

**ŠIAULIŲ BANKAS AB**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2005**

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## **BOARD REPORT TO THE SHAREHOLDERS OF ŠIAULIŲ BANKAS AB**

In 2005, the European Bank for Reconstruction and Development – a strong and reliable financial investor – became the major shareholder of the Bank. This will beyond any doubts be the most significant record in the Bank's history. The participation of this international financial institution in management of Šiaulių Bankas will serve as an impulse for the Bank's business activities, improve the Bank's credibility in the eyes of the customers as well as on international financial markets.

The Bank's credibility was also strengthened as a result of an international banking publication 'The Banker', which published the list of 50 most rapidly developing banks in Central and Eastern Europe, wherein the Bank was in the 19th position, which is the highest position among all the banks in the Baltic States which were included in the list.

The Bank successfully achieved its objectives for 2005, fulfilled and exceeded the targeted performance indicators, maintained rapid growth, and considering the importance, novelty and quality of numerous works accomplished, it is possible to affirm that the Bank has entered into a new phase of its development.

Over the year 2005, the Bank's assets increased by 49 per cent and at the end of the year topped a billion litas and reached LTL 1,039 million. In 2005, the net loan portfolio increased by 58 per cent and amounted to LTL 659.1 million. Deposits with the Bank increased by 44 per cent and amounted to LTL 743.8 million. The Bank's net profit for the year was LTL 8.1 million, which is more by 82.5 per cent as compared to 2004.

Rapid growth was supported by successful development of the Bank's operations focused on small and medium-size businesses and consistent enhancement of the capital base. In 2005 the Bank's authorised share capital was increased by 33.4 per cent and amounted to LTL 74.72 million as at 31 December 2005.

The European Bank for Reconstruction and Development became the major shareholder of the Bank, holding 16.06 per cent of the Bank's authorised share capital, however, the Bank continues to be a bank of Lithuanian capital – at the end of 2005, the Lithuanian residents, companies and individuals owned 74 per cent of the Bank's authorised share capital.

Several months following the investment made in the Bank, the EBRD organised a syndicated loan of EUR 12 million to encourage further growth of the Bank. As a result of this transaction, the Bank entered into international commercial market of syndicated loans.

The funds of the syndicated loan, which improved the Bank's capacities in the field of medium-term and long-term financing, were successfully used in the Bank's principal activities to finance small and medium-size businesses. Two additional credit lines to finance small and medium-size businesses were granted last year to the Bank by the Council of Europe Development Bank and Nordic Investment Bank amounting respectively to EUR 2.5 million and EUR 2 million.

Last year the Bank's debenture bonds were introduced to the market for the first time, which resulted in a successful distribution of bonds issued for the amount of LTL 20 million.

The funds accumulated from different financing sourcing enabled the Bank to increase its loan portfolio for small and medium-size business by 58 per cent over the year. The share of loans to finance small and medium-size business accounted for 78 per cent of the total loan portfolio at the end of the year. Last year the Bank developed and introduced to the market a three-level crediting programme for small and medium-size businesses. For starting business the Bank provided a specialised package of services called 'Startas'. The Bank encouraged business development and fostered its customers by arranging a cycle of seminars on business financing opportunities in 22 cities throughout the country, thereby supporting a competition of business plans in every possible way. Similarly as in previous year, to improve the conditions of business financing, the Bank closely co-operated with local institutions providing guarantees and resources.

Last year the Bank accomplished preparatory works and started distribution of VISA microchip cards based on modern technologies. The number of Eurocard/MasterCard and Maestro payment card users increased by 23 per cent.

The Bank's structure was substantially reorganised to meet the business level achieved by the Bank and new tasks set for the Bank. Organisational preconditions were established to ensure a consistent and effective functioning of all units of the Bank. The functions of the units were distributed and strictly segregated, the appropriate units were established for the fulfilment of new functions.

On the basis of customer service units operating in Šiauliai, the Bank's branch office was established in Šiauliai. Following the opening of a new customer service unit in Kėdainiai, at the end of the year the Bank had 44 territorial units operating in 26 cities throughout the country.

The Bank holds control over 5 subsidiaries: Šiaulių Banko Lizingas UAB (the Bank holds 10,000 shares, i.e. 100%, with total nominal value of LTL 1 million), Šiaulių Banko Investicijų Valdymas UAB (the Bank holds 60,400 shares, i.e. 60.4%, with total nominal value of LTL 604 thousand), Šiaulių Banko Faktoringas UAB (the Bank holds 100 shares, i.e. 100%, with total nominal value of LTL 10 thousand), Šiaulių Banko Turto Fondas UAB (the Bank holds 5,310 shares, i.e. 53.1%, with total nominal value of LTL 531 thousand), and Pajūrio Alka UAB (the Bank holds 314,469 shares, i.e. 99.85%, with total nominal value of LTL 3,144,690). In 2005, dividends received by the Bank from its subsidiaries amounted to LTL 2.93 million.

The Bank was engaged in trade in shares of companies quoted on Vilnius Stock Exchange. In 2005, the Bank's total transactions on stock exchange and other than stock exchange included acquisition of 466,226 shares for LTL 2.72 million, and disposal of 444,001 shares for LTL 2.72 million.

The Bank neither acquired nor disposed of its own shares.

In February 2006, the increase in the Bank's authorised share capital by LTL 10 million (LTL 84.72 million) was registered. In March, new customer service centres of the Bank started their operations in Biržai and Ukmergė.

Significant changes in shareholders' structure, substantial enhancement of capital base, successful application of new instruments for accumulation of resources representing the growth of the Bank's credibility on both local and foreign markets, as well as modernisation of the Bank's organisational structure serve as a good base for further development of the Bank.

By taking advantage of the newly established preconditions and conditions of a growing economy and ensuring a purposeful growth of capital, and focusing the efforts on improvement of its business activities towards the selected strategic directions, the Bank will further strive to maintain a rapid growth and consistently increase its earnings.

Algirdas Butkus  
Chairman of the Board



27 March 2006

**AUDITOR'S REPORT TO THE SHAREHOLDERS OF ŠIAULIŲ BANKAS AB**

1. We have audited the accompanying balance sheet of Šiaulių Bankas AB (hereinafter "the Bank") together with its consolidated subsidiaries (hereinafter "the Group") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. The financial statements set out on pages 6 to 49 and the performance report set out on pages 3 - 4 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2005 and of the results of their operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.
4. We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner

Vilnius, Republic of Lithuania  
28 March 2006



Rimvydas Jogėla  
Auditor's Certificate No.000457

**ŠIAULIŲ BANKAS AB**  
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(All amounts are in LTL thousand, unless otherwise stated)

**THE GROUP'S AND BANK'S INCOME STATEMENT**

	Notes	Year ended			
		31 December 2005		31 December 2004	
		Group	Bank	Group	Bank
Interest income		45,725	42,419	35,235	32,131
Interest expense		(19,858)	(19,493)	(14,430)	(14,228)
<b>Net interest income</b>	1	25,867	22,926	20,805	17,903
Provisions for loans	7	(196)	13	(260)	(232)
<b>Net interest income after the provisions</b>		25,671	22,939	20,545	17,671
Fee and commission income	2	9,587	9,753	7,478	7,668
Fee and commission expense	2	(3,034)	(2,973)	(2,100)	(2,068)
<b>Net interest, fee and commissions income</b>		32,224	29,719	25,923	23,271
Net gain (loss) on operations with securities and derivative financial instruments	3	3,824	761	655	(675)
Net foreign exchange gain		1,765	1,769	3,318	3,306
Provisions for other assets	5	(58)	(444)	(417)	101
Other income	6	3,451	589	8,047	714
<b>Operating income</b>		41,206	32,394	37,526	26,717
Administrative and other operating expenses	4	(32,322)	(27,223)	(27,904)	(23,767)
<b>Operating profit</b>		8,884	5,171	9,622	2,950
Dividends from investments in subsidiaries		-	2,932	-	1,490
<b>Profit before tax</b>		8,884	8,103	9,622	4,440
Income tax	8	(425)	-	(1,002)	-
<b>Profit for the year</b>		8,459	8,103	8,620	4,440
<b>Profit is attributable to</b>					
Equity holders of the Bank		7,583	8,103	6,513	4,440
Minority interest	26	876	-	2,107	-
<b>Profit for the year</b>		8,459	8,103	8,620	4,440
Basic and diluted earnings per share, net (in LTL per share)	9	0.11	0.12	0.11	0.07

The accounting policies and notes on pages 11 to 49 constitute an integral part of these financial statements.

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**THE GROUP'S AND BANK'S BALANCE SHEET**

	Notes	31 December 2005		31 December 2004	
		Group	Bank	Group	Bank
<b>ASSETS</b>					
Cash and balances with central banks	10	75,683	75,672	52,512	52,501
Due from other banks and financial institutions	11	73,511	135,909	39,756	74,809
Trading securities	12	15,727	15,685	28,552	24,827
Derivative financial instruments	13	72	72	-	-
Loans	14	634,165	659,081	403,490	417,744
Finance lease receivables	15	62,148	-	38,783	-
Investment securities:					
- available-for-sale	16	814	814	814	814
- held-to-maturity	16	107,570	107,570	88,944	88,944
Investments in subsidiaries	17	-	6,664	-	6,664
Intangible assets	18	2,160	2,038	2,231	2,088
Tangible fixed assets	19	49,193	28,434	41,041	26,138
Other assets	20	45,764	7,071	20,499	4,699
<b>Total assets</b>		<b>1,066,807</b>	<b>1,039,010</b>	<b>716,622</b>	<b>699,228</b>
<b>LIABILITIES</b>					
Due to other banks and financial institutions	21	154,625	153,848	116,921	112,463
Deposits	22	743,826	743,848	517,174	517,238
Special and lending funds	23	384	384	298	298
Current income tax liabilities	8	-	-	807	-
Deferred income tax liabilities	8	112	-	113	-
Debt securities issued	24	19,634	19,634	-	-
Other liabilities	25	30,156	15,869	10,013	6,939
Share capital paid but not registered	27	15,194	15,194	-	-
<b>Total liabilities</b>		<b>963,931</b>	<b>948,777</b>	<b>645,326</b>	<b>636,938</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	27	74,720	74,720	56,000	56,000
Share premium	27	8,400	8,400	2,275	2,275
Reserve capital	27	2,611	2,611	2,611	2,611
Statutory reserve		357	328	-	-
Retained earnings	27	8,773	4,174	6,552	1,404
Minority interest	26	8,015	-	3,858	-
<b>Total shareholders equity</b>		<b>102,876</b>	<b>90,233</b>	<b>71,296</b>	<b>62,290</b>
<b>Total liabilities and equity</b>		<b>1,066,807</b>	<b>1,039,010</b>	<b>716,622</b>	<b>699,228</b>

These financial statements were approved by the Bank's Board on 27 March 2006 and signed on behalf of the Board by:

Algirdas Butkus  
Chairman of the Board



Vita Adomaitytė  
Chief Financial Officer



The accounting policies and notes on pages 11 to 49 constitute an integral part of these financial statements.

