's ability to repay the loans already granted.

1.3. Impairment policies

Upon assessing impairment losses on loans, available for sale assets and other assets the Group follows the requirements of IAS 39 Financial instruments: recognition and measurement. Impairment losses are recognized for financial reporting purposes only for those losses that have been incurred due to the loss events that have taken place before the statement of financial position date based on objective evidence of impairment. By contrast, the Group employs expected loss concept for credit risk measurement in decision making, pricing, monitoring of credit risk related exposures and capital management.

Valuation of impaired large exposures that are above materiality thresholds is performed at least quarterly or more frequently when individual circumstances require. The impairment losses for impaired large exposures are made based on individual valuation under the discounted cash flow method, where both future cash flows from borrower's operations and cash flows from collateral are taken into account. 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 discounted based on the original effective interest rate, taking into account the costs incurred by the Group for the realisation of collateral.

The impairment allowances for impaired small exposures (most of them are the loans to the Bank's retail customers: individuals, farmers, SMEs) are made based on the long-run historical data on actual losses of the respective segment and expert judgment. This methodology enables an accurate assessment of the anticipated loss of a high number of the impaired small exposures and at the same time it provides a possibility to focus on the individual assessment of the Bank's largest impaired borrowers under the discounted cash flow method.

The Group collectively assesses the impaired loans for which the impairment losses are not yet identified. This type of assessment methodology enables the Group to evaluate the possible impairment of loans and advances at an earlier stage. The objective evidence that the group of assets is impaired collectively is a deteriorating economic situation, which is analysed particularly by the riskiest economic sectors, and trend of delinquency in payments. The calculation methodology for the collectively assessed loans having loss event which is not yet identified relies on historical data about the payments and loan impairment losses analysed by customer's economic activity.

Valuation of finance lease receivables follows broadly the same concept as described above. Impairment indicators for finance lease receivables are the same as for loans.

The loans and advances are written off when the Group does not expect any significant cash flows neither from the borrowers' activities nor from the realisation of the collateral. The write off of the loans and advances is performed periodically.

FINANCIAL RISK MANAGEMENT (continued)

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Cash and balances with central banks	**535,163**	**763,428**	**535,163**	**763,428**
Due from banks	**1,017,603**	**836,215**	**1,017,603**	**836,215**
Loans and advances to customers:	**8,560,769**	**8,524,185**	**8,967,084**	**8,882,706**
Loans and advances to financial institutions	**2,738**	**45**	**290,704**	**292,545**
Loans to individuals (retail):	**3,906,053**	**3,937,937**	**3,906,053**	**3,937,937**
- Consumer loans	173,617	196,123	173,617	196,123
- Mortgages	3,685,797	3,655,973	3,685,797	3,655,973
- Loans secured by equity linked bonds issued by Bank	22,735	54,292	22,735	54,292
- Other (credit cards, reverse repurchase agreements, other loans backed by securities, other)	23,904	31,549	23,904	31,549
Loans to business customers:	**4,651,978**	**4,586,203**	**4,770,327**	**4,652,224**
- Public authorities, state and municipal entities	785,790	705,221	785,790	705,221
- Large corporates	2,327,035	2,237,121	2,327,035	2,237,121
- SMEs	1,293,082	1,408,930	1,411,431	1,474,951
- Farmers	243,764	231,366	243,764	231,366
- Other	2,307	3,565	2,307	3,565
Finance lease receivables	**295,793**	**295,823**	**-**	**-**
- Individuals	32,054	30,977	-	-
- Business customers	263,739	264,846	-	-
Trading assets:	**50,848**	**32,189**	**50,848**	**32,189**
- Debt securities	50,848	32,189	50,848	32,189
Securities designated at fair value through profit or loss	**626,978**	**388,287**	**619,743**	**388,287**
- Debt securities	626,334	388,287	619,743	388,287
- Equity securities	644	-	-	-
Derivative financial instruments	**16,643**	**11,533**	**16,643**	**11,533**
Securities available for sale	**952**	**6,049**	**952**	**915**
- Debt securities	-	4,543	-	-
- Equity securities	952	1,506	952	915
Credit risk exposures relating to off – balance sheet items are as follows:	**1,180,682**	**1,084,044**	**1,814,685**	**1,731,381**
- Financial guarantees	341,134	260,046	567,183	510,382
- Loan commitments and other credit related liabilities	839,548	823,998	1,247,502	1,220,999
December 31	**12,285,431**	**11,941,753**	**13,022,721**	**12,646,654**

The table above represents worst case scenario of credit risk exposure at 31 December 2012 and 2011, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

Large corporates are legal entities with annual turnover higher than LTL 51,8 million (EUR 15 million), while SMEs are legal entities with annual turnover up to LTL 51,8 million (EUR 15 million).

Loans and advances to banks and customers account for 78% of the total maximum exposure of the Group (2011: 78%) and for 77% of the total maximum exposure of the Bank (2011: 77%).

As economic situation and business environment are stabilizing, positive trends in the creditworthiness of the customers are noticeable, which are reflected in the quality of the portfolio of loans and advances to customers: the ratio of impairment losses to the respective Group's portfolio in 2012 was 7.5% whereas in 2011 it stood at 8.6%.

Possible credit risk losses are significantly reduced by collaterals: mortgage loans and 65% of loans and advances to business customers are secured by collateral (see paragraph 1.5(e) for more detailed information on collateralization).

The Group pays special attention on determining proper acceptable risk criteria (regarding financial status of the customer and currency of the contract) which are applicable in decision making on granting of loans as well as on monitoring process seeking to sustain optimal credit risk level.

FINANCIAL RISK MANAGEMENT (continued)

1.5. Loans and advances

Loans and advances are summarized as follows:

Group

	31 December			
	2012		2011	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	6,589,248	1,017,603	5,981,542	836,215
Past due but not impaired	1,095,059	-	1,577,663	-
Impaired	1,574,904	-	1,767,292	-
Gross	**9,259,211**	**1,017,603**	**9,326,497**	**836,215**
Less: allowance for impairment	(698,442)	-	(802,312)	-
Net	**8,560,769**	**1,017,603**	**8,524,185**	**836,215**

Bank

	31 December			
	2012		2011	
	Loans and advances to customers	Due from banks	Loans and advances to customers	Due from banks
Neither past due nor impaired	6,995,563	1,017,603	6,340,063	836,215
Past due but not impaired	1,095,059	-	1,577,663	-
Impaired	1,574,904	-	1,767,292	-
Gross	**9,665,526**	**1,017,603**	**9,685,018**	**836,215**
Less: allowance for impairment	(698,442)	-	(802,312)	-
Net	**8,967,084**	**1,017,603**	**8,882,706**	**836,215**

Past due but not impaired loans and advances mean loans and advances that are past due but have no individual allowances for impairment.

Impaired loans and advances mean loans and advances that have individual allowances for impairment.

During the year 2012 the Group's total loans and advances decreased by 0.7%. The Group's total impairment allowance for loans and advances is LTL 698,442 thousand (2011: LTL 802,312 thousand) and it accounts for 7.5% of the Group's respective portfolio (2011: 8.6%). The Group's impaired loans and advances to customers make 17% of the respective portfolio (2011: 18.9%). The reason for the decrease is the relatively improving creditworthiness of the customers, where less of them become insolvent due to the stabilized economic environment as well as the Group's conservative write-off policy.

FINANCIAL RISK MANAGEMENT (continued)

a) Loans and advances neither past due nor impaired

Credit risk of lending to banks is assessed at international DNB Group level, which as well sets exposure limits for different credit risk related products based on the results of these assessments.

All loans and advances to financial institutions are considered as standard exposures for the purpose of credit quality analysis.

Loans to individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored, the customer's status is periodically evaluated using the behavioral scoring tool.

Credit quality of loans to individual and business customers is disclosed in the tables below according to the masterscale, which is used in the whole international DNB Group.

Rating grades are linked with one year horizon probabilities of default, i.e. with probabilities that customer will become unable to perform on its financial obligations to the bank within one year after assignment of rating grade. Probability of default for low risk rating grades (1 to 4) is in the range from 0.00% to 0.75%, for moderate risk rating grades (5 to 7) it is from 0.75% to 3.00%, while it is more than 3.00% for high risk (from 8 to 12).

31 December 2012

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	1,008,492	2,217,650	3,226,142
Moderate risk	2,491,506	271,251	2,762,757
High risk	514,268	492,396	1,006,664
Total	**4,014,266**	**2,981,297**	**6,995,563**

Total figures of the Group would be lower by LTL 406,315 thousand due to loans to subsidiaries – AB DNB Lizingas, UAB Intractus, UAB Industrius, which are assigned to low risk.

31 December 2011

	Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Low risk	1,005,947	2,161,089	3,167,036
Moderate risk	2,101,089	295,914	2,397,003
High risk	499,943	276,081	776,024
Total	**3,606,979**	**2,733,084**	**6,340,063**

Total figures of the Group would be lower by LTL 358,521 thousand due to loans to subsidiaries – AB DNB Lizingas, UAB Intractus, which are assigned to low risk.

b) Loans and advances past due but not impaired

Gross amount of loans and advances are reported in the tables below. At 31 December 2012 and 2011 there were no past due but not impaired loans in category "Loans and advances to banks" either at the Bank or at the Group level.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding types of collateral. In subsequent periods, the fair value of collateral is updated when the exposure becomes impaired or regular monitoring of material credit risk related exposures indicates a possibility of significant changes in collateral value (see more detailed explanation on recognition of collateral in paragraph 1.5(e)).

FINANCIAL RISK MANAGEMENT (continued)

31 December 2012

	Group and Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	289,357	339,756	629,113
Past due 4 -30 days	15,657	72,379	88,036
Past due 31-60 days	56,291	145,074	201,365
Past due 61-90 days	19,984	25,456	45,440
Past due more than 90 days	104,260	26,845	131,105
Total	**485,549**	**609,510**	**1,095,059**
Value of risk mitigation measures	335,796	568,298	904,094

31 December 2011

	Group and Bank loans to customers		
	Business customers	**Individual customers**	**Total**
Past due up to 3 days	489,778	533,183	1,022,961
Past due 4 -30 days	14,868	61,416	76,284
Past due 31-60 days	54,995	193,471	248,466
Past due 61-90 days	52,201	29,685	81,886
Past due more than 90 days	110,191	37,875	148,066
Total	**722,033**	**855,630**	**1,577,663**
Value of risk mitigation measures	589,878	779,936	1,369,814

Major part of loans and advances reported as past due but not impaired are past due up to 3 days. It is explained by the fact that the repayments for customers were scheduled on the last working day of the year and payment settlement for part of customers was delayed because of non-working days.

c) Impaired loans and advances

Accrued interest income for individually impaired loans and advances to customers amount to LTL 58,105 thousand as of December 31, 2012 (2011: LTL 66,029 thousand).

There are no individually impaired loans and advances to banks and financial institutions either at the Bank or at the Group level as of December 31, 2012 and 2011.

The gross amount of individually impaired loans and advances by customer type is reported together with the value of related collateral held as security in the tables below.

Individually impaired loans and advances are most often secured by real estate and movable assets. Value for such collateral is equal to its market value (not liquidation value), which is updated shortly after identification of impairment.

The loans and advances which are not impaired individually are grouped into pools of homogeneous loans and advances and assessed for collective impairment. Insignificant loans and advances are grouped according to days overdue whereas significant ones are grouped according to economic activity of the borrower.

	Group and Bank loans		
	Business customers	**Individual customers**	**Total**
31 December 2012			
Individually assessed impaired loans	996,063	578,841	1,574,904
Value of collateral	680,812	416,398	1,097,210
31 December 2011			
Individually assessed impaired loans	1,147,335	619,957	1,767,292
Value of collateral	815,909	476,239	1,292,148

FINANCIAL RISK MANAGEMENT (continued)

d) Renegotiated loans and advances

The renegotiation of the loans is performed at the different levels of competence taking into account significance and level of risk of these loans. As the business environment was becoming more balanced, the year 2012 continued to show the tendency of decreasing demand for renegotiation of customers' loans which started already in the year 2011. As in the year 2011 business customers dominate in the distribution of renegotiated loans between business and individual customers segments.

The table below discloses the volume of loans that were renegotiated in the years 2012 and 2011.

	Group and Bank loans	
	2012	**2011**
Loans to individuals (retail):	**78,375**	**94,362**
- Consumer loans	992	2,141
- Mortgages	66,290	91,720
- Loans secured by equity linked bonds issued by Bank	11,093	501
Loans to business customers:	**142,913**	**401,936**
- Large corporates	17,136	129,357
- SMEs	116,057	260,731
- Farmers	9,720	11,848
Total	**221,288**	**496,298**

e) Information about collaterals of loans

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, depending which is lower) are used for real estate and movable assets serving as collateral. In subsequent periods, the fair value of collateral is updated when exposure becomes individually impaired or results of regular credit risk monitoring indicate possibility of significant changes in collateral value. The value of residential real estate is recalculated periodically by applying an index, the value of which depends on the asset type, geographical location and the period when the last evaluation took place.

The bank takes into account guarantees issued by the State, other parties issuing guarantees which are equivalent to the State guarantees (e.g., guarantees of Investicijų ir verslo garantijos UAB, Žemės ūkio paskolų garantijų fondas UAB), municipalities, banks as well as credit insurance provided by the company owned by the Ministry of Finance Būsto paskolų draudimas UAB in disclosing information on guarantees serving as collateral. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered to be immaterial and are not disclosed here.

If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash and guarantees are treated as types of collateral with highest liquidity followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having lowest liquidity.

The most commonly used type of collateral is the other real estate (mostly commercial) comprising 38% of the secured part of the Group's loan portfolio (2011: 40%).

The Bank has acknowledged the risk arising from this type of the collateral and has taken measures to manage the concentration of real estate serving as the main type of the credit risk mitigant.

Loans and advances to financial institutions are generally unsecured.

31 December 2012

	Group and Bank loans to individuals (retail)	%	Group loans to business customers	%	Bank loans to business customers	%
Unsecured loans	**451,727**	**11%**	**1,793,840**	**35%**	**1,912,189**	**37%**
Loans collateralized by:	**3,717,921**	**89%**	**3,292,985**	**65%**	**3,292,985**	**63%**
- residential real estate	2,636,156	63%	192,877	4%	192,877	4%
- other real estate	404,446	10%	2,265,269	45%	2,265,269	43%
- securities	12,902	0%	10,275	0%	10,275	0%
- guarantees	664,083	16%	110,640	2%	110,640	2%
- other assets	334	0%	713,924	14%	713,924	14%
Total	**4,169,648**	**100%**	**5,086,825**	**100%**	**5,205,174**	**100%**

FINANCIAL RISK MANAGEMENT (continued)
31 December 2011

	Group and Bank loans to individuals (retail)	%	Group loans to business customers	%	Bank loans to business customers	%
Unsecured loans	**462,983**	**11**	**1,410,426**	**28**	**1,476,447**	**28**
Loans collateralized by:	**3,745,688**	**89**	**3,707,355**	**72**	**3,707,355**	**72**
- residential real estate	2,505,163	60	261,107	5	261,107	5
- other real estate	496,055	12	2,520,711	49	2,520,711	49
- securities	58,991	1	40,500	1	40,500	1
- guarantees	685,081	16	134,184	3	134,184	3
- other assets	398	0	750,853	14	750,853	14
Total	**4,208,671**	**100**	**5,117,781**	**100**	**5,183,802**	**100**

1.6. Finance lease receivables

Finance lease receivables are summarized as follows:

	2012			2011		
	Business customers	**Individuals**	**Total**	**Business customers**	**Individuals**	**Total**
Neither past due nor impaired	209,013	27,287	236,300	177,551	24,023	201,574
Past due but not impaired	29,905	4,222	34,127	40,517	6,116	46,633
Impaired	92,760	1,840	94,600	123,532	2,087	125,619
Gross	**331,678**	**33,349**	**365,027**	**341,600**	**32,226**	**373,826**
Less: allowance for impairment	(67,939)	(1,295)	(69,234)	(76,754)	(1,249)	(78,003)
Net	**263,739**	**32,054**	**295,793**	**264,846**	**30,977**	**295,823**

During the year ended 31 December 2012, finance lease receivables portfolio decreased by 2.4%. Total impairment allowance for finance lease receivables is LTL 69,234 thousand (2011: LTL 78,003 thousand) and it accounts for 18.97% of the respective portfolio (2011: 20.87%).

