ŠIAULIŲ BANKAS AB
INDEPENDENT AUDITOR’S REPORT
FINANCIAL STATEMENTS AND
ANNUAL REPORT
31 DECEMBER 2010

CONTENTS

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

THE GROUP'S AND THE BANK'S STATEMENT OF COMPREHENSIVE INCOME

		Year ended			
		31 December 2010		31 December 2009	
	Notes	Group	Bank	Group	Bank
Interest and similar income	1	110,429	107,379	142,800	140,474
Interest expense and similar charges	1	(78,634)	(78,540)	(113,601)	(112,878)
Net interest income		**31,795**	**28,839**	**29,199**	**27,596**
Fee and commission income	2	12,478	12,325	12,620	12,935
Fee and commission expense	2	(4,467)	(4,387)	(4,472)	(4,399)
Net fee and commission income		**8,011**	**7,938**	**8,148**	**8,536**
Allowance for impairment losses	7	(46,031)	(43,915)	(50,444)	(49,794)
Net gain (loss) from operations with securities	3	3,088	3,088	4,945	321
Net foreign exchange gain		2,709	2,715	2,402	2,402
(Loss) gain from disposal of assets	5	1,212	165	(113)	14
Other income	6	1,695	787	1,130	508
Administrative and other operating expenses	4	(34,021)	(28,572)	(36,647)	(31,713)
Operating (loss)		**(31,542)**	**(28,955)**	**(41,380)**	**(42,130)**
Dividends from investments in subsidiaries		-	-	-	6,377
(Loss) profit before income tax		**(31,542)**	**(28,955)**	**(41,380)**	**(35,753)**
(Loss) before income tax from the subsidirary that is held for sale	20	(1,594)	-	-	-
Income tax income	8	4,844	4,806	5,829	5,639
Net (loss)		**(28,292)**	**(24,149)**	**(35,551)**	**(30,114)**
Other comprehensive (loss) income					
Gain (loss) from revaluation of financial assets		599	599	96	1,467
Deferred income tax on (loss) gain from revaluation of financial assets		180	180	(197)	(197)
Other comprehensive (loss) gain, net of tax		779	779	(101)	1,270
Total comprehensive (loss)		(27,513)	(23,370)	(35,652)	(28,844)
(Loss) attributable to:					
Equity holders of the Bank		(28,292)	(24,149)	(35,551)	(30,114)
From continuing operations		(26,698)	(24,149)	(35,551)	(30,114)
From discontinued operations		(1,594)	-	-	-
Non-controlling interest	26	-	-	-	-
		(28,292)	(24,149)	(35,551)	(30,114)
Total comprehensive (loss) income attributable to:					
Equity holders of the Bank		(27,513)	(23,370)	(35,652)	(28,844)
Non-controlling interest		-	-	-	-
		(27,513)	(23,370)	(35,652)	(28,844)
Basic and diluted (loss) earnings per share (in LTL per share)	9	(0.15)	(0.12)	(0.20)	(0.17)

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

THE GROUP'S AND THE BANK'S STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2010 Group	31 December 2010 Bank	31 December 2009 Group	31 December 2009 Bank
ASSETS					
Cash and cash equivalents	10	208,400	208,397	168,708	168,651
Trading securities	12	81,326	78,406	3,094	121
Due from other banks	11	4,147	4,147	2,214	2,214
Loans to customers	13	1,438,387	1,657,609	1,434,328	1,605,635
Finance lease receivables	14	103,988	-	101,412	-
Investment securities:					
- available-for-sale	15	103,598	89,375	86,236	72,083
- held-to-maturity	15	214,055	207,635	146,041	143,068
Investments in subsidiaries	16	-	16,889	-	9,384
Intangible assets	17	608	606	605	600
Property, plant and equipment	18	67,156	43,699	52,203	45,179
Income tax prepayment		1,615	1,598	2,468	2,221
Deferred tax asset	8	10,407	10,177	5,416	5,224
Inventories	19	42,961	-	34,845	-
Other financial assets	19	35,254	12,025	26,775	1,215
Other non-financial assets	19	10,257	4,091	9,453	3,675
Assets related to a subsidiary that is held for sale	20	12,455	-	-	-
Total assets		**2,334,614**	**2,334,654**	**2,073,798**	**2,059,270**
LIABILITIES					
Due to other banks and financial institutions	21	369,067	369,091	246,272	237,315
Due to customers	22	1,672,299	1,672,394	1,528,824	1,528,840
Debt securities in issue	24	5,291	5,291	4,155	4,155
Special and lending funds	23	28,011	28,011	31,292	31,292
Current income tax liabilities		-	-	-	-
Deferred income tax liabilities	8	-	-	-	-
Other financial liabilities	25	1,503	-	2,110	-
Other non-financial liabilities	25	6,380	3,720	6,961	3,631
Liabilities related to a subsidiary that is held for sale	20	882	-	-	-
Total liabilities		**2,083,433**	**2,078,507**	**1,819,614**	**1,805,233**
EQUITY					
Share capital	27	204,858	204,858	180,358	180,358
Share premium	27	46,661	46,661	45,681	45,681
Reserve capital	27	2,611	2,611	2,611	2,611
Other reserves	27	10,000	10,000	10,000	10,000
Statutory reserve	27	6,667	6,422	6,376	5,981
Financial assets revaluation reserve		(2)	1,369	(781)	590
Retained earnings		(19,614)	(15,774)	9,939	8,816
Non-controlling interest	26	-	-	-	-
Total equity		**251,181**	**256,147**	**254,184**	**254,037**
Total liabilities and equity		**2,334,614**	**2,334,654**	**2,073,798**	**2,059,270**

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 4 March 2011 by:

Algirdas Butkus
Chairman of the Board

Vita Adomaitytė
Chief Financial Officer

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

THE GROUP'S STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Bank									
	Notes	Share capital	Share premium	Reserve capital	Financial assets reva-luation	Statutory reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
31 December 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,683**	**-**	**58,004**	**289,657**	**4,967**	**294,624**
Dividends to Non-controlling interest	26	-	-	-	-	-	-	-	-	(3,923)	(3,923)
Formation of statutory reserve		-	-	-	-	2,514	-	(2,514)	-	-	-
Formation of other reserves	27	-	-	-	-	-	10,000	(10,000)	-	-	-
Reduction in non-controlling interest		-	-	-	-	179	-	-	179	(1,044)	(865)
Total comprehensive loss		-	-	-	(101)	-	-	(35,551)	(35,652)	-	(35,652)
31 December 2009		**180,358**	**45,681**	**2,611**	**(781)**	**6,376**	**10,000**	**9,939**	**254,184**	**-**	**254,184**
Formation of statutory reserve	26	-	-	-	-	441	-	(441)	-	-	-
Release of statutory reserve to cover losses		-	-	-	-	(150)	-	150	-	-	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480	-	25,480
Retained earnings related to subsidiary previously not consolidated	20	-	-	-	-	-	-	(970)	(970)	-	(970)
Total comprehensive loss		-	-	-	779	-	-	(28,292)	(27,513)	-	(27,513)
31 December 2010		**204,858**	**46,661**	**2,611**	**(2)**	**6,667**	**10,000**	**(19,614)**	**251,181**	**-**	**251,181**

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,405**	**-**	**51,506**	**282,881**
Formation of statutory reserve	27	-	-	-	-	2,576	-	(2,576)	-
Formation of other reserves	27	-	-	-	-	-	10,000	(10,000)	-
Total comprehensive loss		-	-	-	1,270	-	-	(30,114)	(28,844)
31 December 2009		**180,358**	**45,681**	**2,611**	**590**	**5,981**	**10,000**	**8,816**	**254,037**
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-
Increase in share capital	27	24,500	980	-	-	-	-		25,480
Total comprehensive loss		-	-	-	779	-	-	(24,149)	(23,370)
31 December 2010		**204,858**	**46,661**	**2,611**	**1,369**	**6,422**	**10,000**	**(15,774)**	**256,147**

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

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

THE GROUP'S AND THE BANK'S STATEMENT OF CASH FLOWS

		Year ended			
		31 December 2010		31 December 2009	
	Notes	**Group**	**Bank**	**Group**	**Bank**
Operating activities					
Interest received		99,006	96,019	140,836	138,683
Interest paid		(78,390)	(78,296)	(110,093)	(109,370)
Fees and commissions received		12,478	12,325	12,620	12,935
Fees and commissions paid		(4,467)	(4,387)	(4,472)	(4,399)
Cash outflows from trade in trading securities		4,352	4,352	(268)	(268)
Net inflows from foreign exchange operations		2,726	2,732	2,616	2,616
Recoveries on loans previously written off		1,240	790	313	72
Salaries and related payments to and on behalf of employees		(18,185)	(15,590)	(20,399)	(17,809)
Other cash receipts, sale of assets		1,695	787	1,130	508
Other cash payments		(14,256)	(10,652)	(15,062)	(13,486)
Income tax paid		30	-	(2,646)	(2,627)
Net cash flow from operating activities before change in operating assets and liabilities		**6,229**	**8,080**	**4,575**	**6,855**
Change in operating assets and liabilities:					
Decrease in trading securities		(77,013)	(77,066)	977	977
Decrease (increase) in loans to credit and financial institutions		6,627	(1,375)	14,864	43,343
Decrease (increase) in loans to customers		(68,914)	(102,253)	21,557	(16,592)
Decrease (increase) in other current assets		(32,376)	(11,046)	(5,529)	5,673
Increase in liabilities					
(Decrease) in liabilities to credit and financial institutions		36,847	45,828	(206,352)	(206,419)
Increase in deposits		143,505	143,584	263,355	263,366
Increase (decrease) in special and lending funds		(3,281)	(3,281)	593	593
Increase (decrease) in other liabilities		2,529	873	(3,169)	(201)
Change		**7,924**	**(4,736)**	**86,296**	**90,740**
Net cash flow from (used in) operating activities		**14,153**	**3,344**	**90,871**	**97,595**
Investing activities					
(Purchase) of tangible and intangible fixed assets		(19 887)	(2,190)	(3,398)	(3,209)
Disposal of tangible and intangible fixed assets		4,202	1,356	3,217	2,932
(Purchase) of held-to-maturity securities		(74,267)	(70,820)	(2,846)	(2,846)
Proceeds from redemption of held-to-maturity securities		14,220	14,220	6,816	6,816
Dividends received		68	68	4,829	6,582
(Purchase) of available-for-sale securities		(176,218)	(176,148)	(124,189)	(125,560)
Sale of available-for-sale securities		165,133	165,133	76,279	76,279
(Purchase) of non-controlling interest		-	(7,505)	-	(12,022)
Net cash flow from (used in) investing activities		**(86,749)**	**(75,886)**	**(39,292)**	**(51,028)**
Financing activities					
Increase in share capital	27	7,800	7,800	-	-
Proceeds from convertable loan obtained from the shareholder	33	103,584	103,584		
Dividends paid		(2)	(2)	(1)	(1)
Dividends paid to non-controlling shareholders		-	-	(4,967)	-
Debt securities in issue		20,134	20,134	40,387	40,387
Redemption of debt securities in issue		(19,228)	(19,228)	(61,229)	(61,229)
Net cash flow (used in) financing activities		**112,288**	**112,288**	**(25,810)**	**(20,843)**
Net increase (decrease) in cash and cash equivalents		**39,692**	**39,746**	**25,769**	**25,724**
Cash and cash equivalents at 1 January		**168,708**	**168,651**	**142,939**	**142,927**
Cash and cash equivalents at 31 December	**10**	**208,400**	**208,397**	**168,708**	**168,651**

The accounting policies and notes on pages 10 to 91 constitute an integral part of these financial statements.

(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 14 branches and 37 client service units (2009: 14 branches and 38 client service units). As at 31 December 2010 the Bank had 481 employees (31 December 2009: 475). As at 31 December 2010 the Group had 545 employees (31 December 2009: 530 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 Official List of the Vilnius Stock Exchange – AB NASDAQ OMX Vilnius.

The Bank had the following subsidiaries:

- Šiaulių Banko Lizingas UAB (hereinafter – SB Lizingas, finance and operating lease activities),
- Šiaulių Banko Investicijų Valdymas UAB (hereinafter SB Investicijų Valdymas, investment management activities),
- Šiaulių Banko Turto Fondas UAB (hereinafter – SB Turto Fondas, real estate management activities),
- Minera UAB (hereinafter – Minera, real estate management activities),
- ŠBTF UAB (hereinafter – SBTF, real estate management activities).

Investments in subsidiaries are described in more detail in Note 16 *Investments in subsidiaries.*

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

Financial crisis and its impact on Šiaulių bankas

Nearly all industries in Lithuania, not excluding banks, were heavily affected by the financial crisis. The GDP contraction, rise in unemployment rates, heavier taxation, reduction of salaries and other benefits have had a visible impact on the financial stability of the clients. A portion of past due and impaired debts has increased as a result of impaired solvency of the Bank's clients. As a result, a more conservative approach has been adopted in assessing the financial position of borrowers and the ability to repay the loan.

Although in 2010 the Lithuanian economy was further effected by the financial crisis, the financial results of the Bank and the Group has improved marginally reflecting the tendencies in the country's economy.

ACCOUNTING POLICIES

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

Basis of preparation

The financial statements of the Group and the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. The financial statements have been prepared under the historical cost convention as modified for the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative financial instruments.

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

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

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

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

Basis of preparation (continued)

Amendments to existing standards and interpretations effective in 2010

The following amendments to existing standards and interpretations to published standards as adopted by EU are mandatory for the financial year 2010:

- IFRS 3, 'Business combinations' (revised in January 2008) – effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This standard will not have any impact to the operations of the Bank and the Group.
- IFRIC 12, 'Service concession arrangements' (IFRIC 12 as adopted by the EU is effective for annual periods beginning on or after 30 March 2009, early adoption permitted). This interpretation is not relevant to the operations of the Bank and the Group.
- IFRIC 15, 'Agreements for the construction of real estate' (effective for annual periods beginning on or after 1 January 2009; IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. This interpretation is not relevant to the operations of the Bank and the Group.
- IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008; IFRIC 16 as adopted by the EU is effective for annual periods beginning after 30 June 2009, with early adoption permitted). This interpretation is not relevant to the operations of the Bank and the Group.
- IAS 27, 'Consolidated and separate financial statements' (revised in January 2008) (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. This standard does not any impact to the operations of the Bank and the Group.
- Eligible hedged items – Amendment to IAS 39, 'Financial instruments: Recognition and measurement' (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. This standard is not relevant to the operations of the Bank and the Group.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009; IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. This interpretation is not relevant to the operations of the Bank and the Group.
- IFRS 1, 'First-time adoption of International Financial reporting Standards' (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009, with early adoption permitted). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. This standard is not relevant to the operations of the Bank and the Group.
- IFRIC 18, 'Transfers of assets from customers' (effective prospectively to transfers of assets from customers received on or after 1 July 2009, earlier application permitted; IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009, with early adoption permitted). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. This interpretation is not relevant to the operations of the Bank and the Group.
- Embedded derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009; amendments to IFRIC 9 and IAS 39 as adopted by the EU are effective for annual periods beginning after 31 December 2009, with early adoption permitted). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed

and, if necessary, separately accounted for. The amendments are not relevant to the Bank's and the Group's financial statements.

- Additional Exemptions for First-time Adopters - Amendments to IFRS 1 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 January 2010). The amendments provide an additional exemption for measurement of oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Bank's and the Group's financial statements.
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments are not relevant to the operations of the Bank and the Group.
- Amendment to IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations' (and consequential amendments to IFRS 1) (effective for annual periods beginning on or after 1 July 2009). This amendment to IFRS 5 is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5. The amendment is applied in these Financial Statements.
- In April 2009 the EU endorsed the Improvements to IFRSs (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations. These amendments are not expected to have significant impact on the Bank's and the Group's financial statements.

Standards and amendments to existing standards that are not yet effective, but endorsed by EU and have not been early adopted by the Bank and the Group:

The following standards and amendments to existing standards have been published and are mandatory for the the Bank and the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the the Bank and the Group has not early adopted them:

- IAS 24 'Related Party Disclosures' (amended November 2009, effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank and the Group is currently evaluating the effect of changes to this standard on the financial statements.
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank and the Group does not expect the amendment to have any material effect on its financial statements.
- Classification of rights issues – Amendment to IAS 32, 'Financial instruments: Presentation' (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment will not have any impact on the Bank and the Group's financial statements.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Bank and the Group does not expect IFRIC 19 to have any effect on its financial statements.
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment will not have any impact on the Bank's and the Group's financial statements.

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

- IFRS 9, 'Financial Instruments Part 1: Classification and Measurement' (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). The Bank and the Group is currently assessing the impact of the standard on its financial statements.
- Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, to IAS 21, IAS 28, IAS 31, IAS 34 and IFRIC 13.
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank and the Group does not expect this amendment to have any effect on its financial statements.
- Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment will not have any impact on the Bank and the Group's financial statements.
- Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time. The amendment will not have any impact on the Bank and the Group's financial statements.

Consolidation of subsidiaries

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

If transaction with non-controlling interest does not result in control being lost, the result from acquisition of non-controlling interest or sale of shares to non-controlling interest is recognized directly in equity of the Group.

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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 profit or loss for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

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

Foreign currency transactions are recorded in the litas using the exchange rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the profit or loss at the time of transaction using the exchange rate ruling at that date.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at their fair value on the date on which a derivative contract is entered into. 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. Changes in the fair value of derivatives held for trading are included in net trading income.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, 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 profit or loss.

Off-setting financial instruments

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

Recognition of income and expenses

Interest income and expense are recognised in the profit or loss 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 and other similar income and expenses are recognised as gained or incurred.

Cash received during an accounting period and not recognised as income of the accounting period is accounted for in the balance sheet as deferred income (liabilities), and costs incurred during an accounting period and not recognised as expenses of the accounting period are shown in the balance sheet as deferred charges (assets).

Dividend income

Dividends are recognised in the profit or loss when the Bank's or Group's right to receive payments is established.

Taxation

a) Income tax

In accordance with the Lithuanian Law on Corporate Profit Tax, taxable profit for 2010 period is subject to income tax at a rate of 15%. Expenses related to taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian regulatory legislation on taxes. Income tax rate valid for 2009 was 20%.

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

The principal temporary differences arise from taxable losses deferred for future periods, revaluation of securities, difference between net book value and tax base of tangible fixed assets and accrued charges. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

b) Other taxes

Real estate tax rate is up to 1% on the tax value of tangible fixed 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 profit or loss.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with the Bank of Lithuania, treasury bills and other eligible bills, amounts due from banks and financial institutions and short-term government securities.

Financial assets

Financial assets are classified into 4 categories: financial assets at fair value through profit and loss (the Group and the Bank have the only one sub-category here – held for trading), investments held to maturity, loans and receivables, financial assets available for sale. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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 transaction price. Trading securities are subsequently measured at fair value 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 settlement date, which is the date when payment is made for assets purchased or sold. Otherwise such transactions are treated as derivatives until settlement occurs.

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 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 other comprehensive income through the Statement of comprehensive income except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income 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 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.

If the Group were to sell other than an insignificant amount of held-to–maturity assets, the entire category would be reclassified as available for sale.

Interest earned whilst holding securities is reported as interest income. Dividends receivable related to equity securities classified as trading or available for sale are included separately in dividend income when the Bank's right to receive payments is established

All regular way purchases and sales of securities are recognised at settlement date, which is the date when payment is made for assets purchased or sold**.** All other purchases and sales are recognised as derivative forward transactions until settlement.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the bank intends to sell immediately or in the short term, which are classified as held for

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

trading, and those that the bank upon initial recognition designates as at fair value through profit or loss; (b) those that the bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Allowance for impairment losses.