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(All amounts are in LTL thousand, unless otherwise stated)

**THE GROUP'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Notes	Attributable to equity holders of the Bank					Total	Minority interest	Total equity
		Share capital	Share premium	Reserve capital	Statutory reserve	Retained earnings			
<b>31 December 2003</b>		48,344	-	2,611	774	4,154	55,883	1,637	57,520
Dividends	27	-	-	-	-	(483)	(483)	-	(483)
Bonus issue of share capital		4,406	-	-	(774)	(3,632)	-	-	-
Issue of share capital		3,250	2,275	-	-	-	5,525	-	5,525
Change in minority interest		-	-	-	-	-	-	114	114
Net profit for the year		-	-	-	-	6,513	6,513	2,107	8,620
<b>31 December 2004</b>		56,000	2,275	2,611	-	6,552	67,438	3,858	71,296
Dividends	27	-	-	-	-	(560)	(560)	-	(560)
Dividends to minority	26	-	-	-	-	-	-	(1,569)	(1,569)
Formation of statutory reserve		-	-	-	357	(357)	-	-	-
Bonus issue of share capital		6,720	(2,275)	-	-	(4,445)	-	-	-
Issue of share capital		12,000	8,400	-	-	-	20,400	-	20,400
Change in minority interest	26	-	-	-	-	-	-	4,850	4,850
Net profit for the year		-	-	-	-	7,583	7,583	876	8,572
<b>31 December 2005</b>		74,720	8,400	2,611	357	8,773	94,861	8,015	102,876

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**THE BANKS'S STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Notes	Share capital	Share premium	Reserve capital	Statutory reserve	Retained earnings	Total
<b>Previously reported amounts as at 31 December 2003</b>		48,344	-	2,611	774	4,154	55,883
Change in accounting policy	37	-	-	-	-	(3,075)	(3,075)
<b>Restated amounts as at 31 December 2003</b>		48,344	-	2,611	774	1,079	52,808
Dividends	27	-	-	-	-	(483)	(483)
Bonus issue of share capital		4,406	-	-	(774)	(3,632)	-
Issue of share capital		3,250	2,275	-	-	-	5,525
Net profit for the year		-	-	-	-	4,440	4,440
<b>31 December 2004</b>		56,000	2,275	2,611	-	1,404	62,290
Dividends	27	-	-	-	-	(560)	(560)
Formation of statutory reserve		-	-	-	328	(328)	-
Bonus issue of share capital		6,720	(2,275)	-	-	(4,445)	-
Issue of share capital		12,000	8,400	-	-	-	20,400
Change in minority interest		-	-	-	-	-	-
Net profit for the year		-	-	-	-	8,103	8,103
<b>31 December 2005</b>		74,720	8,400	2,611	328	4,174	90,233

The accounting policies and notes on pages 11 to 49 constitute an integral part of these financial statements.

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**THE GROUP'S AND BANK'S CASH FLOW STATEMENT**

	Notes	Year ended			
		31 December 2005		31 December 2004	
		Group	Bank	Group	Bank
<b>Operating activities</b>					
Income (expense)					
Interest received		45,725	42,419	36,207	32,756
Interest paid		(19,858)	(19,493)	(14,392)	(14,190)
Cash received from previously written-off loans		1,059	1,026	326	320
Net cash received from operations in foreign currency		1,765	1,769	3,318	3,306
Net cash received (paid) from operations in securities		3,318	626	(163)	(1,151)
Net cash received from service and commission fees		6,553	6,780	5,378	5,600
Salaries and related payments to and on behalf of employees		(15,465)	(13,128)	(13,097)	(11,201)
Other payments		(9,419)	(11,496)	(3,095)	(8,582)
Net cash flow from operating activities before change in short-term assets and liabilities		13,678	8,503	14,482	6,858
(Increase) decrease in short-term assets:					
(Increase) decrease in compulsory reserves with the central bank		7,197	7,197	(699)	(699)
(Increase) in loans to credit and financial institutions		(23,495)	(50,840)	(3,427)	(38,480)
(Increase) in loans granted		(254,050)	(241,337)	(95,066)	(103,547)
(Increase) in other short-term assets		(21,305)	(2,372)	(5,643)	1,628
Change in short-term assets		(291,653)	(287,352)	(104,835)	(141,098)
Increase (decrease) in liabilities					
Increase (decrease) in liabilities to credit and financial institutions		43,889	47,238	(1,657)	(1,684)
Increase in deposits		220,553	220,843	123,788	123,205
Increase (decrease) in other liabilities		18,859	8,609	(13,498)	(2,689)
Change in liabilities		283,301	276,690	108,633	118,832
<b>Net cash flow from operating activities before tax</b>		5,326	(2,159)	18,280	(15,408)
Income tax paid		(513)	-	(806)	-
<b>Net cash flow from operating activities</b>		4,813	(2,159)	17,474	(15,408)
<b>Investing activities</b>					
Purchase of tangible and intangible fixed assets		(18,777)	(7,047)	(23,175)	(6,776)
Disposal of tangible and intangible fixed assets		6,645	1,659	23,464	945
Acquisition of securities		(65,110)	(28,756)	(41,896)	(35,419)
Sale of securities		57,979	19,272	17,217	13,997
Dividends received		414	2,995	76	76
<b>Net cash flow from investing activities</b>		(18,849)	(11,877)	(24,314)	(27,177)
<b>Financing activities</b>					
Increase in share capital		35,594	35,594	5,525	5,525
Dividends paid		(564)	(564)	(477)	(477)
Debt securities issued		19,634	19,634	-	-
<b>Net cash flow from financing activities</b>		54,664	54,664	5,048	5,048
<b>Net increase in cash and cash equivalents</b>		<b>40,628</b>	<b>40,628</b>	<b>(1,792)</b>	<b>(37,537)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>76,645</b>	<b>76,634</b>	<b>78,437</b>	<b>114,171</b>
<b>Cash and cash equivalents at 31 December</b>	<b>30</b>	<b>117,273</b>	<b>117,262</b>	<b>76,645</b>	<b>76,634</b>

The accounting policies and notes on pages 11 to 49 constitute an integral part of these financial statements.

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**ŠIAULIŲ BANKAS AB**  
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(All amounts are in LTL thousand, unless otherwise stated)

**GENERAL INFORMATION**

Šiaulių Bankas AB was registered as a public company in the Enterprise Register of the Republic of Lithuania on 4 February 1992. The Bank is licensed by the Bank of Lithuania to perform all banking operations provided for in the Law on Commercial Banks of the Republic of Lithuania and the Statute of the Bank, except for operations with precious metals.

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 11 branches and 34 client service units (2004: 10 branches and 32 client service units). As at 31 December 2005 the Bank had 399 employees (31 December 2004: 360). As at 31 December 2005 the Group had 473 employees (31 December 2004: 420 employees).

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

The Bank's shares are listed on the Current List of the National Stock Exchange of Lithuania (NSEL).

The Bank owns the following subsidiaries:

- UAB Šiaulių Banko Lizingas, (hereinafter – SB Lizingas, finance and operating leasing activities),
- UAB Šiaulių Banko Investicijų Valdymas (hereinafter SB Investicijų Valdymas, investment management activities),
- UAB Šiaulių Banko Faktoringas, (hereinafter – SB Faktoringas, this company is under liquidation),
- UAB Šiaulių Banko Turto Fondas (hereinafter – SB Turto Fondas, real estate management activities),
- UAB Pajūrio Alka (hotel services).

Investments in subsidiaries are described in more detail in Note 17 *Investments in subsidiaries*.

The Bank's shareholders structure is disclosed in Note 27 *Share capital*.

**ACCOUNTING POLICIES**

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

**Basis of preparation**

The financial statements of the Bank and the Group are prepared in accordance with International Financial Reporting Standards adopted by the European Union. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading, all derivative contracts and revaluation of tangible fixed assets and investment property.

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

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

Amounts shown in these financial statements are presented in a local currency, the litas (LTL). With effect from 2 February 2002 the exchange rate of the litas was pegged to the euro at a rate of 3.4528 LTL = 1 EUR.

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(All amounts are in LTL thousand, unless otherwise stated)

**ACCOUNTING POLICIES (continued)**

*Adoption of New or Revised International Financial Reporting Standards*

In 2005, the Group applied the following IFRS adopted by the EU that are relevant to the Group's operations:

IAS 1 (revised 2003), Presentation of Financial Statements  
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors  
IAS 10 (revised 2003), Post-balance Sheet Events  
IAS 16 (revised 2003), Property, Plant and Equipment  
IAS 17 (revised 2003), Leases  
IAS 21 (revised 2003), The Effects of Changes in Foreign Exchange Rates  
IAS 24 (revised 2003), Related Party Disclosures  
IAS 27 (revised 2003), Consolidated and Separate Financial Statements  
IAS 32 (revised 2003), Financial Instruments: Recognition and Measurement  
IAS 33 (revised 2003), Earnings per Share  
IAS 39 (revised 2003), Financial Instruments: Recognition and Measurement  
IFRS 3 (issued 2004), Business Combinations  
IAS 36 (revised 2004), Impairment of Assets  
IAS 38 (revised 2004), Intangible Assets

The effect of revised standards on the Group's accounting policies in 2005 was as follows:

- As a result of changes introduced in IAS 1 (revised 2003), the minority interest is now presented as a separate line at the bottom of the income statement and is now included in the equity in the balance sheet and as a separate column of minority interest in the statement of changes in equity.
- IAS 24 (revised 2003) had effect on related party disclosures and the related notes to the financial statements.
- Based on the revised IAS 27 (revised 2004), the Group introduced changes in its accounting policy related to accounting for subsidiaries in stand-alone financial statements of the Bank (as described in section *Consolidation of subsidiaries* of the accounting policies). The adjustments made in accordance with the revised IAS 27 resulted in decrease of investments in subsidiaries and the Bank's net assets as at 31 December 2004 by LTL 5,148 thousand and the Bank's net profit for the year then ended by LTL 2,073 thousand. See note 37 for other information on the of change in accounting policy.
- IAS 39 (revised 2005) resulted in changes in the Group's accounting policies related to change in fair value of available-for-sale financial assets (as described in section *Financial assets* of the accounting policies). The application of this accounting policy had no significant impact on the Group's comparative figures for 2004.
- IAS 8, 10, 16, 17, 21, 32, 33 (all revised 2003) and IAS 36, 38 (revised 2004.) and IFRS 3 (issued 2004) had no significant impact on the accounting policies applied by the Group.

*New Accounting Pronouncements*

The following new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not adopted:

**IAS 39 (Amendment), The Fair Value Option** Under the provisions of IAS 39 (revised 2003), the entities may now designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. The amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. According to the Group's accounting policy only the assets of the subsidiary engaged in insurance activities can be designated as financial instruments classified at fair value through profit or loss. The Group believes that these financial instruments qualify for financial assets classified at fair value through profit or loss.

**IAS 39 (revised), Cash Flow Hedge Accounting of Forecast Intragroup Transactions** The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.

(All amounts are in LTL thousand, unless otherwise stated)

#### ACCOUNTING POLICIES (continued)

**IAS 39 (revised), Financial Guarantee Contracts** This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.

Different requirements are applied to measuring issued financial guarantees under which financial assets cannot be not recognised or which are recognised based on continuous participation principle.

**IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures** IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces certain disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

**IFRIC 4, Determining whether an Arrangement Contains a Lease** IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

The implementation of new standards and interpretations are not expected to have a significant impact on the Group's financial statements, unless otherwise stated.

#### Critical accounting estimates

**Impairment losses on loans.** The Bank and the Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and leases before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

**Held-to-maturity financial assets.** Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

**Fair value of derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however some areas require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

#### Consolidation of subsidiaries

Subsidiaries are 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 share of voting rights is 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.

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**ACCOUNTING POLICIES (continued)**

**Consolidation of subsidiaries (continued)**

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

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

Subsidiaries in the stand-alone financial statements are accounted at cost – that is the income from investment is recognised only to the extent that the Bank receives as appropriation of post-acquisition accumulated profit. Amounts received from the subsidiaries in excess of such appropriation of profit are accounted for as reduction of the value of investment.

**Foreign currency translation**

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

Foreign currency transactions are recorded in the litas using the exchange rate prevailing on the date of the transactions. 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 prevailing at that date.

**Derivative financial instruments**

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

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

Changes in the fair value of derivatives held for trading are included in net profit from transactions in securities and financial derivative instruments.

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

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

**Off-setting of financial instruments**

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

(All amounts are in LTL thousand, unless otherwise stated)

#### ACCOUNTING POLICIES (continued)

##### Recognition of income and expenses

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

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

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

##### Taxation

###### *a) Income tax*

In accordance with the Lithuanian Law on Corporate Profit Tax, the current income tax rate is 15% on taxable income. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian regulatory legislation on taxes. In addition, temporary social tax on profit of 4% and 3% is applicable for the years 2006 and 2007 respectively.

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

###### *b) Other taxes*

Road tax of 1% is imposed on net interest income and on income from other services. Real estate tax rate is 1% on the tax value of real estate amongst fixed tangible assets and foreclosed assets. The Bank is also obliged to pay land and land lease taxes, make payments to guarantee fund and social security contributions. These taxes are included in other expenses in the income statement.