1.7. Exposures rated by ECAI

Table below presents an analysis of debt securities and treasury bills by rating agency designation at 31 December 2012 based on Moody's ratings or their equivalent.

31 December 2012

Group

Rating	**Trading securities**		**Securities available for sale**		**Securities designated at fair value through profit or loss**		**Total**
	Bonds	**T-Bills**	**Bonds**	**T-Bills**	**Bonds**	**T-Bills**	
Aaa	-	-	-	-	-	-	-
From Aa3 to Aa1	-	-	-	-	-	-	-
From A3 to A1	-	-	-	-	-	-	-
From Baa1 to Ba3	50,000	848	-	-	266,897	359,437	677,182
NR	-	-	-	-	-	-	-
Total	50,000	848	-	-	266,897	359,437	677,182

FINANCIAL RISK MANAGEMENT (continued)

31 December 2012

Bank

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	-
From Aa3 to Aa1	-	-	-	-	-	-	-
From A3 to A1	-	-	-	-	-	-	-
From Baa1 to Ba3	50,000	848	-	-	260,306	359,437	670,591
NR	-	-	-	-	-	-	-
Total	50,000	848	-	-	260,306	359,437	670,591

31 December 2011

Group

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	-
From Aa3 to Aa1	-	-	-	-	-	-	-
From A3 to A1	-	-	-	-	-	-	-
From Baa1 to Ba3	18,649	13,540	4,543	-	82,141	306,146	425,019
NR	-	-	-	-	-	-	-
Total	**18,649**	**13,540**	**4,543**	**-**	**82,141**	**306,146**	**425,019**

31 December 2011

Bank

Rating	Trading securities		Securities available for sale		Securities designated at fair value through profit or loss		Total
	Bonds	T-Bills	Bonds	T-Bills	Bonds	T-Bills	
Aaa	-	-	-	-	-	-	-
From Aa3 to Aa1	-	-	-	-	-	-	-
From A3 to A1	-	-	-	-	-	-	-
From Baa1 to Ba3	18,649	13,540	-	-	82,141	306,146	420,476
NR	-	-	-	-	-	-	-
Total	**18,649**	**13,540**	**-**	**-**	**82,141**	**306,146**	**420,476**

1.8. Repossessed assets

The Group obtained assets by taking possession of collateral held as security, as follows:

	Gross amount			
	Group		Bank	
Nature of assets at gross values	**2012**	**2011**	**2012**	**2011**
Repossessed assets (investment properties, Note 21)	227,047	138,899	-	-
Other repossessed assets	19,440	30,853	19,440	30,853
Repossessed assets (non-current assets held for sale, Note 24)	14,722	871	10,404	2
Retrieved assets under cancelled lease contracts	31,629	30,734	-	-
Total	**292,838**	**201,357**	**29,844**	**30,855**

Other repossessed assets and retrieved assets under cancelled lease contracts (mainly vehicles and equipment) are accounted at the lower of cost and net realisable value and are classified in the statement of financial position within other assets.

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

Economic sectors

The following table breaks down the loans and finance lease receivables at their carrying amounts, as categorized by the economic sectors of our counterparties.

In the year 2012 the classification was changed from NACE 1.1 red. to NACE 2 red. Reclassification did not have significant impact on customer distribution by the economic sectors.

Group

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communica-tion	Real estate activities	Public sector	Other industries	Private individuals	Not attributed	Total
Neither past due nor impaired	3,295	384,984	749,608	196,139	244,847	670,266	152,520	418,575	746,688	249,995	3,008,584	47	**6,825,548**
Past due but not impaired	225	79,704	58,372	2,500	96,780	78,452	26,703	75,058	46,885	50,774	613,732	-	**1,129,186**
Impaired	-	52,617	116,254	49	166,139	117,727	59,612	421,697	14	154,676	580,681	38	**1,669,504**
Value adjustments and provisions	(21)	(13,832)	(57,835)	(376)	(108,149)	(65,713)	(38,325)	(149,273)	(10)	(69,214)	(264,890)	(38)	**(767,676)**
Changes for value adjustments and provisions during the reporting period	(5)	8,049	27,077	382	24,643	10,442	6,885	25,358	8	2,712	7,049	39	**112,639**
Total at 31 December 2012	**3,499**	**503,473**	**866,399**	**198,312**	**399,617**	**800,732**	**200,510**	**766,057**	**793,577**	**386,231**	**3,938,107**	**47**	**8,856,562**
Total at 31 December 2011	**1,145**	**476,494**	**830,023**	**178,059**	**465,001**	**760,466**	**180,669**	**926,959**	**720,844**	**311,390**	**3,968,958**	**-**	**8,820,008**

Bank

	Financial intermediation	Agriculture, hunting, forestry, fishing	Manufacturing	Electricity, gas, water supply	Construction	Wholesale and retail trade	Transport, storage, communication	Real estate activities	Public sector	Other industries	Private individuals	Not attributed	Total
Neither past-due nor impaired	290,703	358,475	715,891	191,818	236,750	637,447	78,225	532,551	738,760	233,599	2,981,297	47	**6,995,563**
Past due but not impaired	1	74,819	55,122	1,573	95,348	76,039	12,566	75,039	46,511	48,531	609,510	-	**1,095,059**
Impaired	-	48,520	107,522	-	156,247	99,508	27,342	414,910	-	141,976	578,841	38	**1,574,904**
Value adjustments and provisions	-	(11,442)	(50,846)	(327)	(98,678)	(53,143)	(14,818)	(147,306)	-	(58,249)	(263,595)	(38)	**(698,442)**
Changes for value adjustments and provisions during the reporting period	-	5,965	25,421	373	26,042	11,474	711	25,089	-	1,617	7,139	39	**103,870**
Total at 31 December 2012	**290,704**	**470,372**	**827,689**	**193,064**	**389,667**	**759,851**	**103,315**	**875,194**	**785,271**	**365,857**	**3,906,053**	**47**	**8,967,084**
Total at 31 December 2011	**292,545**	**447,361**	**785,738**	**172,049**	**448,930**	**720,688**	**91,037**	**981,163**	**716,670**	**288,588**	**3,937,937**	**-**	**8,882,706**

FINANCIAL RISK MANAGEMENT (continued)

2. Market risk

The Group takes on exposure to market risk, which means the risk for the Bank to incur losses due to the adverse fluctuations in the market parameters such as currency exchange rates (currency risk), interest rates (interest rate risk) or equity prices (equity risk). The most significant market risk for a Group is the interest rate risk while other market risks are of lower significance.

Interest rate risk is assessed by calculation of the Group's positions' sensitivity to interest rate change by 1 basis point, whereas the exchange rate risk is evaluated by calculation of open foreign exchange positions. The aforementioned calculations are performed daily and submitted to the Bank's Management Board, the members of Risk management committee and Markets department. The interest rate and foreign exchange risks are restricted by the limits determined by the shareholder and monitored daily by Markets&Treasury Support and Control unit and reported regularly to the Bank's Management Board.

Regular reports on market risk exposures are submitted to the Bank's management board.

2.1 Market risk measurement techniques

There are several types of market risk calculated in the Group.

Interest rate risk is assessed as an impact of parallel shift of a yield curve on a present value of the gap between total liabilities and total assets. The risk is measured as 1 basis point value (bpv). 1 bpv discloses the amount which would impact Group's net result in case of the yield curve shift. Essential interest rate risk is in EUR and LTL currencies, therefore the following risk mitigation techniques are used. As assets in these currencies have longer maturity than liabilities, open interest rate position would create appropriate risk. Long term funding is attracted to decrease the discrepancy between long and short terms. Interest rate swaps are used to achieve and maintain an acceptable level of interest rate risk.

Foreign exchange (hereinafter referred to as FX) risk is assessed as an open position between assets and liabilities in a respective currency. This open position is restricted by the limits set by the DNB Markets Norway and monitored on a daily basis. FX positions are very low except of EUR/LTL position being more significant.

2.2. Foreign exchange risk

Note 37 reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and limits EUR position with the limit set by the DNB Markets Norway.

Sensitivity of foreign exchange risk

Foreign exchange risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss – i.e. open FX position is multiplied by possible FX rate change. FX risk parameters for the Group and the Bank, which are set by the Bank, are provided in the table below:

Currency	Reasonable shift
LVL	1.5 %
PLN	2.5 %
DKK	2.5 %
USD	2.5 %
NOK	2.5 %
Other currencies	5.0 %

The presumable FX rate change creates acceptable impact on Bank's and Group's annual profit as well as equity and makes LTL 142 thousand in 2012 (2011: LTL 96 thousand) impact on profit.

The Bank's exposure to foreign currency exchange rate risk is summarised in Note 37.

2.3. Interest rate risk

The Group has exposure to interest rate risk in LTL and EUR, interest rate risk in other currencies is not significant. Interest rate risk in LTL rising from the loan portfolio and debt securities at a smaller extend on asset side which is mainly counterbalanced with clients' deposits on the liability side. In case of EUR it is mainly funding from parent bank covering the exposure from assets. Interest rate risk from single currency position is calculated and monitored on a daily basis, using the basis point value (bpv) analysis. As the Group follows a very conservative approach in interest rate risk, separate currency position risk is restricted by the limits to 1 bpv set by the DNB Markets Norway.

1 bpv is calculated on a basis of interest rate gap report, which is the analysis of difference between assets and liabilities distributed by appropriate time buckets according to each currency.

The bpv reflect the impact of the parallel shift of the yield curve to the net profit before taxes.

FINANCIAL RISK MANAGEMENT (continued)

The Bank's and Group's exposure to interest rate risk as of 31 December 2012 (basis point value):

Risk	Bank	DNB lizingas	DNB investiciju valdymas	Elimination effect	Consolidated
LTL	(29.2)	(1.1)	(1.4)	-	(31.7)
EUR	1.8	3.6	(0.4)	-	5.0
USD	(4.2)	-	-	-	(4.2)
LVL	(3.8)	-	-	-	(3.8)
PLN	0.1	-	-	-	0.1
NOK	0.9	-	-	-	0.9
Others	0.6	-	-	-	0.6

The Bank's and Group's exposure to interest rate risk as of 31 December 2011 (basis point value):

Risk	Bank	DnB lizingas	DnB investiciju valdymas	Elimination effect	Consolidated
LTL	(20.8)	(0.7)	(0.7)	-	(22.2)
EUR	17.5	3.0	(0.4)	(11.3)	8.8
USD	(3.9)	(0.1)	-	-	(4.0)
LVL	0.03	-	-	-	0.03
PLN	0.07	-	-	-	0.07
NOK	0.5	-	-	-	0.5
Others	0.5	-	-	-	0.5

The Bank's interest rate gap analysis is summarized in Note 38.

Sensitivity of interest rate risk

Interest rate risk exposure cannot exceed limits, therefore limit is the highest possible 1 bpv. Assuming a reasonable parallel shift of yield curve (interest rate risk parameters presented in table below), sensitivity of interest rate risk shall be calculated multiplying bpv limit usage by interest rate change. Reasonable interest rate shift by currencies (in basis points) are provided in the table below:

Reasonable shift in bp	LTL	EUR	USD
2012	100	50	50
2011	100	50	50

The shift of yield curve according to the above mentioned parameters creates acceptable impact on Group's and Bank's equity and P&L (see table below):

Impact on P&L and Equity:

Year	Equity		P&L
	Group	Bank	
2012	4,118	4,235	12,154
2011	2,943	3,226	9,874

2.4 Equity risk

The Group does not have significant exposure to equity risk. Equity risk exposure arises from index linked bonds and deposits. Equity index options which are sold to retail clients are hedged by buying corresponding equity index options from the financial institutions. Open equity option position arises during the trade of index linked bonds in the secondary market or when index linked deposits are redeemed before their maturity. Open option position related to a certain issue of index linked bonds is reduced if market value of the open position is greater than EUR 10 thousand. Open position limitations constraints the Bank to keep equity risk at immaterial levels. The total amount of index linked instruments issued has significantly decreased in 2012, as there were no new issues during the year. The open equity option positions were within established limits for all issues of index linked bonds and deposits during 2012.

The equity exposure also consists of investment fund's units held by DNB Investment Management. This small portion of investment fund units is held solely for company's client deals and the Group is not seeking the profit from this position, therefore the risk rising from units of investment funds is not assessed.

FINANCIAL RISK MANAGEMENT (continued)

3. Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or the risk to incur losses due to the sudden decrease in financial resources (eg. the financial crisis situations may result in the run on the bank and delay of incoming payments) as well as due to increase in price of the new resources designed for refinancing. The consequence of liquidity risk occurrence may be the failure to meet obligations to repay depositors and fulfil loan commitments. Liquidity risk is controlled on an DNB Group level and restricted by liquidity ratio, set by the Bank of Lithuania and the limits set by the DNB Markets Norway.

Management of the Bank is constantly monitoring the liquidity situation on the financial markets. The Bank is ready for liquidity situation to become worse as business and funding contingency plans are in place and up to date.

3.1 Liquidity risk management process

Liquidity risk management is divided into the long-term (1 year) risk management and short-term (up to 1 month) risk management. The aim of short-term liquidity is to meet the daily need for funds, to ensure the compliance with the reserve and liquidity requirements set by the Bank of Lithuania as well as the compliance with the internal liquidity limits. Short-term liquidity is maintained through daily monitoring of the liquidity status, day-to day funding and trading the appropriate financial instruments for liquidity purposes. Long-term liquidity risk is managed by analysing the predicted future cash flows taking into account the deposit and loan portfolio growth as well as the possible refinancing sources.

For the purpose of the liquidity risk assessment the liquidity gap, taking into account the maturity and the funding ratio, are analysed. The liquidity risk is restricted by imposing the internal limits on liquidity gap and funding ratio. Utilization of these limits are subject to daily monitoring and regular reporting to the management bodies of the Group.

Liquidity gap is calculated by looking at the Group's net refinancing situation within one week and one month applying a "business as usual" approach. Liquid assets and short term liabilities are included for liquidity gap calculation for respective terms (1 week and 1 month).

	31 December 2012		**31 December 2011**	
	1 week	1 month	1 week	1 month
Liquidity gap (Group)	732,7	364,5	628,2	231,6
Limit	(1381,1)	(1381,1)	(1381,1)	(1381,1)

Funding ratio shows how stable is the Group's situation in terms of funding. The limit of funding ratio is 0.85, which means that not less than 85% of all loans to customers should be funded with the long term liabilities and equity. The ratio shows the proportion by which loans to customers are covered by the long term funding.

	31 December 2012	**31 December 2011**
Funding ratio (Group)	1.16	1.15

Note 36 analyzes assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at statement of financial position date till the contractual maturity date as well as the liquidity ratio requirement set by the Bank of Lithuania.

3.2. Funding approach

The bank has a possibility of attracting funding at minimum cost. The parent Bank DNB (counterparty credit rating being A+/Stable/F1 (Fitch Ratings) provided 12 December, 2012) is the lender of last resort and provides the financing for the Bank in the cases of faltered liquidity. Shareholder and the Bank have signed multicurrency facility agreement where shareholder makes a commitment to provide funding to the Bank.

3.3. Non – derivative cash flows

Undiscounted cash flows below describe liability side outflows which are represented by nominal contract amounts together with accrued interest till the end of the contract.