Impairment of financial assets

Losses on loan and held-to-maturity investment impairment are established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment losses is the difference between the carrying amount and the recoverable amount, being the present value of future expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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 other comprehensive income and recognised in the profit or loss.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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 purchase 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.

Reverse repurchase agreements are classified as loans and receivables and are accounted for using the amortised cost method.

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 (see note 17).

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

Property, plant and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off proportionally the cost of each asset over its estimated useful life.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2010 and 31 December 2009.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the profit or loss.

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 profit or loss when they are incurred. Significant improvements of assets are capitalised and depreciated over the remaining useful life period of the improved asset. Borrowing costs that are directly attributable to the acquisition or construction of assets requiring substantial amount of time to get ready for their usage are capitalized. Useful lives of property, plant and equipment are disclosed in note 18.

Leases

a) Group company is the lessee

<u>Operating leases</u>
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 profit or loss on a straight-line basis over the period of lease.

a) Group company is the lessor

<u>Operating leases</u>
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.

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

Inventories

Inventories of the Group consist mainly of apartments held for sale and property for development. They are stated at the lower of cost and net realizable value. Net realizable value for apartments held for sale are calculated as based on market value of appartments less costs to sell Net realizable value of property for development are calculated as discounted cash inflows to be received from developed property less discounted cash outflows related to the development and selling of a property.

Borrowings

Borrowings (including debt securities in issue) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are recognised on the day of settlement.

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.

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

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

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 profit or loss and within other liabilities in the balance sheet.

Segment information

Operating segments are reported in accordance with the information analysed by the Executive Board (the chief operating decision-maker) of the Group, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has seven main business segments:
- Šiauliai region – includes banking operations (retail and corporate banking) performed in Siauliai region;
- Vilnius region – includes banking operations (retail and corporate banking) performed in Vilnius region;
- Klaipėda region - includes banking operations (retail and corporate banking) performed in Klaipeda region;
- Headquarters – incorporates treasury and support services (IT, management, administration and other services) provided to other banking operations segments of the Group;
- Leasing activities – includes finance and operating lease services provided to customers of the Group;
- Investment management – includes management of investments in equity instruments held by the Group;
- Real estate development – includes development of real estate projects.

As the Group's segment operations, except for real estate development are all financial with a majority of revenues deriving from interest and the Group Executive Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. Also all other main items of profit or loss are analysed by the management of the Group on segment basis therefore they are presented in the segment reporting.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Executive Board is measured in a manner consistent with that in the consolidated statement of comprehensive income. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of profit before taxes and net profit comprising net interest income, net fee and commissions income, loan impairment charges, operating expenses, amortization and depreciation expenses and net other income.

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.

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

Fair value of assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. The Group considers relevant and observable market prices in its valuations where possible.

Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit or loss the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the profit or loss under other operating expenses.

Share issue costs

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

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

FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Bank's and the Group's activities are principally related to the use of financial instruments. 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.

Strategic decisions related to financing and investing activities of the Bank and the Group is made by the Board of the Bank. Operating financing and investment decisions are made on division level. Divisions of the Group are presented in Segment information. Decisions on risk management are made by the Risk Management Committee of the Bank. Risk Management Policy is approved and monitored by the Board of the Bank.

The Bank and 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.

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

The Risk Management Policy approved by the Bank Board as well as by the procedures to manage different types of risks prepared on its basis ensures the integrity of the risk management process in the Group.

The purpose of risk management policy is to define the risks as well as their management principles in the Bank's activities. Due to the fact that various risks experienced by the Group are interdependent their management is centralized. Organization and coordination of the experienced risk management system is one of the main goals of the Bank's Risk Management Committee.

The Group reviews its risk management procedures and systems to reflect changes in markets, products and emerging best practice on regular basis, at least annually.

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

In order to avoid a conflict of interest the Bank's subdivisions that implement risk management functions are separated from those subdivisions the direct activities of which are connected with the up rise of various types of banking risks.

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

1. Credit risk

Credit risk is defined as the risk for the Group to incur losses due to the Group's customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities and it is the most significant risk in the Group's banking activities.

There is also credit risk in investment activities that arise from debt securities and in the Group's asset portfolio as well as in the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The Bank regularly reviews its credit risk management policies which include lending policies, credit risk limit control, other credit risk mitigation measures as well as the internal control and internal audit of credit risk management.

The Bank's Board has approved the credit risk management policies and procedures which lay down the principles for credit risk management, establish an acceptable level of credit risk and credit risk's structure and determine credit risk mitigation measures and their interaction. This ensures a uniform understanding of the principles for taking on exposure to credit risk and allows achieving consistency with the nature and complexity of the Bank's lending policy and the requirements of the Bank of Lithuania.

The Bank takes risks only in the fields, which are well known to it and where it has long-term experience, trying to avoid excessive risk in transactions that can have negative influence to the big portion of shareholders' equity but seeks the sufficient profitability which, in terms of increasing competition, would ensure the stable Bank's position in the market and would increase the Bank's value. In assessing exposure to credit risk, the Bank adheres to the principle of prudence.

The Bank lending policy is focused on small and medium-size business clients, seeking to provide them with the better funding terms and long-term support, at the same time paying attention to Bank's potential.

Large entities are defined as entities employing than 250 employees. Small and medium size entities are defined as entites employing less than 250 employees and the total balance sheet total does not exceed LTL 148 million or annual turnover does not exceed LTL 173 million.

New types of activities or products are launched only after the assessment of the arising risk. All lending products and processes at the Bank are regulated and documented pursuant to the requirements of risk assessment and internal control policy. Special procedures are established with respect to each lending product.

The aim of the Bank's credit risk management policy is to ensure that the conflict between interests of staff or structural units is avoided. With respect to provision of credits to clients, the principle stating that profit should not be earned at the expense of excessive credit risk is observed.

The Bank's credit risk management policy is based on the best practice in risk management of other banks. Therefore, the Bank's employees continuously enhance their knowledge of credit risk management systems of Lithuanian and foreign banks and the results of their application.

1.1. Credit risk measurement

The Bank applies credit risk management measures, which could relevantly be divided into two types:
1) Measures that help to avoid decisions to grant unsecured loans;
2) Measures ensuring the effective monitoring system of the Bank's asset quality.

Measures that help to avoid decisions to grant unwarrantably risky credits include:
1) Multi-stage decision-making and its approval system;
2) Risk allocation among structural levels – limit establishment;
3) Security measures for credit repayment (collateral).

Multi-stage decision-making and its approval system has an aim not to make one-man decisions regarding credit granting by authorized persons but to make them be discussed by the collegial bodies of the Bank and, as the case may be, by the Bank's Loan Committee, the Bank's Board or Council. There are certain limits to authorized persons established regarding credit granting implementation as well as approval limits to collegial bodies. Limit establishment depends on the authorized persons' qualification, experience and the effectiveness of their managed branches; while in the Branch Committees and the Bank Loan Committee the attention is paid to the Committee members' qualification, experience and economic activity of the region, where the branch is located, the quality of loan portfolio and other factors.

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

It is very important to precisely analyse all the information about the customer before granting the credit. The goal of credit analysis is to do the best in evaluating the customer's status and prospects in the field where he/she provides his/her goods or services. The repayment of credits granted by the Bank must be enough secure in order to minimize possible credit repayment risks. A security measure has to be chosen in accordance with the credit type. Providing credit first of all the Bank analyses the borrower's financial capacity and credit repayment possibilities from the borrower's cash flows.

Credit administration and constant credit monitoring is the main principle in the Bank's security and reliability maintenance. The proper credit administration includes the timely updating of the borrower's credit file, providing with the latest financial information, the timely introduction of latest financial information to the database and preparation of the various documents and their amendments.

The Bank's Credit Risk Department collects and, if necessary, provides to responsible managerial personnel information on external conditions, the growth of the credit portfolio and fulfilment of targeted profit, expenses associated with risks, the largest amounts due from clients, distribution of credits by the type of economic activity, repayment terms past due, the largest clients with default possibilities, analysis of the credit portfolio by risk groups, changes in risk groups over a certain time period.

The Bank establishes and implements the procedures, improves information systems for monitoring separate credits as well as loan portfolio. These procedures include the criteria for early indication of potentially impaired loans and other transactions.

(b) Debt securities

Credit risk exposures with respect to debt securities are managed by carrying out counterparty analysis when decision for acquisition of securities is made. The concentration risk together with lending exposure arising from debt securities portfolio is analysed and monitored on a regular basis by the Risk Management Committee of the Bank.

(c) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit, commitments to grant a credit which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The above guarantees and letters of documentary credit are usually collateralised by clients' funds in the Bank accounts. With regards to commitments to grant credit the Bank is exposed to loss equal to the unused commitment amount.

1.2. Risk limit control and mitigation policies

(a) Concentrations

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

In addition to the Bank of Lithuania requirements to limit the exposures to a single borrower and large exposures, the Group also sets exposure requirement, which to a single borrower may not exceed 15 percent of the Bank's capital. The Bank's Council must approve the higher limits. The maximum exposure requirement to a single borrower established by the Bank of Lithuania is 25 percent. Concentration of credit risk of the Bank is disclosed in note 34.

The Group also sets limits to industry segments, i.e. a possible concentration in certain industries at the Group's level is restricted by the internal lending limits. The percentage and volume of lending limits are set for individual industries to ensure that the Group is not overly exposed to any particular economic sector in the country.

The geographical concentration risk is not recognised in the Group's business since the principle of focusing on domestic customers is followed.

Some other specific control and mitigation measures are outlined below.

(b) Collateral

The Group mitigates credit risk by taking security for loans granted. The types of collateral considered by the Group as the most acceptable for loans and advances are the following:

• Real estate (mainly residential properties, commercial and industrial real estate);
• Business assets (equipment, inventory, transport vehicles);
• Property rights over financial instruments (debt securities, equities);
• Third party guarantees.

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

Long-term financing and lending to corporate entities are generally secured; revolving facilities and consumer loans to private individuals are generally unsecured. In order to minimize the credit loss as the impairment indicators for the relevant individual loans and advances are noticed the Group seeks for additional collateral from the counterparty.

While calculating a decrease in value for the loan the repayment of which is secured by the collateral, a cash flow from the security measure is also included into the loan cash flow. Taking into consideration the historical data, facts and probability to sell the object of the security measures and the expenses of its sales, the discount ratios applied at the Bank are provided. If several loans are insured with the same security measure (collateral), such security measure (collateral) is divided to every loan pro rata.

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

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

1.3. Impairment and provisioning policies

Upon assessing impairment losses on loans, available-for-sale assets and other assets the Group follows the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Impairment losses are recognized for financial reporting purposes only for those losses that have been impaired at the balance sheet date based on objective evidence of impairment.

The Group and the Bank carries out valuation of assets on a monthly basis, based on valuation policies approved by the Board of the Bank. The amount of impairment provision is based on the individual assessment of specific assets using discounted cash flow method and effective interest rates. Collateral is also taken into consideration when estimating an impairment provision.

The following loss events are considered by the Group and the Bank when estimating provision for loan impairment. Events that may cause loss in future cannot be recognized as a loss event on the loan evaluation day.

The list of loss events:

1) significant financial difficulties of the debtor or issuer, i.e. the borrower's financial status is evaluated as poor or bad;
2) violation of the loan agreement (non-payment of the periodic loan payments (the part of the loan or interest)) for more than 30 days;
3) the loan is being recovered;
4) funds granted to the borrower are used not according to the loan purpose, the implementation terms of investment project are violated or decrease in collateral value, when repayment terms of the evaluated loans directly depend on the value of the object of security measure;
5) third parties related to the borrower do not fulfil their obligations, which impacts the borrower's ability to fulfil its financial obligations;
6) other loss events (termination or cancellation of the licence validity of the borrower or issuer engaged in licensed activity; the death of the borrower or issuer).

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

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

Credit risk exposures relating to on-balance sheet assets are as follows:	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Loans and advances to banks	**4,147**	**4,147**	**2,214**	**2,214**
Loans and advances to customers:	**1,438,387**	**1,657,609**	**1,434,328**	**1,605,635**
Loans and advances to financial institutions	**570**	**119,342**	**9,130**	**120,560**
Loans to individuals (Retail):	**202,569**	**191,321**	**235,765**	**222,509**
- Consumer loans	14,467	14,467	28,221	28,221
- Mortgages	107,773	107,773	117,931	117,931
- Credit cards	14,867	3,876	19,027	5,771
- Other (reverse repurchase agreements, other loans backed by securities, other)	65,462	65,205	70,586	70,586
Loans to business customers:	**1,235,248**	**1,346,946**	**1,189,433**	**1,262,566**
- Large corporates	142,541	142,541	184,380	184,380
- SME	1,002,075	1,113,773	939,086	1,012,219
- Central and local authorities, administrative bodies and other	90,632	90,632	**65,967**	**65,967**
Finance lease receivables	**103,988**	**-**	**101,412**	**-**
- Individuals	13,983	-	31,235	-
- Business customers	90,005	-	70,177	-
Trading assets:	**81,228**	**78,308**	**2,973**	**-**
- Debt securities	81,228	78,308	2,973	-
Derivative financial instruments	-	-	-	-
Securities available for sale	**87,626**	**87,626**	**71,282**	**71,282**
- Debt securities	87,626	87,626	71,282	71,282
Investment securities held to maturity	**214,055**	**207,635**	**146,041**	**143,068**
- Debt securities	214,055	207,635	146,041	143,068
Other financial assets	35,254	12,025	26,775	1,215
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	62,025	62,070	50,307	50,240
Letters of credit	4,472	4,472	2,904	2,904
Loan commitments and other credit related liabilities	94,145	89,495	72,733	70,180
At 31 December	**2,125,327**	**2,203,387**	**1,910,969**	**1,946,738**

The table above represents a worst case scenario of credit risk exposure at 31 December 2010 and 2009, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above on net carrying amount as reported in the balance sheet.

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

1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2010

	2010			
	Group		Bank	
	Loans and advances to customers	**Loans and advances to banks and financial institutions**	**Loans and advances to customers**	**Loans and advances to banks and financial institutions**
Neither past due nor impaired	1,280,460	570	1,383,475	119,342
Past due but not impaired	73,768	-	72,535	-
Impaired	163,969	-	160,112	-
Gross	**1,518,197**	**570**	**1,616,122**	**119,342**
Less: allowance for impairment	80,380	-	77,855	-
Net	**1,437,817**	**570**	**1,538,267**	**119,342**

31 December 2009

	2009			
	Group		Bank	
	Loans and advances to customers	**Loans and advances to banks and financial institutions**	**Loans and advances to customers**	**Loans and advances to banks and financial institutions**
Neither past due nor impaired	1,236,342	9,130	1,299,139	120,560
Past due but not impaired	86,896	-	84,705	-
Impaired	144,320	-	141,513	-
Gross	**1,467,558**	**9,130**	**1,525,357**	**120,560**
Less: allowance for impairment	42,360	-	40,282	-
Net	**1,425,198**	**9,130**	**1,485,075**	**120,560**

During the year ended 31 December 2010, the Group's total loans and advances increased by 3%. The Group's total impairment provision for loans and advances is LTL 80,380 thousand (2009: LTL 42,360 thousand) and it accounts for 5.29% of the respective portfolio (2009: 2.87%).The Group's impaired loans and advances to customers comprise 10.80% of the total portfolio (2009: 9.77%).

Impaired loan - is a loan to which a loss event is recognized and allowance for impairment is made. The list of loss events is presented in Impairment and provisioning policies part above.

a) Loans and advances neither past due nor impaired

All loans and advances to financial institutions are considered as standard exposures for the purpose of credit quality analysis. There were neither past due nor impaired loans and advances to financial institutions.

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	11,308	59,483	12,358	40,693	**123,842**
Watch	129	12,332	36	6,372	**18,869**
Substandard	-	16,855	-	10,794	**27,649**
Total	**11,437**	**88,670**	**12,394**	**57,859**	**170,360**

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

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	187,527	42,645	570	79,355	**310,097**
Watch	536,551	86,623	-	6,259	**629,433**
Substandard	153,622	13,273	-	4,245	**171,140**
Total	**877,700**	**142,541**	**570**	**89,859**	**1,110,670**

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	21,885	95,136	15,711	56,305	**189,037**
Watch	22	313	17	3,098	**3,450**
Substandard	-	-	-	822	**822**
Total	**21,907**	**95,449**	**15,728**	**60,225**	**193,309**

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	201,828	27,694	9,130	55,338	**293,990**
Watch	475,817	139,200	-	5,236	**620,253**
Substandard	117,530	16,512	-	3,878	**137,920**
Total	**795,175**	**183,406**	**9,130**	**64,452**	**1,052,163**

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Standard	11,308	59,483	3,558	40,436	**114,785**
Watch	129	12,332	36	6,372	**18,869**
Substandard	-	16,855	-	10,794	**27,649**
Total	**11,437**	**88,670**	**3,594**	**57,602**	**161,303**

	Bank loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Standard	307,545	42,645	119,342	79,355	**548,887**
Watch	528,605	86,623	-	6,259	**621,487**
Substandard	153,622	13,273	-	4,245	**171,140**
Total	**989,772**	**142,541**	**119,342**	**89,859**	**1,341,514**

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

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Standard	21,885	95,136	5,018	56,305	**178,344**
Watch	22	313	17	3,098	**3,450**
Substandard	-	-	-	822	**822**
Total	**21,907**	**95,449**	**5,035**	**60,225**	**182,616**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Standard	279,039	27,694	120,560	55,338	**482,631**
Watch	472,096	139,200	-	5,236	**616,532**
Substandard	117,530	16,512	-	3,878	**137,920**
Total	**868,665**	**183,406**	**120,560**	**64,452**	**1,237,083**

Other loans to individuals (retail) are secured loans, which are not classified as consumer or mortgage credits and which are assigned e.g. for various personal expenses of the natural entities, for acquisition of real estate, movables or securities.

Loans and advances neither past due nor impaired are loans which are not impaired and payments of which are not past due.

Standard loan is a loan when its repayment is not past due and the borrower's financial performance is either very good or good. Watch loan is a loan when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard loan is a loan when its repayment is not past due and the borrower's financial performance is poor or bad.

The Group and the Bank examines the potential borrower's financial performance before issuing a loan and monitors any development in financial performance during the whole loan service period. The Group and the Bank evaluates the borrower's financial performance at least quarterly.

For analysis of debt securities according to the credit quality see notes 12 and 15.