##### Cash and cash equivalents

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

##### Trading securities

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

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

(All amounts are in LTL thousand, unless otherwise stated)

#### **ACCOUNTING POLICIES (continued)**

##### **Securities available for sale and held to maturity**

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

Available for sale securities are initially recognised and are subsequently re-measured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised directly in equity through the statement of changes in equity except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However interest calculated using the effective interest rate is recognised in profit or loss.

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

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

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

##### **Loans**

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

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

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

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

##### **Reverse repurchase transactions**

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of agreement using the effective interest method. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

##### **Intangible assets**

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

##### **Property and equipment**

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



(All amounts are in LTL thousand, unless otherwise stated)

#### ACCOUNTING POLICIES (continued)

##### Property and equipment (continued)

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

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

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

##### Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both are accounted for as investment property.

An investment property is measured initially at its cost (including transaction costs). After initial recognition, the investment property is measured at its fair value, except for in the exceptional cases that there is clear evidence when an enterprise first acquires an investment property that the enterprise will not be able to determine the fair value of the investment property reliably on a continuing basis then, the investment property is measured at depreciated acquisition cost and impairment charge.

A gain or loss arising from a change in the fair value of investment property is included in the income statement for the period in which it arises.

##### Operating and finance lease

*a) Group company is the lessee*

###### Operating lease

Leases where a significant portion of risks and rewards of ownership are 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.

###### Finance lease

Leases of fixed tangible assets where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The fixed tangible assets acquired under finance leasing contracts are depreciated over the shorter of the useful life of the asset or the lease term.

*b) Group company is the lessor*

###### Operating leases

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

###### Finance leases

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

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**ACCOUNTING POLICIES (continued)**

**Operating and finance lease (continued)**

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

**Foreclosed assets**

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

**Borrowings**

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

**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.

**Dividends**

Dividends on the Bank's shares are recorded in equity in the period in which they are declared.

**Employee benefits**

*a) Social security contributions*

The Group companies pay social security contributions to the state Social Security Fund (the Fund) on behalf of their 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.

*b) Termination benefits*

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

**Segment reporting**

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

**Fiduciary activities**

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

**Fair value of assets and liabilities**

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

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**FINANCIAL RISK MANAGEMENT**

**Strategy in using financial instruments**

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

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

**Capital adequacy**

The capital adequacy ratio is calculated in accordance with the rules approved by the Bank of Lithuania, which are based on the Basel Committee recommendations. The Bank of Lithuania requires local commercial banks to maintain a minimum capital adequacy ratio of 10% up to 1 December 2004 and 8% after this date.

**The Group**

	<b>31 December 2005</b>	<b>31 December 2004</b>
Calculated capital	92,172	63,349
Risk weighted assets and off balance sheet items	783,204	483,816
Capital adequacy ratio	11.77	13.09

**The Bank**

	<b>31 December 2004</b>	<b>31 March 2005</b>	<b>30 June 2005</b>	<b>30 September 2005</b>	<b>31 December 2005</b>
Calculated capital	63,349	64,837	66,623	86,194	87,286
Risk weighted assets and off balance sheet items	483,816	557,130	621,339	718,123	754,430
Capital adequacy ratio	13.09	11.64	10.72	12.00	11.57

**Credit risk**

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

Credit related commitments

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

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

(All amounts are in LTL thousand, unless otherwise stated)

## **FINANCIAL RISK MANAGEMENT (continued)**

### **Liquidity risk**

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

Note 31 analyses assets and liabilities of the Bank and the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The Group's and the Bank's liabilities on demand exceed assets with similar duration. The liquidity of the Group and the Bank at any moment is ensured by the portfolio of the debt securities kept by the Bank, which have liquid secondary market, and which comprise debt securities of the Government of Lithuania (for details see note 17 *Investment securities*).

### **Currency risk**

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

### **Interest rate risk**

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

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**SEGMENT REPORTING**

The Group and the Bank operate in one geographical area, which is the Republic of Lithuania. The Group's and the Bank's credit risk is concentrated therein.

Below, there is a summary of major indicators for the main segments of the Group included in the balance sheet as at 31 December 2005 and in the income statement for the year then ended:

	<b>Banking</b>	<b>Leasing</b>	<b>Investment management</b>	<b>Real estate development</b>	<b>Total Group</b>
Internal	2,841	(2,032)	(254)	(555)	-
External	20,089	5,849	4	(75)	25,867
Net interest income	22,930	3,817	(250)	(630)	25,867
Internal	3,190	(2,380)	(254)	(559)	(3)
External	26,519	5,836	94	(29)	32,420
Net commissions income	29,709	3,456	(160)	(588)	32,417
Internal	3,191	(2,381)	(254)	(559)	(3)
External	29,051	5,831	2,718	409	38,009
Operating income	32,242	3,450	2,464	(150)	38,006
Provisions expenses	(339)	(178)	(87)	350	(254)
Internal	(64)	(231)	(25)	(26)	(346)
External	(24,214)	(1,757)	(573)	(1,534)	(28,078)
Operating expenses	(24,278)	(1,988)	(598)	(1,560)	(28,424)
Amortisation	(652)	(69)	(1)	(9)	(731)
Depreciation	(2,498)	(358)	(47)	(417)	(3,320)
Internal	285	64	-	-	349
External	292	150	696	2,120	3,258
Net other income	577	214	696	2,120	3,607
Profit before tax	5,052	1,071	2,427	334	8,884
Income tax expenses	-	(162)	(263)	-	(425)
Profit per segment after tax	5,052	909	2,164	334	8,459
Minority interest	-	-	(858)	(18)	(876)
Net profit	5,053	909	1,305	316	7,583
Total segment assets	940,092	69,920	19,637	37,158	1,066,807
Total segment liabilities	948,777	5,827	9,520	191	963,931
Net segment assets (shareholders' equity)	90,233	1,135	3,568	7,896	102,876
Fixed asset additions	7,047	599	3	11,730	18,777

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**SEGMENT REPORTING (continued)**

Below, there is a summary of major indicators for the main segments of the Group included in the balance sheet as at 31 December 2004 and in the income statement for the year then ended:

	<b>Banking</b>	<b>Leasing</b>	<b>Investment management</b>	<b>Real estate development</b>	<b>Total Group</b>
Internal	2,041	(1,287)	(344)	(410)	-
External	15,292	4,753	347	413	20,805
Net interest income	17,333	3,466	3	3	20,805
Internal	2,362	(1,605)	(345)	(412)	-
External	20,246	5,063	446	428	26,183
Net commissions income	22,608	3,458	101	16	26,183
Internal	2,393	(1,636)	(345)	(412)	-
External	22,814	5,139	1,630	574	30,156
Operating income	25,206	3,503	1,285	162	30,156
Provisions expenses	(149)	(74)	(16)	(438)	(677)
Internal	(79)	(175)	(26)	(66)	(346)
External	(20,806)	(1,898)	(507)	(999)	(24,210)
Operating expenses	(20,885)	(2,073)	(533)	(1,065)	(24,556)
Amortisation	(611)	(50)	(2)	(6)	(669)
Depreciation	(2,363)	(236)	(48)	(247)	(2,894)
Internal	225	121	0	0	346
External	404	301	30	7,181	7,916
Net other income	629	422	30	7,181	8,262
Profit before tax	1,681	1,546	742	5,653	9,622
Income tax expenses	-	(157)	(15)	(830)	(1,002)
Profit per segment after tax	1,681	1,389	727	4,823	8,620
Minority interest	-	-	(141)	(1,966)	(2,107)
Net profit	1,681	1,389	586	2,857	6,513
Total segment assets	636,966	43,680	10,818	25,158	716,622
Total segment liabilities	636,854	7,052	233	1187	645,326
Net segment assets (shareholders' equity)	61,081	2,422	2,405	5,388	71,296
Fixed asset additions	6,776	2,465	7	13,920	23,176

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**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 NET INTEREST INCOME**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,539	3,581	584	2,081
on other loans	33,143	33,595	24,923	25,271
on debt securities acquired	5,243	5,243	4,779	4,779
on finance leases	5,800	-	4,949	-
<b>Total interest income</b>	<b>45,725</b>	<b>42,419</b>	<b>35,235</b>	<b>32,131</b>
Interest expense:				
on liabilities to central banks	(104)	(104)	(228)	(228)
on liabilities to other banks and financial institutions and amounts due to credit institutions	(2,470)	(2,281)	(2,182)	(2,009)
on deposits and other repayable funds	(16,981)	(16,807)	(11,991)	(11,991)
on debt securities issued	(301)	(301)	-	-
on finance leases	(2)	-	(16)	-
<b>Total interest expense</b>	<b>(19,858)</b>	<b>(19,493)</b>	<b>(14,430)</b>	<b>(14,228)</b>
<b>Net interest income</b>	<b>25,867</b>	<b>22,926</b>	<b>20,805</b>	<b>17,903</b>

**NOTE 2 NET FEE AND COMMISSION INCOME**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Fee and commission income:				
for money transfer operations	5,627	5,727	4,360	4,446
for payment card services	1,010	1,015	791	791
for exchange of base currency	757	758	594	595
for operations with securities	489	489	278	278
other fee and commission income	1,704	1,764	1,455	1,558
<b>Total fee and commission income</b>	<b>9,587</b>	<b>9,753</b>	<b>7,478</b>	<b>7,668</b>
Fee and commission expense:				
for payment card services	(1,672)	(1,669)	(1,086)	(1,083)
for money transfer operations	(888)	(888)	(719)	(718)
for operations with securities	(393)	(362)	(238)	(237)
for exchange of base currency	(7)	(7)	(8)	(8)
other fee and commission expenses	(74)	(47)	(49)	(22)
<b>Total fee and commission expense</b>	<b>(3,034)</b>	<b>(2,973)</b>	<b>(2,100)</b>	<b>(2,068)</b>
<b>Net fee and commission income</b>	<b>6,553</b>	<b>6,780</b>	<b>5,378</b>	<b>5,600</b>

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**NOTE 3 NET GAIN ON OPERATIONS WITH SECURITIES AND FINANCIAL INSTRUMENTS**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Gain (loss) from trading securities:				
Realised gain on trading equity securities	2,829	141	320	252
Unrealised gain on trading debt securities	(446)	(446)	1,231	311
Unrealised gain on trading equity securities	(131)	(135)	364	22
Realised gain on trading debt securities	478	478	-	-
Net gain from trading securities	2,730	38	1,915	585
Dividend and other income from equity securities	434	63	76	76
Net (loss) from foreign exchange derivative financial instruments	660	660	(1,336)	(1,336)
<b>Total</b>	<b>3,824</b>	<b>761</b>	<b>655</b>	<b>(675)</b>

**NOTE 4 ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Salaries, social insurance and other related expenses	15,790	13,453	13,460	11,564
Depreciation of fixed tangible assets	3,320	2,497	2,894	2,357
Rent of premises and maintenance expenses	3,071	2,803	2,881	2,659
Transportation, post and communications expenses	2,050	1,751	1,951	1,685
Amortisation of intangible assets	731	645	669	596
Advertising and marketing expenses	590	451	424	350
Training and business trip expenses	156	128	179	160
Compulsory insurance of deposits	3,024	3,024	2,134	2,134
Road tax, real estate tax and other taxes	409	212	935	435
Support	295	285	293	288
Legal expenses	258	258	157	157
Other operating expenses	2,628	1,716	1,927	1,382
<b>Total</b>	<b>(32,322)</b>	<b>(27,223)</b>	<b>(27,904)</b>	<b>(23,767)</b>

**NOTE 5 PROVISIONS FOR OTHER ASSETS**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Expenses for (release of) provisions on:				
foreclosed assets and investment properties	-	-	(101)	(101)
receivables for sold foreclosed assets	142	142	-	-
finance lease receivables	119	-	80	-
other doubtful assets	(203)	302	438	-
<b>Total</b>	<b>58</b>	<b>444</b>	<b>417</b>	<b>(101)</b>