Group

31 December 2012 **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	49,607	224,219	2,574,086	1,296,354	-	4,144,266
Due to customers	4,367,682	520,886	946,803	59,044	15,780	5,910,195
Debt securities in issue	-	-	50,516	22,147	-	72,663
Other financial liabilities	34,010	8,326	13,045	2,457	-	57,838
Total liabilities (contractual maturity dates)	4,451,299	753,431	3,584,450	1,380,002	15,780	10,184,962

FINANCIAL RISK MANAGEMENT (continued)

Bank

31 December 2012 **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	49,607	224,219	2,574,086	1,296,354	-	4,144,266
Due to customers	4,369,343	520,886	946,803	59,044	15,780	5,911,856
Debt securities in issue	-	-	50,516	22,147	-	72,663
Other financial liabilities	54,375	7,121	13,114	26,776	-	101,386
Total liabilities (contractual maturity dates)	4,473,325	752,226	3,584,519	1,404,321	15,780	10,230,171

Group

31 December 2011 **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	159,444	802,119	376,074	3,182,778	108,792	4,629,207
Due to customers	3,554,072	657,014	870,460	83,021	22,682	5,187,249
Debt securities in issue	-	31,188	18,349	78,577	-	128,114
Other financial liabilities	-	812	819	40,721	-	42,352
Subordinated loans	30,903	7,790	5,019	537	-	44,249
Total liabilities (contractual maturity dates)	3,744,419	1,498,923	1,270,721	3,385,634	131,474	10,031,171

Bank

31 December 2011 **Liabilities**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	159,444	802,119	376,074	3,182,778	108,792	4,629,207
Due to customers	3,556,670	657,014	870,460	83,021	22,682	5,189,847
Debt securities in issue	-	31,188	18,349	78,577	-	128,114
Other financial liabilities	-	812	819	40,721	-	42,352
Subordinated loans	53,946	7,563	5,083	27,477	-	94,069
Total liabilities (contractual maturity dates)	3,770,060	1,498,696	1,270,785	3,412,574	131,474	10,083,589

3.4. Derivative cash flows

Tables below analyse cash flows from derivative instruments. Commonly the Group has exposure to foreign exchange derivatives i.e. forwards, swaps; interest rate derivatives i.e. swaps and options on interest rates, and equity derivatives i.e. options on equity indexes.

a) *Derivatives settled on a net basis*

31 December 2012	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Derivatives held for trading						
- Foreign exchange derivatives	-	-	-	-	-	0
- Interest rate derivatives	1,760	4,034	11,353	14,752	1,867	33,766
- Equity derivatives	780	-	-	-	-	780
- Commodity derivatives	-	-	-	-	-	-
- Credit derivatives	-	-	-	-	-	0
Total	2,540	4,034	11,353	14,752	1,867	34,546

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

FINANCIAL RISK MANAGEMENT (continued)

31 December 2011	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Derivatives held for trading						
- Foreign exchange derivatives	25	-	-	-	-	25
- Interest rate derivatives	5,408	4,383	18,418	25,148	2,123	55,480
- Equity derivatives	543	-	-	-	-	543
- Commodity derivatives	-	-	-	-	-	-
- Credit derivatives	771	-	-	-	-	771
Total	6,747	4,383	18,418	25,148	2,123	56,819

b) Derivatives settled on a gross basis

31 December 2012

Derivatives held for trading	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Foreign exchange derivatives					
Outflow	903,726	782,029	431,079	916,459	**3,033,293**
Inflow	902,237	782,158	430,528	916,082	**3,031,005**
Total outflow	903,726	782,029	431,079	916,459	**3,033,293**
Total inflow	902,237	782,158	430,528	916,082	**3,031,005**

31 December 2011

Derivatives held for trading	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Foreign exchange derivatives					
Outflow	1,001,266	973,082	341,733	-	**2,316,081**
Inflow	999,542	971,843	340,929	-	**2,312,314**
Total outflow	1,001,266	973,082	341,733	-	**2,316,081**
Total inflow	999,542	971,843	340,929	-	**2,312,314**

3.5. Off - balance sheet items

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

Group

	Up to one year	From 1 to 5 years	Over 5 years	Total
At 31 December 2012				
Guarantees	169,149	167,870	4,115	341,134
Letters of credit	4,605	-	-	4,605
Loan commitments	517,930	299,729	21,889	839,548
Finance lease commitments	8,501	-	-	8,501
Operating lease commitments	8,342	-	-	8,342
Other commitments	2,786	3,863	5,144	11,793
Total	**711,313**	**471,462**	**31,148**	**1,213,923**

FINANCIAL RISK MANAGEMENT (continued)

At 31 December 2011				
Guarantees	135,932	121,569	2,545	260,046
Letters of credit	2,084	1,122	-	3,206
Loan commitments	551,655	243,740	6,994	802,389
Finance lease commitments	2,292	-	-	2,292
Operating lease commitments	1,266	1,049	-	2,315
Other commitments	4,961	4,019	4,816	13,796
Total	**698,190**	**371,499**	**14,355**	**1,084,044**

Bank

	Up to one year	From 1 to 5 years	Over 5 years	Total
At 31 December 2012				
Guarantees	207,881	355,187	4,115	567,183
Letters of credit	4,605	-	-	4,605
Loan commitments	925,884	299,729	21,889	1,247,502
Operating lease commitments	2,069	-	-	2,069
Other commitments	2,786	3,863	5,144	11,793
Total	**1,143,225**	**658,779**	**31,148**	**1,833,152**
At 31 December 2011				
Guarantees	173,801	334,036	2,545	510,382
Letters of credit	2,084	1,122	-	3,206
Loan commitments	591,344	603,852	6,994	1,202,190
Operating lease commitments	1,320	1,049	-	2,369
Other commitments	4,399	4,019	4,816	13,234
Total	**772,948**	**944,078**	**14,355**	**1,731,381**

4. Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of financial assets and liabilities not presented on the Bank statement of financial position at their fair value. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at the current market interest rates (VILIBOR or LIBOR) plus or minus current margin for similar products to determine the fair value.

As at 31 December 2012	**Group**		**Bank**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Loans and advances to customers of which:	8,560,769	8,018,633	8,967,084	8,238,064
-Loans to individuals	3,906,053	3,658,690	3,906,053	3,588,493
-Loans to business customers	4,651,978	4,357,378	4,770,327	4,382,502
-Loans and advances to financial institutions	2,738	2,565	290,704	267,070
Finance lease receivables of which:	295,793	277,061	-	-
-Individuals	32,054	30,024	-	-
-Business customers	263,739	247,037	-	-
Liabilities				
Due to banks	4,099,366	4,081,441	4,099,366	4,081,441
Due to customers	5,884,500	5,888,615	5,886,161	5,897,537
Debt securities in issue	70,558	71,687	70,558	71,687

FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2011	Group		Bank	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Loans and advances to customers of which:	8,524,185	7,757,220	8,882,706	7,980,458
-Loans to individuals	3,937,937	3,583,620	3,937,937	3,537,947
-Loans to business customers	4,586,203	4,173,558	4,652,224	4,179,681
-Loans and advances to financial institutions	45	41	292,545	262,830
Finance lease receivables of which:	295,823	269,206	-	-
-Individuals	30,977	28,190	-	-
-Business customers	264,846	241,016	-	-
Liabilities				
Due to banks	4,506,051	4,503,645	4,506,051	4,503,645
Due to customers	5,146,575	5,146,470	5,149,173	5,149,068
Debt securities in issue	114,954	122,613	114,954	122,613
Subordinated loans	38,544	35,932	38,544	35,932

Next two tables below summarize the Financial assets and liabilities of the Bank accounted for at fair value. Financial instruments are distributed by 3 levels of fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable market data, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of all Bank contracted derivatives is defined as level 2. These are mainly interest rate swaps and FX derivatives which are valued using discounted cashflow or present value calculation method and revaluation of options is based on Black and Scholes model. In all cases pricing is based on market observable inputs.
Debt securities are priced in accordance to market quotes, therefore defined as level 1.
There were no movements of financial instruments between the levels during 2012.

Bank

As at 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
FX forwards, swaps, put, call options	-	5,621	-	5,621
Interest rate swaps, collars	-	10,143	-	10,143
Equity linked options	-	879	-	879
Credit related agreements	-	-	-	-
	-	**16,643**	**-**	**16,643**
Financial assets held-for-trading				
Government debt securities	50,848	-	-	50,848
Debt securities issued by banks	-	-	-	-
	50,848	**-**	**-**	**50,848**
Financial assets designated at fair value through profit or loss				
Government debt securities	619,743	-	-	619,743
Other debt securities	-	-	-	-
	619,743	**-**	**-**	**619,743**
Financial investments available-for-sale				
Other debt securities	-	-	-	-
Equity securities	952	-	-	952
	952	**-**	**-**	**952**
	671,543	**16,643**	**0**	**688,186**

FINANCIAL RISK MANAGEMENT (continued)

Financial liabilities				
FX forwards, swaps, put, call options	-	4,710	-	4,710
Interest rate swaps, collars	-	21,512	-	21,512
Credit related agreements	-	-	-	-
	-	**26,222**	**-**	**26,222**

Figures for the Group will not differ materially, mainly debt securities in Financial assets designated at fair value (in amount of LTL 6,591 thousand) would increase the positions of level 1 (Note 14).

Bank

As at 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
FX forwards, swaps, put, call options	-	4,830	-	4,830
Interest rate swaps, collars	-	6,013	-	6,013
Equity linked options	-	551	-	551
Credit related agreements	-	139	-	139
	-	**11,533**	**-**	**11,533**
Financial assets held-for-trading				
Government debt securities	32,189	-	-	32,189
Debt securities issued by banks	-	-	-	-
	32,189	**-**	**-**	**32,189**
Financial assets designated at fair value through profit or loss				
Government debt securities	388,287	-	-	388,287
Other debt securities	-	-	-	-
	388,287	**-**	**-**	**388,287**
Financial investments available-for-sale				
Other debt securities	-	-	-	-
Equity securities	915	-	-	915
	915	**-**	**-**	**915**
	421,391	**11,533**	**0**	**432,924**
Financial liabilities				
FX forwards, swaps, put, call options	-	546	-	546
Interest rate swaps, collars	-	30,175	-	30,175
Credit related agreements	**-**	742	**-**	742
	-	**31,463**	**-**	**31,463**

Figures for the Group will not differ materially, mainly debt securities in available for sale portfolio (in the amount of LTL 4,543 thousand) would increase the positions of level 1 (Note 16).

5. Operational Risk

The Bank defines the operational risk as a risk to suffer direct or indirect losses due to improper or inefficient internal procedures or processes, technologies, employee actions or external factors. Operational risk includes compliance and legal risks.

The operational risk management in the Group is regulated by the Operational risk management policy setting minimum requirements for operational risk management and control, defining the methods for operational risk management, controlling process, and responsibility levels. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

The operational risk management is decentralised in the Group, i.e. the branch managers are responsible for the operational risk management in their branches.

The Group manages the operational risk by accepting it (in this case specific provisions are made for the operational risk upon evaluation of the anticipated losses due to the operational risk events), minimising it, i.e. insurance (the Group is worldwide covered under Comprehensive Crime and Professional Indemnity Insurance policy), implementation of internal control measures, outsourcing and avoiding. The operational risk losses are quarterly reported to the Group's management bodies and Risk Management Committee.

FINANCIAL RISK MANAGEMENT (continued)

The Bank has implemented three methods of operational risk management – declaration of operational risk events and losses, i.e. by registering all operational risk events and losses into centralized system, self-assessment and risk assessment – one of risk inventory methods to evaluate operational risk potential, and key risk indicators system for the early recognition of operational risk tendency.

The Bank dedicates much attention on ensuring business continuity; the disaster recovery and business continuity plans as well as the procedures of restoring of IT services are prepared and tested on a regular basis. Moreover, in order to ensure an uninterrupted functioning of the IT systems and data security, all critical IT components are duplicated.

In 2012 the Group continued to develop the operational risk management and control systems and to sustain internal operation's control function, focusing on follow-up systemic control to the most critical daily banking activities, including lending. Effective operational risk management in the Group is based on each employee's risk perception and understanding. In this case the Group consistently sustained employee's operational risk knowledge by organising new trainings. As in previous years, In May and June 2012 the Bank, using DNB Group methodology, performed a comprehensive risk assessment on the Group level, encompassing all of the main Bank's activities and the most significant potential risks and making measure plans.

Since the Bank was intensely preparing the switch to the new main IT system in 2012, at the beginning of the year there was done a risk assessment related with the new system and it's impact on the Bank's activity (corporate, internal and IT processes), on purpose to find out the biggest threats and to provide the measures for potential risk controlling. In the 2nd half-year of 2012 the Bank has made partial change of main information systems.

In 2013 the Bank will continuously develop operational risk management system by improving existing internal controls, monitoring and spreading risk management culture within the DNB Group. The Bank will give special attention to minimize the operational risk in activities, related to unified IT platform implementation project, legal and compliance issues.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation the Group also performs stress tests for the credit, liquidity, market (interest rate and currency), business and operational risks. The purpose of the stress-testing is to evaluate whether the Group's capital is sufficient to cover those extraordinary losses that might occur in the case when the testing scenario is realised as well as to prepare the contingency plan for the Group. In order to evaluate the losses caused by the aforesaid risks the realisations of the standard, possible and worst case scenarios are assumed.

The results of the stress tests are submitted to the Group's management bodies at least once a year.

7. Capital management

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

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

Capital adequacy report is submitted to the supervising authority quarterly in accordance with the Bank of Lithuania requirements.

The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, audited profit of current financial year that was approved by shareholders meeting, negative revaluation reserve of financial assets and less the intangible assets and part of investments in financial institutions,
2) Tier 2 capital consists of subordinated loans, other reserves and less part of investments in financial institutions.

The risk-weighted assets are measured by means of risk weights classified according to the nature of each assets and counterparty, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The table below summarizes the composition of regulatory capital and the ratios of the Bank and the Group for the years ended 31 December. According to the Bank of Lithuania requirements, 8% capital adequacy ratio is applicable. During 2012 and 2011, the Group complied with the capital requirements to which it is subject.

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Tier 1 capital	1,296,855	1,225,199	1,235,273	1,172,241
Tier 2 capital	706	15,899	-	-
Total capital	**1,297,561**	**1,241,098**	**1,235,273**	**1,172,241**
Risk weighted assets	**8,352,450**	**8,163,475**	**8,626,900**	**8,410,975**
Tier1 capital ratio, %	15.53	15.01	14.32	13.94
Capital ratio, %	**15.54**	**15.20**	**14.32**	**13.94**

FINANCIAL RISK MANAGEMENT (continued)

Capital requirements

The standardized approach is used for the regulatory capital requirements calculation for the credit, market and operational risks both at the Bank and the Group level. For credit risk capital requirement calculation the Bank uses the rating agencies' Fitch Ratings or Moody's ratings for counterparty risk assessment.

Breakdown of the exposures and eligible collaterals by exposure classes, which are used for calculation of capital requirement for credit risk:

	Group			Bank		
	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees	Exposure net of value adjustments and provisions	Total exposure value covered by eligible collaterals	Total exposure value covered by guarantees
Central governments or central banks	237,266	-	-	237,266	-	-
Regional governments or local authorities	886,516	-	-	886,516	-	-
Administrative bodies and non-commercial undertakings	68,805	508	826	57,471	508	826
Institutions	1,067,160	2,716		1,067,160	2,716	
Corporates	4,093,184	16,333	54,658	4,924,238	16,325	54,098
Retail	1,683,517	18,550	52,664	1,619,835	18,580	53,224
Secured on real estate property	2,631,429	2,631,429	-	2,631,429	2,631,429	-
Past due items	689,149	-	17,036	632,600	-	17,036
Other items	724,976	-	-	598,376	-	-
Total	**12,082,002**	**2,669,536**	**125,184**	**12,654,891**	**2,669,558**	**125,184**

The exposure values covered by eligible collateral are shown after application of the volatility adjustments. The Bank and the group did not have any exposures covered by credit derivatives either in 2012 or in 2011.

After implementation of the ICAAP the Group started to calculate the internal capital for the risks not covered or not fully covered by the Pillar I capital.

The principles of ICAAP are uniform in the whole international DNB Group and implemented in the individual banks which depend on it according to their specifics.

The Group uses economic capital (risk-adjusted capital, RAC) model as an alternative calculation in ICAAP for comparison with internal capital requirement calculated based on Basel II Standardised Approach for credit risk.

The concentration risk is assessed for asset classes exposed to credit risk and is measured by means of Hirschman–Herfindahl index. Besides the imposed limits on lending the Group calculates the internal capital requirement for concentration risk according to the estimated risk level.

The residual risk is the risk that the Bank's and the Group's credit risk mitigation techniques will appear to be less effective than expected. Therefore the Bank assumes the increase of the risky assets due to occurrence of the residual risk which leads to the higher capital requirement.

As the regulatory capital requirement is calculated for the interest rate risk arising from the trading book, the Group additionally assesses and calculates the internal capital requirement for the interest rate risk arising from the banking book. The approach and the parameters used for this calculation are the same as the ones for evaluating the stress testing worst case scenario losses.