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

b) Loans and advances past due but not impaired

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	1,747	7,026	1,126	1,751	**11,650**
Past due 30-60 days	205	3,609	230	673	**4,717**
Past due 60-90 days	61	701	16	504	**1,282**
Past due more than 90 days	47	1,707	-	669	**2,423**
Total	**2,060**	**13,043**	**1,372**	**3,597**	**20,072**
Fair value of collateral	-	19,132	-	6,382	**25,514**

	Group loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	32,608	-	229	**3,837**
Past due 30-60 days	7,199	-	-	**7,199**
Past due 60-90 days	1,544	-	-	**1,544**
Past due more than 90 days	11,572	-	544	**12,116**
Total	**52,923**	**-**	**773**	**53,696**
Fair value of collateral	9,939	-	2,224	**96,163**

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	3,765	11,971	1,534	2,539	**19,809**
Past due 30-60 days	100	2,710	636	614	**4,060**
Past due 60-90 days	57	837	239	570	**1,703**
Past due more than 90 days	204	3,521	12	1,232	**4,969**
Total	**4,126**	**19,309**	**2,421**	**4,955**	**30,541**
Fair value of collateral	-	30,136	-	9,974	**40,110**

	Group loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	37,886	974	860	**39,720**
Past due 30-60 days	3,719	-	107	**3,826**
Past due 60-90 days	1,948	-	-	**1,948**
Past due more than 90 days	10,313	-	548	**10,861**
Total	**53,866**	**974**	**1,515**	**56,355**
Fair value of collateral	95,905	-	3,620	**99,525**

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

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	1,747	7,026	139	1,751	**10,663**
Past due 30-60 days	205	3,609	-	673	**4,487**
Past due 60-90 days	61	701	-	504	**1,266**
Past due more than 90 days	47	1,707	-	669	**2,423**
Total	**2,060**	**13,043**	**139**	**3,597**	**18,839**
Fair value of collateral	-	19,132	-	6,382	**25,514**

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	32,608	-	229	**32,837**
Past due 30-60 days	7,199	-	-	**7,199**
Past due 60-90 days	1,544	-	-	**1,544**
Past due more than 90 days	11,572	-	544	**12,116**
Total	**52,923**	**-**	**773**	**53,696**
Fair value of collateral	93,939	-	2,224	96,163

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Past due up to 30 days	3,765	11,971	230	2,539	**18,505**
Past due 30-60 days	100	2,710	-	614	**3,424**
Past due 60-90 days	57	837	-	570	**1,464**
Past due more than 90 days	204	3,521	-	1,232	**4,957**
Total	**4,126**	**19,039**	**230**	**4,955**	**28,350**
Fair value of collateral	-	30,136	-	9,974	**40,110**

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Past due up to 30 days	37,886	974	860	**39,720**
Past due 30-60 days	3,719	-	107	**3,826**
Past due 60-90 days	1,948	-	-	**1,948**
Past due more than 90 days	10,313	-	548	**10,861**
Total	**53,866**	**974**	**1,515**	**56,355**
Fair value of collateral	95,905	-	3,620	**99,525**

Past due but not impaired loans are loans for which principal or interest is past due but no allowance for impairment is recognized.

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

c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security is as follows:

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**2,312**	**12,209**	**3,807**	**7,777**	**26,105**
Fair value of collateral	-	8,030	-	6,157	14,187

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**-**	**137, 864**	-	**137, 864**
Fair value of collateral	-	95,456	-	95,456

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**6,278**	**5,841**	**3,166**	**7,032**	**22,317**
Fair value of collateral	-	4,035	-	7,426	**11,461**

	Group loans to business customers			
	Large corporates	**SME**	**Central and local authorities and other**	**Total**
Impaired loans	**-**	**121,992**	**11**	**122,003**
Fair value of collateral	-	103,438	-	**103,438**

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**2,312**	**12,209**	**792**	**7,777**	**23,090**
Fair value of collateral	0	8,030	0	6,157	**14,187**

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**137,022**	**-**	**-**	**137,022**
Fair value of collateral	94,770	-	-	94,770

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Impaired loans	**6,278**	**5,841**	**1,173**	**7,032**	**20,324**
Fair value of collateral	-	4,035	-	7,426	**11,461**

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

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Impaired loans	**121,178**	**-**	**11**	**121,189**
Fair value of collateral	101,366	-	-	**101,366**

During 2010 the Bank's estimated interest income on impaired loans amounted to LTL 4,009 thousand (2009: LTL 4,373 thousand).

Impairment loss by class of financial assets for loans has been dislosed in note 13.

d) Loans and advances renegotiated

Loans and advances that are not past due or impaired at year end and which at the time of their renegotiation were of a substandard risk as at 31 December 2010 amounted to LTL 95 million (2009: LTL 195,9 million).

Renegotiated loans according to the class of financial assets

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	-	1,231	-	2,090	3,321

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	88,767	-	2,887	91,654

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Renegotiated loans	-	-	-	822	822

	Bank loans to business customers			
	SME	**Large corporates**	**Central and local authorities and other**	**Total**
Renegotiated loans	174,654	16,512	3,878	195,044

e) Information about loan collateral

The method for collateral valuation is selected by the Group and the Bank based on specifics of collateral and existing market conditions on the day of valuation. Based on collateral characteristics and the purpose of its valuation the following valuation methods are used: comparable sales price method or income capitalisation method.

If loan is secured by several different types of collateral, priority in their recognition is based on their liquidity. Cash deposits are treated as having the highest liquidity followed by guarantees, residential real estate and then other real estate. Securities and other assets are treated as having the lowest liquidity.

Unsecured loans also include loans secured by other types of collateral (e.g. future inflow of funds into the borrowers' Bank accounts (controlled by the Bank), third party warrantees, bills of exchange, etc.). The total amount of loans to individuals and business customers secured by the above security measure, but disclosed as unsecured, as at 31 December 2010 amounted to LTL 328 million (2009: LTL 265 million) Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

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

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	15,782	8,886	17,573	21,612	**63,853**
Loans collateralised by:	**27**	**105,036**	**-**	**47,621**	**152,684**
- residential real estate	26	90,726	-	10,737	**101,489**
- other real estate	-	6,824	-	14,026	**20,850**
- securities	-	67	-	21,144	**21,211**
- guarantees	-	7,001	-	102	**7,103**
- cash deposits	1	418	-	1,564	**1,983**
- other assets	-	-	-	48	**48**
Total	**15,809**	**111, 922**	**17,573**	**69,233**	**216,537**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	291,477	45,022	570	76,395	**413,464**
Loans collateralised by:	**777,010**	**97,519**	**-**	**14,237**	**888,766**
- residential real estate	37,943	-	-	3,431	**41,374**
- other real estate	495,627	63,187	-	5,075	**563,889**
- securities	64,023	8,273	-	-	**72,296**
- guarantees	110,989	4,294	-	5,227	**120,510**
- cash deposits	5,495	1,853	-	170	**7,518**
- other assets	62,933	19,912	-	334	**83,179**
Total	**1,068,487**	**142,541**	**570**	**90,632**	**1,302,230**

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	32,278	6,344	21,315	21,071	**81,008**
Loans collateralised by:	**33**	**113,985**	-	**51,141**	**165,159**
- residential real estate	33	97,457	-	13,011	**110,501**
- other real estate	-	7,867	-	16,043	**23,910**
- securities	-	196	-	20,979	**21,175**
- guarantees	-	7,924	-	55	**7,979**
- cash deposits	-	541	-	968	**1,509**
- Other assets	-	-	-	85	**85**
Total	**32,311**	**120,329**	**21,315**	**72,212**	**246,167**

	Group loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	185,875	70,157	9,130	54,723	**319,885**
Loans collateralised by:	**785,158**	**114,223**	-	**11,255**	**910,636**
- residential real estate	112,153	-	-	3,721	**115,874**
- other real estate	489,129	63,413	-	3,445	**555,987**
- securities	23,493	22,938	-	-	**46,431**
- guarantees	102,046	412	-	3,545	**106,003**
- cash deposits	1,517	110	-	-	**1,627**
- other assets	56,820	27,350	-	544	**84,714**
Total	**971,033**	**184,380**	**9,130**	**65,978**	**1,230,521**

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

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	15,782	8,886	4,525	21,612	**50,805**
Loans collateralised by:	**27**	**105,036**	**-**	**47,364**	**152,427**
- residential real estate	26	90,726	-	10,737	**101,489**
- other real estate	-	6,824	-	14,026	**20,850**
- securities	-	67	-	20,887	**20,954**
- guarantees	-	7,001	-	102	**7 ,103**
- cash deposits	1	418	-	1,564	**1 ,983**
- other assets	-	-	-	48	**48**
Total	**15,809**	**113,922**	**4,525**	**68,976**	**203,232**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	415,352	45,022	119,342	76,395	**656,111**
Loans collateralised by:	**764,365**	**97,519**	**-**	**14,237**	**876,121**
- residential real estate	37,943	-	-	3,431	**41,374**
- other real estate	495,627	63,187	-	5,075	**563,889**
- securities	51,378	8,273	-	-	**59,651**
- guarantees	110,989	4,294	-	5,227	**120,510**
- cash deposits	5,495	1,853	-	170	**7,518**
- other assets	62,933	19,912	-	334	**83,179**
Total	**1,179,717**	**142,541**	**119,342**	**90,632**	**1,532,232**

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	**Mortgages**	**Credit cards**	**Other**	**Total**
Unsecured loans	32,278	6,344	6,438	21,071	**66,131**
Loans collateralised by:	**33**	**113,985**	-	**51,141**	**165,159**
- residential real estate	33	97,457	-	13,011	**110,501**
- other real estate	**-**	7,867	-	16,043	**23,910**
- securities	-	196	-	20,979	**21,175**
- guarantees	-	7,924	-	55	**7,979**
- cash deposits	-	541	-	968	**1,509**
- other assets	-	-	-	85	**85**
Total	**32,311**	**120,329**	**6,438**	**72,212**	**231,290**

	Bank loans to business customers				
	SME	**Large corporates**	**Financial institutions**	**Central and local authorities and other**	**Total**
Unsecured loans	259,365	70,157	120,560	54,723	**504,805**
Loans collateralised by:	**784,344**	**114,223**	-	**11,255**	**909,822**
- residential real estate	112,153	-	-	3,721	**115,874**
- other real estate	489,129	63,413	-	3,445	**555,987**
- securities	22,679	22,938	-	-	**45,617**
- guarantees	102,046	412	-	3,545	**106,003**
- cash deposits	1,517	110	-	-	**1,627**
- other assets	56,820	27,350	-	544	**84,714**
Total	**1,043,709**	**184,380**	**120,560**	**65,978**	**1,414,627**

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

1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Neither past due nor impaired	11,490	62,658	74,148	26,606	29,902	56,508
Past due but not impaired	1,754	24,981	26,735	4,088	38,012	42,100
Impaired	1,731	3,326	5,057	2,119	3,211	5,330
Gross	**14,975**	**90,965**	**105,940**	**32,813**	**71,125**	**103,938**
Less: allowance for impairment	992	960	1,952	1,578	948	2,526
Net	**13,983**	**90,005**	**103,988**	**31,235**	**70,177**	**101,412**

During the year ended 31 December 2010, finance lease receivables portfolio increased by 1.93% (2009: decreased by 20.4%). Total impairment provision for finance lease receivables is LTL 1,952 thousand (2009: LTL 2,526 thousand) and it accounts 1.84% for of the respective portfolio (2009: 2.43%).

a) Finance lease receivables neither past due nor impaired

Finance lease receivables from individuals are assessed based on application scorings when decision is made. After the loans are granted they are monitored based on their past due status. All loans to individuals, which are neither past due nor impaired are considered as standard loans from credit risk management view.

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Standard	11,490	13,207	24,697	26,606	13,703	40,309
Watch	-	45,833	45,833	-	14,369	14,369
Substandard	-	3,618	3,618	-	1,830	1,830
Total	**11,490**	**62,658**	**74,148**	**26,606**	**29,902**	**56,508**

Standard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is either very good or good. Watch lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is satisfactory. Substandard lease receivable is a receivable when its repayment is not past due and the borrower's financial performance is poor or bad.

b) Finance lease receivables past due but not impaired

	2010			2009		
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Past due up to 3 days	311	3,509	3,820	754	11,130	11,884
Past due 4-40 days	1,251	20,538	21,789	2,404	22,335	24,739
Past due 41-90 days	118	934	1,052	773	4,543	5,316
Past due more than 90 days	74	-	74	157	4	161
Total	**1,754**	**24,981**	**26,735**	**4,088**	**38,012**	**42,100**
Fair value of collateral	3,893	33,200	37,093	7,660	49,179	56,839

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

c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2010			
Individually impaired	1,731	3,326	5,057
Fair value of collateral	3,650	4,772	8,422
31 December 2009			
Individually impaired	2,119	3,211	5,330
Fair value of collateral	3,534	6,398	9,932

d) Information about risk mitigation measures for finance lease receivables

Upon initial recognition of financial lease receivables, the fair value of risk mitigation measures is based on valuation approaches commonly used for the corresponding types of assets. Market values are used for real estate and movable assets serving as risk mitigation measures. In subsequent periods, the fair value of risk mitigation measures is updated based on their depreciation rates.

If exposure is secured by several different types of risk mitigation measures, priority in their recognition is based on their liquidity. Transport vehicles are treated as having highest liquidity followed by residential real estate and then other real estate. Equipment and other assets are treated as having lowest liquidity.

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

			2010			**2009**
	Individuals	**Business customers**	**Total**	**Individuals**	**Business customers**	**Total**
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:						
- transport vehicles	1,239	12,424	13,663	1,634	12,581	14,215
- residential real estate	443	41,370	41,813	909	21,480	22,389
- airplanes	-	9,306	9,306	-	10,675	10,675
- railroad transport	-	774	774	-	-	-
- production equipment	94	14,303	14,397	123	13,255	13,378
- other equipment	1,136	5,068	6,204	2,492	7,751	10,243
- other assets	12,063	7,720	19,783	27,655	5,383	33,038
Total	**14,975**	**90,965**	**105,940**	**32,813**	**71,125**	**103,938**

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

1.7. Amounts receivable

	2010		2009	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Neither past due nor impaired	32,145	12,025	20,975	1,215
Past due but not impaired	-	-	-	-
Impaired	4,180	-	6,954	256
Gross	**36,325**	**12,025**	**27,929**	**1,471**
Less: allowance for impairment	1,071	-	1,154	256
Net	**35,254**	**12,025**	**26,775**	**1,215**

a) Amounts receivable neither past due nor impaired

	2010		2009	
	Group Business customers	**Bank Business customers**	**Group Business customers**	**Bank Business customers**
Standard	19,650	12,025	2,147	1,215
Watch	-	-	-	-
Sub-standard	12,495	-	18,828	-

b) Impaired amounts receivable

Real estate assets are received as a collateral for impaired amounts receivable.

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

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

Industry sectors

The Group and the Bank established lending limits to a particular industry (only for loans and advances), which are reviewed on a regular basis based on the Bank's decision. The following limits have been approved by the Bank's Board for 2010 and 2009: wholesale and retail – 25% of the total loan portfolio, loans to individuals – 25%, manufacturing – 25%, construction – 20%, real estate and rent – 20%, agriculture, hunting and forestry – 15%, transport storage and communication – 15%, hotels and restaurants – 20%, health and social work – 10%. As at 31 December 2010 the Group and the Bank were compliant with the above limits.

The following table breaks down the main credit exposures at their carrying amounts, as categorized by the industry sectors of our counterparties.

Bank

	Financial interme-diation	Wholesale and retail	Manufac-turing	Real estate and rent	Construc-tion	Agriculture, hunting and forestry	Hotels and restaurants	Transport, storage and communica-tion	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	**208,397**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208,397**
Loans and advances to banks	**4,147**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,147**
Loans and advances to customers:	**195,408**	**219,562**	**252,186**	**262,910**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**191,321**	**181,615**	**1,657,609**
Loans and advances to financial institutions	**119,342**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**119,342**
Loans to individuals (Retail):	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**191,321**	**-**	**191,321**
- Mortgages	-	-	-	-	-	-	-	-	-	107,773	-	**107,773**
- Consumer loans	-	-	-	-	-	-	-	-	-	14,467	-	**14,467**
- Credit cards	-	-	-	-	-	-	-	-	-	3,876	-	**3,876**
- Other	-	-	-	-	-	-	-	-	-	65,205	-	**65,205**
Loans to business customers:	**76,066**	**219,562**	**252,186**	**262,910**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**-**	**181,615**	**1,346,946**
- SME	76,066	219,562	171,676	262,910	127,134	76,311	68,461	15,439	8,512	-	87,702	**1,113,773**
- Large corporates	-	-	80,510	-	6,230	-	-	3,980	42,383	-	9,438	**142,541**
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	243	350	5,564	-	84,475	**90,632**
Trading assets:	**5,254**	**-**	**8,420**	**-**	**-**	**-**	**-**	**1,288**	**-**	**-**	**63,444**	**78,406**
- Debt securities	5,158	-	8,418	-	-	-	-	1,288	-	-	63,444	**78,308**
- Equity securities	96	-	2	-	-	-	-	-	-	-	-	**98**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securities available for sale	**3,589**	**-**	**7,129**	**-**	**-**	**-**	**-**	**3,131**	**-**	**-**	**75,526**	**89,375**
- Equity securities	3,216	-	7,090	-	-	-	-	3,131	-	-	74,189	**87,626**
- Debt securities	373	-	39	-	-	-	-	-	-	-	1,337	**1,749**
Investment securities held-to-maturity	**6,785**	**-**	**690**	**-**	**-**	**-**	**-**	**1,484**	**-**	**-**	**198,676**	**207,635**
-debt securities	6,785	-	690	-	-	-	-	1,484	-	-	198,676	**207,635**
Other financial assets	**6**	**-**	**-**	**12,019**	**-**	**-**	**-**	-	-	-		**12,025**
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,015	6,962	656	27,385	208	726	1,787	5	-	12,326	**62,070**
Letters of credit	3,542	276	654	-	-	-	-	-	-	-	-	**4,472**
Loan commitments and other credit related liabilities	4,950	20,140	4,377	3,644	22,010	7,676	3,274	3,313	1,772	4,316	14,023	**89,495**
At 31 December 2010	**432,078**	**251,993**	**280,418**	**279,229**	**182,759**	**84,195**	**72,704**	**30,772**	**58,236**	**195,637**	**545,610**	**2,413,631**
At 31 December 2009	**443,088**	**236,471**	**250,150**	**199,780**	**142,724**	**84,375**	**86,262**	**29, 943**	**62,759**	**351,316**	**229,443**	**2,116,311**

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

Group

	Financial interme-diation	Wholesale and retail	Manufac-turing	Real estate and rent	Construc-tion	Agricultur e, hunting and forestry	Hotels and restaurants	Transport, storage and communic a-tion	Health and social work	Loans to individuals	Other	Total
Cash and balances with central banks	**208,400**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208,400**
Loans and advances to banks	**4,147**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,147**
Loans and advances to customers:	**40,901**	**219,562**	**252,187**	**178,125**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**202,569**	**190,436**	**1,438,387**
Loans and advances to financial institutions	**570**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**570**
Loans to individuals (Retail):	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,569**	**-**	**202,569**
- Consumer loans	-	-	-	-	-	-	-	-	-	14,467	-	**14,467**
- Mortgages	-	-	-	-	-	-	-	-	-	107,773	-	**107,773**
- Credit cards	-	-	-	-	-	-	-	-	-	14,867	-	**14,867**
- Other	-	-	-	-	-	-	-	-	-	65,462	-	**65,462**
Loans to business customers:	**40,331**	**219,562**	**252,187**	**178,125**	**133,364**	**76,311**	**68,704**	**19,769**	**56,459**	**-**	**190,436**	**1,235,248**
- SME	40,331	219,562	171,677	178,125	127,134	76,311	68,461	15,439	8,512	-	96,523	**1,002,075**
- Large corporates	-	-	80,510	-	6,230	-	-	3,980	42,383	-	9,438	**142,541**
- Central and local authorities, administrative bodies and other	-	-	-	-	-	-	243	350	5,564	-	84,475	**90,632**
Finance lease receivables	**31**	**4,259**	**13,400**	**23,976**	**2,666**	**2,953**	**376**	**33,962**	**2,269**	**13,983**	**6,113**	**103,988**
-individuals	-	-	-	-	-	-	-	-	-	13,983	-	**13,983**
-business customers	31	4,259	13,400	23,976	2,666	2,953	376	33,962	2,269	-	6,113	**90,005**
Trading assets:	**5,254**	**-**	**11,340**	**-**	**-**	**-**	**-**	**1,288**	**-**	**-**	**63,444**	**81,326**
- Debt securities	5,158	-	11,338	-	-	-	-	1,288	-	-	63,444	**81,228**
- Equity securities	96	-	2	-	-	-	-	-	-	-	-	**98**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Securities available for sale	**3,659**	**-**	**10,039**	**-**	**11,243**	**-**	**-**	**3,131**	**-**	**-**	**75,526**	**103,598**
- Debt securities	3,216	-	7,090	-	-	-	-	3,131	-	-	74,189	**87,626**
- Equity securities	443	-	2,949	-	11,243	-	-	-	-	-	1,337	**15,972**
Investment securities held-to-maturity	**6,785**	**-**	**3,610**	**-**	**-**	**3,500**	**-**	**1,484**	**-**	**-**	**198,676**	**214,055**
- Debt securities	6,785	-	3,610	-	-	3,500	-	1,484	-	-	198,676	**214,055**
Other assets	**54**	**25**	**753**	**31642**	**39**	**2**	**21**	**148**	**-**	**625**	**1,945**	**35,254**
Credit risk exposures relating to off –balance sheet items are as follows:												
Financial guarantees	-	12,015	6,917	656	27,385	208	726	1,787	5	-	12,326	**62,025**
Letters of credit	3,542	276	654	-	-	-	-	-	-	-	-	**4,472**
Loan commitments and other credit related liabilities	2,339	20,140	4,377	2,621	22,010	7,676	3,274	3,313	1,772	12,600	14,023	**94,145**
At 31 December 2010	**275,112**	**256,277**	**303,277**	**237,020**	**196,707**	**90,650**	**73,101**	**64,882**	**60,505**	**229,777**	**562,489**	**2,349,797**
At 31 December 2009	**289,529**	**243,161**	**287,262**	**183,300**	**146,447**	**88,956**	**86,847**	**63,154**	**67,245**	**355,954**	**282,897**	**2,094,752**

2. Market risk

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

2.1. Foreign exchange risk

The foreign exchange risk management is regulated by the Procedures for Foreign Currency Risk Management. They include the list of types of sale and purchase transactions executed by the Group. Also they establish principles which help the Group to minimize the exposure to foreign exchange risk. The Group does not carry out speculative FX operations expecting to gain from favourable changes in currency exchange. The Bank's Board approves and reviews on a regular basis the maximum limits for open currency positions for the Bank's branches, subsidiaries and the Bank itself. The established limits are lower than those allowed by the Bank of Lithuania. The Bank's Treasury Department is responsible for the Group's compliance with the Procedures for Foreign Currency Risk Management.