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**NOTE 6 OTHER INCOME**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Gain on disposal of assets	1,062	48	6,294	122
Income from lease of assets	1,274	347	936	297
Other income	1,115	194	817	295
<b>Total</b>	<b>3,451</b>	<b>589</b>	<b>8,047</b>	<b>714</b>

**NOTE 7 PROVISIONS FOR LOANS AND ACCRUED INTEREST, AND OFF-BALANCE SHEET COMMITMENTS**

<b>Group</b>	<b>For off-balance</b>		<b>Total</b>
	<b>For loans</b>	<b>sheet items</b>	
Increase (decrease) of provisions, net	612	(26)	586
Recovered written off loans	(326)	-	(326)
<b>Expenses for provisions in 2004</b>	<b>286</b>	<b>(26)</b>	<b>260</b>
Increase (decrease) of provisions, net	1,296	(74)	1,222
Recovered written off loans	(1,026)	-	(1,026)
<b>Expenses for provisions in 2005</b>	<b>270</b>	<b>(74)</b>	<b>196</b>
<b>Bank</b>	<b>For off-balance</b>		<b>Total</b>
	<b>For loans</b>	<b>sheet items</b>	
Increase (decrease) of provisions, net	578	(26)	552
Recovered written off loans	(320)	-	(320)
<b>Expenses for provisions in 2004</b>	<b>258</b>	<b>(26)</b>	<b>232</b>
Increase (decrease) of provisions, net	1,087	(74)	1,013
Recovered written off loans	(1,026)	-	(1,026)
<b>Expenses for provisions in 2005</b>	<b>61</b>	<b>(74)</b>	<b>(13)</b>

**NOTE 8 INCOME TAX**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Current tax for the year (see below)	426	-	1,002	-
Movement in deferred taxes (see below)	(1)	-	-	-
<b>Total</b>	<b>425</b>	<b>-</b>	<b>1,002</b>	<b>-</b>

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**NOTE 8 INCOME TAX (CONTINUED)**

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

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Profit before tax	8,884	8,103	9,622	6,513
Tax calculated at a rate of 15%	1,333	1,215	1,443	977
Income not subject to tax	(1,350)	(1,293)	(1,056)	(1,341)
Expenses not deductible for tax purposes	884	573	327	98
Increase tax losses	106	-	288	266
Utilisation of tax losses	(546)	(495)	-	-
Tax charge	425	-	1,002	-

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
<b>Movement in deferred tax liabilities</b>				
Opening balance	113	-	113	-
Credited to net profit	(1)	-	-	-
Closing balance	112	-	113	-

**Group – deferred tax assets and liabilities**

	<b>2005</b>		<b>2004</b>	
	<b>Temporary differences</b>	<b>Deferred tax asset (liability)</b>	<b>Temporary differences</b>	<b>Deferred tax asset (liability)</b>
Revaluation of securities	(935)	(140)	(605)	(91)
Difference between net book value and tax base of fixed assets	(2,577)	(387)	(2,369)	(355)
Effect of social tax on deferred tax liabilities	-	(38)	-	-
Accumulated tax losses	3,022	453	6,129	919
Accrued charges	1,094	164	1,227	184
Deferred income tax on dividends paid to shareholders	1,355	203	-	-
Effect of social tax on deferred tax assets	-	165	-	-
Unrecognized deferred tax asset	-	(532)	-	(770)
Deferred tax asset		453		333
Deferred tax liability		(565)		(446)

**Group – tax losses carried forward**

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

<b>Year of expiry</b>	<b>2005</b>
2008	1,051
2009	1,438
2010	533
<b>Total</b>	<b>3,022</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 8 INCOME TAX (CONTINUED)**

**Bank – deferred tax assets and liabilities**

	<b>2005</b>		<b>2004</b>	
	<b>Temporary differences</b>	<b>Deferred tax asset (liability)</b>	<b>Temporary differences</b>	<b>Deferred tax asset (liability)</b>
Revaluation of securities	(55)	(8)	(533)	(80)
Difference between net book value and tax base of fixed assets	(1,707)	(256)	(1,616)	(242)
Effect of social tax on deferred tax liabilities	-	(21)	-	-
Accumulated tax losses	2,485	373	5,786	868
Accrued charges	1,094	164	1,227	184
Deferred income tax on dividends paid to shareholders	1,355	203	-	-
Effect of social tax on deferred tax assets	-	143	-	-
Unrecognized deferred tax assets	-	(598)	-	(730)
Deferred tax asset		285		322
Deferred tax liability		(285)		(322)

**Bank – tax losses carried forward**

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

<b>Year of expiry</b>	<b>2005</b>
2008	1,051
2009	1,434
<b>Total</b>	<b>2,485</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Deferred tax assets	453	285	333	322
Deferred tax liabilities	(565)	(285)	(446)	(322)
Net deferred tax liability after offsetting	(112)	-	(113)	-

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**NOTE 9 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares in issue during the period. The Group and the Bank have no dilutive potential ordinary shares and therefore diluted earnings per share are the same as basic earnings per share.

Weighted average number of shares in issue for year ended 31 December 2005 was 66,764 thousand (242 days – 62,720 thousand shares, 123 days – 74,720 thousand shares). Weighted average number of shares for the year ended 31 December 2004 was 59,568 thousand (355 days – 59,470 thousand shares, 11 days – 62,720 thousand shares).

**Earnings per share**

<b>Group</b>	<b>2005</b>	<b>2004</b>
Net profit	7,583	6,513
Weighted average number of issued shares (thousand of shares)	66,764	59,568
<b>Earnings per share (in LTL per share)</b>	<b>0.11</b>	<b>0.11</b>
<b>Bank</b>	<b>2005</b>	<b>2004</b>
Net profit	8,103	4,440
Weighted average number of issued shares (thousand of shares)	66,764	59,568
<b>Earnings per share (in LTL per share)</b>	<b>0.12</b>	<b>0.07</b>

**NOTE 10 CASH AND BALANCES WITH CENTRAL BANK**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Cash and other valuables	21,649	21,638	18,815	18,804
Placements with Central Bank:				
Correspondent account with central bank	9,687	9,687	824	824
Mandatory reserves in national currency	44,347	44,347	25,676	25,676
Mandatory reserves in foreign currency	-	-	7,197	7,197
Total placements with Central Bank	54,034	54,034	33,697	33,697
<b>Total</b>	<b>75,683</b>	<b>75,672</b>	<b>52,512</b>	<b>52,501</b>

Mandatory reserves comprise the funds calculated on a monthly basis as a 6% share of the average balance of deposits of the previous month. The mandatory reserves are held with the Bank of Lithuania in the form of deposits. The compensation for deposits held is calculated according to the Regulations of the Bank of Lithuania.

**NOTE 11 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Correspondent bank accounts	26,829	26,782	8,295	8,295
Repurchase contracts	7,352	7,352	-	-
Time deposits with banks	27,372	27,372	25,461	25,461
Loans granted to financial institutions	11,958	74,403	6,000	41,053
<b>Total</b>	<b>73,511</b>	<b>135,909</b>	<b>39,756</b>	<b>74,809</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 11 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS (CONTINUED)**

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

- Loans to UAB Šiaulių Banko Lizingas, amounting to LTL 62,445 thousand at 4.2% annual interest rate on loans in LTL, 4.0 % on loans in EUR, and 3.0 % on loans in USD (2004: LTL 34,333 thousand at 4.5% annual interest rate);
- Loans to UAB Šiaulių Banko Faktoringas, amounting to LTL 299 thousand at 4.5% annual interest rate (2004: LTL 720 thousand at 4.5% annual interest rate);
- Loan to UAB Ūkio Banko Lizingas amounting to LTL 9,030 thousand at 4.0% annual interest rate (2004: LTL 6,000 thousand at 4.8% annual interest rate);
- Loan to Dresdner Bank AG, Duesseldorf amounting to LTL 2,768 thousand at 5.1% annual interest rate (2004: none);
- Loan to First Investment Bank LTD, Sofia amounting to LTL 160 thousand at 5.1% annual interest rate (2004: none).

**NOTE 12 TRADING SECURITIES**

Trading securities comprise equity securities of entities incorporated in Lithuania and Lithuanian Government securities, which are acquired by the Group with the objective to earn profit during a short term. All equity securities held by the Bank are listed.

	2005		2004	
	Group	Bank	Group	Bank
Equity securities	2,791	2,749	5,539	1,814
Debt securities	12,936	12,936	23,013	23,013
<b>Total</b>	<b>15,727</b>	<b>15,685</b>	<b>28,552</b>	<b>24,827</b>

**NOTE 13 DERIVATIVE FINANCIAL INSTRUMENTS**

The Group utilises the following derivative financial instruments:

- Currency forwards, which represent commitments to purchase foreign and domestic currency in the future.
- Currency swaps, which are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Group's credit risk represents the potential cost to replace the swap contracts if counter parties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses the creditworthiness of the counter parties.

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

The fair values of derivative instruments (foreign exchange forwards and swaps) held as at 31 December are set out in the following table (there were no foreign exchange forwards and swaps as at 31 December 2004):

Group (Bank)	2005	2004
Contractual amount		
Purchase	14,551	-
Sale	14,569	-
Fair values:		
Assets	72	-

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**NOTE 14 LOANS**

The loans are originated by the Bank, UAB SB Lizingas (LTL 3,743 thousand) and UAB SB Investiciju Valdymas (LTL 1,108 thousand).

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Loans to corporate entities	528,537	556,908	358,551	372,898
Loans to individuals	107,542	103,799	47,281	47,109
<b>Total loans granted</b>	<b>636,079</b>	<b>660,707</b>	<b>405,832</b>	<b>420,007</b>
Provisions for loans	(1,914)	(1,626)	(2,342)	(2,263)
<b>Total</b>	<b>634,165</b>	<b>659,081</b>	<b>403,490</b>	<b>417,744</b>

**Quality of loans**

The total value of collateral to secure the loans granted amounted to LTL 1,603,188 thousand as at 31 December 2005 (2004: LTL 970,574 thousand). Changes in provisions are given below:

	<b>Group</b>	<b>Bank</b>
<u>Balance sheet</u>		
<b>Provisions at 31 December 2003</b>	2,543	2,512
Provisions for loans written-off	(813)	(813)
Exchange rate differences and other adjustments	(15)	(15)
Increase in provisions (see Note 7)	611	565
<b>Provisions at 31 December 2004</b>	<b>2,326</b>	<b>2,249</b>
Provisions for loans written off	(1,748)	(1,750)
Exchange rate differences and other adjustments	37	37
Increase in provisions (see Note 7)	1,299	1,090
<b>Provisions at 31 December 2005</b>	<b>1,914</b>	<b>1,626</b>

Structure of the loan portfolio by types of activities:

<b>Group (Bank)</b>	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Total loans granted to corporate entities by industry sectors:				
Trading	150,174	150,174	103,395	103,086
Manufacturing	104,563	104,563	81,680	81,539
Construction	68,204	68,204	46,955	46,939
Real estate, rent	60,414	60,414	30,089	24,088
Agriculture, hunting and forestry	54,160	54,160	28,725	28,725
Transportation	25,303	25,303	17,630	17,618
Hotels and restaurants	24,038	33,433	9,941	14,841
Utilities	6,498	6,498	5,704	5,704
Other industry sectors	33,428	52,692	32,084	48,187
<b>Total loans to corporate entities</b>	<b>526,782</b>	<b>555,441</b>	<b>356,203</b>	<b>370,727</b>
Loans to individuals	107,383	103,640	47,287	47,017
<b>Total</b>	<b>634,165</b>	<b>659,081</b>	<b>403,490</b>	<b>417,744</b>

As at 31 December 2005, net loans granted by the Bank to individuals amounted to LTL 103,640 thousand (long-term – LTL 93,168 thousand, from which loans to non-residents amounted to LTL 97 thousand; short-term – LTL 10,472 thousand, from which loans to non-residents amounted to LTL 25 thousand). As at 31 December 2005, the Group had loans granted to individuals amounting to LTL 107,383 thousand, from which long-term loans amounted to LTL 96,911 thousand and short-term loans amounted to LTL 10,472 thousand.