The main parameters used for business risk evaluation are the volatility of GDP, the Bank's market share movements. Funding margin risk is the possible costs due to interest rate margin fixing for assets and liabilities in different points of time. Interest rate margin for the Bank's assets is fixed for a longer time period than interest rate margin for liabilities, therefore liabilities margin is re-fixed more often. This is the reason why the Bank might be in the situation when margin for assets and margin for liabilities are fixed in different levels, which could lead to additional costs.

The Group calculates the internal capital requirement as Pillar I capital according to regulatory requirements adjusted by the amounts evaluated for the risks identified during ICAAP.

SEGMENT INFORMATION

The Group is organised into these main business segments based on products, services and legal organisation: banking, leasing, investment management, real estate brokerage and real estate management, development and sale. Transactions between the business segments are on normal commercial terms and conditions, transfer prices between operating segments are on arm's length basis. Funds are ordinary reallocated between segments, resulting in funding cost transfers disclosed in operating income. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2012 or 2011.

Year ended 31 December 2012

	Banking	Leasing	Invest-ment manage-ment	Real estate brokerage	Real estate management, development and sale	Eliminations	Group
Third party	348,145	16,656	206	-	-	-	365,007
Inter-segment	8,962	26	1	-	-	(8,989)	-
Total interest income	**357,107**	**16,682**	**207**	**-**	**-**	**(8,989)**	**365,007**
Third party	(123,410)	-	(3)	-	-	-	(123,413)
Inter-segment	(3)	(5,901)	-	(4)	(3,057)	8,965	-
Total interest expense	**(123,413)**	**(5,901)**	**(3)**	**(4)**	**(3,057)**	**8,965**	**(123,413)**
Third party	224,735	16,656	203	-	-	-	241,594
Inter-segment	8,959	(5,875)	1	(4)	(3,057)	(24)	-
Net interest income	**233,694**	**10,781**	**204**	**(4)**	**(3,057)**	**(24)**	**241,594**
Third party	115,595	(92)	5,571	564	-	(2,645)	118,993
Inter-segment	7,675	(4,162)	(2,017)	211	(2)	(1,705)	-
Net income from the other main operations	**123,270**	**(4,254)**	**3,554**	**775**	**(2)**	**(4,350)**	**118,993**
Third party	(220,198)	258	(1,269)	(523)	(3,096)	-	(224,828)
Inter-segment	(49)	(1,458)	(124)	(25)	(73)	1,729	-
Total administrative and other operating expenses/ income	**(220,247)**	**(1,200)**	**(1,393)**	**(548)**	**(3,169)**	**1,729**	**(224,828)**
Depreciation and amortisation	(11,980)	(107)	(13)	(20)	(5)	-	(12,125)
Impairment losses and provisions	(40,514)	(2,564)	-	(37)	-	-	(43,115)
Profit (loss) before tax	**84,223**	**2,656**	**2,352**	**166**	**(6,233)**	**(2,645)**	**80,519**
Income tax	-	-	-	(18)	-	-	(18)
Change of deferred tax	-	-	(77)	-	-	-	(77)
Net profit (loss)	**84,223**	**2,656**	**2,275**	**148**	**(6,233)**	**(2,645)**	**80,424**
Capital expenditure	13,566	-	2	29	32	-	13,629
Shareholders' equity	1,396,980	71,967	7,385	1,391	110,937	(201,563)	1,387,097
Total assets	**11,580,673**	**364,821**	**7,844**	**2,047**	**232,966**	**(662,770)**	**11,525,581**
Total liabilities	**10,183,693**	**292,854**	**459**	**656**	**122,029**	**(461,207)**	**10,138,484**

.

SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2011

	Banking	Leasing	Invest-ment manage-ment	Real estate brokerage	Real estate management, development and sale	Eliminations	Group
Third party	384,705	19,291	197	-	-	-	404,193
Inter-segment	13,715	27	5	-	-	(13,747)	-
Total interest income	**398,420**	**19,318**	**202**	**-**	**-**	**(13,747)**	**404,193**
Third party	(172,785)	-	(3)	-	-	-	(172,788)
Inter-segment	(6)	(12,352)	-	(3)	(1,360)	13,721	-
Total interest expense	**(172,791)**	**(12,352)**	**(3)**	**(3)**	**(1,360)**	**13,721**	**(172,788)**
Third party	211,920	19,291	194	-	-	-	231,405
Inter-segment	13,709	(12,325)	5	(3)	(1,360)	(26)	-
Net interest income	**225,629**	**6,966**	**199**	**(3)**	**(1,360)**	**(26)**	**231,405**
Third party	88,368	6,861	4,923	499	-	(9,326)	91,325
Inter-segment	7,824	(3,928)	(979)	146	(1)	(3,062)	-
Net income from the other main operations	**96,192**	**2,933**	**3,944**	**645**	**(1)**	**(12,388)**	**91,325**
Third party	(151,048)	4,059	(1,104)	(612)	(1,999)	-	(150,704)
Inter-segment	(85)	(2 838)	(105)	(29)	(31)	3,088	-
Total administrative and other operating expenses/ income	**(151,133)**	**1,221**	**(1,209)**	**(641)**	**(2,030)**	**3,088**	**(150,704)**
Depreciation and amortisation	(13,491)	(411)	(28)	(26)	(2)	-	(13,958)
Impairment losses and provisions	(84,542)	217	-	-	1,547	-	(82,778)
Profit (loss) before tax	**72,655**	**10,926**	**2,906**	**(25)**	**(1,846)**	**(9,326)**	**75,290**
Income tax	(1,067)	-	-	-	-	-	(1,067)
Change of deferred tax	-	-	39	-	-	-	39
Net profit (loss)	**71,588**	**10,926**	**2,945**	**(25)**	**(1,846)**	**(9,326)**	**74,262**
Capital expenditure	7,738	-	-	13	5	-	7,756
Shareholders' equity	1,308,552	73,516	7,640	1,243	71,616	(156,009)	1,306,558
Total assets	**11,242,806**	**370,916**	**7,999**	**1,628**	**139,453**	**(574,408)**	**11,188,394**
Total liabilities	**9,934,254**	**297,400**	**359**	**385**	**67,837**	**(418,399)**	**9,881,836**

The Group operates in one geographical segment – Lithuania.

The main capital expenditures used by the Group to acquire assets that are expected to be used during more than one period (property, plant, equipment and intangible assets) belong to geographical segment “Lithuania”.

OTHER NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 NET INTEREST INCOME

	Group		Bank	
	2012	2011	2012	2011
Interest income:				
on due from banks	4,994	11,446	4,994	11,446
on loans and advances to customers	326,085	360,446	335,047	374,161
on finance lease receivables	16,656	19,291	-	-
on financial assets held for trading	1,878	1,372	1,878	1,372
on financial assets available for sale	-	2,049	-	1,852
Total	**349,613**	**394,604**	**341,919**	**388,831**
on financial assets designated at fair value through profit or loss	15,394	9,589	15,188	9,589
Total interest income	**365,007**	**404,193**	**357,107**	**398 420**
Interest expense				
on due to banks	62,031	104,242	62,031	104,242
on deposits and other repayable funds from customers	33,562	32,692	33,565	32,698
on debt securities issued	3,092	5,613	3,092	5,613
on subordinated loans	276	9,800	276	9,800
fees for compulsory insurance of deposits	24,452	20,441	24,449	20,438
Total interest expense	**123,413**	**172,788**	**123,413**	**172,791**
Net interest income	**241,594**	**231,405**	**233,694**	**225,629**

NOTE 2 NET FEE AND COMMISSION INCOME

	Group		Bank	
	2012	2011	2012	2011
Fee and commission income:				
on assets under management	998	1,075	998	1,075
money transfer operations	41,493	33,524	41,522	33,590
payment cards services	27,855	25,448	27,855	25,448
securities operations	2,713	1,885	2,735	1,916
currency (EUR) exchange	8,314	7,118	8,314	7,118
trust and other fiduciary activities	5,907	5,554	605	650
guarantee commissions	3,889	3,471	6,183	6,406
commissions for intermediation	5,659	4,840	7,566	6,719
other	5,913	6,392	8,506	8,519
Total fee and commission income	**102,741**	**89,307**	**104,284**	**91,441**
Fee and commission expense:				
money transfer operations	1,768	1,583	1,770	1,583
payment cards services	16,395	14,311	16,395	14,311
securities operations	1,985	872	1,985	872
currency (EUR) exchange	303	1,818	303	1,818
trust and other fiduciary activities	496	263	496	263
other	762	636	405	238
Total fee and commission expense	**21,709**	**19,483**	**21,354**	**19,085**
Net fee and commission income	**81,032**	**69,824**	**82,930**	**72,356**

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Trading securities				
Debt securities:				
Realized gain (loss)	7,755	4,181	7,755	4,181
Unrealized gain (loss)	(520)	(735)	(520)	(735)
Net gain (loss) from trading securities	**7,235**	**3,446**	**7,235**	**3,446**
Derivative financial instruments				
Realized gain (loss)	(10,401)	(19,703)	(10,401)	(19,703)
Unrealized gain (loss)	6,676	18,157	6,676	18,157
Net gain (loss) from derivative financial instruments	**(3,725)**	**(1,546)**	**(3,725)**	**(1,546)**
Securities, available for sale (Note 32):				
Realized gain (loss) on debt securities	-	(90)	-	(112)
Net gain (loss) from available for sale securities	**-**	**(90)**	**-**	**(112)**
Securities designated at fair value through profit or loss				
Realized gain (loss)	272	1,324	3	1,324
Unrealized gain (loss)	8,052	(4,416)	8,052	(4,416)
Net gain (loss) on securities designated at fair value through profit or loss	**8,324**	**(3,092)**	**8,055**	**(3,092)**
Realized gain (loss) from operations with debt securities issued	358	517	358	517
Net gain (loss) from sale of equity securities	-	-	-	1,069
Received dividends	15	12	2,660	1,827
Total	**12,207**	**(753)**	**14,583**	**2,109**

NOTE 4 IMPAIRMENT LOSSES AND PROVISIONS

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Impairment losses on loans:				
Increase of impairment losses, net	40,506	86,358	40,506	86,358
Recovered previously written off loans	(5,232)	(4,027)	(5,232)	(4,027)
Total impairment losses on loans	35,274	82,331	35,274	82,331
Impairment losses on finance lease receivables (Note 18)	(5,106)	(1,587)	-	-
Impairment losses for other assets	9,215	1,519	1,508	1,696
Expenses for provisions on guarantees	(468)	515	(4,673)	(8,848)
Other provisions	4,200	-	4,200	-
Total	**43,115**	**82,778**	**36,309**	**75,179**

NOTE 5 OTHER INCOME

	Group		Bank	
	2012	2011	2012	2011
On sale of property and other security	2,790	6,296	1,397	1,333
On rent of property	449	437	518	511
On services related to IT development	8,074	6,659	8,074	6,659
On operating lease	147	350	-	-
Other	6,788	4,762	4,604	3,386
Total	**18,248**	**18,504**	**14,593**	**11,889**

NOTE 6 PERSONNEL EXPENSES

	Group		Bank	
	2012	2011	2012	2011
Salaries	72,243	63,266	70,020	61,416
Social insurance	24,200	21,439	23,514	20,840
Training and business trip expenses	2,358	2,307	2,324	2,237
Other	9,819	6,952	9,819	6,952
Total	**108,620**	**93,964**	**105,677**	**91,445**

NOTE 7 DEPRECIATION AND AMORTISATION

	Group		Bank	
	2012	2011	2012	2011
Amortisation of intangible assets	1,554	1,847	1,532	1,776
Depreciation of property, plant and equipment assets	10,571	12,111	10,448	11,715
Total	**12,125**	**13,958**	**11,980**	**13,491**

NOTE 8 OTHER ADMINISTRATIVE EXPENSES

	Group		Bank	
	2012	2011	2012	2011
Rent of premises and maintenance expenses	15,006	15,098	14,787	14,980
Transportation, post and communications expenses	11,718	9,964	11,238	9,544
Advertising and marketing expenses	4,151	6,621	3,863	6,442
Office equipment and maintenance expenses	44,849	11,211	44,595	11,117
Cash collection, consultancy and other services expenses	17,361	4,213	17,170	4,073
Taxes other than income tax	22,691	11,692	21,366	11,032
Foreclosed assets expenses	1,328	3,605	1,052	3,167
Other expenses	17,267	12,490	15,092	11,222
Total	**134,371**	**74,894**	**129,163**	**71,577**

NOTE 9 INCOME TAX

	Group		Bank	
	2012	2011	2012	2011
Current tax for the year	(18)	(1,067)	-	(1,067)
Change of deferred tax asset (see below)	(77)	39	-	-
Total	**(95)**	**(1,028)**	**-**	**(1,067)**

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:

	Group		Bank	
	2012	2011	2012	2011
Profit (loss) before income tax	80,519	75,290	88,428	82,018
Tax calculated at a tax rate of 15%	12,078	11,294	13,264	12,303
Income not subject to tax	(2,148)	(4,568)	(1,941)	(3,095)
Expenses not deductible for tax purposes	6,690	5,140	6,556	4,032
Change in unrecognised deferred tax asset	(16,715)	(11,850)	(17,879)	(13,263)
Adjustment of previous year income tax	-	(1,044)	-	(1,044)
Income tax charge	(95)	(1,028)	-	(1,067)

Movement in deferred tax asset

At the beginning of the year	29,839	30,184	29,804	30,188
Charge (credit) to equity (Note 32)	(7)	(384)	-	(384)
Income statement credit (charge)	(77)	39	-	-
At the end of the year	**29,755**	**29,839**	**29,804**	**29,804**

15% tax rate was used to calculate deferred income taxes in 2012 and 2011.

The movement in deferred tax assets and liabilities of the Group during the period is as follows:

Group – deferred tax liabilities

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2011	2,189	632	2,821
Charged/ (credited) in income statement	211	(515)	(304)
As at 1 January 2012	2,400	117	2,517
Charged/ (credited) in income statement	347	896	1,243
As at 31 December 2012	**2,747**	**1,013**	**3,760**

NOTE 9 INCOME TAX (continued)

Group – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/ deferred income	Total
As at 1 January 2011	1,042	242	31,354	367	33,005
Charged/ (credited) in income statement	244	456	(1,030)	65	(265)
Allowance for deferred tax assets	-	-	-	-	-
Charged/ (credited) to equity	-	(384)	-	-	(384)
As at 1 January 2012	1,286	314	30,324	432	32,356
Charged/ (credited) in income statement	219	(300)	1,154	93	1,166
Charged/ (credited) to equity	-	(7)	-	-	(7)
As at 31 December 2012	**1,505**	**7**	**31,478**	**525**	**33,515**

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. The deferred tax assets recognised at 31 December 2012 in respect of tax losses have been based on profitability assumptions over three year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current adverse economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

As at 31 December 2012 the Group has LTL 309 million of unused tax losses which have no expiry date and LTL 9 million of unused tax losses to carry forward which expires in 2014.

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

Bank – deferred income tax liability

	VAT on long term assets	Valuation of securities	Total
As at 1 January 2011	2,189	601	2,790
Charged/ (credited) in income statement	211	(484)	(273)
As at 1 January 2012	2,400	117	2,517
Charged/ (credited) in income statement	347	839	1,186
As at 31 December 2012	**2,747**	**956**	**3,703**

NOTE 9 INCOME TAX (continued)

Bank – deferred income tax asset

	Depreciation of long-term assets	Valuation of securities	Tax losses	Accrued expenses/deferred income	Total
As at 1 January 2011	1,042	242	31,354	340	32,978
Charged/ (credited) in income statement	244	439	(1,030)	74	(273)
Allowance for deferred tax assets	-	-	-	-	-
Charged/ (credited) to equity	-	(384)	-	-	(384)
As at 1 January 2012	1,286	297	30,324	414	32,321
Charged/ (credited) in income statement	219	(290)	1,154	103	1,186
Allowance for deferred tax assets	-	-	-	-	-
As at 31 December 2012	**1,505**	**7**	**31,478**	**517**	**33,507**

As at 31 December 2012 the Bank has LTL 225 million of unused tax losses to carry forward which has no expiry date and LTL 9 million of unused tax losses to carry forward which expires in 2014.