The Group and the Bank monitors the foreign currency risk by calculating open currency position. Open currency position (OCP) is equal to assets in the balance sheet and off-balance sheet less balance sheet and off-balance sheet liabilities in a single currency. There are two types of OCP, i.e. long and short. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. As at 31 December 2010 the TOP to capital ratio was: Group's – 0.55% (2009: 0.31%), Bank's – 0.55% (2009: 0.31%).

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

Sensitivity of foreign exchange risk

Foreign exchange (FX) risk is limited by amounts of open FX positions. For calculation of sensitivity to FX risk all exposures shall be converted into possible loss, i.e. open FX position is multiplied by possible FX rate change. The FX risk parameters for the Group (Bank) have been established in view of the maximum fluctuations of currency exchange rate in 2010 and prognosis that exchange rate fluctuations will remain similar in 2011. The Group does not evaluate FX risk on open EUR position as LTL is pegged to EUR at a fixed rate (see Basis of preparation).

Currency	Annual reasonable shift, 2011	Annual reasonable shift, 2010
LVL	1%	1%
GBP	6%	6%
DKK	1%	1%
USD	9%	8%
SEK	7%	5%
Other currencies	6%	6%

The following table presents Group (Bank) sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2010	At 31 December 2009
Group	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	36	57
GBP	4	16
DKK	2	1
SEK	11	5
LVL	1	1
Other currencies	31	11
Total	**85**	**91**

	At 31 December 2010	At 31 December 2009
Bank	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollars	41	57
GBP	4	16
DKK	2	1
SEK	11	5
LVL	1	1
Other currencies	31	11
Total	**90**	**91**

The presumable FX rate change creates acceptable impact on the Bank’s and the Group’s annual profit and makes LTL 85 thousand in 2010 (2009: LTL 91 thousand) higher/lower impact for the Group, LTL 90 thousand in 2010 (2009: LTL 91 thousand) higher/lower impact for the Bank.

The Bank’s exposure to foreign currency exchange rate risk is summarised in Note 31. The Note reveals that the Group has exposure to EUR, exposures to other currencies are not significant. The Group follows a very conservative approach to foreign exchange risk and limits all positions with the limits.

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

2.2. Interest rate risk

An interest rate risk is a risk to incur losses because of the mismatch of re-evaluation possibility between the Bank's assets and liabilities.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank and the Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The risk management is regulated by the Procedures for Interest Rate Risk Management which establish methods of risk measurement and set up measures for risk management. These procedures are approved by the Board of the Bank and define that:

- the Bank observes the principle to avoid the speculation with future interest rates;
- the risk size is evaluated applying a pattern of interest rate gap (GAP);
- Planning and Financial Risk Department provides the information on regular basis to Risk Management Committee about compliance with relative gap limits.

Sensitivity of interest rate risk

The table below summarises interest rates sensitive assets and liabilities based on repricing dates based on which cash flow interest rate risk is estimated.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR-sensitive	Total
31 December 2010							
Total financial assets	266,843	487,776	671,754	59,730	398,490	304,562	2,189,155
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	465,223	2,076,171
Net interest sensitivity gap at 31 December 2010	(36,339)	85,542	209,971	(324,605)	339,076	(160,661)	112,984
31 December 2009							
Total financial assets	286,605	472,954	614,231	132,420	228,567	184,287	1,919,064
Total financial liabilities	384,640	504,619	329,762	283,954	37,543	270,025	1,810,543
Net interest sensitivity gap at 31 December 2009	(98,035)	(31,665)	284,469	(151,534)	191,024	(85,738)	108,521

Assessing the sensitivity of the Group's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

The table below summarises the effect on the Group's profit and other comprehensive income of interest rate risk as at 31 December 2010 and 31 December 2009.

	31 December 2010		**31 December 2009**	
	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	(620)	(4,285)	141	(507)
Interest rate decrease by 1p.p.	620	4,285	(141)	507

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's total comprehensive income and makes LTL 620 thousand in 2010 (2009: LTL 141 thousand) higher/lower impact on profit and LTL 4,285 thousand in 2010 (2009: LTL 507 thousand) higher/lower impact on other comprehensive income.

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

The table below summarises interest rates sensitive assets and liabilities based on repricing dates based on which cash flow interest rate risk is estimated.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non IR-sensitive	Total
31 December 2010							
Total financial assets	287,795	488,439	706,037	119,611	394,568	224,689	2,221,139
Total financial liabilities	303,182	402,234	461,783	384,335	59,414	459,735	2,070,683
Net interest sensitivity gap at 31 December 2010	(15,387)	86,205	244,254	(264,724)	335,154	(235,046)	150,456
31 December 2009							
Total financial assets	354,972	450,390	607,277	176,854	215,928	151,993	1,957,414
Total financial liabilities	384,640	495,619	329,762	283,954	37,543	270,084	1,801,602
Net interest sensitivity gap at 31 December 2009	(29,668)	(45,229)	277,515	(107,100)	178,385	(118,091)	155,812

Assessing the sensitivity of the Bank's profit and other comprehensive income towards the change of interest rates, it has been assumed that interest is to change by 1 percentage point.

The table below summarises the effect on the Bank's profit and other comprehensive income of interest rate risk as at 31 December 2010 and 31 December 2009.

	31 December 2010		**31 December 2009**	
	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income	Increase (decrease) in profit	Incrase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	63	(4,285)	805	(507)
Interest rate decrease by 1p.p.	(63)	4,285	(805)	507

The shift of yield curve according to above mentioned parameters creates acceptable impact on Bank’s total comprehensive income and makes LTL 63 thousand in 2010 (2009: LTL 805 thousand) higher/lower impact on profit and LTL 4,285 thousand in 2010 (2009: LTL 507 thousand) higher/lower impact on other comprehensive income.

2.4 Equity risk

Equity risk was not assessed due to immaterial volumes.

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

3. Liquidity risk

Liquidity risk means the risk that the Bank is unable to meet its financial obligations in time or that it will not manage to receive financial resources during a short time by borrowing or selling the assets.

3.1 Liquidity risk management process

The liquidity risk management depends on the Bank's ability to cover the cash shortage by borrowing from the market; and the liquidity of the market itself. While managing the liquidity risk the relatively small size of the Bank has both positive and negative features. On one hand, in the event of liquidity problems, the demand for total funds is rather small in terms of banking system, therefore, they are solved easily. On the other hand, in the event of liquidity problems the Bank's ability to borrow from the market may decrease significantly. Due to that fact the Bank possesses a significant Debt Securities Portfolio, which is of high liquidity.

Liquidity risk management is regulated by the Procedures for Liquidity Risk Management approved by the Bank's Board. Liquidity risk is evaluated by analyzing the dynamics of various liquidity ratios. A list of these ratios as well as recommended limits to their change are defined in the above-mentioned procedures. Decisions regarding liquidity management issues are made by the Bank's Risk Management Committee with reference to the information submitted by the Bank's Planning and Financial Risks Department or by the Bank's Board with reference to the information submitted by the Risk Management Committee. Current liquidity (up to 7 days) risk management is based on short-term cash flow analysis and projections. The Treasury Department is responsible for this.

The Group controls liquidity risk through established ratios and limits. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2010 the Group's ratio was 44.61 (2009: 34.61) and the Bank's 46.00 (2009: 38.23), the Group uses the ratio of *mobile* assets to the total assets. According to the documentation of the liquidity risk management of the Bank, *the mobile* assets used in calculation of the above ratio represents funds held at banks and financial institutions with maturity of less than three months, cash, placements with Central Bank and liquid treasury bills. As at 31 December 2010 the above Group's ratio was 24.92 per cent (2009: 18.41 per cent), and the Bank's – 24.92 per cent (2009: 18.53 per cent). It is aimed that recommended lower limit of this ratio is 16 per cent.

To follow the solvency status the Group and the Bank monitors availability of *mobile* funds needed to cover *mobile* liabilities with a maturity of less than 30 days. Based on the Group's liquidity management policy this ratio (i.e. *mobile* funds / *mobile* liabilities of less than 30 days) should not be lower than 100 per cent. As at 31 December 2010 the above ratio on the Group's and the Bank's level was 183.77 (2010: 121.87 per cent) per cent and 183.74 (2009: 121.84 per cent) per cent respectively. The Group and the Bank aim that *mobile* liabilities with a maturity of less than 30 days would form a share in the total liabilities that is not higher than 23 per cent. As at 31 December 2010 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 15.19 per cent (2009: 15.11 per cent), on the Bank's level – 15.23 proc. (2009: 15.21 per cent).

The Group and the Bank also monitors liquidity gap ratios. Based on the Group's liquidity risk management policy the lowest recommended limit of this ratio is -40 per cent. As at 31 December 2010 the Group's and the Bank's ratio was -34.17 per cent (2009: -46.38 per cent) and -24.38 per cent (2009: 38.90 per cent) respectively.

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

3.2. Non - derivative cash flows

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

Group

31 December 2010 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	32,428	21,950	65,752	239,658	34,799	394,587
Due to customers	-	617,086	273,085	729,833	56,221	4,836	1,681,061
Debt securities in issue	-	-	-	5,392	-	-	5,392
Special and lending funds	-	10,160	167	1,309	16,318	637	28,591
Total liabilities (contractual maturity dates)	**-**	**659,674**	**295,202**	**802,286**	**312,197**	**40,272**	**2,109,631**

Group

31 December 2009 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	39,352	23,105	38,071	123,894	42,786	267,208
Due to customers	-	514,321	394,228	601,480	37,852	698	1,548,579
Debt securities in issue	-	-	-	4,437	-	-	4,437
Special and lending funds	-	5,599	155	3,155	21,561	1,935	32,405
Total liabilities (contractual maturity dates)	**-**	**559,272**	**417,488**	**647,143**	**183,307**	**45,419**	**1,852,629**

Bank

31 December 2010 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	32,428	21,950	65,752	239,658	34,799	394,587
Due to customers	-	617,153	273,085	729,833	56,221	4,836	1,681,128
Debt securities in issue	-	-	-	5,392	-	-	5,392
Special and lending funds	-	10,160	167	1,309	16,318	637	28,591
Total liabilities (contractual maturity dates)	**-**	**659,741**	**295,202**	**802,286**	**312,197**	**40,272**	**2,109,698**

Bank

31 December 2009 **Liabilities**	**Maturity undefined**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Due to banks	-	39,411	14,008	38,071	123,894	42,786	258,170
Due to customers	-	514,258	394,228	601,480	37,852	698	1,548,516
Debt securities in issue	-	-	-	4,437	-	-	4,437
Special and lending funds	-	5,599	155	3,155	21,561	1,935	32,405
Total liabilities (contractual maturity dates)	**-**	**559,268**	**408,391**	**647,143**	**183,307**	**45,419**	**1,843,528**

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

3.3. Remaining contractual maturity off - balance sheet items

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

Bank	**Up to one month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1to 5 years**	**Over 5 years**	**Total**
At 31 December 2010							
Loan commitments	89,495	-	-	-	-	-	89,495
Guarantees	62,070	-	-	-	-	-	62,070
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	154,043	174	267	4,298	-	-	158,782
At 31 December 2009							
Loan commitments	70,180	-	-	-	-	-	70,180
Guarantees	50,240	-	-	-	-	-	50,240
Other commitments	10,814	-	-	2,904	-	-	13,718
Total	131,234	-	-	2,904	-	-	134,138

Group	**Up to one month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2010							
Loan commitments	85,861	-	-	-	-	-	85,861
Finance lease commitments	1,161	345	731	1,789	4,258	-	8,284
Guarantees	62,025	-	-	-	-	-	62,025
Other commitments	2,478	174	267	4,298	-	-	7,217
Total	151,525	519	998	6,087	4,258	-	163,387
At 31 December 2009							
Loan commitments	63,770	-	-	-	-	-	63,770
Finance lease commitments	8,963	-	-	-	-	-	8,963
Guarantees	50,307	-	-	-	-	-	50,307
Other commitments	10,913	-	-	2,904	-	-	13,817
Total	133,953	-	-	2,904	-	-	136,857

For additional information on assets used for liquidity management purposes see note 30 Liquidity risk.

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

4. Fair value of financial assets and liabilities

4.1. Financial assets and liabilities not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. The valuation methods for the assets and liabilities are summarized below.

a) Loans and advances to banks

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

b) Loans and advances to customers and finance lease receivables

Loans and advances and finance lease receivables are net of charges for impairment. The estimated fair value of loans, advances and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

c) Investment securities

The fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations.

d) Deposits from banks and due to customers and special lending funds

The estimated fair value of deposits with no stated maturity, which includes non-interestbearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and special and lending funds not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

e) Debt securities in issue

The estimated fair value of debt securities in issue is consider to be similar to the carrying value as the yield on these securities is the similar to the market yield on 31 December 2010.

f) Other assets and other liabilities

The estimated fair value of other assets and other liabilities is similar to the carrying value due to short marturities of these assets and liabilities.

Bank

As at 31 December 2010	**Book value**	**Fair value**
Assets		
Loans	**1,657,609**	**1,532,876**
Loans to individuals:	**191,321**	**151,758**
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	3,876	3,870
- Other	65,205	59,761
Loans to business customers	**1,346,946**	**1,262,410**
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,113,773	1,038,920
Loans and advances to financial institutions	**119,342**	**118,708**
Investment securities held-to-maturity	**207,635**	**208,121**
Other financial assets	**12,025**	**12,025**
Liabilities		

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

Due to other banks and financial institutions	**369,091**	**391,693**
Due to customers	**1,672,394**	**1,676,140**
Due to individuals	1,118,915	1,122,320
Due to private companies	282,530	282,722
Due to other enterprises	270,949	271,098
Debt securities in issue	**5,291**	**5,313**
Special and lending funds	**28,011**	**28,271**

As at 31 December 2009

	Book value	**Fair value**
Assets		
Loans	**1,605,635**	**1,476,164**
Loans to individuals:	**222,509**	**176,538**
- Consumer loans	28,221	26,377
- Mortgages	117,931	96,843
- Credit cards	5,771	5,758
- Other	70,586	47,560
Loans to business customers	**1,262,566**	**1,179,702**
- Central and other authorities	65,967	60,399
- Large corporates	184,380	177,745
- SME	1,012,219	941,558
Loans and advances to financial institutions	**120,560**	**119,924**
Investment securities held-to-maturity	**143,068**	**135,492**
Other financial assets	1,215	1,215
Liabilities	-	-
Due to other banks and financial institutions	**237,315**	**252,925**
Due to customers	**1,528,840**	**1,533,174**
Due to individuals	1,055,003	1,058,699
Due to private companies	254,319	254,743
Due to other enterprises	219,518	219,732
Debt securities in issue	**4,155**	**4,155**
Special and lending funds	**31,292**	**25,799**

Group

As at 31 December 2010

	Book value	**Fair value**
Assets		
Loans	**1,542,375**	**1,399,505**
Loans to individuals:	202,569	162,116
- Consumer loans	14,467	13,609
- Mortgages	107,773	74,518
- Credit cards	14,867	14,228
- Other	65,462	59,761
Loans to business customers	**1,235,248**	**1,151,542**
- Central and other authorities	90,632	85,420
- Large corporates	142,541	138,070
- SME	1,002,075	928,052
Loans and advances to financial institutions	**570**	**570**
Finance lease receivables	**103,988**	**85,277**
Investment securities held-to-maturity	**214,055**	**214,984**
Other financial assets	**35,254**	**35,254**

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

Liabilities	-	-
Due to other banks and financial institutions	**369,067**	**391,669**
Due to customers	**1,672,299**	**1,676,045**
Due to individuals	1,118,915	1,122,320
Due to private companies	282,435	282,627
Due to other enterprises	270,949	271,098
Debt securities in issue	**5,291**	**5,313**
Special and lending funds	**28,011**	**28,271**
Other financial liabilities	**1,503**	**1,503**

As at 31 December 2009

	Book value	**Fair value**
Assets		
Loans	**1,535,740**	**1,389,094**
Loans to individuals:	**235,765**	**188,806**
- Consumer loans	28,221	26,377
- Mortgages	117,931	96,843
- Credit cards	19,027	18,026
- Other	70,586	47,560
Loans to business customers	**1,189,433**	**1,106,952**
- Central and other authorities	65,967	60,399
- Large corporates	184,380	177,745
- SME	939,086	868,808
Loans and advances to financial institutions	**9,130**	**8,963**
Finance lease receivables	**101,412**	**84,373**
Investment securities held-to-maturity	146,041	138,465
Other financial assets	26,775	26,775
Liabilities	-	-
Due to other banks and financial institutions	**246,272**	**261,882**
Due to customers	**1,528,824**	**1,533,158**
Due to individuals	1,055,003	1,058,699
Due to private companies	254,335	254,759
Due to other enterprises	219,486	219,700
Debt securities in issue	**4,155**	**24,997**
Special and lending funds	**31,292**	**32,670**
Other financial liabilities	**2,110**	**2,110**

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

4.2. Financial assets and liabilities measured at fair value

a) Fair value herarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Lithuanian Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange).

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group does not have financial assets measured at fair value calculated based on Level 2 inputs.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes Group's investments into unlisted equity securities. Fair value for financial assets measured at fair value according to level 3 principles is established based on expected discounted net future cash flows from activities of these companies. Discount rate is based on the cost of financing used for investments in these companies.