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**NOTE 15 FINANCE LEASE RECEIVABLES**

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
<b>Gross investments in leasing:</b>				
Balance at 31 December 2004	27,202	15,332	330	42,864
Change during 2005	8,312	11,483	7,719	27,514
<b>Balance at 31 December 2005</b>	<b>35,514</b>	<b>26,815</b>	<b>8,049</b>	<b>70,378</b>
<b>Unearned finance income on finance leases:</b>				
Balance at 31 December 2004	2,256	1,019	34	3,309
Change during 2005	1,214	2,172	751	4,137
<b>Balance at 31 December 2005</b>	<b>3,470</b>	<b>3,191</b>	<b>785</b>	<b>7,446</b>
<b>Net investments in leasing before provisions:</b>				
At 31 December 2004	24,946	14,313	296	39,555
At 31 December 2005	32,044	23,624	7,264	62,932
<b>Changes in provisions:</b>				
Balance as at 31 December 2004	-	709	-	709
Additional provisions charged	-	119	-	119
Provisions for finance lease debts written off	-	(270)	-	(270)
<b>Balance as at 31 December 2005</b>	<b>-</b>	<b>591</b>	<b>-</b>	<b>591</b>
<b>Net investments in leasing after provisions:</b>				
At 31 December 2004	24,946	13,604	296	38,846
At 31 December 2005*	32,044	23,033	7,264	62,341

	<b>2005</b>	<b>2004</b>
<b>By type of lessees:</b>		
Legal entities	38,074	22,159
Individuals	24,858	17,396
<b>Net investments before provisions</b>	<b>62,932</b>	<b>39,555</b>
<b>By type of assets leased:</b>		
Equipment	21,782	15,229
Computers and computer hardware	7,021	5,924
Commercial facilities	15,409	5,030
Heavy transport means	4,065	4,505
Plastic windows and window-cases	5,325	3,182
Cars	3,888	2,825
Other	5,442	2,869
<b>Net investments before provisions</b>	<b>62,932</b>	<b>39,555</b>

All lessees operate in Lithuania.

\*- lease transactions with the Group companies amounted to LTL 193 thousand.

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**NOTE 16 INVESTMENT SECURITIES**

	<u>2005</u>		<u>2004</u>	
	<u>Group</u>	<u>Bank</u>	<u>Group</u>	<u>Bank</u>
Securities available-for-sale:				
Unlisted equity securities	814	814	814	814
Total securities available-for-sale	814	814	814	814
Securities held-to-maturity:				
Lithuanian Government bonds	107,570	107,570	88,944	88,944
Total securities held-to-maturity	107,570	107,570	88,944	88,944
<b>Total investment securities</b>	<b>108,384</b>	<b>108,384</b>	<b>89,758</b>	<b>89,758</b>

The fair value of Lithuanian Government bonds as at 31 December 2005 was higher than its carrying value by LTL 6,151 thousand.

**NOTE 17 INVESTMENTS IN SUBSIDIARIES**

<b>Bank</b>	<u>2005</u>			<u>2004</u>		
	<u>Share in equity</u>	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Share in equity</u>	<u>Acquisition cost</u>	<u>Carrying value</u>
Investments in consolidated subsidiaries:						
UAB ŠB Lizingas	100,0%	1,000	1,000	100,0%	1,000	1,000
UAB ŠB Investicijų Valdymas	60,4%	604	604	60,4%	604	604
UAB ŠB Faktoringas	100,0%	10	10	100,0%	10	10
UAB ŠB Turto Fondas	53,10%	531	531	53,10%	531	531
UAB Pajūrio Alka	99,85%	4,519	4,519	99,85%	4,519	4,519
<b>Total</b>			<b>6,664</b>			<b>6,664</b>

**NOTE 18 INTANGIBLE ASSETS**

	<u>Group</u>	<u>Bank</u>
	<u>Software and licences</u>	<u>Software and licences</u>
31 December 2003:		
Cost	3,863	3,641
Accumulated amortisation	(1,582)	(1,507)
<b>Net book value</b>	<b>2,281</b>	<b>2,134</b>
Year ended on 31 December 2004:		
Net book value at 1 January	2,281	2,134
Acquisitions	619	550
Amortisation charge	(669)	(596)
Net book value at 31 December	<b>2,231</b>	<b>2,088</b>
31 December 2004:		
Cost	4,481	4,191
Accumulated amortisation	(2,250)	(2,103)
<b>Net book value</b>	<b>2,231</b>	<b>2,088</b>
Economic useful life (in years)	1-9	1-9



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 18 INTANGIBLE ASSETS (CONTINUED)**

	<u>Group</u> Software and licences	<u>Bank</u> Software and licences
31 December 2004:		
Cost	4,481	4,191
Accumulated amortisation	(2,250)	(2,103)
<b>Net book value</b>	<u>2,231</u>	<u>2,088</u>
Year ended on 31 December 2005:		
Net book value at 1 January	2,231	2,088
Acquisitions	660	595
Amortisation charge	(731)	(645)
Net book value at 31 December	<u>2,160</u>	<u>2,038</u>
31 December 2005:		
Cost	5,141	4,786
Accumulated amortisation	(2,981)	(2,748)
<b>Net book value</b>	<u>2,160</u>	<u>2,038</u>
Economic useful life (in years)	1-9	1-9

**NOTE 19 TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Buildings and premises</b>	<b>Vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
31 December 2003:					
Cost/valuation	31,225	2,519	10,508	8,812	53,064
Accumulated depreciation	(3,001)	(507)	(4,713)	-	(8,221)
<b>Net book value</b>	<u>28,224</u>	<u>2,012</u>	<u>5,795</u>	<u>8,812</u>	<u>44,843</u>
Year ended on 31 December 2004:					
Net book value at 1 January	28,224	2,012	5,795	8,812	44,843
Acquisitions	8,355	2,628	1,684	9,889	22,556
Disposals and write-offs	(4,790)	(116)	(108)	(18,450)	(23,464)
Depreciation charge	(606)	(447)	(1,841)	-	(2,894)
Net book value at 31 December	<u>31,183</u>	<u>4,077</u>	<u>5,530</u>	<u>251</u>	<u>41,041</u>
31 December 2004:					
Cost/valuation	34,668	4,930	11,669	251	51,518
Accumulated depreciation	(3,485)	(853)	(6,139)	-	(10,477)
<b>Net book value</b>	<u>31,183</u>	<u>4,077</u>	<u>5,530</u>	<u>251</u>	<u>41,041</u>
Economic useful life (in years)	20-50	5-6	3-20	-	

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 19 TANGIBLE FIXED ASSETS (CONTINUED)**

<b>Bank</b>	<b>Buildings and premises</b>	<b>Vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
31 December 2003:					
Cost/valuation	18,265	1,640	9,312	-	29,217
Accumulated depreciation	(1,215)	(430)	(4,358)	-	6,003
<b>Net book value</b>	<b>17,050</b>	<b>1,210</b>	<b>4,954</b>	<b>-</b>	<b>23,214</b>
Year ended on 31 December 2004:					
Net book value at 1 January	17,050	1,210	4,954	-	23,214
Acquisitions	3,501	368	1,473	884	6,226
Disposals and write-offs	(66)	(76)	(80)	(723)	(945)
Depreciation charge	(404)	(293)	(1,660)	-	(2,357)
Net book value at 31 December	20,081	1,209	4,687	161	26,138
31 December 2004:					
Cost/valuation	21,700	1,835	10,302	161	33,998
Accumulated depreciation	(1,619)	(626)	(5,615)	-	(7,860)
<b>Net book value</b>	<b>17,050</b>	<b>1,210</b>	<b>4,954</b>	<b>-</b>	<b>23,214</b>
Economic useful life (in years)	20-50	5-6	3-20	-	
<b>Group</b>	<b>Buildings and premises</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
31 December 2004:					
Cost	34,668	4,930	11,669	251	51,518
Accumulated depreciation	(3,485)	(853)	(6,139)	-	(10,477)
<b>Net book value</b>	<b>31,183</b>	<b>4,077</b>	<b>5,530</b>	<b>251</b>	<b>41,041</b>
Year ended on 31 December 2005:					
Net book value at 1 January	31,183	4,077	5,530	251	41,041
Acquisitions	13,851	1,005	2,086	1,175	18,117
Disposals and write-offs	(4,813)	(703)	(48)	(1,081)	(6,645)
Depreciation charge	(766)	(605)	(1,949)	-	(3,320)
Net book value at 31 December	39,455	3,774	5,619	345	49,193
31 December 2005:					
Cost	43,684	4,790	13,079	345	61,898
Accumulated depreciation	(4,229)	(1,016)	(7,460)	-	(12,705)
<b>Net book value</b>	<b>39,455</b>	<b>3,774</b>	<b>5,619</b>	<b>345</b>	<b>49,193</b>
Economic useful life (in years)	20-50	5-6	3-20	-	

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 19 TANGIBLE FIXED ASSETS (CONTINUED)**

<b>Bank</b>	<b>Buildings and premises</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
31 December 2004:					
Cost	21,700	1,835	10,302	161	33,998
Accumulated depreciation	(1,619)	(626)	(5,615)	-	(7,860)
<b>Net book value</b>	<b>20,081</b>	<b>1,209</b>	<b>4,687</b>	<b>161</b>	<b>26,138</b>
Year ended on 31 December 2005:					
Net book value at 1 January	20,081	1,209	4,687	161	26,138
Acquisitions	3,318	695	1,264	1,175	6,452
Disposals and write-offs	(518)	(139)	(11)	(991)	(1,659)
Depreciation charge	(472)	(336)	(1,689)	-	(2,497)
Net book value at 31 December	22,409	1,429	4,251	345	28,434
31 December 2005:					
Cost	24,478	2,110	11,005	345	37,938
Accumulated depreciation	(2,069)	(681)	(6,754)	-	(9,504)
<b>Net book value</b>	<b>22,409</b>	<b>1,429</b>	<b>4,251</b>	<b>345</b>	<b>28,434</b>
Economic useful life (in years)	20-50	6	3-20	-	

As at 31 December 2005, the Bank had premises given on lease with the value of LTL 945 thousand (2004: LTL 1,108 thousand). In 2005 income from lease of these premises amounted to LTL 63 thousand (2004: LTL 55 thousand).

As at 31 December 2004 and 31 December 2005, there were no tangible fixed assets pledged to third parties.

**NOTE 20 OTHER ASSETS**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Assets held for sale	21,575	-	2,249	-
Amounts receivable for assets disposed under hire-purchase	18,002	1,312	11,273	2,432
Other receivables from customers	1,525	1,525	3,070	-
Deferred expenses	2,113	1,974	1,422	1,340
Transit accounts	1,149	1,149	413	413
Prepayments	564	564	259	-
Foreclosed assets	231	231	76	76
Prepaid income tax	129	-	-	-
Other	476	316	1,737	438
<b>Total</b>	<b>45,764</b>	<b>7,071</b>	<b>20,499</b>	<b>4,699</b>

All assets held for sale relate to real estate projects under development by the Bank's subsidiaries Šiaulių Banko Turto Fondas UAB and Šiaulių Banko Investicijų Valdymas UAB.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS**

	<b>2004</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	1,851	2,212	5,026	5,038
Time deposits	61,889	61,889	40,036	40,036
Total correspondent accounts and deposits of other banks and financial institutions	63,740	64,101	45,062	45,074
Loans received:				
Loans from other banks	17,334	17,334	13,415	10,415
Loans from finance institutions	30,928	29,790	37,113	35,643
Loans from international organisations	42,623	42,623	15,627	15,627
Loan from the Bank of Lithuania	-	-	5,704	5,704
Total loans received	90,885	89,747	71,859	67,389
<b>Total</b>	<b>154,625</b>	<b>153,848</b>	<b>116,921</b>	<b>112,463</b>

Loans received from other banks comprise:

- Loans received from HSH Nord Bank branch office in Copenhagen and Dresdner Bank AG, Frankfurt am Main to finance business projects.

Loans received from finance institutions comprise loans received from:

- the Lithuanian Environment Investment Fund to finance environmental projects;
- the Central Project Management Agency to finance the projects related to renovation of social purpose buildings and development of engineering infrastructure;
- the World Bank to finance private agricultural development projects.