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 Bank's and Group's deferred tax assets and liabilities as shown in the statement of financial position are:

	Group		Bank	
	2012	2011	2012	2011
Deferred income tax assets	33,515	32,356	33,507	32,321
Deferred income tax liabilities	(3,760)	(2,517)	(3,703)	(2,517)
	29,755	**29,839**	**29,804**	**29,804**

NOTE 10 EARNINGS PER SHARE

Earnings per share were calculated by dividing the Group's net profit for the period by the weighted average number of ordinary registered shares in issue during the period.

Calculation of weighted average for 2012	Note	Number of shares	Par value	Issued/ 366 (days)	Weighted average
Shares issued as of 31 December 2011		5,710,134	115	365/365	5,710,134
Shares issued as of 31 December 2012	31	**5,710,134**	**115**	**366/366**	**5,710,134**

Calculation of weighted average for 2011	Note	Number of shares	Par value	Issued/ 365 (days)	Weighted average
Shares issued as of 31 December 2010		5,710,134	115	365/365	5,710,134
Shares issued as of 31 December 2011	31	**5,710,134**	**115**	**365/365**	**5,710,134**

	2012 Group	2011 Group
Profit attributed to equity holders of the parent	80,424	74,262
Weighted average number of issued shares (units)	5,710,134	5,710,134
Earnings per share (LTL per share)	14.08	13.01

The 2012 and 2011 diluted earnings per share ratios are the same as basic earnings per share.

NOTE 11 CASH AND BALANCES WITH CENTRAL BANKS

	Group		Bank	
	2012	2011	2012	2011
Cash and other valuables	297,919	322,421	297,919	322,421
Placements with Central Bank:				
Compulsory reserves in national currency	237,244	310,877	237,244	310,877
Correspondent account with central bank	-	130,130	-	130,130
Total	**535,163**	**763,428**	**535,163**	**763,428**

Required reserves held with the bank of Lithuania are calculated monthly on a basis of previous month end liabilities and 4% (4% as of 31 December 2011) required reserves rate is applied. All required reserves are held only in LTL. The Bank of Lithuania pays interest for the required reserves. The interest is calculated from the base of compulsory reserves, calculated according to the requirements of European Central Bank (ECB). There is no interest for the remaining compulsory reserves. The interest rate for the interest bearing part is equal to the ECB refinancing interest rate, valid on the day of transaction.

NOTE 12 DUE FROM BANKS

	Group		Bank	
	2012	2011	2012	2011
Due from banks				
Demand deposits	149,071	69,077	149,071	69,077
of which funds to secure the derivatives deals	13,639	13,086	13,639	13,086
Term deposits	839,213	767,138	839,213	767,138
Short term loans	29,319	-	29,319	-
Total	**1,017,603**	**836,215**	**1,017,603**	**836,215**

There were no allowances for impairment against due from banks neither at Bank nor at the Group level as of end of 2012 and 2011. Respectively, there were no changes in allowance for loan impairment and write-offs for such due and allowances in 2012 and 2011.

NOTE 13 FINANCIAL ASSETS HELD FOR TRADING

Group (Bank)

	2012			2011		
	Fair value measurement based on:			Fair value measurement based on:		
	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	33,341	-	-	31,184	-	-
Bonds issued by other banks	-	-	-	-	-	-
Government bonds of foreign issuers	17,507	-	-	1,005	-	-
Total	**50,848**	**-**	-	**32,189**	**-**	-

The movement of securities between levels is presented below:

Group (Bank)

As at 1 January 2012	**-**
Transfers into level 2	**-**
Transfers out of level 2	**-**
Unrealised gains/losses for assets held at the end of the reporting period included in equity	**-**
Realised gains/losses for assets held at the end of the reporting period included in profit or loss	-
Sales	
As at 31 December 2012	**-**
As at 1 January 2011	**8,318**
Transfers into level 2	**-**
Transfers out of level 2	**-**
Unrealised gains/losses for assets held at the end of the reporting period included in equity	**-**
Realised gains/losses for assets held at the end of the reporting period included in profit or loss	-
Sales	(8,318)
As at 31 December 2011	**-**

NOTE 14 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	2012			2011		
	Fair value measurement based on:			Fair value measurement based on:		
	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	626,334	-	-	388,287	-	-
Bonds issued by other banks	-	-	-	-	-	-
Government bonds of foreign issuers	-	-	-	-	-	-
Equity securities						
Units of funds	644	-	-	-	-	-
Total	**626,978**	**-**	**-**	**388,287**	**-**	**-**

Bank

	2012			2011		
	Fair value measurement based on:			Fair value measurement based on:		
	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	619,743	-	-	388,287	-	-
Bonds issued by other banks	-	-	-	-	-	-
Government bonds of foreign issuers	-	-	-	-	-	-
Equity securities						
Units of funds	-	-	-	-	-	-
Total	**619,743**	**-**	**-**	**388,287**	**-**	**-**

The movement of securities between levels is presented below:

	Group	Bank
As at 1 January 2012	-	-
Transfers into level 2	-	-
Transfers out of level 2	-	-
Unrealised gains/losses for assets held at the end of the reporting period included in equity	-	-
Realised gains/losses for assets held at the end of the reporting period included in profit or loss	-	-
Sales		
As at 31 December 2012	-	-
As at 1 January 2011	**21,432**	**21,432**
Transfers into level 2	-	-
Transfers out of level 2	-	-
Unrealised gains/losses for assets held at the end of the reporting period included in equity	-	-
Realised gains/losses for assets held at the end of the reporting period included in profit or loss	-	-
Sales	(21,432)	(21,432)
As at 31 December 2011	-	-

Weighted yields and duration till maturity of these securities are as follows:

Group

	2012		2011	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.78	0.75	3.2	0.8
Government bonds of foreign issuers	-	-	-	-
Bonds issued by other banks	-	-	-	-

Bank

	2012		2011	
	%	Maturity (in years)	%	Maturity (in years)
Government bonds of the Republic of Lithuania	0.76	0.73	3.2	0.8
Government bonds of foreign issuers	-	-	-	-
Bonds issued by other banks	-	-	-	-

NOTE 15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments predominantly used for hedging against risks under the Group's risk management positions. The Group and the Bank 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.
- Foreign exchange swap deals – agreements to exchange different currencies at an agreed rate for a certain time period. At the same time it is agreed to buy and at later date to sell a certain amount of the same currency for another currency.
- Interest rate swaps – contractual agreements according to which a cash flow based on the fixed interest rate calculated on the notional amount is replaced with a 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 where currencies are swapped in addition to the interest rates can be contracted.
- Interest rate collars – agreements that set limits on a variable interest rate payable by the buyer: the buyer has the right to receive compensation when an interest rate exceeds a certain level (ceiling) and an obligation to pay compensation when an interest rate falls below a certain level (floor). Upon making the agreement, the buyer of a collar pays or receives (depending on the terms) an initial payment – a premium.
- Option deals on currencies, equity and commodities – agreements by which the seller grants a non-obligating right to the buyer on a certain date to buy (call option) or to sell (put option) an underlying of such an agreement (currency, equity or commodities) for a price agreed beforehand. For equities and commodities, the Group uses only options that are executed in cash – that is the seller pays to the buyer a certain amount that depends on the price change, if such change was in the buyer's favour. The buyer pays a certain commission or premium to the seller in advance, when the deal is made. The Group seeks to use option deals without taking any additional risk: when a deal is made with the client, at the same time opposite deals are made with other banks.
- Credit default swaps (CDS), which are used as a protection against a default event of a certain reference entity. The buyer of CDS receives a protection and pays a preset annual rate for that. In case of default of a reference entity, the buyer would receive from the seller the payment of the nominal amount of CDS reduced by the expected recovery rate.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position 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, foreign exchange rates, commodity or equity prices relative to their terms.

Aggregate amounts of derivative contracts can fluctuate within the risk ratio limits set by the Group. Fair values of derivative financial assets and liabilities may fluctuate significantly subject to market development.

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

	Notional amounts		Fair values	
	Purchase	**Sale**	**Assets**	**Liabilities**
As at 31 December 2012				
FX forwards, swaps, put, call options	3,033,293	3,031,005	5,621	4,710
Interest rate swaps, collars	1,111,866	1,100,645	10,143	21,512
Equity linked options	38,929	-	879	-
Credit related agreements	-	-	-	-
Total	**4,184,088**	**4,131,650**	**16,643**	**26,222**
As at 31 December 2011				
FX forwards, swaps, put, call options	2,318,463	2,314,713	4,830	546
Interest rate swaps, collars	960,907	949,685	6,013	30,175
Equity linked options	68,198	-	551	-
Credit related agreements	17,495	8,632	139	742
Total	**3,365,063**	**3,273,030**	**11,533**	**31,463**

NOTE 16 FINANCIAL ASSETS - AVAILABLE FOR SALE

Group

	2012			2011		
	Fair value measurement based on:			Fair value measurement based on:		
	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data
Debt securities						
Government bonds and treasury bills of the Republic of Lithuania	-	-	-	4,543	-	-
Bonds of the banks	-	-	-	-	-	-
Equity securities						
Units of funds	-	-	-	591	-	-
Other	952	-	-	915	-	-
Total	**952**	**-**	**-**	**6,049**	**-**	**-**

Bank

	2012			2011		
	Fair value measurement based on:			Fair value measurement based on:		
	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data	quoted prices	valuation techniques based on observable market data	valuation techniques not based on observable market data
Debt securities						
Bonds of the banks	-	-	-	-	-	-
Equity securities						
Other	952	-	-	915	-	-
Total	**952**	**-**	**-**	**915**	**-**	**-**

Total amount of available for sale securities are unimpaired assets. There were no movement of securities between valuation techniques during 2012 and 2011.

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2012	2011	2012	2011
Loans and advances to financial institutions	**2,738**	**45**	**290,704**	**292,545**
Loans to business customers:				
- Public authorities, state and municipal entities	785,790	705,221	785,790	705,221
- Large corporates	2,478,704	2,410,616	2,478,704	2,410,616
- SMEs	1,569,820	1,756,895	1,688,169	1,822,916
- Farmers	250,088	241,311	250,088	241,311
- Other	2,423	3,738	2,423	3,738
Total loans to business customers	**5,086,825**	**5,117,781**	**5,205,174**	**5,183,802**
Loans to individuals (retail):				
- Consumer loans	180,168	206,305	180,168	206,305
- Mortgages	3,923,518	3,903,150	3,923,518	3,903,150
- Loans secured by equity linked bonds issued by Bank	41,319	66,597	41,319	66,597
- Other	24,643	32,619	24,643	32,619
Total loans to individuals (retail)	**4,169,648**	**4,208,671**	**4,169,648**	**4,208,671**
Total gross loans granted	**9,259,211**	**9,326,497**	**9,665,526**	**9,685,018**
Total allowance for impairment:	(698,442)	(802,312)	(698,442)	(802,312)
to financial institutions	-	-	-	-
to business customers	(434,847)	(531,578)	(434,847)	(531,578)
to individuals	(263,595)	(270,734)	(263,595)	(270,734)
Total net loans and advances to customers	**8,560,769**	**8,524,185**	**8,967,084**	**8,882,706**

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS (continued)

Other loans include credit cards, reverse repurchase agreements, other loans backed by securities, other.

Allowance for impairment

Reconciliation of allowance account for losses on loans and advances by class is as follows:

31 December 2012

	Group and Bank loans to individuals (retail)	**Group and Bank loans to business customers**
Balance as at 1 January 2012	**270,734**	**531,578**
Change in allowance for loan impairment	33,072	6,853
Loans written off during the year as uncollectible	(40,211)	(103,584)
As at 31 December 2012	**263,595**	**434,847**
Individual impairment	247,862	423,134
Collective impairment	15,733	11,713
	263,596	**434,847**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	578 842	992 965

31 December 2011

	Group and Bank loans to individuals (retail)	**Group and Bank loans to business customers**
Balance as at 1 January 2011	**238,530**	**624,095**
Change in allowance for loan impairment	54,129	31,417
Loans written off during the year as uncollectible	(21,925)	(123,934)
As at 31 December 2011	**270,734**	**531,578**
Individual impairment	250,726	520,929
Collective impairment	20,008	10,649
	270,734	**531,578**
Gross amount of loans, individually determined to be impaired, before deducting the individually assessed impairment allowance	619,957	1,147,335

Net change in allowance for loan impairment accounts for LTL 39,925 thousand in the year ended 31 December, 2012 (2011: LTL 85,546 thousand).

There was no allowance for impairment against loans and advances to financial institutions either at the Bank or at the Group level as of the end of 2012. Respectively, there were no changes in allowance for loan impairment and write-offs for such loans and allowances in 2012 and 2011.

NOTE 18 FINANCE LEASE RECEIVABLES

	Up to one year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing				
Balance as at 31 December 2011	200,289	184,158	13,543	397,990
Change during 2012	(25,998)	14,824	(3,410)	(14,584)
Balance as at 31 December 2012	**174,291**	**198,982**	**10,133**	**383,406**
Unearned finance income on finance leases				
Balance as at 31 December 2011	10,831	11,994	1,339	24,164
Change during 2012	(2,762)	(2,373)	(647)	(5,782)
Balance as at 31 December 2012	**8,069**	**9,621**	**692**	**18,382**
Net investments in finance leases before impairment				
31 December 2011	189,458	172,164	12,204	373,826
31 December 2012	166,222	189,361	9,441	365,024
Changes in impairment				
Balance as at 31 December 2010	42,425	44,842	986	88,253
Increase (decrease) in impairment (Note 4)	(856)	(152)	(579)	(1,587)
Lease receivables written-off during the year as uncollectible	-	(8,663)	-	(8,663)
Balance as at 31 December 2011	**41,569**	**36,027**	**407**	**78,003**
Increase (decrease) in impairment (Note 4)	(4,159)	(973)	26	(5,106)
Lease receivables written-off during the year as uncollectible	-	(3,666)	-	(3,666)
Balance as at 31 December 2012	**37,410**	**31,388**	**433**	**69,231**
Net investments in finance leases after impairment				
31 December 2011	147,889	136,137	11,797	295,823
31 December 2012	**128,812**	**157,973**	**9,008**	**295,793**

NOTE 19 INVESTMENTS IN SUBSIDIARIES

	2012				2011
	Share	Nominal value	Impairment losses	Carrying value	Carrying value
Investments in consolidated subsidiaries					
AB DNB Lizingas	100%	172,335	(105,006)	67 329	67,329
UAB DNB Investicijų Valdymas	100%	4,000	-	4,000	4,000
UAB DNB Būstas	75,47%	3,700	(960)	2,740	2,740
UAB Intractus	100%	108,085	-	108,085	81,602
UAB Industrius	99,79%	19,071	-	19,071	-
Total			**(105 966)**	**201,225**	**155,671**

In 2012 AB DNB Bankas acquired 99.79 percent newly issued shares of UAB Industrius from its subsidiary UAB Intractus, by making contributions/payments in kind. During the reported period the Bank did not sell its own shares or the shares of its subsidiaries to third parties. In 2011 based on estimated expected future cash flows, business growth and risk costs of subsidiary the Bank increased the authorized capital by LTL 143,156 thousand: AB DNB Lizingas – LTL 67,319 thousand, UAB Intractus – LTL 75,837 thousand. Part of UAB Intractus authorized capital (LTL 23,611 thousand) was increased by purchasing ordinary registered shares from AB DNB Lizingas. On 19 October 2011 the Bank transferred all of its shares in UAB Gėlužės projektai to the Bank‘s subsidiary UAB Intractus. The fair value of the assets – LTL 8,669 thousand. Bank recognised LTL 1,069 thousand of income from sale transaction.