The Bank and the Group does not have financial liabilities measured at fair value.

b) Measurement of financial assets and liabilities according to the fair value herarchy

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
LEVEL I				
Financial assets at fair value through profit or loss				
Corporate bonds	-	-	2,973	-
Listed equity securities	-	-	-	-
Units of investment funds	96	96	83	83
Bonds of the Government of the Republic of Lithuania	63,444	63,444	-	-
Local corporate debt securities	17,784	14,864	-	-
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	46,594	46,594	29,545	29,545
Bonds of foreign countries governments	27,595	27,595	-	-
Bonds of foreign countries corporates	10,221	10,221	-	-
Local corporate debt securities	3,216	3,216	41,737	41,737
Investment fund units	358	358	286	286
TOTAL LEVEL I	**169,308**	**166,388**	**74,624**	**71,651**
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	2	2	38	38
Available for sale financial assets				
Unlisted equity securities	15,614	1,391	14,668	515
TOTAL LEVEL III	**15,616**	**1,393**	**14,706**	**553**

During year 2010 the Group has recognized LTL 857 thousand increase (2009: LTL 1,371 thousand reduction) in fair value in unlisted equity securities. The increase/reduction in fair value has been included into Gain (loss) from revaluation of financial assets line of other comprehensive income. No other movements in financial assets measured at fair value according to Level III principles has taken place during the year.

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

5. Operational risk

The aim of the Bank's operational risk management is to clearly define the operational risk, reduce the operational risk at the Bank to an acceptable level and use the results of the operational risk analysis as the base for the implementation of the risk mitigation processes and its assessment, i.e. to refuse the inefficient measures, implement new ones and maintain the existing means of operational risk management.

The operational risk management system at the Bank includes all the significant fields of the banking activities: operations with cash, investing services (deposits, investment and pension funds), payments and settlements, electronic banking (SB Line, SMS Bank, payment cards), lending (credits, factoring, guarantees and documentary settlements), finance lease, foreign exchange trading, etc.

The Bank also defines the reputation risk as a subcategory of the operational risk.

The reputation risk means an existing or anticipated risk that might have a negative effect on the Bank's revenue and/or capital as a result of adverse opinion about the Bank's reputation which is formed by the clients, counterparties, shareholders and investors. This risk is controlled by adherence to the principle of prudence.

Taking into consideration the nature and scope of the banking activities, the following operational risk sources may be distinguished: information systems (breakdowns of computer hardware and software and telecommunications systems, etc.); human impact (illegal actions of bank employees, illegal actions of external parties, working conditions, errors); and loss of tangible assets (natural disaster, fire, terrorist attacks, etc.).

The operational risk management and control system focuses on the identification of the most problematic places at the Bank in terms of the operational risk. The good functioning within the Bank's internal control system is the main factor mitigating the operational risk at the Bank. The internal control system within the bank is an integral part of the banking day-to-day activities that motivates bank's employees to make the bank's activities more effective; to protect the bank from possible operational risk losses; to ensure that financial and other types of information used for internal, control purposes or by third parties is reliable, precise and presented on a timely basis; to ensure that the bank's activities comply with laws, legal acts of the Bank of Lithuania and other legal acts, the bank's strategy and internal policies.

Since 2005 the Bank has created the registration system to follow the operational risk events. Since 2010 the registration system to follow the operational risk events has also been created in SB lizingas UAB. The registration of the operational risk events is a foundation used for disclosing the major sources of the operational risks with the Bank and enables determining operational risk mitigation (preventive) measures.

In order to safeguard that the Bank continues as a going concern the Business Continuity Plan and Procedure for the Provision of Banking Products in the Event of Breakdown of the Bank's Information Systems have been approved. These measures establish procedures and actions to be taken in the event of unforeseen circumstances and emergencies in order to make sure that operational risk is mitigated and avoided and the loss of assets is prevented in case day-to-day activities of the Bank are disrupted.

The Bank's operational risk management system is complimented by the Bank's Business Continuity Management Plan and the Information Security and Emergency Management System created and installed by the IT agency "Blue Bridge".

Taking into consideration the scope of its activities and opportunity to use the historic data related to the operational risk, the Bank has decided to use a basic indicator method established in the Rules on Capital Adequacy Requirements to assess the operational risk.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation the Group also performs stress tests for the credit, liquidity, market (interest rate and currency), concentration and operational risks. During this process it is determined if the Bank's capital is sufficient to cover the possible losses which may occur because of the financial status impairment. Stress testing for all of the risks is performed once a year in accordance with the requirements set by the Bank of Lithuania. Additional stress testing for credit and liquidity risks is performed in a middle of a year.

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

7. Capital management

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

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

Capital adequacy and the use of the regulatory capital are monitored on a daily basis and information regarding capital adequacy is submitted to the supervising authority quarterly in accordance with the Bank of Lithuania requirements.

The Bank of Lithuania has set the following minimum capital requirements:
1) minimum level of capital held must be no less than EUR 5 million;
2) minimum capital adequacy ratio should be not lower than 8 per cent. Capital adequacy (solvency) ratio is calculated as a ratio of the capital of the Bank and the capital required to cover credit, trading book and operating risks multiplied by 0.08 and presented in percentage points.

Additional capital need for credit risk, operational risk, market risk, concentration risk, strategic risk, reputation risk and liquidity risk is subject to the regular stress-testing and Internal Capital Adequacy Assessment processing.

The Group's regulatory capital is divided into two tiers:
1) Tier 1 capital consists of the share capital, reserve capital (share premium), additional reserve capital, retained earnings of the previous financial year, loss of the current year, other reserves and statutory reserve less the intangible assets and negative revaluation reserve of financial assets;
2) Tier 2 capital consists of 85 per cent of revaluation reserves of financial assets provided that these reserves are positive.

The regulatory capital is calculated as the sum of the previously mentioned Tier 1 and Tier 2 Capitals less the investments in other credit or financial institution.

The risk-weighted assets are measured under a standardised approach using nine risk weights classified according to the nature of each assets and counterpart, taking into account collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures. Capital requirements for operational risk are calculated using the Basic Indicator Approach.

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank and Group for the years ended 31 December. During those two years, the Group complied with capital requirements to which it is subject.

		2010		2009
	Group	**Bank**	**Group**	**Bank**
Tier 1 capital				
Ordinary shares	204,858	204,858	180,358	180,358
Share premium	46,661	46,661	45,681	45,681
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	8,678	8,375	45,490	38,930
Current year loss	(28,292)	(24,149)	(35,551)	(30,114)
Other reserves (statutory reserve)	16, 667	16,422	16,376	15,981
Negative financial assets revaluation reserve	(2)	-	(781)	-
Less: Intangible assets	(608)	(606)	(605)	(600)
Total Tier 1 capital	**250,573**	**254,172**	**253,579**	**252,847**
Tier 2 capital				
85 % financial assets revaluation reserve	-	1,164	-	502
Total Tier 2 capital	**-**	**1,164**	**-**	**502**
Less Investments in other credit or financial institutions	-	(1,762)	-	(1,782)
Total capital	**250,573**	**253,574**	**253,579**	**251,567**
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	131,965	131,810	122,038	123,501
Debt financial instruments	2,039	1,784	1,034	775
Equity securities	12	12	1,809	111
Foreign exchange positions	1,882	3,050	12,145	12,005
Operational risk under the Basic Indicator Approach	8,084	7,600	8,930	8,354
Total capital requirements	**143,982**	**144,256**	**145,956**	**144,746**
Capital adequacy (solvency) ratio, %	**13,92**	**14,06**	**13,90**	**13,90**

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

CRITICAL ACCOUNTING ESTIMATES

Impairment losses on loan and finance lease receivables. The Bank and the Group review their loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss , 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 finance lease before the decrease can be identified with an individual loan or lease receivable 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 loans and receivables 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. To the extent that impairment provision for loan and finance lease losses differs by +/- 5%, the impact on the provision at the Group and the Bank as at 31 December 2010 would be higher or lower by LTL 4,019 thousand (2009: LTL 2,118 thousand) and LTL 3,893 thousand (2009: LTL 2,014 thousand) respectively.

Impairment losses on investments in subsidiaries. The Bank tests investments in its subsidiaries for impairment when impairment indicators are identified. The Bank establishes recoverable amount of investments in subsidiary companies based on discounted future estimated net cash flows to be earned by a subsidiary. Future net cash flows to be earned by investment management and real estate development subsidiaries are based on estimated inflow from sales of financial and other assets held by these subsidiaries less estimated cash outflow related to management and development costs. Future net cash flows from subsidiary involved in leasing operations are estimated based on future expected interest income to be earned on lease portfolio less cash outflows related to financing activities and administration costs. Discount rates are based on current cost of capital used for investments in these subsidiaries. The Group’s management applies judgement in estimating cash flows and discount rates used in impairment testing.

Inventories. Net realizable value of apartments held for sale and property for development is based either on current estimated sales price of an asset or on expected discounted future cash flows from future development and realization of an asset based on the Group’s management plans with respect to a certain asset. Inputs in estimating sales price and future cash flows from development of an asset are based on current market prices. The Group’s management applies judgement in estimating cash flows and discount rates used in impairment testing.

Impairment losses on receivables. The Group test receivables for impairment when loss events (delays in payments or significant financial difficulties or a debtor) are identified. Recoverable amount of receivables is established individually based on discounted expected future payments to be received. The management applies judgement in estimating timing, amounts and probabilities of future cash flows to be received from debtors.

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.

Taxes. The tax authorities have carried out a full-scope tax audit at the Bank for the years 1998 to 2001 (income tax audit was done for the period from 1998 to 2000). There were no significant remarks or disputes. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

The deferred tax assets recognised at 31 December 2010 have been based on future profitability assumptions of the Bank over a five year horizon. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

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

SEGMENT INFORMATION

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2010 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head-quarters	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	2,490	14,615	5,293	(12,557)	(5,950)	(1,663)	(2,228)	-	-
External	11,363	(7,684)	2,542	12,777	10,470	840	1,487	-	31,795
Net interest income	13,853	6,931	7,835	220	4,520	(823)	(741)	-	31,795
Internal	2,272	14,572	5,229	(12,025)	(6,151)	(1,664)	(2,233)	-	-
External	15,468	(2,978)	4,587	9,652	10,395	870	1,812	-	39,806
Net interest, fee and commissions income	17,740	11,594	9,816	(2,373)	4,244	(794)	(421)	-	39,806
Impairment expenses	(8,606)	(29,350)	(5,889)	-	(1,916)	3	(203)	-	(46,031)
Internal	-	-	-	36	(164)	(35)	(32)	195	-
External	(2,883)	(6,644)	(3,187)	(12,572)	(1,858)	(605)	(1,885)	-	(29,634)
Operating expenses	(2,883)	(6,644)	(3,187)	(12,536)	(2,022)	(640)	(1,917)	195	(29,634)
Amortisation charges	-	(7)	(3)	(252)	(2)	-	(2)	-	(266)
Depreciation charges	(421)	(1,049)	(456)	(1,134)	(945)	(14)	(102)	-	(4,121)
Internal	(1,072)	(343)	(113)	1,726	(1)	3,507	(64)	(3,640)	-
External	1,255	1,165	550	3,587	809	(251)	1,589	-	8,704
Net other income	183	822	437	5,313	808	3,256	1,525	(3,640)	8,704
Profit (loss) before tax	6,013	(24,634)	718	(11,052)	167	1,811	(1,120)	(3,445)	(31,542)
(Loss) before income tax from the subsidirary that is held for sale	-	-	-	-	-	-	-	(1,594)	(1,594)
Income tax	-	-	-	4,806	38	-	-	-	4,844
Profit (loss) per segment after tax	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	6,013	(24,634)	718	(6,246)	205	1,811	(1,120)	(5,039)	(28,292)
Total segment assets	597,937	1,088,993	408,610	2,573,768	124,204	45,062	96,812	(266,118)	2,334,614
Total segment liabilities	591,924	1,113,627	407,892	2,043,571	121,824	42,223	90,108	(249,229)	2,083,433
Net segment assets (shareholders' equity)	6,013	(24,634)	718	530,197	2,380	2,839	6,704	(16,889)	251,181

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

SEGMENT INFORMATION (CONTINUED)

Below, there is a summary of major indicators for the main business segments of the Group included in the Statement of financial position as at 31 December 2009 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head-quarters	Leasing	Investment management	Real estate development	Eliminations	Total Group
Internal	509	7,678	1,556	4,776	(9,841)	(2,437)	(2,241)	-	-
External	10,688	(2,105)	4,923	(429)	14,551	636	935	-	29,199
Net interest income	11,197	5,573	6,479	4,347	4,710	(1,801)	(1,306)	-	29,199
Internal	420	7,778	1,522	5,155	(10,195)	(2,438)	(2,242)	-	-
External	15,113	2,554	7,159	(3,569)	14,485	659	946	-	37,347
Net interest, fee and commissions income	15,533	10,332	8,681	1,586	4,290	(1,779)	(1,296)	-	37,347
Internal	-	-	-	(4,773)	3,000	927	846	-	-
External	(6,970)	(35,041)	(3,410)	400	(4,781)	(846)	204	-	(50,444)
Impairment expenses	(6,970)	(35,041)	(3,410)	(4,373)	(1,781)	81	1,050	-	(50,444)
Internal	(931)	(325)	(228)	1,512	(193)	(25)	(27)	217	-
External	(3,061)	(8,108)	(3,635)	(13,141)	(2,182)	(607)	(1,203)	-	(31,937)
Operating expenses	(3,992)	(8,433)	(3,863)	(11,629)	(2,375)	(632)	(1,230)	217	(31,937)
Amortisation charges	-	(10)	(5)	(390)	(3)	-	(3)	-	(411)
Depreciation charges	(446)	(1,284)	(537)	(1,124)	(827)	(17)	(64)	-	(4,299)
Internal	46	(10)	2	6,557	(1)	-	-	(6,594)	-
External	568	979	449	1,031	461	2,372	2,504	-	8,364
Net other income	614	969	451	7,588	460	2,372	2,504	(6,594)	8,364
Profit (loss) before tax	4,739	(33,467)	1,317	(8,342)	(236)	25	961	(6,377)	(41,380)
Income tax	-	-	-	5,639	219	-	(29)	-	5,829
Profit (loss) per segment after tax	4,739	(33,467)	1,317	(2,703)	(17)	25	932	(6,377)	(35,551)
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to equity holders of the Bank	4,739	(33,467)	1,317	(2,703)	(17)	25	932	(6,377)	(35,551)
Total segment assets	606,673	1,058,928	392,396	891,799	127,888	44,775	41,723	(1,090,384)	2,073,798
Total segment liabilities	601,934	1,092,395	391,079	610,351	125,713	41,634	37,508	(1,081,000)	1,819,614
Net segment assets (shareholders' equity)	4,739	(33,467)	1,317	281,448	2,175	3,141	4,215	(9,384)	254,184

Distribution of the Group's assets and revenue according to geographical segmentation

All Bank's and Group's non current assets other than financial instruments are located in Lithuania. No material revenue is earned by the Group in foreign countries.

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

NOTE 1 NET INTEREST INCOME

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,122	7,072	2,647	12,488
on loans to customers	83,838	84,193	117,413	118,945
on debt securities	16,942	16,114	9,569	9,041
- held to maturity	8,561	7,968	6,413	6,149
- available for sale	5,677	5,677	2,753	2,753
-at fair value through profit or loss	2,704	2,469	403	139
on finance leases	8,527	-	13,171	-
Total interest income	110,429	107,379	142,800	140,474
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(7,300)	(7,206)	(13,357)	(12,634)
on customer deposits and other repayable funds	(63,713)	(63,713)	(92,899)	(92,899)
compulsory insurance of deposits	(7,378)	(7,378)	(6,326)	(6,326)
on debt securities issued	(243)	(243)	(1,019)	(1,019)
Total interest expense	(78,634)	(78,540)	(113,601)	(112,878)
Net interest income	**31,795**	**28,839**	**29,199**	**27,596**

NOTE 2 NET FEE AND COMMISSION INCOME

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Fee and commission income:				
for money transfer operations	7,456	7,565	6,520	6,669
for payment card services	1,618	1,621	2,109	2,111
for base currency exchange	1,373	1,373	1,869	1,870
for operations with securities	130	130	113	113
other fee and commission income	1,901	1,636	2,009	2,172
Total fee and commission income	12,478	12,325	12,620	12,935
Fee and commission expense:				
for payment card services	(3,089)	(3,089)	(3,204)	(3,204)
for money transfer operations	(1,297)	(1,217)	(1,194)	(1,121)
for operations with securities	(69)	(69)	(57)	(57)
for base currency exchange	(2)	(2)	(3)	(4)
other fee and commission expenses	(10)	(10)	(14)	(13)
Total fee and commission expense	(4,467)	(4,387)	(4,472)	(4,399)
Net fee and commission income	**8,011**	**7,938**	**8,148**	**8,536**

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

NOTE 3 NET GAIN (LOSS) ON OPERATIONS WITH SECURITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Trading securities				
Realised gain on trading equity securities	-	-	(268)	(268)
Unrealised gain on trading equity securities	14	14	345	345
Realised gain (loss) on trading debt securities	3,424	3,424	-	-
Unrealised (loss) on trading debt securities	(1,346)	(1,346)	-	-
Net gain on trading securities	**2,092**	**2,092**	**77**	**77**
Realised gain on available-for-sale debt securities	928	928	39	39
Dividend and other income from equity securities held for trading	-	-	23	23
Dividend and other income from available-for-sale equity securities	68	68	4,806	182
Total	**3,088**	**3,088**	**4,945**	**321**

NOTE 4 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Salaries, social security and other related expenses	18,059	15,464	19,367	16,858
Rent and maintenance of premises	3,531	3,451	3,937	3,867
Office equipment maintenance	983	974	951	939
Depreciation of fixed tangible assets	4,121	3,060	4,299	3,391
Transportation, post and communications expenses	2,044	1,762	2,186	1,842
Amortisation of intangible assets	266	262	411	405
Real estate tax and other taxes	1,014	246	551	241
Advertising and marketing expenses	358	330	376	342
Training and business trip expenses	38	30	100	76
Charity	121	96	178	173
Service organisation expenses	627	591	645	606
Legal costs incurred due to debt recovery	1,020	831	900	803
Other operating expenses	1,839	1,475	2,746	2,170
Total	**34,021**	**28,572**	**36,647**	**31,713**

NOTE 5 GAIN ON DISPOSAL OF ASSETS

In 2010 gain on disposal of real estate assets at the Group amounted to LTL 1,212 thousand (Bank LTL 165 thousand gain). In 2009 loss on disposal of real estate assets at the Group level amounted to LTL 113 thousand (Bank recorded a gain of LTL 14 thousand).