Loans received from international organisations comprise loans received from:

- the European Bank for Reconstruction and Development to finance small and medium-size business projects;
- the Council of Europe Development Bank and Nordic Investment Bank to finance businesses started by women.

**NOTE 22 DEPOSITS**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Demand deposits:				
National government institutions	9,491	9,491	5,685	5,685
Local government institutions	34,862	34,862	29,542	29,542
Governmental and municipal companies	30,642	30,642	2,327	2,327
Corporate entities	127,184	127,206	82,030	82,094
Non-profit organisations	4,933	4,933	5,201	5,201
Individuals	63,176	63,176	42,045	42,045
Total demand deposits	270,288	270,310	166,830	166,894
Time deposits:				
National government institutions	7,635	7,635	8,667	8,667
Local government institutions	466	466	1,839	1,839
Governmental and municipality companies	29,980	29,980	6,658	6,658
Corporate entities	86,606	86,606	51,813	51,813
Non-profit organisations	2,544	2,544	3,210	3,210
Individuals	346,307	346,307	278,157	278,157
Total time deposits	473,538	473,538	350,344	350,344
<b>Total</b>	<b>743,826</b>	<b>743,848</b>	<b>517,174</b>	<b>517,238</b>

See effective interest rate on deposits disclosed in Note 33 *Interest rate risk*.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 23 SPECIAL AND LENDING FUNDS**

Special and lending funds consist of compulsory social security and health insurance funds. Special funds have to be available to their contributors on their first demand.

**NOTE 24 DEBT SECURITIES ISSUED**

On 18 July 2005 the Bank issued short-term debenture bonds for the value of LTL 20 million with par value of LTL 100 each and discount rate of 3.4 per cent. The deadline of redemption of bonds is 19 July 2006.

**NOTE 25 OTHER LIABILITIES**

	<b>2005</b>		<b>2004</b>	
	<b>Group</b>	<b>Bank</b>	<b>Group</b>	<b>Bank</b>
Transit accounts	10,463	10,463	3,337	3,337
Accrued charges	3,183	2,599	1,803	1,600
Deferred income	2,818	2,340	1,682	1,341
Advances received from the buyers of assets, shares	4,146	20	2,192	-
Amounts payable for shares	8,641	-	-	-
Income tax payable	42	-	-	-
Other	863	447	999	661
<b>Total</b>	<b>30,156</b>	<b>15,869</b>	<b>10,013</b>	<b>6,939</b>

**NOTE 26 MINORITY INTEREST**

	<b>2005</b>	<b>2004</b>
	<b>Group</b>	<b>Group</b>
Balance at 1 January	3,858	1,637
Share of profit for the reporting period	876	2,107
Increase of share capital in subsidiary companies	4,850	114
Effect of dividends paid	(1,569)	-
<b>Balance at 31 December</b>	<b>8,015</b>	<b>3,858</b>

**NOTE 27 SHARE CAPITAL**

As at 31 December 2005, the Bank's share capital comprised 74,720,000 ordinary registered shares with par value of LTL 1 each. In 2005, the share capital was increased twice – using the Bank's own funds and making additional contributions. Increase of the share capital by LTL 6,720,000 from the Bank's own funds comprised LTL 2,275,000 from the share premium and LTL 4,445,000 from retained earnings, the shares issued free of charge were distributed to the shareholders free of charge in proportion to the total nominal value of their shareholdings as at 30 March 2005. Increase of the share capital by LTL 12,000,000 by way of additional contributions comprised 12 million ordinary registered shares issued with par value of LTL 1 each and all these shares were sold for the issue price of LTL 1.70 each to the strategic investor the European Bank for Reconstruction and Development. Corresponding amendments to the Bank's Articles of Association related to increase of the share capital were registered with the Registry of Legal entities on 31 August 2005.

Based on the decision of an extraordinary general meeting of shareholders as of 23 September 2005, additional new shares were issued to increase the share capital by way of additional contributions. These additionally issued shares to increase the share capital by LTL 10 million at the end of 2005 were distributed for the total amount of LTL 15,194 thousand, wherein LTL 8,938 represent the nominal value and LTL 6,256 thousand represent the share premium. The issue price of newly issued shares was set the same as for the strategic investor – LTL 1.70 per share. This increase in share capital was formally registered as at 8 February 2006. As at 31 December 2005 paid-in unregistered share capital was disclosed under liabilities.

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**NOTE 27 SHARE CAPITAL (CONTINUED)**

As of 31 December 2005, the shareholders holding over 5% of the Bank's shares with voting rights are listed in the table below:

<b>Shareholders</b>	<b>Percentage of shares with voting rights, %</b>
European Bank for Reconstruction and Development	16.06
Prekybos Namai Aiva UAB and related parties	6.69
Gintaras Kateiva	6.42
Skandinaviska Enskilda Banken customer (East Capital Asset Management AB)	6.04
<b>Total</b>	<b>35.21</b>

Another 19 shareholders had less than 5% but more than 1% of the Bank's share capital. The remaining shareholders on an individual basis had less than 1% of the Bank's shares and voting rights.

Seven shareholders of the Bank – European Bank for Reconstruction and Development, Prekybos Namai Aiva UAB, Mintaka UAB, Alita AB, Algirdas Butkus, Gintaras Kateiva and Arvydas Salda – acting jointly in accordance with the Agreement of Shareholders, together with related persons at the end of the year held 39.59 per cento of the Bank's shares and voting rights. Based on its Resolution No. 103 dated 23 June 2005, the Bank of Lithuania gave its consent for this group of shareholders to acquire a qualified share of the authorised share capital and voting rights.

As at 31 December 2005, the Bank had 2,121 shareholders (31 December 2004: 1,213).

**Share premium**

The share premium represents the difference between the issue price and nominal value of the shares issued by the Bank. Share premium can be used to increase the Bank's authorised share capital.

**Reserve capital**

The reserve capital is formed from the Bank's profit and its purpose is to ensure the financial stability of the Bank. The shareholders may decide to use the reserve capital to cover losses incurred.

**Statutory reserve**

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

**Dividends**

In 2005, the annual general meeting of shareholders decided to pay 1% dividends (2004: 1%) to the holders of ordinary shares.

**NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS**

**Legal claims**

As at 31 December 2005, the Bank acted as a defendant in pending court proceedings. The amount of legal claim was approximately LTL 86 thousand. In the Bank's management opinion, the claim was not grounded. Šiauliai District Court cancelled the decision of Mažeikiai Local Court and passed a new ruling to reject the claim. The management of the Bank believe that no losses will be incurred by the Bank in relation to this legal claim.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)**

**Guarantees, letters of credit, commitments to grant loans and other commitments**

As at 31 December 2005, the Bank had outstanding guarantees, letters of credit and commitments to grant loans amounting to LTL 52,405 thousand, LTL 6,901 thousand, and LTL 83,375 thousand, respectively (2004: LTL 23,413 thousand, LTL 1,654 thousand and LTL 48,036 thousand, respectively). In addition, as at 31 December 2005, the Bank had agreements on purchase of real estate, a car and computer software for the total amount of LTL 3,019, wherein the contractual amount for real estate is LTL 2,690 thousand (2004: LTL 118 thousand under the agreement on purchase of computer software). No provisions were established for the possible losses in relation to these commitments as at 31 December 2005 (similarly as in 2004). As of 31 December 2005, the Bank and the Group did not establish any provisions for commitments (2004: LTL 74 thousand). According to effective operating lease agreements the Bank was obliged to pay instalments of LTL 1,029 thousand during one year (2004 – LTL 1,125 thousand) and LTL 1,785 thousand during two to five years (2004 – LTL 1,853 thousand).

**Borrowing agreements**

As of 31 December 2005, the Bank and the Group had no borrowing agreements, under which they could borrow funds on each demand with part of securities portfolio pledged for that purpose (2004: LTL 8 million). As of 31 December 2004 neither the Bank nor the Group had used any funds from such borrowing agreements.

**Commitments to grant finance lease and acquire assets**

As at 31 December 2005, ŠB Lizingas UAB had effective agreements signed with the suppliers regarding assets meant for finance lease for the total amount of LTL 904 thousand (2004: LTL 673 thousand). Furthermore, as at 31 December 2005, ŠB Lizingas UAB had not yet transferred assets to the clients according to certain lease agreements in effect. The total value of such lease agreements amounted to LTL 757 thousand (2004: LTL 605 thousand).

**Contingent tax commitments**

The Tax Authorities have not carried out a full-scope tax audit of the Bank over the period from 2001 to 2005. The Tax Authorities may at any time during 5 successive years after the end of the reporting tax year carry out an inspection of the Bank's books and accounting records and impose additional taxes or fines. Management is not aware of any circumstances that might result in a potential material liability in this respect.

**NOTE 29 DIVIDENDS**

Dividends are declared during the annual general meeting of shareholders when appropriation of profit for the reporting period is performed.

During the annual general meeting of shareholders to be held on 30 March 2006, dividends of 2% of nominal value of shares, i.e. LTL 0.01 per share will be proposed for payment for the year 2005 (For 2004 and 2003 dividends of LTL 0.01 per share were paid). In total, dividends of LTL 1,694.4 thousand will be proposed for payment (2004: LTL 560 thousand and 2003: LTL 483 thousand). The effect of this decision is not reflected in the financial statements as at 31 December 2005, and by the amount of dividends for 2004, the retained result for the year ending 31 December 2005 will be reduced. The payment of dividends has no impact on income tax liabilities of the Bank and the Group.

**NOTE 30 CASH AND CASH EQUIVALENTS**

	2005		2004	
	Group	Bank	Group	Bank
Cash	21,647	21,636	18,811	18,800
Other valuables	2	2	4	4
Correspondent accounts with other banks	11,575	11,575	8,295	8,295
Correspondent accounts with the Central Bank	44,347	44,347	25,676	25,676
Compulsory reserves with the Bank of Lithuania	9,687	9,687	824	824
Due from other banks and financial institutions (up to 3 months)	30,015	30,015	23,035	23,035
<b>Total</b>	<b>117,273</b>	<b>117,262</b>	<b>76,645</b>	<b>76,634</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 31 LIQUIDITY RISK**

The structure of the Group's assets and liabilities by maturity as at 31 December 2005 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
<b>Assets</b>									
Cash and balances with central banks	75,683	-	-	-	-	-	-	-	75,683
Due from other banks and financial institutions	26,829	37,397	5,120	1,114	3,033	-	-	18	73,511
Trading securities	-	-	-	557	3,604	4,947	3,827	2,792	15,727
Loans granted	-	26,662	52,823	60,520	84,880	263,677	145,603	-	634,165
Finance lease receivables	-	3,635	6,412	8,626	14,071	17,479	11,925	-	62,148
Investment securities									
- available-for-sale securities	-	-	-	-	-	-	-	814	814
- held-to-maturity securities	-	520	-	1,251	5,194	12,923	87,682	-	107,570
Intangible assets	-	-	-	-	-	-	-	2,160	2,160
Tangible fixed assets	-	-	-	-	-	-	-	49,193	49,193
Other assets	626	1,449	9,820	4,631	2,837	5,334	10,857	10,282	45,836
<b>Total assets</b>	<b>103,138</b>	<b>69,663</b>	<b>74,175</b>	<b>76,699</b>	<b>113,619</b>	<b>304,360</b>	<b>259,894</b>	<b>65,259</b>	<b>1,066,807</b>
<b>Liabilities and shareholders' equity</b>									
Due to other banks and financial institutions	8,758	35,640	4,416	5,483	11,698	55,841	32,716	73	154,625
Deposits	270,288	122,190	111,213	106,274	95,454	23,790	14,617	-	743,826
Special and lending funds	384	-	-	-	-	-	-	-	384
Income tax liabilities	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	112	112
Other liabilities	507	16,043	375	635	20,381	1,455	502	9,892	49,790
Unregistered capital	-	-	-	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	-	-	-	94,861	94,861
Minority interest	-	-	-	-	-	-	-	8,015	8,015
<b>Total liabilities and shareholders' equity</b>	<b>279,937</b>	<b>173,873</b>	<b>116,004</b>	<b>112,392</b>	<b>127,533</b>	<b>81,086</b>	<b>47,835</b>	<b>128,147</b>	<b>1,066,807</b>
<b>Net liquidity gap</b>	<b>(176,799)</b>	<b>(104,210)</b>	<b>(41,829)</b>	<b>(35,693)</b>	<b>(13,914)</b>	<b>223,274</b>	<b>212,059</b>	<b>(62,888)</b>	<b>-</b>

\*The liquidity gap on demand may be covered by selling the portfolio of investment securities of LTL 120,506 thousand, which comprise debt securities issued by the Government of Lithuania, and which are liquid on the secondary market.