NOTE 20 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and premises	Vehicles	Equipment	Construction in progress	Total
Cost:					
At 1 January 2011	98,625	4,355	73,939	15	176,934
Acquisitions	-	-	6,085	-	6,085
Disposals and write-offs	-	(3,044)	(3,416)	(15)	(6,475)
At 31 December 2011	**98,625**	**1,311**	**76,608**	**-**	**176,544**
Acquisitions	-	1,487	8,134	-	9,621
Disposals and write-offs	-	(1,096)	(1,440)	-	(2,536)
At 31 December 2012	**98,625**	**1,702**	**83,302**	**-**	**183,629**
Depreciation and impairment:					
A t 1 January 2011	24,143	2,423	51,707	-	78,273
Disposals and write-offs	-	(1,841)	(3,017)	-	(4,858)
Depreciation charge for year	3,293	356	8,462	-	12,111
At 31 December 2011	**27,436**	**938**	**57,152**	**-**	**85,526**
Disposals and write-offs	-	(864)	(1,431)	-	(2,295)
Depreciation charge for year	2,351	158	8,062	-	10,571
At 31 December 2012	**29,787**	**232**	**63,783**	**-**	**93,802**
Net book value:					
At 1 January 2011	74,482	1,932	22,232	15	98,661
At 31 December 2011	**71,189**	**373**	**19,456**	**-**	**91,018**
At 31 December 2012	**68,838**	**1,470**	**19,519**	**-**	**89,827**
Economic life (in years)	50	6	3-10	-	-

The cost of fully depreciated property, plant and equipment that is still in use:

31 December 2011	1,602	-	31,025	-	32,627
31 December 2012	6,049	-	38,221	-	44,270

From the total Group assets amount stated above the assets under operating lease agreements as at 31 December 2012 amounted to 37 LTL thousand (in 2011 LTL 373 thousand) and are as follows:

	Vehicles	Equipment	Total
Cost:			
At 1 January 2011	4,355	121	4,476
Acquisitions	-	-	-
Disposals and write-offs	(3,044)	(121)	(3,165)
At 31 December 2011	**1,311**	-	**1,311**
Acquisitions	-	-	-
Disposals and write-offs	(1,096)	-	(1,096)
At 31 December 2012	**215**	-	**215**
Depreciation and impairment:			
A t 1 January 2011	**2,423**	**85**	**2,508**
Disposals and write-offs	(1,841)	(101)	(1,942)
Depreciation charge for year	356	16	372
At 31 December 2011	**938**	-	**938**
Disposals and write-offs	(864)	-	(864)
Depreciation charge for year	104	-	104
At 31 December 2012	**178**	-	**178**
Net book value:			
At 1 January 2011	**1,932**	**36**	**1,968**
At 31 December 2011	**373**	-	**373**
At 31 December 2012	**37**	-	**37**
Economic life (in years)	6	6	-

NOTE 20 PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	**Buildings and premises**	**Vehicles**	**Equipment**	**Construction in progress**	**Total**
Cost:					
At 1 January 2011	98,625	-	73,415	15	172,055
Acquisitions	-	-	6,076	-	6,076
Disposals and write-offs	-	-	(3,269)	(15)	(3,284)
At 31 December 2011	**98,625**	-	**76,222**	-	**174,847**
Acquisitions	-	1,219	8,088	-	9,307
Disposals and write-offs	-	-	(1,440)	-	(1,440)
At 31 December 2012	**98,625**	**1,219**	**82,870**	-	**182,714**
Depreciation and impairment:					
At 1 January 2011	24,143	-	51,263	-	75,406
Disposals and write-offs	-	-	(2,890)	-	(2,890)
Depreciation charge for year	3,293	-	8,422	-	11,715
At 31 December 2011	**27,436**	**-**	**56,795**	-	**84,231**
Disposals and write-offs	-	-	(1,431)	-	(1,431)
Depreciation charge for year	2,351	54	8,043	-	10,448
At 31 December 2012	**29,787**	**54**	**63,407**	-	**93,248**
Net book value:					
At 1 January 2011	**74,482**	**-**	**22,152**	**15**	**96,649**
At 31 December 2011	**71,189**	**-**	**19,427**	-	**90,616**
At 31 December 2012	**68,838**	**1,165**	**19,463**	-	**89,466**
Economic life (in years)	50	6	3-10	-	-

No assets were pledged to a third party as at 31 December 2012 and 31 December 2011.

The Bank (Group) had ownership title to all of the intangible assets, property and equipment as at 31 December 2012 and 31 December 2011.

The cost of fully depreciated property, plant and equipment that is still in use:

31 December 2011	1,602	-	30,605	-	32,207
31 December 2012	6,049	-	37,886		43,935

NOTE 21 INVESTMENT PROPERTY

	Group	Bank
Book value as at 1 January 2011	**40,271**	**-**
Acquisitions	97,081	-
Net gains resulting from adjustment to fair value	1,547	-
Disposals	-	-
Book value as at 31 December 2011	**138,899**	**-**
Book value as at 1 January 2012	**138,899**	
Acquisitions	83, 770	-
Additions, capitalised investments	8,563	
Disposals	(4,185)	-
Book value as at 31 December 2012	**227,047**	-
Rental income from investment properties	878	-
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	68	-
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	1,306	

Investment properties are stated at fair value, which for the major part of propeties has been determined according to valuations performed by accredited independent valuers. The valuation model for the Group's investment properties was formed based on comparable property objects sold during the years 2011 and 2012.

The average prices of land plots and buildings used in determining the fair value according to their purpose were as follows:

Land plots	**Average prices per are, in LTL thousand**
Commercial	2.0 - 20.0
Residential	2.0 - 80.0
Other	0.1 - 15.0

Buildings	**Average prices per sq.m., in LTL thousand**
Commercial	1.0 - 12.0
Storage	0.6 - 1.5
Manufacturing	0.1 - 1.2
Other	0.1 - 6.0

NOTE 22 INTANGIBLE ASSETS

	Group	Bank
31 December 2010		
Cost	21,363	20,001
Accumulated amortisation	(15,357)	(14,092)
Net book value	**6,006**	**5,909**
Year ended as at 31 December 2011		
Net book value as at 1 January	**6,006**	**5,909**
Acquisitions	2,106	2,098
Amortisation charge	(1,847)	(1,776)
Net book value as at 31 December	**6,265**	**6,231**
31 December 2011		
Cost	23,468	22,099
Accumulated amortisation	(17,203)	(15,868)
Net book value	**6,265**	**6,231**
Year ended as at 31 December 2012		
Net book value as at 1 January	**6,265**	**6,231**
Acquisitions	4,276	4,259
Amortisation charge	(1,554)	(1,532)
Net book value as at 31 December	**8,987**	**8,958**
31 December 2012		
Cost	27,686	26,298
Accumulated amortisation	(18,699)	(17,340)
Net book value	**8,987**	**8,958**
Economic life (in years)	3-5	5

No assets were pledged to a third party as at 31 December 2012 and 31 December 2011. Intangible assets include purchased computer software and software licences.

The cost of fully amortised intangible assets that are still in use:

	Group	Bank
31 December 2011	12,636	11,377
31 December 2012	15,048	13,723

NOTE 23 OTHER ASSETS

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Accrued income and deferred expenses	5,487	11,257	5,685	10,035
Repossessed assets	19,440	30,853	19,440	30,853
Assets bought for leasing activities	491	1,412	-	-
Prepayments and receivables	8,098	9,356	5,312	5,031
Other assets	8,322	2,675	3,980	1,523
Retrieved assets under cancelled lease contracts	31,629	30,734	-	-
Gross	**73,467**	**86,287**	**34,417**	**47,442**
Less: allowance for impairment of retrieved assets under cancelled lease contracts	(20,361)	(19,150)	-	-
allowance for impairment of other assets	(2,612)	(3,344)	(1,637)	(2,233)
Total	**50,494**	**63,793**	**32,780**	**45,209**

NOTE 24 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

During the year, the Group took possession of a real estate with a carrying value of 14,722 LTL thousand at the year end, which the Group is in the process of selling and which is included in non-current assets held for sale.
There is no cumulative income or expenses in other comprehensive income relating to assets held for sale.

NOTE 25 DUE TO BANKS

	Group		Bank	
	2012	2011	2012	2011
Funds of banks				
Demand deposits	43,165	16,902	43,165	16,902
Term deposits	113,599	556,432	113,599	556,432
Loans	3,942,602	3,932,717	3,942,602	3,932,717
Total	**4,099,366**	**4,506,051**	**4,099,366**	**4,506,051**

NOTE 26 DUE TO CUSTOMERS

	Group		Bank	
	2012	2011	2012	2011
Demand deposits				
of public authorities	311,077	254,007	311,077	254,007
of state and municipal entities	85,567	136,480	85,567	136,480
of financial institutions	30,346	47,205	30,921	49,367
of private entities	1,907,728	1,423,189	1,908,814	1,423,625
of individuals	1,509,579	1,197,120	1,509,579	1,197,120
Total demand deposits	**3,844,297**	**3,058,001**	**3,845,958**	**3,060,599**
Term deposits				
of public authorities	1,538	3,482	1,538	3,482
of state and municipal entities	30,072	52,579	30,072	52,579
of financial institutions	22,734	34,920	22,734	34,920
of private entities	571,454	489,982	571,454	489,982
of individuals	1,403,270	1,477,275	1,403,270	1,477,275
Total term deposits	**2,029,068**	**2,058,238**	**2,029,068**	**2,058,238**
Term loan	11,135	30,336	11,135	30,336
Total	**5,884,500**	**5,146,575**	**5,886,161**	**5,149,173**

As at 31 December 2012 the Group's deposits of LTL 26,643 thousand (2011: LTL 30,362 thousand) and Bank's deposits LTL 26,666 thousand (2011: LTL 30,362 thousand) held as collateral for irrevocable commitments under import letter of credit, guarantees and loans were included in customer accounts.

NOTE 27 DEBT SECURITIES IN ISSUE

The Bank and the Group debt securities in issue were as follows:

	Currency	Interest rate	Maturity	Carrying value 2012	2011
Index linked bonds					
	LTL	-	2013 – 2014	11,991	13,411
	EUR	-	2013 – 2014	4,283	17,347
Embedded derivatives				523	491
Deferred profit from index linked bonds				173	519
Total				16,970	31,768
Other bonds					
	LTL	0 p.a.	2012	-	29,811
	LTL	3.50 p.a.	2013	32,873	32,877
	LTL	4.10 p.a.	2013	9,536	9,786
	LTL	4.18 p.a.	2014	1,038	1,038
	LTL	5.00 p.a.	2015	10,141	9,674
Total				53,588	83,186
Total debt securities in issue				**70,558**	**114,954**

The movements of deferred profit from index linked bonds were as follows:

	Group	Bank
As at 1 January 2012	**519**	**519**
Additions arising from new transactions	0	0
Released to profit and loss during the year	(346)	(346)
As at 31 December 2012	**173**	**173**
As at 1 January 2011	**1,047**	**1,047**
Additions arising from new transactions	411	411
Released to profit and loss during the year	(939)	(939)
As at 31 December 2011	**519**	**519**

NOTE 28 SUBORDINATED LOANS

	Group		Bank	
Loan providers:	2012	2011	2012	2011
European Bank for Reconstruction and Development (EBRD)	-	38,544	-	38,544
Total	**-**	**38,544**	**-**	**38,544**

Subordinated loan is denominated in Euro (EUR).

The Group has not had any defaults of principal, interest or redemption amounts during the period on its borrowed funds. The lenders' claims arising out of all the subordinated loan agreements shall be satisfied only after the satisfaction of all claims of non-subordinated creditors. The claims of the subordinated creditors shall rank *Pari passu* with the claims of other subordinated creditors.

- In the years 2012, 2011 and 2010 the Bank did not receive new subordinated loans.
- In August 2004, the Bank and the European Bank for Reconstruction and Development signed the Amended and Restated Subordinated Loan Agreement, pursuant thereto the initial amount of the subordinated loan was increased by EUR 3,331 thousand (LTL 11,501 thousand). This subordinated loan (EUR 11,000 thousand/ LTL 37,981 thousand) is repayable in full in 2014. The interest rate applicable to the loan is 6-month EURIBOR + 2.40% p.a. On 27 February 2012, with the permission of the Bank of Lithuania, the Bank prepaid the subordinated loan and accrued interest to Europian Bank for Reconstruction and Development.

NOTE 29 PROVISIONS

The movement of provisions was as follows:

	Group			Bank		
	Loan commitments and guarantees	Pending legal issues and other	Restruc-turing	Loan commitments and guarantees	Pending legal issues and other	Restruc-turing
As at 1 January 2012	**796**	**372**	**-**	**57,502**	**234**	**-**
Increase in provisions	3,739	4,623	1,099	3,739	4,623	1,099
Utilised	(9)	(53)	-	(9)	(53)	-
Unused amounts reversed	(4,199)	(485)	-	(8,403)	(485)	-
Changes due to exchange rates	(1)	-	-	(1)	-	-
As at 31 December 2012	**326**	**4,457**	**1,099**	**52,828**	**4,319**	**1,099**
Current (less than one year)	268	4,457	1,099	52,769	4,319	1,099
Non-current (more than one year)	58	-	-	59	-	-
As at 31 December 2012	**326**	**4,457**	**1,099**	**52,828**	**4,319**	**1,099**
As at 1 January 2011	**281**	**392**	-	**66,349**	**254**	**-**
Increase in provisions	905	51	-	4,211	51	-
Utilised	(138)	(3)	-	(138)	(3)	-
Unused amounts reversed	(241)	(68)	-	(12,909)	(68)	-
Changes due to exchange rates	(11)	-	-	(11)	-	-
As at 31 December 2011	**796**	**372**	**-**	**57,502**	**234**	
Current (less than one year)	751	372	-	30,027	234	-
Non-current (more than one year)	45	-	-	27,475	-	-
As at 31 December 2011	**796**	**372**	-	**57,502**	**234**	**-**

Legal claims. As at 31 December 2012, contingent liabilities that may arise as a result of pending court proceedings in which the Bank would appear as a respondent amounted to LTL 67,867 thousand (2011: LTL 91,915 thousand). The Bank established a provision of LTL 19 thousand (2011: LTL 234 thousand) against potential losses in relation to the outcome of legal claims.
In December 2012, the Competition Council of the Republic of Lithuania imposed a fine on a security solutions providing company and three Lithuanian banks for the arrangements that unreasonably limited the possibilities of the company's competitors to operate in the cash handling and collection services' market. The Bank was imposed LTL 8.6 million fine.
The Bank does not agree with the decision and applied to the court. The Bank accounted for LTL 4,300 thousand provisions.

NOTE 30 OTHER LIABILITIES

	Group		Bank	
	2012	2011	2012	2011
Accrued expenses and deferred income	24,532	19,149	23,131	17,909
Transit accounts (for payments of loans and BIS Litas)	2,905	5,844	2,905	5,844
Liabilities for transactions with payment cards	846	779	846	779
Liabilities to suppliers	7,483	5,618	3,409	1,983
Payables	13,700	-	10,687	-
Prepayment for finance lease	968	1,522	-	-
Other liabilities	1,521	10,169	2,162	9,818
Total	**51,955**	**43,081**	**43,140**	**36,333**

NOTE 31 SHARE CAPITAL

Share premium amounted to LTL 282,929 thousand as at 31 December 2012 (as at 31 December 2011 – LTL 282,929 thousand).

Information about shareholder of the Bank is listed in the table below:

	2012			2011		
	Number of shares	Nominal value, LTL thousand	%	Number of shares	Nominal value, LTL thousand	%
DNB Bank ASA	5,710,134	656,665	100.00	5,710,134	656,665	100.00
Total	**5,710,134**	**656,665**	**100.00**	**5,710,134**	**656,665**	**100.00**

NOTE 32 RESERVES

	Group		Bank	
	2012	2011	2012	2011
Mandatory reserve	393	200	193	-
Other reserves	831	832	831	832
Financial assets revaluation reserve	-	(115)	-	-
Reserve capital	364,270	364,270	364,270	364,270
Total	**365,494**	**365,187**	**365,294**	**365,102**

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.

Other reserves contain fixed assets revaluation reserve which relates to the revaluation of tangible fixed assets.

Financial assets revaluation reserve relates to unrealised gains and losses arising from changes in fair value of securities classified as available-for-sale which are recognised directly in equity through the statement of changes in equity.

The movement of financial assets (available for sale securities) revaluation reserve was as follows:

	Group	Bank
As at 1 January 2012	**(115)**	**-**
Net gain/loss from changes in fair value	122	-
Net gain/loss transferred to net profit on disposal (Note 3)	-	-
Changes of deferred income taxes (Note 9)	(7)	-
As at 31 December 2012	**-**	**-**
As at 1 January 2011	**(2,769)**	**(2,819)**
Net gain/loss from changes in fair value	3,128	3,315
Net gain/loss transferred to net profit on disposal (Note 3)	(90)	(112)
Changes of deferred income taxes (Note 9)	(384)	(384)
As at 31 December 2011	**(115)**	**-**

NOTE 33 ASSETS / FUNDS UNDER MANAGEMENT

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

Assets under management totalling to LTL 31,591 thousand as at 31 December 2012 (2011: LTL 34,744 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 BoL 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.