NOTE 6 OTHER INCOME

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Income from lease of assets	1,111	342	908	384
Other income	584	445	222	124
Total	1,695	787	1,130	508

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

NOTE 7 IMPAIRMENT LOSSES ON LOANS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Impairment losses on loans:				
Impairment charge for the year	45,774	44,629	45,554	42,948
Recoveries of loans previously written off	(964)	(790)	(169)	(72)
Total impairment losses on loans	44,810	43,839	45,385	42,876
Impairment losses on finance lease receivables:				
Impairment charge for the year	516		2,064	-
Recovered previously written-off finance lease receivables	(276)		(144)	-
Total impairment losses on finance lease	240		1,920	-
Expenses for provisions on:				
Investments in subsidiaries	-	-	-	4,773
Assets for selling and other assets	981	76	3,139	2,145
Total	46,031	43,915	50,444	49,794

NOTE 8 INCOME TAX

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Current tax	-	-	-	-
Deferred taxes	(4,811)	(4,773)	(5,711)	(5,519)
Adjustments of previous year income tax	(33)	(33)	(118)	(120)
Total	(4,844)	(4,806)	(5,829)	(5,639)

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

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Profit before income tax	(31,542)	(28,955)	(41,380)	(35,753)
Tax calculated at a tax rate of 15%	(4,731)	(4,343)	(8,276)	(7,151)
Income not subject to tax	(1,206)	(560)	(4,266)	(2,223)
Expenses not deductible for tax purposes	981	370	3,914	1,831
Adjustment of previous year income tax	(33)	(33)	(118)	(120)
Utilisation of tax losses for which no deferred tax asset was recognized	145	(240)	749	46
Effect of change in income tax rate	-	-	2,168	1,978
Income tax charge (income)	(4,844)	(4,806)	(5,829)	(5,639)

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

NOTE 8 INCOME TAX (CONTINUED)

Deferred tax assets	Group				Bank			
	Revaluation of securities and other assets	Accruals	Taxable losses carried forward	Total	Revalua-tion of securities	Accruals	Taxable losses carried forward	Total
At 31 December 2008	(85)	(367)	-	(452)	(85)	(367)	-	(452)
To be credited/(charged) to net profit	(52)	176	(5,725)	(5,601)	77	176	(5,623)	(5,370)
To be credited/ (charged) to equity	2	-	-	2	2	-	-	2
At 31 December 2009	(135)	(191)	(5,725)	(6,051)	(6)	(191)	(5,623)	(5,820)
To be credited/ (charged) to equity	-	-	-	-	-	-	-	-
To be credited/(charged) to net profit	8	18	(4,840)	(4,814)	6	18	(4,840)	(4,816)
At 31 December 2010	(127)	(173)	(10,565)	(10,865)	-	(173)	(10,463)	(10,636)
	-	-	-	-	-	-	-	-

Deferred tax liabilities	Group			Bank		
	Revaluation of securities	Fixed assets	Total	Revaluation of securities	Fixed assets	Total
At 31 December 2008	-	550	550	-	550	550
To be credited/(charged) to net profit	-	(110)	(110)	-	(149)	(149)
To be credited/ (charged) to equity	195	-	195	195	-	195
At 31 December 2009	195	440	635	195	401	596
To be credited/(charged) to net profit	-	3	3	40	3	43
To be credited/ (charged) to equity	(180)	-	(180)	(180)	-	(180)
At 31 December 2010	15	443	458	55	404	459

Taxable losses of the Group and the Bank are carried forward for indefinite term through the use of future taxable profits. Management of the Bank has estimated that future taxable profits of the Bank and Group will be sufficient to realize the accumulated taxable losses. Therefore deferred tax asset from the accumulated taxable losses was recognized.

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:

	2010		2009	
	Group	Bank	Group	Bank
Deferred tax assets	(10,865)	(10,636)	(6,051)	(5,820)
Deferred tax liabilities	458	459	635	596
Net deferred tax (asset) liability	(10,407)	(10,117)	(5,416)	(5,224)

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

NOTE 9 EARNINGS PER SHARE

Basic earnings per share are 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 dilutive potential ordinary shares that are related to convertible loan, obtained from a shareholder (see note 33 Related-party Transactions). As net loss has been accounted both in 2010 and 2009, the potential ordinary shares would be anti-dilutive. Therefore, diluted earnings per share are the same as basic earnings per share.

Weighted average number of shares in issue for the year ended 31 December 2010 was 193,245 thousand (173 days – 180,358 thousand shares, 192 days – 204,858 thousand shares). Weighted average number of shares for the year ended 31 December 2009 was 180,358 thousand.

Earnings per share

Group	**2010**	**2009**
Net profit (in LTL thousand)	(28,292)	(35,551)
Weighted average number of shares in issue during the period (thousand units)	193,245	180,358
(Loss) per share (LTL per share)	(0.15)	(0.20)

Bank	**2010**	**2009**
Net profit (in LTL thousand)	(24,149)	(30,114)
Weighted average number of shares in issue during the period (thousand units)	193,245	180,358
(Loss) per share (LTL per share)	(0.12)	(0.17)

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

NOTE 10 CASH AND CASH EQUIVALENTS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Cash and other valuables	34,605	34,602	34,669	34,651
Balances in bank deposit accounts	68,006	68,006	19,420	19,381
Balances in bank correspondent accounts	12,744	12,744	18,407	18,407
Placements with Central Bank:				
Correspondent account with Central Bank	25,664	25,664	37,422	37,422
Mandatory reserves in national currency	67,381	67,381	58,790	58,790
Total placements with Central Bank	93,045	93,045	96,212	96,212
Total	208,400	208,397	168,708	168,651

Mandatory reserves in Central Bank comprise the funds calculated on a monthly basis as a 4% 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 Bank of Lithuania pays interest for the required reserves.

NOTE 11 AMOUNTS DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Balances in bank deposit accounts	4,147	4,147	2,214	2,214

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

NOTE 12 TRADING SECURITIES

	2010		2009	
	Group	Bank	Group	Bank
Debt securities:				
Government bonds	63,444	63,444	-	-
Corporate bonds	16,496	13,576	2,973	-
State controlled entities' bonds	1,288	1,288	-	-
Total debt securities	**81,228**	**78,308**	**2,973**	**-**
Equity securities:				
Listed	-	-	-	-
Unlisted	2	2	38	38
Units of investment funds	96	96	83	83
Total equity securities	**98**	**98**	**121**	**121**
Total	**81,326**	**78,406**	**3,094**	**121**
Breakdown of securities by their maturity:				
Short-term (up to 1 year)	52,209	49,289	3,094	121
Long-term (over 1 year)	29,117	29,117	-	-
Total	**81,326**	**78,406**	**3,094**	**121**

Trading securities have not been pledged as at 31 December 2010 and 2009.

Trading securities are accounted at fair value that is determined using level 1 requirements as described in fair value hierarchy in Note 4.2, i.e. fair value is based on quated prices in active markets for identical assets and liabilities.

Breakdown of the Bank‘s trading securities as at 31 December 2010 and 2009:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
From AA- to AA+	-	-	1,689	-	-	-	-	-
From A- to A+	-	-	4,170	-	-	-	-	-
From BBB- to BBB+	63,444		8,173	-	-	-	-	-
From BB- to BB+	-	-	832	-	-	-	-	-
No rating	-	-	-	-	2	38	96	83
Total	63,444	-	14,864	-	2	38	96	83

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

NOTE 12 TRADING SECURITIES (CONTINUED)

Breakdown of the Group‘s trading securities as at 31 December 2010 and 2009:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2010	2009	2010	2009	2010	2009	2010	2009
From AA- to AA+	-	-	1,689	-	-	-	-	-
From A- to A+	-	-	4,170	-	-	-	-	-
From BBB- to BBB+	63,444	-	8,173	-	-	-	-	-
From BB- to BB+	-	-	832	-	-	-	-	-
No rating	-	-	2,920	2,973	2	38	96	83
Total	63,444	-	17,784	2,973	2	38	96	83

NOTE 13 LOANS TO CUSTOMERS

	2010		2009	
	Group	Bank	Group	Bank
Gross loans to customers	1,518,767	1,735,464	1,476,688	1,645,917
Allowance for loan impairment	(80,380)	(77,855)	(42,360)	(40,282)
Net loans to customers	1,438,387	1,657,609	1,434,328	1,605,635
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	501,851	727,310	588,262	768,577
Long-term (over 1 year)	936,536	930,299	846,066	837,058
Total	1,438,387	1,657,609	1,434,328	1,605,635

	Group	Bank
Allowance for loan impairment as at 31 December 2008	**11,490**	**11,268**
Allowance for impairment of loans written off during the year as uncollectible	(14,726)	(13,976)
Currency translation differences and other adjustments	42	42
Increase in allowance for loan impairment (Note 7)	45,554	42,948
Allowance for loan impairment as at 31 December 2009	**42,360**	**40,282**
Allowance for impairment of loans written off during the year as uncollectible	(7,800)	(7,102)
Currency translation differences and other adjustments	46	46
Increase in allowance for loan impairment (Note 7)	45,774	44,629
Allowance for loan impairment as at 31 December 2010	**80,380**	**77,855**

Movements in allowance for loan impairment by separate class is provided below:

31 December 2010

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2010	4,090	2,398	2,288	1,626	10,402
Change in allowance for loan impairment	1,134	3,767	1,437	2,358	8,696
Loans written off during the year	(3,882)	(16)	(1,019)	(213)	(5,130)
As at 31 Dec 2010	1,342	6,149	2,706	3,771	13,968

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2010	-	31,947	11	31,958
Change in allowance for loan impairment	-	37,089	(11)	37,078
Loans written off during the year	-	(2,670)	-	(2,670)
Influence of FX rate shift	-	46	-	46
As at 31 Dec 2010	-	66,412	-	66,412

31 December 2009

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2009	2,258	311	426	356	3,351
Change in allowance for loan impairment	5,331	2,087	2,942	1,270	11,630
Loans written off during the year	(3,499)	-	(1,080)	-	(4,579)
As at 31 Dec 2009	4,090	2,398	2,288	1,626	10,402

31 December 2009

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2009	-	8,132	7	8,139
Change in allowance for loan impairment	-	33,920	4	33,924
Loans written off during the year as uncollectible	-	(10,147)	-	(10,147)
Influence of FX rate shift	-	42	-	42
As at 31 Dec 2009	-	31,947	11	31,958

31 December 2010

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2010	4,090	2,398	667	1,626	8,781
Change in allowance for loan impairment	1,134	3,767	303	2,358	7,562
Loans written off during the year	(3,882)	(16)	(321)	(213)	(4,432)
As at 31 Dec 2010	1,342	6,149	649	3,771	11,911

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2010	-	31,490	11	31,501
Change in allowance for loan impairment	-	37,078	(11)	37,067
Loans written off during the year	-	(2,670)	-	(2,670)
As at 31 Dec 2010	-	(65,944)	-	65,944

31 December 2009

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2009	2,258	311	207	356	3,132
Change in allowance for loan impairment	5,331	2,087	790	1,270	9,478
Loans written off during the year	(3,499)	-	(330)	-	(3,829)
As at 31 Dec 2009	4,090	2,398	667	1,626	8,781

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 1 Jan 2009	-	8,129	7	8,136
Change in allowance for loan impairment	-	33,466	4	33,470
Loans written off during the year	-	(10,147)	-	(10,147)
	-	42	-	42
As at 31 Dec 2009	-	31,490	11	31,501

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

NOTE 14 FINANCE LEASE RECEIVABLES

	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Gross investments in leasing:				
Balance at 31 December 2009	47,673	49,520	25,155	122,348
Change during 2010	(14,649)	4,522	14,129	4,002
Balance at 31 December 2010	33,024	54,042	39,284	126,350
Unearned finance income on finance leases:				
Balance at 31 December 2009	5,338	7,867	5,205	18,410
Change during 2010	(898)	1,215	1,683	2,000
Balance at 31 December 2010	4,440	9,082	6,888	20,410
Net investments in leasing before provisions:				
At 31 December 2009	42,335	41,653	19,950	103,938
At 31 December 2010	28,584	44,960	32,396	105,940
Changes in provisions:				
Balance as at 31 December 2008	-	1,659	-	1,659
Additional provisions charged	-	2,064	-	2,064
Provisions for finance lease debts written off	-	(1,197)	-	(1,197)
Balance at 31 December 2009	-	2,526	-	2,526
Additional provisions charged	-	516	-	516
Provisions for finance lease debts written off	-	(1,090)	-	(1,090)
Balance at 31 December 2010	-	1,952	-	1,952
Net investments in leasing after provisions:				
At 31 December 2009	42,335	39,127	19,950	101,412
At 31 December 2010	28,584	43,008	32,396	103,988

Movements in provision for impairment of finance lease receivables by class are as follows:

	2010			2009		
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	1,578	948	2,526	926	733	1,659
Change in allowance for finance lease impairment	191	325	516	1,623	441	2,064
Amounts written off during the year	(777)	(313)	(1,090)	(971)	(226)	(1,197)
As at 31 December	992	960	1,952	1,578	9,48	2,526

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

NOTE 15 INVESTMENT SECURITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Securities available for sale:				
Equity securities:				
Unlisted equity securities	15,614	1,391	14,668	515
Investment fund units	358	358	286	286
Total	15,972	1,749	14,954	801
Debt securities:				
Local government bonds	46,594	46,594	29,545	29,545
Local corporate debt securities	3,216	3,216	41,737	41,737
Treasury debt securities of foreign countries	27,595	27,595	-	-
Foreign countries corporates debt securities	10,221	10,221	-	-
Total	87,626	87,626	71 282	71 282
Total securities available for sale	103,598	89,375	86,236	72,083
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	52,209	49,289	66,076	66,076
Long-term (over 1 year)	29,117	29,117	20,160	6,007
Total	103,598	89,375	86,236	72,083

Breakdown of the Bank‘s securities available for sale as at 31 December 2010 and 2009:

Rating	**Treasury bills**		**Corporate debt securities**		**Corporate equity securities**		**Investment fund units**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
From AA- to AA+	6,347	-	-	-	-	-	-	-
From A- to A+	10,795	-	9,768	36,737	-	-	-	-
From BBB- to BBB+	50,291	29,545	3,669	5,000	-	-	-	-
From BB- to BB+	6,756	-	-	-	-	-	-	
No rating	-	-	-	-	1,391	515	358	286
Total	74,189	29,545	13,437	41,737	1,391	515	358	286

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

Breakdown of the Group's securities available for sale as at 31 December 2010 and 2009:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
From AA- to AA+	6,347	-	-	-	-	-	-	-
From A- to A+	10,795	-	9,768	36,737	-	-	-	-
From BBB- to BBB+	50,291	29,545	3,669	5,000	-	-	-	-
From BB- to BB+	6,756	-	-	-	-	-	-	
No rating	-	-	-	-	15,614	14,668	358	286
Total	74,189	29,545	13,437	41,737	15,614	14,668	358	286

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Held-to-maturity securities:				
Local government bonds	166,602	166,602	114,842	114,842
Local corporate bonds	6,420	-	2,973	-
Foreign government bonds	29,250	29,250	21,779	21,779
Foreign corporate bonds	11,783	11,783	6,447	6,447
Total held-to-maturity securities	**214,055**	**207,635**	**146,041**	**143,068**
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	11,690	5,270	7,392	4,419
Long-term (over 1 year)	202,365	202,365	138,649	138,649
Total	**214,055**	**207,635**	**146,041**	**143,068**

The cash flows of held-to-maturity securities:

	2010	**2009**
As at 1 January	143,068	147,038
Acquisitions	28,664	2,846
Redemptions	5,725	6,322
Accrued interest	7,968	6,149
Received coupon payment	8,463	6,691
Reclassifications	42,156	48
Disposals	-	-
Foreign currency exchange rate impact	(33)	-
As at 31 December	207,635	143, 068

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

NOTE 15 INVESTMENT SECURITIES (CONTINUED)

During 2010 Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities. Management of the bank has assesed that it has an intention to hold these securities to their maturity. Carrying amount of the reclasified securities as at 31 December LTL 2010 is LTL 42,003 thousand, the fair value - LTL 42,771 thousand. During 2010 other comprehensive income recognized in relation to the revaluation of these debt securities - LTL 1,897 thousnad. If the reclassification had not been performed, other comprehensive income recognized in 2010 in relation to these securities would be equal to LTL 2,665 thousand.

The carrying amounts and fair values of held-to-maturity securities:

	2010		2009	
	Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
Local government bonds	168,739	166,602	107,200	114,842
Local corporate bonds	-	-	-	-
Foreign government bonds	27,710	29,250	21,826	21,779
Foreign corporate bonds	11,672	11,783	6,466	6,447
Total held-to-maturity securities	208,121	207,635	135,492	143,068

No investment securities were pledged as at 31 December 2010 and 2009.

Breakdown of the Bank's held-to-maturity securities as at 31 December 2010 and 2009:

Rating	**Treasury bills**		**Municipality debt securities**		**Corporate debt securities**	
Bank	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
AAA	8,120	-	-	-	-	-
From AA- to AA+	-	-	-	-	6,785	-
From A- to A+	10,662	10,653	-	-	-	-
From BBB- to BBB+	173,666	125,247	709	721	4,998	5,027
From BB- to BB+	2,695	-	-	-	-	1,420
No rating	-	-	-	-	-	-
Total	195,143	135,900	709	721	11,783	6,447

Breakdown of the Group's held-to-maturity securities as at 31 December 2010 and 2009:

Rating	**Treasury bills**		**Municipality debt securities**		**Corporate debt securities**	
Group	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
AAA	8,120	-	-	-	-	-
From AA- to AA+	-	-	-	-	6,785	-
From A- to A+	10,662	10,653	-	-	-	-
From BBB- to BBB+	173,666	125,247	709	721	4,998	5,027
From BB- to BB+	2,695	-	-	-	-	1,420
No rating	-	-	-	-	6,420	-
Total	195,143	135,900	709	721	18,203	6,447

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

NOTE 16 INVESTMENTS IN SUBSIDIARIES

	2010			2009			
Bank	**Share in equity**	**Acquisition cost**	**Carrying amount**	**Share in equity**	**Acquisition cost**	**Impairment provision**	**Carrying amount**
Investments in consolidated subsidiaries:							
ŠB Lizingas UAB	100.0%	5,000	2,000	100.0%	5,000	3,000	2,000
ŠB Investicijų Valdymas UAB	100.0%	4,040	3,113	100.0%	4,040	927	3,113
ŠB Turto Fondas UAB	100.0%	5,117	4,271	100.0%	5,117	846	4,271
ŠBTF UAB	100.0%	2,000	2,000	-	-	-	-
Minera UAB	100.0%	5,505	5,505	-	-	-	-
Total		18,662	16,889	_	14,157	4,773	9,384

In 2010 the Bank gained direct control over its subsidiaries ŠBTF UAB and Minera UAB. Previously ŠBTF UAB was indirectly controlled through the subsidiary ŠB Turto Fondas UAB and Minera UAB was indirectly controlled through the subsidiary SB Investicijų valdymas.

Acquisition cost includes cost of investment into share capital and reduction of retained losses of SB Lizingas UAB amounting to LTL 3 million. Due to impairment indicators identified as at 31 December 2009 investments in subsidiaries have been tested for impairment. As the calculated recoverable amount was lower than the acquisition cost, impairment has been recognized. Tests for impairmet have been reperformed as at 31 December 2010. As a result of tests performed the management of the Bank considers that no additional impairment or release of impairment considered as necessary in the current year.