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets	54,290	46,295	58,083	62,515	116,159	150,213	161,800	67,267	716,622
Liabilities and shareholders' equity	174,160	83,307	89,399	102,187	118,256	43,584	33,196	72,533	716,622
<b>Net liquidity gap</b>	<b>(119,870)*</b>	<b>(37,012)</b>	<b>(31,316)</b>	<b>(39,672)</b>	<b>(2,097)</b>	<b>106,629</b>	<b>128,604</b>	<b>(5,266)</b>	<b>-</b>



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**NOTE 31 LIQUIDITY RISK (CONTINUED)**

The structure of the Bank's assets and liabilities by maturity as at 31 December 2005 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
<b>Assets</b>									
Cash and balances with central banks	75,672	-	-	-	-	-	-	-	75,672
Due from other banks and financial institutions	26,782	53,292	35,486	17,298	3,033	-	-	18	135,909
Trading securities	-	-	-	557	3,604	4,947	3,827	2,750	15,685
Loans granted	-	56,218	51,923	60,520	82,290	262,527	145,603	-	659,081
Investment securities									
- available-for-sale securities	-	-	-	-	-	-	-	814	814
- held-to-maturity securities	-	520	-	1,251	5,194	12,923	87,682	-	107,570
Investments in subsidiaries	-	-	-	-	-	-	-	6,664	6,664
Intangible assets	-	-	-	-	-	-	-	2,038	2,038
Tangible fixed assets	-	-	-	-	-	-	-	28,434	28,434
Other assets	626	1,097	1,214	1,404	720	833	654	595	7,143
<b>Total assets</b>	<b>103,080</b>	<b>111,127</b>	<b>88,623</b>	<b>81,030</b>	<b>94,841</b>	<b>281,230</b>	<b>237,767</b>	<b>41,313</b>	<b>1,039,010</b>
<b>Liabilities and shareholders' equity</b>									
Due to other banks and financial institutions	9,119	35,612	4,360	5,399	11,526	55,043	32,716	73	153,848
Deposits	270,310	122,190	111,213	106,274	95,454	23,790	14,617	-	743,848
Special and lending funds	384	-	-	-	-	-	-	-	384
Other liabilities	507	11,832	299	312	20,098	808	439	1,208	35,503
Unregistered capital	-	-	-	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	-	-	-	90,233	90,233
<b>Total liabilities and shareholders' equity</b>	<b>280,320</b>	<b>169,634</b>	<b>115,872</b>	<b>111,985</b>	<b>127,078</b>	<b>79,641</b>	<b>47,772</b>	<b>76,320</b>	<b>1,039,010</b>
<b>Net liquidity gap</b>	<b>(177,240)*</b>	<b>(58,507)</b>	<b>(27,249)</b>	<b>(30,955)</b>	<b>(32,237)</b>	<b>201,589</b>	<b>189,995</b>	<b>(35,007)</b>	

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

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Assets	54,279	63,598	80,771	55,332	106,762	132,275	159,634	46,577	699,228
Liabilities and shareholders' equity	174,206	80,827	86,202	102,009	117,060	42,279	33,196	63,449	699,228
<b>Net liquidity gap</b>	<b>(119,927)*</b>	<b>(17,229)</b>	<b>(5,431)</b>	<b>(46,677)</b>	<b>(10,298)</b>	<b>89,996</b>	<b>126,438</b>	<b>(16,872)</b>	<b>-</b>

\*The liquidity gap on demand may be covered by selling the portfolio of investment securities of LTL 120,506 thousand, which comprise debt securities issued by the Government of Lithuania, and which are liquid on the secondary market.

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**NOTE 31 LIQUIDITY RISK (CONTINUED)**

The Bank of Lithuania requires that the liquidity ratio should not be less than 30%. The Bank's liquidity ratios calculated using the regulations approved by the Bank of Lithuania were as follows at the end of each month:

	<b>Liquid assets</b>	<b>Current liabilities</b>	<b>Liquidity ratio (per cent)</b>
31 December 2004	204,594	470,054	43.53
31 January 2005	206,056	476,698	43.23
28 February 2005	205,471	496,501	41.38
31 March 2005	215,807	537,662	41.14
30 April 2005	200,880	568,621	35.33
31 May 2005	238,886	615,152	38.83
30 June 2005	206,122	583,691	35.31
31 July 2005	253,052	633,085	39.97
31 August 2005	253,681	616,948	41.12
30 September 2005	267,972	663,264	40.40
31 October 2005	258,225	679,208	38.02
30 November 2005	266,153	725,565	36.68
31 December 2005	280,378	731,316	38.34

**NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS**

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

	<b>USD</b>	<b>Other currencies*</b>	<b>Total currencies*</b>	<b>EUR</b>	<b>LTL</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with central banks	3,606	1,700	5,306	6,555	63,822	75,683
Due from other banks and financial institutions	7,540	1,232	8,772	33,085	31,654	73,511
Trading securities	-	-	-	3,827	11,900	15,727
Loans granted	20,868	-	20,868	81,142	532,155	634,165
Finance lease receivables	366	-	366	14,227	47,555	62,148
Investment securities						
- available-for-sale securities	-	-	-	-	814	814
- held-to-maturity securities	-	-	-	25,448	82,122	107,570
Intangible assets	-	-	-	-	2,160	2,160
Tangible fixed assets	-	-	-	-	49,686	49,686
Other assets	80	-	80	895	44,861	45,836
<b>Total assets</b>	<b>32,460</b>	<b>2,932</b>	<b>35,392</b>	<b>165,179</b>	<b>866,236</b>	<b>1,066,807</b>
<b>Liabilities and shareholders' equity</b>						
Due to other banks and financial institutions	77	-	77	72,949	81,599	154,625
Deposits	44,379	476	44,855	99,656	599,315	743,826
Special and lending funds	-	-	-	-	384	384
Income tax liabilities	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	112	112
Other liabilities	1,384	168	1,552	4,054	44,184	49,790
Uregistered capital	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	94,861	94,861
Minority interest	-	-	-	-	8,015	8,015
<b>Total liabilities and shareholders' equity</b>	<b>45,840</b>	<b>644</b>	<b>46,484</b>	<b>176,659</b>	<b>843,664</b>	<b>1,066,807</b>
<b>Net balance sheet position</b>	<b>(13,380)</b>	<b>2,288</b>	<b>(11,092)</b>	<b>(11,480)</b>	<b>22,572</b>	
<b>Off-balance sheet position</b>	<b>13,387</b>	<b>(947)</b>	<b>12,440</b>	<b>1,167</b>	<b>(13,621)</b>	
<b>Net open position</b>	<b>7</b>	<b>1,341</b>	<b>1,348</b>	<b>(10,313)</b>	<b>8,951</b>	

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**NOTE 32 FOREIGN EXCHANGE TRANSACTIONS AND OPEN POSITIONS (CONTINUED)**

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

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	39,050	1,679	40,729	94,477	581,416	716,622
Liabilities and shareholders' equity	39,441	784	40,225	95,285	581,112	716,622
<b>Net balance sheet position</b>	<b>(391)</b>	<b>895</b>	<b>504</b>	<b>(808)</b>	<b>304</b>	<b>-</b>
Off-balance sheet position	381	(386)	(5)	(399)	404	-
<b>Net open position</b>	<b>(10)</b>	<b>509</b>	<b>499</b>	<b>(1,207)</b>	<b>708</b>	<b>-</b>

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

	USD	Other currencies	Total currencies*	EUR	LTL	Total
<b>Assets</b>						
Cash and balances with central banks	3,606	1,700	5,306	6,555	63,811	75,672
Due from other banks and financial institutions	7,907	1,232	9,139	45,081	81,689	135,909
Trading securities	-	-	-	3,827	11,858	15,685
Loans granted (before provisions)	20,868	-	20,868	81,142	557,071	659,081
Investment securities						
- available-for-sale securities	-	-	-	-	814	814
- held-to-maturity securities	-	-	-	25,448	82,122	107,570
Investments in subsidiaries	-	-	-	-	6,664	6,664
Intangible assets	-	-	-	-	2,038	2,038
Tangible fixed assets	-	-	-	-	28,434	28,434
Other assets	79	-	79	895	6,169	7,143
<b>Total assets</b>	<b>32,460</b>	<b>2,932</b>	<b>35,392</b>	<b>162,948</b>	<b>840,670</b>	<b>1,039,010</b>
<b>Liabilities and shareholders' equity</b>						
Due to other banks	111	-	111	72,949	80,788	153,848
Deposits	44,379	476	44,855	99,656	599,337	743,848
Special and lending funds	-	-	-	-	384	384
Other liabilities	1,384	168	1,552	4,054	29,897	35,503
Unregistered capital	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	90,233	90,233
<b>Total liabilities and shareholders' equity</b>	<b>45,874</b>	<b>644</b>	<b>46,518</b>	<b>176,659</b>	<b>815,833</b>	<b>1,039,010</b>
<b>Net balance sheet position</b>	<b>(13,414)</b>	<b>2,288</b>	<b>(11,126)</b>	<b>(13,711)</b>	<b>24,837</b>	<b>-</b>
<b>Off-balance sheet position</b>	<b>13,387</b>	<b>(947)</b>	<b>12,440</b>	<b>1,167</b>	<b>(13,621)</b>	<b>-</b>
<b>Net open position</b>	<b>(27)</b>	<b>1,341</b>	<b>1,314</b>	<b>(12,544)</b>	<b>11,216</b>	<b>-</b>

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

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	39,052	1,679	40,731	94,480	564,017	699,228
Liabilities and shareholders' equity	39,441	784	40,225	95,285	563,718	699,228
<b>Net balance sheet position</b>	<b>(389)</b>	<b>895</b>	<b>(506)</b>	<b>(805)</b>	<b>299</b>	<b>-</b>
Off-balance sheet position	381	(386)	(5)	(399)	404	-
<b>Net position</b>	<b>(8)</b>	<b>509</b>	<b>501</b>	<b>(1,204)</b>	<b>703</b>	<b>-</b>

\*According to the regulations approved by the Bank of Lithuania, the overall open foreign currency position should not exceed 25% of the bank's capital and the open position of each individual foreign currency should not exceed 15% of the bank's capital. This requirement does not apply to EUR and LTL positions.