Subsidiary DNB Investicijų Valdymas UAB manages the following funds:

	2012	2011
Investment funds:		
DNB Money Market Fund	40,907	50,476
DNB Equity Fund of funds	9,183	9,898
2rd pillar pension funds:		
DNB pensija 1	38,462	31,610
DNB pensija 2	189,691	150,641
DNB pensija 3	170,780	140,953
3rd pillar pension fund:		
DNB papildoma pensija	25,511	20,930
DNB papildoma pensija 100	2,333	1,738
Value of individually managed investment portfolios	123,298	147,578
Total	**600,165**	**553,824**

NOTE 34 CONTINGENT LIABILITIES AND COMMITMENTS

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Guarantees	341,134	260,046	567,183	510,382
Letters of credit	4,605	3,206	4,605	3,206
Commitments to grant loans	839,548	802,389	1,247,502	1,202,190
Commitments to grant finance leases	8,501	2,292	-	-
Capital commitments and other commitments to acquire assets	8,342	4,319	2,069	3,757
Other commitments	11,793	11,792	11,793	11,846
Total	**1,213,923**	**1,084,044**	**1,833,152**	**1,731,381**

The management of the Bank considers the level of provisions to be sufficient to cover the potential losses that may arise out of the above items.

Operating lease commitments – where the Bank is the lessee

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Not later than 1 year	898	1,162	898	1,216
Later than 1 year and not later than 5 years	-	871	-	871
Total	**898**	**2,033**	**898**	**2,087**

As at 31 December 2012 total operating lease expenses of the Bank and of the Group incurred to LTL 1,252 thousand and LTL 1,188 thousand, correspondingly (as at 31 December 2011 – LTL 1,465 thousand and LTL 1,425 thousand, correspondingly).

NOTE 34 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Not later than 1 year	10	35	-	-
Later than 1 year and not later than 5 years		4	-	-
Total	**10**	**39**	**-**	**-**

NOTE 35 CASH AND CASH EQUIVALENTS

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Cash (Note 11)	297,919	322,421	297,919	322,421
Correspondent accounts with other banks	135,432	45,991	135,432	45,991
Overnight deposits	-	10,000	-	10,000
Required reserves in national currency in Central Bank (Note 11)	237,224	310,842	237,224	310,842
Correspondent account with central bank (Note 11)	-	130,130	-	130,130
Total	**670,575**	**819,384**	**670,575**	**819,384**

NOTE 36 LIQUIDITY RISK

According to the regulations approved by the Bank of Lithuania, the liquidity ratio should not be less than 30%. In 2012 and 2011 the Bank and Group complied with the liquidity ratio set by the Bank of Lithuania.

The structure of the Group's assets and liabilities by the contractual remaining maturity as at 31 December 2012 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	535,163	-	-	-	-	-	-	-	535,163
Due from banks	178,390	832,438	-	6,775	-	-	-	-	1,017,603
Financial assets held for trading	-	69	886	638	1,789	8,811	38,655	-	50,848
Financial assets designated at fair value throught profit or loss	-	135,427	140,267	86,800	174,878	29,239	59,723	644	626,978
Derivative financial instruments	-	2,685	1,061	1,014	2,972	2,364	6,547	-	16,643
Financial assets- available for sale	-	-	-	-	-	-	-	952	952
Loans and advances to customers	-	178,720	291,363	446,597	1,163,002	1,700,828	4,323,856	456,403	8,560,769
Finance lease receivables	-	43,072	21,014	27,940	45,180	102,330	55,809	448	295,793
Investment property	-	-	-	-	-	-	-	227,047	227,047
Property, plant and equipment	-	-	-	-	-	-	-	89,827	89,827
Intangible assets	-	-	-	-	-	-	-	8,987	8,987
Deferred income tax asset	-	-	-	-	-	-	-	29,755	29,755
Other assets	2,587	6,991	2,194	3	35	2	-	38,682	50,494
Non-curent assets and disposal groups held for sale	-	-	-	-	14,722	-	-	-	14,722
Total assets	**716,140**	**1,199,402**	**456,785**	**569,767**	**1,402,578**	**1,843,574**	**4,484,590**	**852,745**	**11,525,581**

NOTE 36 LIQUIDITY RISK (continued)

Liabilities and shareholders' equity									
Due to banks	13,118	37,210	223,044	69,812	2,487,278	1,139,424	129,480	-	4,099,366
Derivative financial instruments	-	1,362	4,300	2,433	7,558	2,761	7,808	-	26,222
Due to customers	3,849,795	496,765	521,698	546,777	396,283	44,575	28,607	-	5,884,500
Debt securities in issue	-	16	31	16,391	32,919	21,201	-	-	70,558
Provisions	-	-	5,399	-	260	58	-	166	5,883
Other liabilities	5,743	25,898	2,927	5,787	6,998	2,212	187	2,203	51,955
Shareholders' equity	-	-	-	-	-	-	-	1,387,097	1,387,097
Total liabilities and shareholders' equity	**3,868,656**	**561,251**	**757,399**	**641,200**	**2,931,296**	**1,210,231**	**166,082**	**1,389,466**	**11,525,581**
Net liquidity gap	(3,152,516)	638,151	(300,614)	(71,433)	(1,528,718)	633,343	4,318,508	(536,721)	-

The structure of the Group's assets and liabilities by the remaining maturity as at 31 December 2011 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	**825,033**	**1,072,143**	**334,320**	**646,861**	**1,450,653**	**1,627,305**	**4,237,896**	**994,183**	**11,188,394**
Total liabilities and shareholders' equity	**3,079,683**	**648,688**	**701,090**	**650,981**	**544,752**	**4,079,102**	**176,512**	**1,307,586**	**11,188,394**
Net liquidity gap	(2,254,650)	423,455	(366,770)	(4,120)	905,901	(2,451,797)	4,061,384	(313,403)	-

The Group's liquidity ratio is the ratio of liquid assets to its current liabilities. For this purpose the Group's liquid assets and current liabilities are defined as assets and liabilities items receivable (payable) on demand and within one month.

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

	Liquid assets	Current liabilities	Liquidity ratio (per cent)
31 December 2011	2,147,766	4,669,005	46.00
31 December 2012	2,327,555	5,286,473	44.03

NOTE 36 LIQUIDITY RISK (continued)

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2012 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 unde-fined	Total
Assets									
Cash and balances with central banks	535,163	-	-	-	-	-	-	-	535,163
Due from banks	178,390	832,438	-	6,775	-	-	-	-	1,017,603
Financial assets held for trading	-	69	886	638	1,789	8,811	38,655	-	50,848
Financial assets designated at fair value throught profit or loss	-	135,427	140,078	86,763	174,021	25,815	57,639	-	619,743
Derivative financial instruments	-	2,685	1,061	1,014	2,972	2,364	6,547	-	16,643
Financial assets- available for sale	-	-	-	-	-	-	-	952	952
Loans and advances to customers	-	178,990	291,363	448,534	1,567,110	1,700,828	4,323,856	456,403	8,967,084
Investments in subsidiaries	-	-	-	-	-	-	-	201,225	201,225
Property, plant and equipment	-	-	-	-	-	-	-	89,466	89,466
Intangible assets	-	-	-	-	-	-	-	8,958	8,958
Deferred income tax asset	-	-	-	-	-	-	-	29,804	29,804
Other assets	971	3,671	1,471	1	1	2	-	26,663	32,780
Non-curent assets and disposal groups held for sale	-	-	-	-	10,404	-	-	-	10,404
Total assets	**714,524**	**1,153,280**	**434,859**	**543,725**	**1,756,297**	**1,737,820**	**4,426,697**	**813,471**	**11,580,673**
Liabilities and shareholders' equity									
Due to banks	13,118	37,210	223,044	69,812	2,487,278	1,139,424	129,480	-	4,099,366
Derivative financial instruments	-	1,362	4,300	2,433	7,558	2,761	7,808	-	26,222
Due to customers	3,851,456	496,765	521,698	546,777	396,283	44,575	28,607	-	5,886,161
Debt securities in issue	-	16	31	16,391	32,919	21,201	-	-	70,558
Provisions	-	27,221	5,399	-	608	24,990	-	28	58,246
Other liabilities	5,383	20,483	1,722	5,689	6,817	1,786	-	1,260	43,140
Shareholders' equity	-	-	-	-	-	-	-	1,396,980	1,396,980
Total liabilities and shareholders' equity	**3,869,957**	**583,057**	**756,194**	**641,102**	**2,931,463**	**1,234,737**	**165,895**	**1,398,268**	**11,580,673**
Net liquidity gap	(3,155,433)	570,223	(321,335)	(97,377)	(1,175,166)	503,083	4,260,802	(584,797)	-

NOTE 36 LIQUIDITY RISK (continued)

The structure of the Bank's assets and liabilities by the remaining maturity as at 31 December 2011 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
Total assets	**825,033**	**1,021,899**	**306,742**	**620,712**	**1,465,009**	**1,821,986**	**4,185,502**	**995,923**	**11,242,806**
Total liabilities and shareholders' equity	**3,082,140**	**672,059**	**700,863**	**650,885**	**544,912**	**4,106,191**	**176,363**	**1,309,393**	**11,242,806**
Net liquidity gap	(2,257,107)	349,840	(394,121)	(30,173)	920,097	(2,284,205)	4,009,139	(313,470)	-

The Bank's liquidity ratio is the ratio of liquid assets to its current liabilities. For this purpose the Bank's liquid assets and current liabilities are defined as assets and liabilities items receivable (payable) on demand and within one month.

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

	Liquid assets	Current liabilities	Liquidity ratio (per cent)
31 December 2011	2,117,000	4,727,680	44.78
31 December 2012	2,299,563	5,347,144	43.01

NOTE 37 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS

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

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	17,647	47,383	13,100	27,062	21,804	126,996	408,167	535,163
Due from banks	38,224	915,931	432	141	12,555	967,283	50,320	1,017,603
Financial assets held for trading	9,572	9,781	-	-	7,038	26,391	24,457	50,848
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	-	626,978	626,978
Derivative financial instruments	71	10,951	-	-	-	11,022	5,621	16,643
Financial assets- available for sale	845	107	-	-	-	952	-	952
Loans and advances to customers	80,988	6,320,679	-	-	-	6,401,667	2,159,103	8,560,770
Finance lease receivables	942	280,110	-	-	-	281,052	14,741	295,793
Property, plant and equipment	-	-	-	-	-	-	89,827	89,827
Investment property	-	-	-	-	-	-	227,047	227,047
Intangible assets	-	-	-	-	-	-	8,987	8,987
Deferred income tax asset	-	-	-	-	-	-	29,755	29,755
Other assets	381	4,466	43	48	5	4,942	45,552	50,494
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	14,722	14,722
Total assets	148,669	7,589,408	13,575	27,251	41,402	7,820,305	3,705,276	11,525,581
Liabilities and shareholders' equity								
Due to banks	857	4,058,353	33	79	6,895	4,066,217	33,149	4,099,366
Derivative financial instruments	54	21,458	-	-	-	21,512	4,710	26,222
Due to customers	272,963	1,245,062	9,080	134,384	43,955	1,705,444	4,179,056	5,884,500
Debt securities in issue	-	4,834	-	-	-	4,834	65,724	70,558
Provisions	24	1	-	-	-	25	5,858	5,883
Other liabilities	911	1,741	23	1,587	28	4,290	47,665	51,955
Shareholders' equity	-	-	-	-	-	-	1,387,097	1,387,097
Total liabilities and shareholders' equity	274,810	5,331,449	9,136	136,050	50,878	5,802,322	5,723,259	11,525,581
Net balance sheet position	(126,140)	2,257,959	4,439	(108,799)	(9,476)	2,017,983	(2,017,983)	-
Off-balance sheet position	55,286	(3,804,284)	1,092	112,102	(100,842)	(3,736,646)	(55,044)	(3,791,690)
Net open position	(70,855)	(1,546,325)	5,531	3,303	(110,318)	(1,718,663)	(2,073,027)	(3,791,690)

The Group's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets	**207,732**	**7,481,564**	**16,525**	**28,957**	**31,271**	**7,766,049**	**3,422,345**	**11,188,394**
Liabilities and shareholders' equity	**186,573**	**5,505,675**	**7,957**	**72,505**	**27,984**	**5,800,694**	**5,387,700**	**11,188,394**
Net balance sheet position	**21,159**	**1,975,889**	**8,568**	**(43,548)**	**3,287**	**1,965,355**	**(1,965,355)**	**-**
Off balance sheet position	**(20,598)**	**(1,898,843)**	**(8,427)**	**43,813**	**(1,149)**	**(1,885,204)**	**1,832,802**	**(52,402)**
Net open position	**561**	**77,046**	**141**	**265**	**2,138**	**80,151**	**(132,553)**	**(52,402)**

NOTE 37 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (continued)

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

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets								
Cash and balances with central banks	17,647	47,383	13,100	27,062	21,804	126,996	408,167	535,163
Due from banks	38,224	915,931	432	141	12,555	967,283	50,320	1,017,603
Financial assets held for trading	9,572	9,781	-	-	7,038	26,391	24,457	50,848
Financial assets designated at fair value throught profit or loss	-	-	-	-	-	-	619,743	619,743
Derivative financial instruments	71	10,951	-	-	-	11,022	5,621	16,643
Financial assets- available for sale	845	107	-	-	-	952	-	952
Loans and advances to customers	82,618	6,607,015	-	-	-	6,689,633	2,277,451	8,967,084
Investments in subsidiaries	-	-	-	-	-	-	201,225	201,225
Property, plant and equipment	-	-	-	-	-	-	89,466	89,466
Intangible assets	-	-	-	-	-	-	8,958	8,958
Deferred income tax asset	-	-	-	-	-	-	29,804	29,804
Other assets	381	4,323	43	48	4	4,799	27,981	32,780
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	10,404	10,404
Total assets	149,358	7,595,491	13,575	27,251	41,401	7,827,076	3,753,597	11,580,673
Liabilities and shareholders' equity								
Due to banks	857	4,058,353	33	79	6,895	4,066,217	33,149	4,099,366
Derivative financial instruments	54	21,458	-	-	-	21,512	4,710	26,222
Due to customers	272,963	1,245,062	9,080	134,384	43,955	1,705,444	4,180,717	5,886,161
Debt securities in issue	-	4,834	-	-	-	4,834	65,724	70,558
Subordinated loans	-	-	-	-	-	-	-	-
Provisions	714	20,086	-	-	-	20,800	37,446	58,246
Other liabilities	911	1,740	23	1,587	45	4,306	38,834	43,140
Shareholders' equity	-	-	-	-	-	-	1,396,980	1,396,980
Total liabilities and shareholders' equity	275,499	5,351,533	9,136	136,050	50,895	5,823,113	5,757,560	11,580,673
Net balance sheet position	(126,141)	2,243,958	4,439	(108,799)	(9,494)	2,003,963	(2,003,963)	-
Off-balance sheet position	55,286	(3,804,284)	1,092	112,102	(100,842)	(3,736,646)	(55,044)	(3,791,690)
Net open position	(70,855)	(1,560,326)	5,531	3,303	(110,336)	(1,732,683)	(2,059,007)	(3,791,690)

The Bank's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	EUR	GBP	NOK	Other curren-cies	Total currencies	LTL	Total
Assets	207,732	7,445,154	16,525	28,957	31,270	7,729,638	3,513,168	11,242,806
Liabilities and shareholders' equity	186,573	5,505,718	7,957	72,505	27,984	5,800,737	5,442,069	11,242,806
Net balance sheet position	21,159	1,939,436	8,568	(43,548)	3,286	1,928,901	(1,928,901)	-
Off balance sheet position	(20,598)	(1,898,843)	(8,427)	43,813	(1,149)	(1,885,204)	1,832,802	(52,402)
Net open position	561	40,593	141	265	2,137	43,697	(96,099)	(52,402)

According to the regulations approved by the Bank of Lithuania, the overall open position (except EUR) of the bank's calculated capital (see part 7 "Capital management" of the Financial risk management) should not exceed 25% and the open position of each individual foreign currency (except EUR) should not exceed 15% of the bank's calculated capital.