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

NOTE 17 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	**Software and licences**
As at 31 December 2008:		
Cost	5,649	5,395
Accumulated amortisation	(4,858)	(4,615)
Net book value	791	780
Year ended 31 December 2009:		
Net book value at 1 January	791	780
Acquisitions	225	225
Write-offs		
Amortisation charge	(411)	(405)
Net book value at 31 December	605	600
As at 31 December 2009:		
Cost	5,117	4,863
Accumulated amortisation	(4,512)	(4,263)
Net book value	605	600
Year ended 31 December 2010:		
Net book value at 1 January	605	600
Acquisitions	271	269
Write-offs	(2)	(1)
Amortisation charge	(266)	(262)
Net book value at 31 December	608	606
As at 31 December 2010:		
Cost	5,336	5,121
Accumulated amortisation	(4,728)	(4,515)
Net book value	608	606
Economic life (in years)	3 - 9	3 - 9

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

NOTE 18 TANGIBLE FIXED ASSETS

Group	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
As at 31 December 2008:					
Cost/revalued amount	45,167	9,873	17,596	-	72,636
Accumulated depreciation	(4,214)	(2,291)	(9,772)	-	(16,277)
Net book value	40,953	7,582	7,824	-	56,359
Year ended 31 December 2009:					
Net book value at 1 January	40,953	7,582	7,824	-	56,359
Acquisitions	810	1,531	711	121	3,173
Disposals and write-offs	(2,093)	(638)	(211)	(88)	(3,030)
Reclassification	-	852	(852)	-	-
Depreciation charge	(948)	(1,092)	(2,259)	-	(4,299)
Net book value at 31 December	38,722	8,235	5,213	33	52,203
As at 31 December 2009:					
Cost/revalued amount	43,884	11,315	15,911	33	71,143
Accumulated depreciation	(5,162)	(3,080)	(10,698)	-	(18,940)
Net book value	38,722	8,235	5,213	33	52,203
Year ended 31 December 2010:					
Net book value at 1 January	38,722	8,235	5,213	33	52,203
Acquisitions	16,540	1, 964	1,219	78	19,801
Disposals and write- offs	(206)	(1,113)	(89)	(111)	(1,519)
Depreciation charge	(989)	(1,430)	(1,702)	-	(4,121)
Reclassification	144	792	(144)	-	792
Net book value at 31 December	54,211	8,448	4,497	-	67,156
As at 31 December 2010:					
Cost	61,873	11,786	16,673	-	90,332
Accumulated depreciation	(7,662)	(3,338)	(12,176)	-	(23,176)
Net book value	54,211	8,448	4,497	-	67,156
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 18 TANGIBLE FIXED ASSETS (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2010, as follows:

Group	**Buildings and premises**	**Vehicles**	**Equipment**	**Total**
As at 31 December 2008:				
Cost	7,526	3,742	43	11,311
Accumulated depreciation	(454)	(1,126)	(28)	(1,608)
Net book value	7,072	2, 616	15	9,703
Year ended 31 December 2009:				
Net book value at 1 January	7,072	2,616	15	9,703
Acquisitions	44	3,445	7	3,496
Disposals and write-offs	(2,093)	(180)	(6)	(2,279)
Depreciation charge	(165)	(616)	(4)	(785)
Net book value at 31 December	4,858	5,265	12	10,135
As at 31 December 2009:				
Cost	5,477	6,892	44	12,413
Accumulated depreciation	(619)	(1,627)	(32)	(2,278)
Net book value	4,858	5,265	12	10,135
Year ended 31 December 2010:				
Net book value at 1 January	4,858	5,265	12	10,135
Acquisitions	16,058	1,519	3	17,580
Disposals and write-offs	-	(489)	-	(489)
Depreciation charge	(174)	(749)	(5)	(928)
Net book value at 31 December	20,742	5,546	10	26,298
As at 31 December 2010:				
Cost	21,529	7,460	39	29,028
Accumulated depreciation	(787)	(1,914)	(29)	(2,730)
Net book value	20,742	5,546	10	26,298
Economic life (in years)	15-50	6-12	6-15	-

As at 31 December 2010 and 31 December 2009, there were no tangible fixed assets pledged to third parties.

Future minimum lease payments to be received under non-cancelable operating lease agreements for the Bank and the Group were as follows:

	2010			**2009**		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	244	87	7	254	30	9
Group	970	827	153	509	394	20

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

NOTE 18 TANGIBLE FIXED ASSETS (CONTINUED)

Bank	**Buildings and premises**	**Vehicles**	**Office equipment**	**Construction in progress**	**Total**
As at 31 December 2008:					
Cost/revalued amount	41,282	3,729	15,371	-	60,382
Accumulated depreciation	(3,881)	(1,291)	(8,920)	-	(14,092)
Net book value	37,401	2,438	6,451	-	46,290
Year ended 31 December 2009:					
Net book value at 1 January	37,401	2,438	6,451	-	46,290
Acquisitions	810	1,402	651	121	2,984
Disposals and write-offs	-	(586)	(30)	(88)	(704)
Depreciation charge	(819)	(620)	(1,952)	-	(3,391)
Net book value at 31 December	37,392	2,634	5,120	33	45,179
As at 31 December 2009:					
Cost/revalued amount	42,092	3,730	15,350	33	61,205
Accumulated depreciation	(4,700)	(1,096)	(10,230)	-	(16,026)
Net book value	37,392	2,634	5,120	33	45,179
Year ended 31 December 2010:					
Net book value at 1 January	37, 392	2,634	5,120	33	45,179
Acquisitions	118	855	981	78	2 032
Disposals and write-offs		(329)	(12)	(111)	(452)
Depreciation charge	(818)	(577)	(1,665)	-	(3,060)
Net book value at 31 December	36,692	2,583	4,424	-	43,669
As at 31 December 2010:					
Cost	42,210	3,756	15,980	-	61,946
Accumulated depreciation	(5,518)	(1,173)	(11,556)	-	(18,247)
Net book value	36,692	2,583	4,424	-	43,699
Economic life (in years)	15-50	5-12	3-20	-	-

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

NOTE 19 OTHER ASSETS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial assets:				
Amounts receivable	35,254	12,025	26,775	1,215
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	6,470	6	25,723	163
Long-term (over 1 year)	28,784	12,019	1,052	1,052
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	11,515	1,703	1,241	1,546
Long-term (over 1 year)	41,703	2,388	43,057	2,129
Inventories	42,961	-	34,845	-
Deferred charges	2,791	2,528	2,652	2,487
Prepayments	4,491	918	3,579	412
Foreclosed assets	1,442	246	2,380	241
Other	1,533	399	842	535
Total other assets	88,472	16,116	71,073	4,890

Inventories relate to real estate projects under development and real estate held for sale by the Bank’s subsidiaries Šiaulių Banko Turto Fondas UAB, ŠB TF UAB, Minera UAB and Šiaulių banko investicijų valdymas UAB.

Breakdown of inventories according to type	2010		2009	
	Group	Bank	Group	Bank
Appartments held for sale	7,247	-	8,481	-
Property held for sale or development	35,714	-	26,364	-
Total inventories	42,961	-	34,845	-

All inventories are accounted at lower of cost and net realisable value. Inventories are not pledged.

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

NOTE 20 ASSETS AND LIABILITIES RELATED TO A SUBSIDIARY THAT IS HELD FOR SALE

In 2010 Kėdainių oda UAB, a company controlled by the subsidiary of the Bank Šiaulių banko investicijų valdymas UAB, has became material to the Group and therefore is consolidated in these financial statements. The management of the Bank is taking steps to sell the investment into Kėdainių oda UAB in the near future, therefore assets, liabilities and profit and loss related to this subsidiary are disclosed in these financial statements as related to the subsidiary that is held for sale.

Profit (loss), net assets and cash flow information of the subsidiary for the year ended 31 December 2010 are presented in the tables below.

	Year ended as at 31 of December 2010
Sales income	4,376
Cost of goods sold	3,886
Gross profit (loss)	490
Sales and marketing expenses	-
Operating expenses	2,065
Other income (expenses)	-
Operating profit (loss)	(1,575)
Net profit (loss) from financial activities	(19)
(Loss) profit before income tax	(1,594)
Income tax	-
(Loss) profit from before impairment provision	(1,594)
(Loss) related to an impairment provision regarding the impairment of assets held (see below)	-
Net profit (loss) for the year	(1,594)

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2010 and identified that the recoverable amount is not lower than the book value of the assets therefore no impairment has been recognised.

Net assets and cash balance related to the subsidiary that is held for sale are provided below.

	As at 31 of December 2010
Long term assets	10,535
Short term assets (except for cash & cash equivalents)	1,919
Cash & cash equivalents	1
Total assets	12,455
Long term liabilities	-
Short term liabilities	882
Total liabilities	882
Total net asets related to discontinued operations	11,573 ,
Net assets attributable to Group	11,573

Cash flows related to the subsidiary that is held for sale for the financial year ended as at 31 December 2010 are provided below.

	2010
Net cash flow from (used in) operating activities	(2,271)
Net cash flow from (used in) investing activities	(10,556)
Net cash flow (used in) financing activities	12,828
Total net cash flow	1

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

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	26,417	26,441	6,145	6,187
Time deposits	62,317	62,317	23,232	23,233
Total correspondent accounts and deposits of other banks and financial institutions	88,734	88,758	29,377	29,420
Loans received from:				
Other banks	89,919	89,919	107,447	98,447
International organisations (see note 33)	133,163	133,163	57,293	57,293
Other organisations	57,251	57,251	52,155	52,155
Total loans received	280,333	280,333	216,895	207,895
Total	369,067	369,091	246,272	237,315
Short-term (up to 1 year)	114,645	114,669	95,712	86,755
Long-term (over 1 year)	254,422	254,422	150,560	150,560
Total	369,067	369,091	246,272	237,315

NOTE 22 DUE TO CUSTOMERS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Demand deposits:				
National government institutions	28,388	28,388	2,361	2,361
Local government institutions	58,364	58,364	26,920	26,920
Governmental and municipal companies	49,940	49,940	11,045	11,045
Corporate entities	127,925	128,020	96,898	96,914
Non-profit organisations	8,361	8,361	7,153	7,153
Individuals	129,131	129,131	97,428	97,428
Unallocated amounts due to customers	3,698	3,698	5,829	5,829
Total demand deposits	405,807	405,902	247,634	247,650
Time deposits:				
National government institutions	10,037	10,037	4,733	4,733
Local government institutions	801	801	8,531	8,531
Governmental and municipality companies	102,771	102,771	145,644	145,644
Corporate entities	154,510	154,510	157,421	157,421
Non-profit organisations	8,589	8,589	7,286	7,286
Individuals	989,784	989,784	957,575	957,575
Total time deposits	1,266,492	1,266,492	1,281,190	1,281,190
Total	1,672,299	1,672,394	1,528,824	1,528,840
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	1,613,172	1,613,267	1,492,945	1,492,961
Long-term (over 1 year)	59,127	59,127	35,879	35,879
Total	1,672,299	1,672,394	1,528,824	1,528,840

See effective interest rate on deposits disclosed in Note 32 *Interest rate risk*.

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

NOTE 23 SPECIAL AND LENDING FUNDS

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Special funds	9,289	9,289	4,612	4,612
Lending funds	18,722	18,722	26,680	26,680
Total	28,011	28,011	31,292	31,292
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	11,475	11,475	8,616	8,616
Long-term (over 1 year)	16,536	16,536	22,676	22,676
	28,011	28,011	31,292	31,292

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

Lending funds consist of loans from banks and financial institutions for granting special purpose credits.

NOTE 24 DEBT SECURITIES IN ISSUE

On 10 July 2009, the Bank issued 370-day bonds in the amount of EUR 1.22 million. Interest rate of 7.8 per cent. Bonds were repurchased on 15 July 2010.
On 4 November 2009, the Bank issued 370-day bonds in the amount of EUR 4.12 million. Interest rate of 5.0 per cent. Bonds were repurchased on 2 December 2010.
On 18 October 2010, the Bank issued 260-day bonds in the amount of EUR 5.25 million. Interest rate of 3.8 per cent. Maturity date is 5 July 2011.

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
260 day bonds denominated in LTL with interest rate of 3.8 %, maturity date 5 July 2011	5,291	5,291	-	-
370 day bonds denominated in EUR with interest rate of 7.8 %, maturity date 15 July 2010	-	-	464	464
370 day bonds denominated in EUR with interest rate of 5.0 %, maturity date 2 December 2010	-	-	3,691	3,691
Total	5,291	5,291	4,155	4,155

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

NOTE 25 OTHER LIABILITIES

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial liabilities:				
Finance lease liabilities	1,503	-	2,110	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	1,503	-	2,110	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	3,399	2,934	3,305	2,903
Advance amounts received from the buyers of assets	1,699	-	1,972	-
Deferred income	922	519	1,340	455
Other liabilities	360	267	344	273
Total non-financial liabilities	6,380	3,720	6,961	3,631
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	4,698	2,338	5,516	2,310
Long-term (over 1 year)	1,682	1,382	1,445	1,321
Total other liabilities	7,883	3,720	9,071	3,631

NOTE 26 NON-CONTROLLING INTEREST

	2010	2009
	Group	**Group**
Balance at 1 January	-	4,967
Profit for the accounting period	-	-
Effect of dividends paid	-	(3,923)
Increase (decrease) in non-controlling interest	-	(1,044)
Balance at 31 December	-	-

NOTE 27 SHARE CAPITAL

As at 31 December 2009, the Bank's share capital comprised 180,357,533 ordinary registered shares with par value of LTL 1 each. During 2010 Bank's share capital has been increased to LTL 204,857,533 by an additional issue of 24,500 thousand of ordinary shares with par value of LTL 1 each and issue price LTL 1.04 each. Excess of issue price over nominal amount totalled LTL 980 thousand and was recorded as share premium. Largest shareholder of the Bank contributed to the share capital through conversion of LTL 17,680 thousand of convertable loan (for more details see note 33). Increase of share has been registered in register of legal entities as at 22 June 2010.

As of 31 December 2010, the shareholders holding over 5% of the Bank's shares are listed in the table below:

Shareholders	**Share of the authorized capital held, %**
European Bank for Reconstruction and Development	22.44
Gintaras Kateiva	7.18
Algirdas Butkus	5.17
Total	34.79

NOTE 27 SHARE CAPITAL (CONTINUED)

Another 17 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.

Sixteen shareholders of the Bank including the European Bank for Reconstruction and Development, UAB Prekybos Namai Aiva, UAB Mintaka, Įmonių Grupė Alita AB, Algirdas Butkus, Gintaras Kateiva, Arvydas Salda, Kastytis Jonas Vyšniauskas, Sigitas Baguckas, Vigintas Butkus, Vytautas Junevičius, Justas Baguckas, Vita Adomaitytė, Jonas Bartkus, Daiva Kiburienė, and Donatas Savickas form a group which has a permit of the Bank of Lithuania to acquire a qualified share of the authorised capital and votes of the Bank equal to and exceeding 50 per cent. As of 31 December 2009, this group possessed 48.26 percent of the authorised capital and votes of the Bank.

As at 31 December 2010, the Bank had 3,601 shareholders (as at 31 December 2009: 3,525).

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 shall not be less than 1/20 of the profit available for appropriation. The statutory reserve may, by a decision of extraordinary general meeting of the shareholders, be used only to cover losses of the activities.

Other reserves
Other reserves has been created by the Bank's shareholders to cover expected future impairment losses on loans.

NOTE 28 CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2010 and as at 31 December 2009 no provisions were established for possible costs related to off-balance sheet commitments.

Contingent tax liabilities
The Tax Authorities have not carried out a full-scope tax audit of the Bank for the period from 2001 to 2010. 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.

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

	2010		2009	
	Group	**Bank**	**Group**	**Bank**
Financial guarantees issued	62,025	62,070	50,307	50,240
Letters of credit	4,472	4,472	2,904	2,904
Commitments to grant loans	94,145	89,495	72,733	70,180
Commitments to grant finance lease and acquire assets	-	-	-	-
Other commitments	2,745	2,745	10,913	10,814
Total	163,387	158,782	136,857	134,138

NOTE 29 DIVIDENDS

Dividends are declared during the annual general meeting of shareholders of the Bank when appropriation of profit for the reporting period is performed. In March 2010, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares. There were no dividends payable as at 31 December 2009 also.

NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2010 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									
Cash and cash equivalents	200,395	8,005	-	-	-	-	-	-	208,400
Due from other banks	-	-	122	652	401	2,955	-	17	4,147
Trading securities	-	-	25,194	20,666	6,349	10,826	18,193	98	81,326
Loans granted to customers, finance lease receivables	-	46,653	130,427	194,716	156,680	537,774	412,391	63,734	1 542,375
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	6,897	2,985		8,426	69,318	15,972	103,598
- held-to-maturity securities	-	-	-	1,419	10,271	98,519	103,846	-	214,055
Intangible assets	-	-	-	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	-	-	-	67,156	67,156
Other assets	98	17,253	3,960	341	8,804	36,186	9,680	36,627	112,949
Total assets	200,493	71,911	166,600	220,779	182,505	694,686	613,428	184,212	2, 334,614
Due to other banks and financial institutions	26,419	5,971	21,807	25,342	35,107	94,644	159,777	-	369,067
Due to customers	414,205	212,079	271,759	363,912	362,893	63,820	11,640	2	1,700,310
Debt securities in issue	-	-	-	-	5,291	-	-	-	5,291
Other liabilities	1,002	4,129	250	293	532	422	24	2,113	8,765
Shareholders' equity	-	-	-	-	-	-	-	251,181	251,181
Total liabilities and shareholders' equity	441,626	222,179	293,816	389,547	403,823	158,886	171,441	253,296	2,334,614
Net liquidity gap	(241,133)	(150,268)	(127,216)	(168,768)	(221,318)	535,800	441,987	(69,094)	-

The structure of the Group's assets and liabilities by maturity as at 31 December 2009 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	149,492	103,781	152,073	146,707	354,262	581,397	482,562	103,524	2,073,798
Total liabilities and shareholders' equity	257,980	304,051	411,823	332,871	302,329	92,608	116,834	255,302	2, 073,798
Net liquidity gap	(108,488)	(200,270)	(259,750)	(186,164)	51,933	488,789	365,728	(151,778)	-

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

NOTE 30 LIQUIDITY RISK (CONTINUED)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2010 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									
Cash and cash equivalents	200,392	8,005	-	-	-	-	-	-	208,397
Due from other banks	-	-	122	652	401	2,955	-	17	4,147
Trading securities	-	-	25,194	20,666	3,429	10,826	18,193	98	78,406
Loans granted to customers, finance lease receivables	-	76 ,64	177,513	251,647	221,186	506,889	364,288	59,122	1,657,609
Investment securities	-	-	-	-	-	-	-	-	-
- available-for-sale securities	-	-	6,897	2,985	-	8,426	69,318	1,749	89,375
- held-to-maturity securities	-	-	-	1,419	3,851	98,519	103,846	-	207,635
Investments in subsidiaries	-	-	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	-	-	-	43,699	43,699
Other assets	3	13,103	252	334	465	925	455	12,354	27,891
Total assets	200,395	98,072	209,978	277,703	229,332	628,540	556,100	134,534	2,334,654
Due to other banks and financial institutions	26,443	5,971	21,807	25,342	35,107	94,644	159,777	-	369,091
Due to customers	414,300	212,079	271,759	363,912	362,893	63,820	11,640	2	1,700,405
Debt securities in issue	-	-	-	-	5,291	-	-	-	5,291
Other liabilities	76	1,868	119	127	148	130	24	1,228	3,720
Shareholders' equity	-	-	-	-	-	-	-	256,147	256,147
Total liabilities and shareholders' equity	440,819	219,918	293,685	389,381	403,439	158,594	171,441	257,377	2,334,654
Net liquidity gap	(240,424)	(121,846)	(83,707)	(111,678)	(174,107)	469,946	384,659	(122,843)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2009 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	149,272	177,835	156,166	157, 969	371,548	536,322	447,182	62,976	2,059,270
Total liabilities and shareholders' equity	256,000	301,606	402,555	332,646	301,990	92,486	116,795	255,192	2,059,270
Net open position	(106,728)	(123,771)	(246,389)	(174,677)	69,558	443,836	330,387	(192,216)	-

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2010 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	7,029	1,747	8,776	25,437	174,187	208,400
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	3,466	-	3,466	24,524	53,336	81,326
Loans granted to customers, finance lease receivables	26,469	-	26,469	528,961	986,945	1,542,375
Investment securities		-	-	-	-	-
- available-for-sale securities	538	-	538	44,377	58,683	103,598
- held-to-maturity securities	6,853	-	6,853	104,637	102,565	214,055
Intangible assets	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	67,156	67,156
Other assets	12	-	12	8,221	104,716	112,949
Total assets	44,367	1,747	46,114	740,304	1,548,196	2,334,614
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	254,847	114,122	369,067
Due to customers	42,516	904	43,420	464,653	1,192,237	1,700,310
Bonds issued	-	-	-	-	5,291	5,291
Other liabilities	31	18	49	388	8,328	8,765
Shareholders' equity	486	-	486	(939)	251,634	251,181
Total liabilities and shareholders' equity	43,131	922	44,053	718,949	1 ,571,612	2,334,614
Net balance sheet position	1,236	825	2,061	21,355	(23,416)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	453	825	1,278	22,138	(23,416)	-

The Group's open positions of prevailing currencies as at 31 December 2009 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	42,430	1,087	43,517	808,083	1,222,198	2,073,798
Liabilities and shareholders' equity	43,382	409	43,791	667,087	1,362,920	2,073,798
Net balance sheet position	(952)	678	(274)	140,996	(140,722)	-
Open currency exchange transactions	240	84	324	10,034	(10,358)	-
Net open position	(712)	762	50	151,030	(151,080)	-

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

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS (CONTINUED)

The Bank's open positions of prevailing currencies as at 31 December 2010 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	7,029	1,747	8 ,776	25,437	174,184	208,397
Due from other banks	-	-	-	4,147	-	4,147
Trading securities	3,466	-	3,466	21,604	53,336	78,406
Loans granted to customers, finance lease receivables	26,469	-	26,469	555,546	1,075,594	1,657,609
Investment securities	-	-	-	-	-	-
- available-for-sale securities	538	-	538	44,377	44,460	89,375
- held-to-maturity securities	6,853	-	6,853	101,717	99,065	207,635
Investments in subsidiaries	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	43,699	43,699
Other assets	11		11	1,756	26,124	27,891
Total assets	44,366	1,747	46,113	754,584	1,533,957	2,334,654
Liabilities and shareholders' equity						
Due to other banks and financial institutions	98	-	98	254,847	114,146	369,091
Due to customers	42,516	904	43 ,420	464,653	1,192,332	1,700,405
Bonds issued	-	-	-	-	5,291	5,291
Other liabilities	31	18	49	67	3,604	3,720
Shareholders' equity	486	-	486	(939)	256,600	256,147
Total liabilities and shareholders' equity	43,131	922	44,053	718,628	1,571,973	2,334,654
Net balance sheet position	1,235	825	2,060	35,956	(38,016)	-
Open currency exchange transactions	(783)	-	(783)	783	-	-
Net open position	452	825	1,277	36,739	(38,016)	-

The Bank's open positions of prevailing currencies as at 31 December 2009 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	42,430	1,087	43,517	806,334	1,209,419	2,059,270
Liabilities and shareholders' equity	43,382	409	43,791	667,087	1,348,392	2,059,270
Net balance sheet position	(952)	678	(274)	139,247	(138 ,973)	-
Open currency exchange transactions	240	84	324	10,034	(10,358)	-
Net open position	(712)	762	50	149,281	(149,331)	-

*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.