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

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**NOTE 33 INTEREST RATE RISK**

The table below summarizes the Group's and Bank's interest rate risks as at 31 December 2005. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual reprising or maturity dates. Details of the Group's interest rate risk as at 31 December 2005 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
<b>Assets</b>							
Cash and balances with central banks	-	-	-	-	-	75,683	75,683
Due from other banks and financial institutions	37,397	5,120	1,114	3,033	-	26,847	73,511
Trading securities	-	-	557	3,604	8,774	2,792	15,727
Loans granted	82,458	149,253	307,285	48,937	43,827	2,405	634,165
Finance lease receivables	3,635	6,412	8,626	12,905	29,404	1,166	62,148
Investment securities							
- available-for-sale securities	-	-	-	-	-	814	814
- held-to-maturity securities	520	-	1,251	5,194	100,605	-	107,570
Intangible assets	-	-	-	-	-	2,160	2,160
Tangible fixed assets	-	-	-	-	-	49,193	49,193
Other assets	-	-	-	-	-	45,836	45,836
<b>Total assets</b>	<b>124,010</b>	<b>160,785</b>	<b>318,833</b>	<b>73,673</b>	<b>182,611</b>	<b>206,896</b>	<b>1,066,807</b>
<b>Liabilities and shareholders' equity</b>							
Due to other banks and financial institutions	62,060	40,945	17,105	11,173	14,511	8,831	154,625
Deposits and special and lending funds	127,188	114,993	113,303	112,066	5,994	270,666	744,210
Income tax liabilities							
Deferred income tax liabilities	-	-	-	-	-	112	112
Other liabilities	-	-	-	19,634	-	30,156	49,790
Unregistered capital	-	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	-	94,861	94,861
Minority interest	-	-	-	-	-	8,015	8,015
<b>Total liabilities and shareholders' equity</b>	<b>189,248</b>	<b>155,938</b>	<b>130,408</b>	<b>142,873</b>	<b>20,505</b>	<b>427,835</b>	<b>1,066,807</b>
<b>Interest rate sensitivity gap</b>	<b>(65,238)</b>	<b>4,847</b>	<b>188,425</b>	<b>(69,200)</b>	<b>162,106</b>	<b>(220,939)</b>	<b>-</b>

Details of the Group's interest rate risk as at 31 December 2004 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
Total assets	69,344	76,923	181,120	82,378	161,322	145,535	716,622
Total liabilities and shareholders' equity	105,903	98,309	111,350	122,726	23,376	254,958	716,622
<b>Interest rate sensitivity gap</b>	<b>(36,559)</b>	<b>(21,386)</b>	<b>69,770</b>	<b>(40,348)</b>	<b>137,946</b>	<b>(109,423)</b>	<b>-</b>

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

**31 December 2005**

	USD	EUR	LTL
<b>Assets</b>			
Due from other banks and financial institutions	2.03	2.77	3.91
Debt securities	-	4.34	4.55
Finance lease receivables	8.00	5.41	8.38
Loans granted (before provisions)	6.17	5.36	5.37
<b>Liabilities</b>			
Due to other banks and financial institutions	0.61	3.30	2.56
Deposits	2.27	2.21	2.25

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**NOTE 33 INTEREST RATE RISK (CONTINUED)**

Details of the Bank's interest rate risk as at 31 December 2005 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
<b>Assets</b>							
Cash and balances with central banks	-	-	-	-	-	75,672	75,672
Due from other banks and financial institutions	53,291	35,487	17,298	3,033	-	26,800	135,909
Trading securities	-	-	557	3,604	8,774	2,750	15,685
Loans granted (before provisions)	112,014	148,353	307,285	46,363	42,677	2,389	659,081
Available-for-sale securities	-	-	-	-	-	814	814
Held-to-maturity securities	520	-	1,251	5,194	100,605	-	107,570
Investments in subsidiaries	-	-	-	-	-	6,664	6,664
Intangible assets	-	-	-	-	-	2,038	2,038
Tangible fixed assets	-	-	-	-	-	28,434	28,434
Other assets (before provisions)	-	-	-	-	-	7,143	7,143
<b>Total assets</b>	<b>165,825</b>	<b>183,840</b>	<b>326,391</b>	<b>58,194</b>	<b>152,056</b>	<b>152,704</b>	<b>1,039,010</b>
<b>Liabilities and shareholders' equity</b>							
Due to other banks and financial institutions	62,032	40,889	17,021	11,001	13,715	9,190	153,848
Deposits and special and lending funds	127,188	114,993	113,303	112,066	5,994	270,688	744,232
Other liabilities	-	-	-	19,634	-	15,869	35,503
Unregistered capital	-	-	-	-	-	15,194	15,194
Shareholders' equity	-	-	-	-	-	90,233	90,233
<b>Total liabilities and shareholders' equity</b>	<b>189,220</b>	<b>155,882</b>	<b>130,324</b>	<b>142,701</b>	<b>19,709</b>	<b>401,174</b>	<b>1,039,010</b>
<b>Interest rate sensitivity gap</b>	<b>(23,395)</b>	<b>27,958</b>	<b>196,067</b>	<b>(84,507)</b>	<b>132,347</b>	<b>(248,470)</b>	<b>-</b>

Details of the Bank's interest rate risk as at 31 December 2004 are given below:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Non interest bearing	Total
<b>Assets</b>							
Assets	86,884	106,884	174,062	73,255	147,628	110,515	699,228
Liabilities and shareholders' equity	105,883	95,252	111,265	122,556	22,238	242,034	699,228
<b>Interest rate sensitivity gap</b>	<b>(18,999)</b>	<b>11,632</b>	<b>62,797</b>	<b>(49,301)</b>	<b>125,390</b>	<b>(131,519)</b>	<b>-</b>

The table below summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

**31 December 2004**

	USD	EUR	LTL
<b>Assets</b>			
Due from other banks and financial institutions	2,21	1,70	4,42
Debt securities	-	4,34	4,82
Finance lease receivables	8,00	6,40	9,00
Loans granted (before provisions)	5,95	6,05	5,86
<b>Liabilities</b>			
Due to other banks and financial institutions	3,15	3,60	2,68
Deposits and special lending funds	1,49	2,97	2,45

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**NOTE 34 RELATED PARTY TRANSACTIONS**

For the purposes of these financial statements, the parties are considered to be related parties if one party has the ability to exercise control or significant influence over, the other party in making financial or operational decisions. Related parties with the Bank include the members of the Supervisory Council and Board of the Bank, shareholders acting jointly in accordance with with the Agreement of Shareholders (refer to the note 27), the close family members of the above mentioned related parties and subsidiary companies of the Bank.

In the ordinary course of business the Bank performs banking transactions with major shareholders, members of the Council and the Board, as well as with the subsidiaries).

During 2005, a certain number of banking transactions were entered into with related parties in the ordinary course of business. These transactions include settlements, loans, deposits and foreign currency transactions.

The balances of loans granted to and deposits accepted from the Bank's related parties, except for subsidiaries and associates, and their average annual interest rates (calculated as weighted average) at the year-end were as follows:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2005	31 December 2004	2005	2004	31 December 2005	31 December 2004	2005	2004
Members of the Council and the Board	1,558	874	2.59	2.63	1,755	1,281	4.87	5.14
Other related parties (without subsidiaries of the Bank)	16,860	5,556	2.03	2.00	13,274	16,761	5.77	5.00

Transactions with EBRD:

The Bank has received a syndicated loan from the EBRD with its balance as at 31 December 2005 amounting to EUR 8 million, of which EBRD's share as at 31 December 2005 was LTL 11,571 thousand.

	Thousand LTL	
	2005	2004
<b>Assets</b>		
Correspondent account	-	-
Overnight deposits	-	-
Time deposits	-	-
<b>Liabilities</b>		
Correspondent account	-	-
Derivative financial instruments	-	-
Overnight deposits	-	-
Time deposits	-	-
Loans	-	8,663
Syndicated loan	11,571	-
<b>Income</b>		
Interest	-	-
Income from transactions in financial instruments	-	-
<b>Expenses</b>		
Interest and other expenses related to loan	137	355
Commission charges	-	-
Operating expenses	-	-

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 34 RELATED PARTY TRANSACTIONS (CONTINUED)**

Balances with the subsidiaries are given below:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31	31	2005	2004	31	31	2005	2004
	December	December			December	December		
	2005	2004			2005	2004		
Non-financial institutions	22	65	0.00	0.00	29,791	21,101	4.48	4.49
Financial institutions	361	12	0.32	0.00	62,445	35,183	4.14	4.47

Transactions with subsidiaries: UAB Šiaulių Banko Turto Fondas (the Bank holding is 53.10%, LTL 531 thousand), UAB Pajūrio Alka (the Bank's holding is 99.85%, LTL 4,519 thousand), UAB Šiaulių Banko Faktoringas (the Bank's holding is 100%, LTL 10 thousand), UAB Šiaulių Banko Investicijų Valdymas (the Bank's holding is 60.40%, LTL 604 thousand), UAB Šiaulių Banko Lizingas (the Bank's holding is 100%, LTL 1,000 thousand).

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Demand deposits	-	-
Loans	92,236	56,284
Debt securities	-	-
Equity securities	-	-
Other assets	73	30
<b>Liabilities and shareholders' equity</b>		
Demand deposits	383	76
Loans	-	-
Debt securities	-	-
Other liabilities	1	8
Bank's investment	6,664	6,664

Income and expenses from transactions with subsidiaries:

<b>Income</b>	<b>2005</b>	<b>2004</b>
Interest	2,861	2,247
Commission income	350	325
<b>Expenses</b>		
Interest	1	-
Commission charges	-	-
Operating expenses	64	77

**Remuneration of the management of the Bank**

In 2005, the amount of salaries and bonuses including social security and guarantee fund payments to Board members of the Bank totalled LTL 1,434 thousand (2004: LTL 919 thousand). The amount of payments to Supervisory council of the Bank amounted to LTL 280 thousand (2004: LTL 250).

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**NOTE 35 CONCENTRATION EXPOSURE**

As at 31 December 2005, the largest single exposure comprising loans to several related borrowers treated as a single borrower, not secured by the Lithuanian Government Guarantees, amounted to LTL 21.3 million (the whole amount represents commitments to provide credit facilities), i.e. 24.35% of the Bank's calculated capital (2004: LTL 13.9 million and 21.87% of the Bank's calculated capital).

**NOTE 36 STOCK BROKERAGE DEPARTMENT ACTIVITIES**

In 2005, as a result of the Bank's structural reorganisation, some changes were introduced in the Bank's units providing investment services. Instead of the former Stock Brokerage Department two departments were established at the newly established Treasury Department, namely Securities Trade Department and Securities Accounting Department. These departments took over the functions formerly performed by the Stock Brokerage Department related to the provision of investment services.

The volume of activities of Stock Brokerage Department of the Bank is disclosed below:

	<b>2005</b>	<b>2004</b>
Number of contracts for managing securities accounts and for transactions	244	405
Total value of transactions concluded on stock exchange, in million LTL	217	117
Number of issuers, whose securities are accounted by the brokerage department	14	14

As at 31 December, the size of the portfolio managed by Stock Brokerage Department was as follows:

	<b>2005</b>	<b>2004</b>
<b>Bank's:</b>		
Government securities	120,506	92,975
Equity securities	10,228	8,584
<b>Total Bank's</b>	<b>130,734</b>	<b>101,559</b>
<b>On behalf of clients:</b>		
Government securities	1,954	2,691
Debenture bonds issued by the Bank	6,747	-
Equity securities	170,939	103,477
Equity securities of issuers represented by Stock Brokerage Department	281,642	235,953
<b>Total on behalf of clients</b>	<b>461,282</b>	<b>342,121</b>

Income that is allocated to the activities of Stock Brokerage Department was as follows:

	<b>2005</b>	<b>2004</b>
Interest income on debt securities acquired	5,243	4,753
Gain (loss) on trade in equity securities	141	252
Commission charged on clients	417	226
Other income from transactions in securities	70	45
Dividends received	63	64
Consulting	2	7
Gain (loss) from repurchase transactions of securities	236	226
Gain (loss) on trade in debt securities	478	-
<b>Total income</b>	<b>6,650</b>	<b>5,573</b>
<b>Expenses allocated to Stock Brokerage Department</b>	<b>362</b>	<b>237</b>



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**NOTE 37 CHANGE IN ACCOUNTING POLICY**

In 2005 the Bank changed its accounting policy relating to investments in subsidiaries following changes in IAS 27. In 2004 subsidiaries were accounted for using the equity method of accounting. From the beginning of the year 2005 the subsidiaries are accounted at cost. Therefore in the Bank's financial statements the Bank made adjustments of equity investments amounting LTL 5,148 through the Bank previous years retained earnings (2004 – decrease of LTL 2,073 thousand, before 2004 decrease of LTL 3,075 thousand). The changes in accounting policy resulted in the decrease of retained earnings of the Bank of LTL 4,599 in 2005.

	<b>Previously reported</b>	<b>Restatement amount</b>	<b>Restated</b>
Investments in subsidiaries as at 31 December 2004	11,812	5,148	6,664
Retained earnings as at 31 December 2004	6,552	(2,073)	1,404
Retained earnings as at 31 December 2003	4,154	(3,075)	1,079
Gains from subsidiaries in 2004	3,563	(2,073)	1,490
Earnings per share of the Bank (in LTL per share)	0.12	(0.05)	0.07