NOTE 38 INTEREST RATE RISK

The table below summarises the Group's interest rate risks as at 31 December 2012. Assets and liabilities are shown at their carrying amounts categorised by the earlier of contractual repricing or maturity dates.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Non interest bearing	Total
Assets								
Cash and balances with central banks	535,163	-	-	-	-	-	-	535,163
Due from banks	1,010,828	-	6,775	-	-	-	-	1,017,603
Financial assets held for trading	69	886	638	1,789	8,811	38,655	-	50,848
Financial assets designated at fair value throught profit or loss	135,427	140,267	86,801	174,877	29,239	60,367	-	626,978
Derivative financial instruments	1,617	5,098	2,916	862	-	45	6,105	16,643
Financial assets- available for sale	-	-	-	-	-	-	952	952
Loans and advances to customers	1,484,100	2,600,501	3,134,800	435,947	202,717	702,704	-	8,560,769
Finance lease receivables	124,554	101,904	54,303	4,112	7,891	3,029	-	295,793
Investment property	-	-	-	-	-	-	227,047	227,047
Property, plant and equipment	-	-	-	-	-	-	89,827	89,827
Intangible assets	-	-	-	-	-	-	8,987	8,987
Deferred income tax asset	-	-	-	-	-	-	29,755	29,755
Other assets	-	-	-	-	-	-	50,494	50,494
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	14,722	14,722
Total assets	**3,291,758**	**2,848,656**	**3,286,233**	**617,587**	**248,658**	**804,800**	**427,889**	**11,525,581**
Liabilities and shareholders' equity								
Due to banks	878,424	1,014,806	1,865,843	207,236	-	133,057	-	4,099,366
Derivative financial instruments	6,356	6,394	7,252	1,484	-	26	4,710	26,222
Due to customers	4,341,062	521,698	557,875	396,283	44,575	17,509	5,498	5,884,500
Debt securities in issue	16	31	16,391	32,919	21,201	-	-	70,558
Current income tax liabilities	-	-	-	-	-	-	-	-
Provisions	-	-	-	-	-	-	5,883	5,883
Other liabilities	-	-	-	-	-	-	51,955	51,955
Shareholders' equity	-	-	-	-	-	-	1,387,097	1,387,097
Total liabilities and shareholders' equity	**5,225,858**	**1,542,929**	**2,447,361**	**637,922**	**65,776**	**150,592**	**1,455,143**	**11,525,581**
Interest rate sensitivity gap	**(1,934,100)**	**1,305,727**	**838,872**	**(20,335)**	**182,882**	**654,208**	**(1,027,254)**	**-**

The Group's interest rate risk as at 31 December 2011 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	**3,055,961**	**2,462,108**	**3,200,534**	**817,356**	**421,110**	**893,614**	**337,711**	**11,188,394**
Total liabilities and shareholders' equity	**4,735,223**	**1,578,852**	**2,441,098**	**743,549**	**278,219**	**54,078**	**1,357,375**	**11,188,394**
Interest rate sensitivity gap	**(1,679,262)**	**883,256**	**759,436**	**73,807**	**142,891**	**839,536**	**(1,019,664)**	**-**

NOTE 38 INTEREST RATE RISK (continued)

The Bank's interest rate risk as at 31 December 2012 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	535,163	-	-	-	-	-	-	535,163
Due from banks	1,010,828	-	6,775	-	-	-	-	1,017,603
Financial assets held for trading	69	886	638	1,789	8,811	38,655	-	50,848
Financial assets designated at fair value throught profit or loss	135,427	140,078	86,764	174,020	25,815	57,639	-	619,743
Derivative financial instruments	1,617	5,098	2,916	862	-	45	6,105	16,643
Financial assets- available for sale	-	-	-	-	-	-	952	952
Loans and advances to customers	1,484,370	2,600,501	3,422,496	554,296	202,717	702,704	-	8,967,084
Investments in subsidiaries	-	-	-	-	-	-	201,225	201,225
Property, plant and equipment	-	-	-	-	-	-	89,466	89,466
Intangible assets	-	-	-	-	-	-	8,958	8,958
Deferred income tax asset	-	-	-	-	-	-	29,804	29,804
Other assets	-	-	-	-	-	-	32,780	32,780
Non-curent assets and disposal groups held for sale	-	-	-	-	-	-	10,404	10,404
Total assets	**3,167,474**	**2,746,563**	**3,519,589**	**730,967**	**237,343**	**799,043**	**379,694**	**11,580,673**
Liabilities and shareholders' equity								
Due to banks	878,424	1,014,806	1,865,843	207,236	-	133,057	-	4,099,366
Derivative financial instruments	6,356	6,394	7,252	1,484	-	26	4,710	26,222
Due to customers	4,342,723	521,698	557,875	396,283	44,575	17,509	5,498	5,886,161
Debt securities in issue	16	31	16,391	32,919	21,201	-	-	70,558
Provisions	-	-	-	-	-	-	58,246	58,246
Other liabilities	-	-	-	-	-	-	43,140	43,140
Shareholders' equity	-	-	-	-	-	-	1,396,980	1,396,980
Total liabilities and shareholders' equity	**5,227,519**	**1,542,929**	**2,447,361**	**637,922**	**65,776**	**150,592**	**1,508,574**	**11,580,673**
Interest rate sensitivity gap	**(2,060,045)**	**1,203,634**	**1,072,228**	**93,045**	**171,567**	**648,451**	**(1,128,880)**	**-**

The Bank's interest rate risk as at 31 December 2011 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	**2,939,517**	**2,389,665**	**3,400,631**	**877,665**	**412,519**	**888,841**	**333,968**	**11,242,806**
Total liabilities and shareholders' equity	**4,737,821**	**1,578,852**	**2,441,098**	**743,549**	**278,219**	**54,078**	**1,409,189**	**11,242,806**
Interest rate sensitivity gap	**(1,798,304)**	**810,813**	**959,533**	**134,116**	**134,300**	**834,763**	**(1,075,221)**	**-**

NOTE 39 RELATED PARTY TRANSACTIONS

The balances of loans granted by the Group to management and close family members, deposits accepted as at the end of the period are as follows:

	Balances of deposits		Principal of loans outstanding	
	2012	2011	2012	2011
Management of the Group and close family members of management	3,357	3,900	5,300	5,988

In 2012 the total compensations for the Group management approximated LTL 3,544 thousand (in 2011 – LTL 2,883 thousand). In 2012 the total compensations for the Bank's management approximated LTL 2,671 thousand (in 2011 – LTL 1,986 thousand).

The following balances were outstanding with the parent company:

Assets	**2012**	**2011**
Correspondent bank accounts	130,489	17,246
Overnight deposits	-	10,000
Term deposits	832,438	756,452
Derivative financial instruments	6,614	5,676
Other assets	1,445	-
Liabilities		
Correspondent bank accounts	167	2,042
Overnight deposits	46	4,834
Term deposits	107,161	416,420
Demand deposits	-	171
Derivative financial instruments	10,502	8,838
Loans	1,105,587	2,108,292
Payable	3,869	883
Other liabilities	1,583	126

Income	**2012**	**2011**
Interest	3,882	5,627
Fee and commission	24	442
Net gain (loss) from foreign exchange	443	(222)
Net gain (loss) from operations with financial instruments	(7,104)	1,512
Expenses		
Interest	37,798	54,280
Fee and commission	202	69
Other	5,597	(3,892)

NOTE 39 RELATED PARTY TRANSACTIONS (continued)

The following balances were outstanding with DNB Group companies:

Assets	**2012**	**2011**
Correspondent bank accounts	4,622	1,378
Term deposits	6,774	10,685
Receivable	956	6,659
Other assets	1,600	-
Liabilities		
Correspondent bank accounts	5,094	2,843
Term deposits	6,439	-
Demand deposits	101	-
Derivative financial instruments	-	44
Loans	2,590,004	1,797,862
Payable	-	559

Income	**2012**	**2011**
Interest	294	3,774
Fee and commission	1,550	152
Net gain (loss) from foreign exchange	(20)	125
Net gain (loss) from operations with financial instruments	(31)	(5,436)
Other	8,074	6,832
Expenses		
Interest	23,143	56,565
Fee and commission	1,490	312
Other	33,655	1,486

The following balances were outstanding on the Bank statement of financial position with subsidiaries:

Assets	**2012**	**2011**
Loans	406,315	358,521
Equity securities	201,225	155,671
Other assets	686	574
Liabilities		
Demand deposits	1,661	2,598
Other liabilities	663	574

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

Income	**2012**	**2011**
Interest	8,962	13,715
Fee and commission	7,816	7,952
Dividends	2,645	1,067
Sale of subsidiary	-	1,069
Other	77	88
Expenses		
Interest	3	6
Fee and commission	141	128
Other	126	173

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates.

NOTE 40 CONCENTRATION EXPOSURE

According to the regulations approved by the Bank of Lithuania, maximum exposure per one borrower may not exceed 25 per cent of bank's calculated capital. In 2011 and 2012 the Bank complied with the maximum exposure to one borrower requirements set by the Bank of Lithuania. As at 31 December 2012, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by Government guarantees, is 12.25 % of the Bank's calculated capital (2011: 11.90 % respectively).

NOTE 41 COMPLIANCE WITH REGULATORY REQUIREMENTS

According to local legislation the Bank is required to prepare financial group consolidated financial information. Financial group includes the Bank and subsidiaries engaged in financial service activities, that is AB DNB Lizingas and UAB DNB Investicijų Valdymas. In 2012 Financial group complied with all prudential ratios set by the Bank of Lithuania. Financial group consolidated income statement, statements of comprehensive income, financial position, changes in shareholder's equity and cash flows are presented in this note below:

FINANCIAL GROUP INCOME STATEMENT

	Financial Group	
	2012	**2011**
Interest income	368,068	405,556
Interest expense	(123,413)	(172,788)
Net interest income	**244,655**	**232,768**
Fee and commission income	101,801	88,425
Fee and commission expense	(21,441)	(19,196)
Net interest, fee and commission income	**325,015**	**301,997**
Net gain on operations with securities and derivative financial instruments	12,207	316
Net foreign exchange gain	25,669	21,904
Impairment losses and provisions	(43,078)	(84,325)
Other income	16,281	17,719
Personnel expenses	(106,525)	(92,223)
Depreciation and amortisation	(12,100)	(13,930)
Other administrative expenses	(130,883)	(73,228)
Profit (loss) before income tax	**86,586**	**78,230**
Income tax	(77)	(1,028)
Net profit (loss) for the year	**86,509**	**77,202**
Profit (loss) attributable to:		
Equity holders of the parent	86,509	77,202

NOTE 41 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

THE FINANCIAL GROUP STATEMENT OF COMPREHENSIVE INCOME

	Financial group	
	2012	**2011**
Profit (loss) for the year	**86,509**	**77,202**
Other comprehensive income (expenses), net of tax available for sale assets revaluation	115	2,654
Total other comprehensive income, net of tax	115	2,654
Total comprehensive income (expenses) for the year, net of tax	**86,624**	**79,856**
Atributable to:		
Equity holders of the parent	86,624	79,856

NOTE 41 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF FINANCIAL POSITION

	Financial Group	
	31 December 2012	**31 December 2011**
ASSETS		
Cash and balances with central banks	535,163	763,428
Due from banks	1,017,603	836,215
Financial assets held for trading	50,848	32,189
Financial assets designated at fair value through profit or loss	626,978	388,287
Derivative financial instruments	16,643	11,533
Financial assets - available fo sale	952	6,049
Loans and advances to customers	8,679,118	8,590,206
Finance lease receivables	295,793	295,823
Investments in subsidiaries	123,792	78, 238
Property, plant and equipment	89,773	90,991
Intangible assets	8,970	6,257
Deferred income tax asset	29,755	29,839
Other assets	48,052	62,961
Non-curent assets and disposal groups held for sale	10,404	2
Total assets	**11,533,844**	**11,192,018**
LIABILITIES AND EQUITY		
Due to banks	4,099,366	4,506,051
Derivative financial instruments	26,222	31,463
Due to customers	5,885,586	5,147,011
Debt securities in issue	70,558	114,954
Subordinated loans	-	38,544
Provisions	5,745	1,030
Other liabilities	47,806	41,028
Total liabilities	**10,135,283**	**9,880,081**
Equity attributable to equity holders of parent		
Ordinary shares	656,665	656,665
Share premium	282,929	282,929
Retained earnings	93,473	7,156
Reserves	365,494	365,187
	1,398,561	1,311,937
Total equity	**1,398,561**	**1,311,937**
Total liabilities and equity	**11,533,844**	**11,192,018**

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NOTE 41 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent						
	Issued shares	**Share premium**	**Financial assets revaluation reserve**	**Mandatory reserve**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2011	**656,665**	**282,929**	**(2,769)**	**200**	**173,474**	**(242,688)**	**867,811**
Total comprehensive income	-	-	2,654	-	-	77,202	79,856
Depreciation transfer for land and buildings	-	-	-	-	(2)	2	-
Increase of reserve capital (by additional contributions of shareholders)					364,270	-	364,270
Transfer of reserves	-	-	-	-	(172,640)	172,640	-
Balance at 31 December 2011	**656,665**	**282,929**	**(115)**	**200**	**365,102**	**7,156**	**1,311,937**
Total comprehensive income	-	-	115	-	-	86,509	86,624
Depreciation transfer for land and buildings	-	-	-	-	(1)	1	-
Transfer to mandatory reserve	-	-	-	193	-	(193)	-
Balance at 31 December 2012	**656,665**	**282,929**	**-**	**393**	**365,101**	**93,473**	**1,398,561**

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NOTE 41 COMPLIANCE WITH REGULATORY REQUIREMENTS (continued)

FINANCIAL GROUP STATEMENT OF CASH FLOWS

	Financial Group	
	2012	**2011**
Operating activities		
Interest receipts	340,906	377,506
Interest payments	(130,342)	(172,185)
Collected previously written-off loans	5,232	4,027
Net receipt from FX trading and operations in securities	13,702	451
Fee and commission receipt	101,801	88,425
Fee and commission payments	(21,441)	(19,196)
Salaries and related payments	(105,094)	(87,939)
Other payments	(114,596)	(55,464)
Net cash flow from operating activities before changes in operating assets and liabilities	**90,168**	**135,625**
(Increase) decrease in operating assets:		
(Increase) in loans to credit and financial institutions	(104,956)	(464,147)
(Increase) decrease in loans granted	(96,958)	68,861
Purchase of trading securities	(2,835,724)	(2,321,607)
Proceeds from trading securities	2,817,055	2,318,857
Decrease in other assets	(44,676)	121,515
Change in operating assets	**(265,259)**	**(276,521)**
Increase (decrease) in operating liabilities:		
(Decrease) in liabilities to credit and financial institutions	(466,254)	(785,864)
Increase in deposits	807,133	788,079
Increase (decrease) in other liabilities	1,431	(62,256)
Change in operating liabilities	**342,310**	**(60,041)**
Income tax paid	**-**	**(150)**
Net cash flows from operating activities	**167,219**	**(201,087)**
Investing activities		
Acquisition of property, plant , equipment and intangible assets	(13,568)	(7,738)
Disposal of property, plant, equipment and intangible assets	290	799
Purchase of securities	(611,129)	(484,989)
Proceeds from securities	395,104	869,270
Dividends received	15	12
Interest received	9,472	16,488
Investment in subsidiaries	-	(36,524)
Disposal of subsidiaries shares	-	8,669
Net cash flows from investing activities	**(219,816)**	**365,987**
Financing activities		
Own debt securities redemption	(45,202)	(62,823)
Own debt securities issued	-	38,605
Increase in reserve capital	-	364,270
Interest paid	(3,084)	(5,831)
Repaid subordinatad loans	(37,981)	(364,270)
Net cash flows from financing activities	**(86,267)**	**(30,049)**
Net increase in cash and cash equivalents	**(138,864)**	**134,851**
Net foreign exchange difference on cash and cash equivalents	(9,945)	(8,751)
Cash and cash equivalents at 1 January	819,384	693,284
Cash and cash equivalents as at 31 December	**670,575**	**819,384**

NOTE 42 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There were no material subsequent events at the Group and the Bank.

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