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

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

NOTE 32 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2010. The Bank's assets and liabilities shown at their carrying amounts categorized by the earlier of contractual repricing or maturity dates. Details of the Group's interest rate risk as at 31 December 2010 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
Assets							
Cash and cash equivalents	7,980	-	-	-	-	200,420	208,400
Due from other banks	-	122	652	401	2,955	17	4,147
Trading securities	-	25,194	20,666	6,349	29,019	98	81,326
Loans granted to customers, finance lease receivables	258,863	455,563	646,032	41,322	86,407	54,188	1,542,375
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	6,897	2,985		77,744	15,972	103,598
- held-to-maturity securities	-	-	1,419	10,271	202,365	-	214,055
Intangible assets	-	-	-	-	-	608	608
Tangible fixed assets	-	-	-	-	-	67,156	67,156
Other assets	-	-	-	1,387	-	111,562	112,949
Total assets	266,843	487,776	671,754	59,730	398,490	450,021	2,334,614
Due to other banks and financial institutions	85,975	120,835	106,080	22,430	4,751	28,996	369,067
Due to customers	217,207	281,399	355,703	356,614	54,663	434,724	1,700,310
Bonds issued	-	-	-	5,291	-	-	5,291
Other liabilities	-	-	-	-	-	8,765	8,765
Shareholders' equity	-	-	-	-	-	251,181	251,181
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,666	2,334,614
Interest rate sensitivity gap	(36,339)	85,542	209,971	(324,605)	339,076	(273,645)	-

Details of the Group's interest rate risk as at 31 December 2009 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	286,605	472,954	614,231	132,420	228,567	339,021	2,073,798
Total liabilities and shareholders' equity	384,640	504,619	329,762	283,954	37,543	533,280	2,073,798
Interest rate sensitivity gap	(98,035)	(31,665)	284,469	(151,534)	191,024	(194,259)	-

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

NOTE 32 INTEREST RATE RISK (CONTINUED)

Details of the Bank's interest rate risk as at 31 December 2010 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
Assets							
Cash and cash equivalents	7,980	-	-	-	-	200,417	208,397
Due from other banks	-	122	652	401	2,955	17	4,147
Trading securities	-	25,194	20,666	3,429	29,019	98	78,406
Loans granted to customers, finance lease receivables	279,815	456,226	680,315	111,930	82,485	46,838	1,657,609
Investment securities	-	-	-	-	-	-	-
- available-for-sale securities	-	6,897	2,985		77,744	1,749	89,375
- held-to-maturity securities	-	-	1,419	3,851	202,365	-	207,635
Investments in subsidiaries	-	-	-	-	-	16,889	16,889
Intangible assets	-	-	-	-	-	606	606
Tangible fixed assets	-	-	-	-	-	43,699	43,699
Other assets	-	-	-	-	-	27,891	27,891
Total assets	287,795	488,439	706,037	119,611	394,568	338,204	2,334,654
Due to other banks and financial institutions	85,975	120,835	106,080	22,430	4,751	29,020	369,091
Due to customers	217,207	281,399	355,703	356,614	54,663	434,819	1,700,405
Bonds issued	-	-	-	5,291	-	-	5,291
Other liabilities	-	-	-	-	-	3,720	3,720
Shareholders' equity	-	-	-	-	-	256,147	256,147
Total liabilities and shareholders' equity	303,182	402,234	461,783	384,335	59,414	723,706	2,334,654
Interest rate sensitivity gap	(15,387)	86,205	244,254	(264,724)	335,154	(385,502)	-

Details of the Bank's interest rate risk as at 31 December 2009 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	354,972	450,390	607,277	176,854	215,928	253,849	2,059,270
Total liabilities and shareholders' equity	384,640	495,619	329,762	283,954	37,543	527,752	2,059,270
Interest rate sensitivity gap	(29,668)	(45,229)	277,515	(107,100)	178,385	(273,903)	-

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

NOTE 32 INTEREST RATE RISK (CONTINUED)

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 2010		31 December 2009	
	LTL	Other currencies	LTL	Other currencies
Assets				
Due from Central bank	0.56	-	0.45	-
Due from other banks	1.65	3.19	0.67	0.82
Debt securities	4.01	4.82	6.16	4.34
Finance lease receivables	5.98	4.93	9.75	4.80
Loans granted (before provisions)	4.89	4.48	9.51	4.10
Liabilities				
Due to other banks	1.96	2.89	5.45	2.31
Due to financial institutions	4.28	2.17	2.30	2.72
Deposits	3.16	2.21	6.85	4.97
Debt securities in issue	3.93	4.76	-	5.71

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

a) management of the Bank, includes the members of the Bank's Supervisory Council and Board;
b) subsidiaries of the Bank, includes Šiaulių banko lizingas UAB, Šiaulių banko investicijų valdymas UAB, Šiaulių banko turto fondas UAB, SBTF UAB, Minera UAB and Kėdainių oda UAB;
c) other related parties, include shareholders acting jointly in accordance with the Agreement of Shareholders (see Note 27), the close family members of these shareholders and management of the Bank, legal entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entities resides with these shareholders and management of the Bank.

During 2010, 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 year-end balances of loans granted to and deposits accepted from the Bank's related parties, except for subsidiaries, and their average annual interest rates (calculated as weighted average) were as follows:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2010	31 December 2009	2010	2009	31 December 2010	31 December 2009	2010	2009
Members of the Council and the Board	921	589	4.29	6.00	6,784	5,987	5.42	5.13
Other related parties (excluding subsidiaries of the Bank)	4,705	10,156	1.81	4.96	233,488	280,881	4.50	5.45

As at 31 December 2010 balance of allowances for impairment losses that are related to balances of loans to related parties was equal to LTL 7,554 thousand (as at 31 December 2009: LTL 4,470 thousand). During 2010 losses incurred due to the increase in the allowances for impairment losses were LTL 3,084 thousand.

Transactions with EBRD:

The Bank has received loans from the EBRD, balance of which as at 31 December 2010 was equal to LTL 95,950 thousand (31 December 2009: LTL 57,293 thousand). Loan related interest and other expenses for year 2010 amounted to LTL 3,029 thousand (2009: LTL 2,726 thousand).

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

NOTE 33 RELATED-PARTY TRANSACTIONS (CONTINUED)

In 2010 the Bank received loan amounting to EUR 30 million (LTL 103,584 thousand) repayable by 2014 from EBRD. EUR 5,120 million (LTL 17,680 thousand) of the loan has been converted into share capital of the bank in 2010. EBRD may convert remaining amount of the loan into share capital of the Bank under the conditions described in the loan agreement.

Balances of transactions with the subsidiaries are given below:

	Balances of deposits		Average annual interest rates		Balances of loans		Average annual interest rates	
	31 December 2010	31 December 2009	2010	2009	31 December 2010	31 December 2009	2010	2009
Non-financial institutions	95	16	0.15	0.00	128,466	78,955	3.50	7.59
Financial institutions	24	43	0.00	0.00	118,772	111,430	4.60	7.04

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank's holding is 100%), Šiaulių banko investicijų valdymas UAB (the Bank‘s holding is 100%), Šiaulių banko lizingas UAB (the Bank‘s holding is 100%), ŠB TF UAB (the Bank‘s holding is 100%), Minera UAB (the Bank‘s holding is 100%), Kėdainių oda UAB (indirect control of 100%).

	2010	2009
Assets		
Demand deposits	-	-
Loans	247,238	190,385
Other assets	21	28
Liabilities and shareholders' equity		
Demand deposits	119	59
Bank's investment	16,889	9,384

Income and expenses arising from transactions with subsidiaries:

	2010	2009
Income		
Interest	9,840	14,519
Commission income	207	356
Income from foreign exchange operations	6	1
Other income	192	217
Expenses		
Operating expenses	36	28

Remuneration of the management of the Bank

During 2010, the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 1,670 thousand (2009: LTL 1,876 thousand). Both in 2010 and 2009 the Bank has not made payments to the Bank's Supervisory Council members.

NOTE 33 CONCENTRATION EXPOSURE

As at 31 December 2010, 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 55.0 million (the whole amount represents commitments to provide credit facilities), i.e. 21.68% of the Bank's calculated capital (2009: LTL 61.8 million and 24.56 % of the Bank's calculated capital).

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

NOTE 35 FINANCIAL GROUP INFORMATION

According to local legislation the Bank is required to prepare consolidated statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity for the Financial group. Financial group includes the Bank and its leasing subsidiary.

STATEMENT OF FINANCIAL POSITION

	31 December 2010		31 December 2009	
	Fin. group	**Bank**	**Fin. group**	**Bank**
ASSETS				
Cash and cash equivalents	208,400	208,397	168,696	168,651
Due from other banks	4,147	4,147	2,214	121
Trading securities	78,406	78,406	121	2,214
Loans to customers	1,549,828	1,657,609	1,507,461	1,605,635
Finance lease receivables	103,995	-	101,412	-
Investment securities:				
- available-for-sale	89,375	89,375	72,083	72,083
- held to maturity	207,635	207,635	143,068	143,068
Investments in subsidiarines	14,889	16,889	7,384	9,384
Intangible assets	608	606	603	600
Tangible fixed assets	50,674	43,699	52,048	45,179
Prepayment of income tax	1,598	1,598	2,221	2,221
Deferred tax asset	10,436	10,177	5,445	5,224
Other assets	18,052	16,116	10,903	4,890
Total assets	**2,338,043**	**2,334,654**	**2,073,659**	**2,059,270**
LIABILITIES				
Due to other banks and financial institutions	369,067	369,091	246,272	237,315
Due to customers	1,672,394	1,672,394	1,528,840	1,528,840
Special and lending funds	28,011	28,011	31,292	31,292
Debt securities in issue	5,291	5,291	4,155	4,155
Current incom tax liabilities	-	-	-	-
Deferred income tax liabilities	-	-	-	-
Other liabilities	6,753	3,720	8,888	3,631
Total liabilities	**2,081,516**	**2,078,507**	**1,819,447**	**1,805,233**
EQUITY				
Capital and reserves attributable to equity holders of the Bank				
Share capital	204,858	204,858	180,358	180,358
Share Premium	46,661	46,661	45,681	45,681
Reserve capital	2,611	2,611	2,611	2,611
Other reserves	10,000	10,000	10,000	10,000
Statutory rezerve	6,522	6,422	6,081	5,981
Financial assets revaluation rezerve	1,369	1,369	590	590
Retained earnings	(15,494)	(15,774)	8,891	8,816
Total equity	**256,527**	**256,147**	**254,212**	**254,037**
Total liabilities and equity	**2,338,043**	**2,334,654**	**2,073,659**	**2,059,270**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

		2010		**2009**	
		Fin. group	**Bank**	**Fin. group**	**Bank**
Interest and similar income		111,993	107,379	145,907	140,474
Interest expense and similar charges		(78,634)	(78,540)	(113,601)	(112,878)
Net interest income		**33,359**	**28,839**	**32,306**	**27,596**
Fee and commission income		12,127	12,325	12,588	12,935
Fee and commission expense		(4,465)	(4,387)	(4,472)	(4,399)
Net fee and commission income		**7,662**	**7,938**	**8,116**	**8,536**
Provision for impairment losses		(45,831)	(43,915)	(51,575)	(49,794)
Net gain from operations with securities		3,088	3,088	321	321
Net foreign exchange gain		2,714	2,715	2,401	2,402
Gain from disposal of assets		29	165	(299)	14
Other income		1,589	787	1,113	508
Administrative and other operating expenses		(31,398)	(28,572)	(34,749)	(31,713)
Operating profit (loss)		**(28,788)**	**(28,955)**	**(42,366)**	**(42,130)**
Dividends from investments in subsidiaries		-	-	4,877	6,377
Profit (loss) before income tax		**(28,788)**	**(28,955)**	**(37,489)**	**(35,753)**
Income tax expense		4,844	4,806	5,858	5,639
Profit (loss) for the year		**(23,944)**	**(24,149)**	**(31,631)**	**(30,114)**
Other comprehensive income					
Gain (loss) from revaluation of financial assets		599	599	1,467	1,467
Deferred income tax on gain (loss) from revaluation of financial assets		180	180	(197)	(197)
Other comprehensive income, net of tax		779	779	1,270	1,270
Total comprehensive income		**(23,165)**	**(23,370)**	**(30,361)**	**(28,844)**
(Loss) attributable to:					
Equity holders of the Bank		(23,944)	(24,149)	(31,631)	(30,114)
Non-controlling interest	25	-	-	-	-
		(23,944)	(24,149)	(31,631)	(30,114)
Total comprehensive (loss) attributable to:					
Equity holders of the Bank		(23,165)	(23,370)	(30,361)	(28,844)
Non-controlling interest		-	-	-	-
		(23,165)	(23,370)	(30,361)	(28,844)
Basic and diluted earnings (loss) per share (in LTL per share)		(0.12)	(0.12)	(0.18)	(0.17)

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

		Year ended			
		31 December 2010		31 December 2009	
	Notes	**Fin. group**	**Bank**	**Fin.group**	**Bank**
Operating activities					
Interest received		101,746	96,019	144,284	138,683
Interest paid		(78,390)	(78,296)	(110,093)	(109,370)
Fees and commissions received		12,127	12,325	12,588	12,935
Fees and commissions paid		(4,465)	(4,387)	(4,472)	(4,399)
Cash inflows from trade in trading securities		4,352	4,352	(268)	(268)
Net income from foreign exchange operations		2,731	2,732	2,615	2,616
Recoveries on loans previously written off		1,240	790	313	72
Salaries and related payments to and on behalf of employees		(16,735)	(15,590)	(19,132)	(17,809)
Other cash receipts, sale of assets		1,589	787	1,113	508
Other cash payments		(12,045)	(10,652)	(14,629)	(13,486)
Income tax paid		-	-	(2,646)	(2,627)
Net cash flow from operating activities before change in operating assets and liabilities		**12,150**	**8,080**	**9,673**	**6,855**
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		(77,066)	(77,066)	977	977
(Increase)/decrease in loans to credit and financial institutions		5,968	(1,375)	14,706	43,343
(Increase) in loans to customers		(106,097)	(102,253)	7,763	(16,592)
(Increase) in other current assets		(6,923)	(11,046)	6,869	5,673
Increase in liabilities					
Increase/(decrease) in liabilities to credit and financial institutions		36,847	45,828	(206,352)	(206,419)
Increase in deposits		143.584	143.584	263,366	263,366
Increase/(decrease) in special and lending funds		(3.281)	(3.281)	593	593
Increase/(decrease) in other liabilities		(1.351)	873	(2,383)	(201)
Change		**(8,319)**	**(4,736)**	**85,539**	**90,740**
Net cash flow from/ (used in) operating activities		**3,831**	**3,344**	**95,212**	**97,595**
Investing activities					
(Purchase) of tangible and intangible fixed assets		(4.005)	(2.190)	(3,392)	(3,209)
Disposal of tangible and intangible fixed assets		2.642	1.356	3,031	2,932
(Purchase) of held-to-maturity securities		(70.820)	(70.820)	(2,846)	(2,846)
Proceeds from redemption of held-to-maturity securities		14.220	14.220	6,816	6,816
Dividends received		68	68	5,082	6,582
(Purchase) of available-for-sale securities		(176.148)	(176.148)	(125,560)	(125,560)
Sale of available-for-sale securities		165.133	165.133	76,279	76,279
Repurchase of shares of subsidiary companies from non-controlling		(7.505)	(7.505)	(8,022)	(12,022)
Net cash flow used in investing activities		**(76.415)**	**(75.886)**	**(48,612)**	**(51,028)**
Financing activities					
Increase in share capital	27	7,800	7,800	-	-
Proceeds from convertable loan received from the shareholder	33	103,584	103,584		
Dividends paid		(2)	(2)	(1)	(1)
Debt securities in issue		20.134	20.134	40,387	40,387
Redemption of debt securities in issue		(19.228)	(19.228)	(61,229)	(61,229)
Net cash flow from financing activities		**112,288**	**112,288**	**(20,843)**	**(20,843)**
Net increase in cash and cash equivalents		**39.704**	**39.746**	**25,757**	**25,724**
Cash and cash equivalents at 1 January		**168.696**	**168.651**	**142,939**	**142,927**
Cash and cash equivalents at 31 December	10	**208.400**	**208.397**	**168,696**	**168,651**

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings	Total
31 December 2008		**180,358**	**45,681**	**2,611**	**(680)**	**3,505**	**-**	**53,098**	**284,573**
Formation of statutory reserve		-	-	-	-	2,576	-	(2,576)	-
Formation of other reserves		-	-	-	-	-	10,000	(10,000)	-
Total comprehensive income		-	-	-	1,270	-	-	(31,631)	(30,361)
31 December 2009		**180,358**	**45,681**	**2,611**	**590**	**6,081**	**10,000**	**8,891**	**254,212**
Formation of statutory reserve	27	-	-	-	-	441	-	(441)	-
Increase in share capital	27	24,500	980	-	-	-	-	-	25,480
Total comprehensive loss		-	-	-	779	-	-	(23,944)	(23,165)
31 December 2010		**204,858**	**46,661**	**2,611**	**1,369**	**6,522**	**10,000**	**(15,494)**	**256,527**