



ŠIAULIŲ BANKAS AB
FINANCIAL STATEMENTS
31 DECEMBER 2012

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

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

		Year ended			
		31 December 2012		31 December 2011	
	Notes	Group	Bank	Group (re-presented)	Bank
Continuing operations					
Interest and similar income	1	126,111	124,041	120,802	116,080
Interest expense and similar charges	1	(68,612)	(68,611)	(66,047)	(66,029)
Net interest income		57,499	55,430	54,755	50,051
Allowance for impairment losses	7	(30,402)	(28,192)	(10,621)	(9,561)
Allowance for impairment losses		(30,402)	(28,192)	(10,621)	(9,561)
Net interest income after allowance for impairment losses	7	27,097	27,238	44,134	40,490
Fee and commission income	2	16,545	16,617	14,208	14,152
Fee and commission expense	2	(8,445)	(7,944)	(5,727)	(5,703)
Net fee and commission income		8,100	8,673	8,481	8,449
Result from associated company	16	89	-	11	-
Net gain (loss) from operations with investment securities	3	10,608	9,606	(3,441)	(3,441)
Net foreign exchange gain		4,866	4,865	4,881	4,883
Net gain from revaluation of derivatives		4,185	4,185	-	-
Gain from disposal of assets	5	1,999	57	2,164	31
Other operating income	6	31,020	1,009	13,844	736
Other operating expenses	4	(72,813)	(39,503)	(55,402)	(36,636)
Operating profit		15,151	16,130	14,674	14,512
Dividends from investments in subsidiaries and associates		-	1,000	-	-
Profit from continuing operations before income tax		15,151	17,130	14,674	14,512
Discontinued operations					
Profit (loss) before income tax from discontinued operations	20	-	-	-	-
Income tax (expense)	8	(2,023)	(2,258)	(1,649)	(1,700)
Net profit for the year		13,128	14,872	13,023	12,812
Other comprehensive income (loss)					
Gain (loss) from revaluation of financial assets		6,244	6,244	(3,410)	(4,781)
Gain from sale of financial assets		1,830	1,830	2,109	2,109
Amortisation of revaluation related to held-to-maturity investments		(556)	(556)	(355)	(355)
Deferred income tax on gain (loss) from revaluation of financial assets		(1,142)	(1,142)	476	476
Other comprehensive income (loss), net of deferred tax		6,376	6,376	(1,180)	(2,551)
Total comprehensive income (loss) for the year		19,504	21,248	11,843	10,261
Net profit (loss) attributable to:					
Owners of the Bank		13,027	14,872	13,023	12,812
From continuing operations		13,027	14,872	13,023	12,812
From discontinued operations		-	-	-	-
Non-controlling interest		101	-	13,023	12,812

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Total comprehensive income (loss) attributable to:

Owners of the Bank	19,403	21,248	11,843	10,261
Non-controlling interest	101	-	-	-
	<u>19,504</u>	<u>21,248</u>	<u>11,843</u>	<u>10,261</u>

Basic and diluted earnings per share (in LTL per share)
attributable to owners of the Bank

9	0,06	0,06	0.06	0.06
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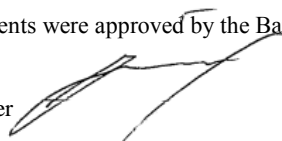
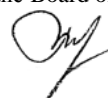
(All amounts are in LTL thousand, unless otherwise stated)

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

		31 December 2012		31 December 2011	
	Notes	Group	Bank	Group	Bank
ASSETS					
Cash and cash equivalents	10	221,855	221,805	223,846	223,844
Trading securities	12	51,198	51,198	16,574	16,574
Due from other banks		4,137	4,137	4,147	4,147
Derivative financial instruments	11	13,690	13,690	-	-
Loans to customers	13	1,731,858	2,052,809	1,786,631	2,069,758
Finance lease receivables	14	183,863	-	163,741	-
Investment securities:					
- available-for-sale	15	207,611	205,385	35,617	32,068
- held-to-maturity	15	273,031	273,031	306,349	303,281
Investments in subsidiaries and associates	16	-	51,791	18,392	16,889
Intangible assets	17	1,207	903	916	894
Property, plant and equipment	18	52,988	38,211	46,874	39,632
Investment property	26	37,508	7,517	33,314	7,946
Current income tax prepayment		208	-	10	-
Deferred income tax asset	8	6,997	5,553	9,091	8,952
Inventories	19	132,803	-	44,327	-
Other financial assets	19	5,970	133	23,125	116
Other non-financial assets	19	17,779	5,303	10,351	7,465
Assets related to a subsidiary that is held for sale	20	-	-	13,999	-
Total assets		2,942,703	2,931,466	2,737,304	2,731,566
LIABILITIES					
Due to other banks and financial institutions	21	406,270	408,568	470,889	470,900
Due to customers	22	2,165,691	2,165,852	1,893,885	1,894,167
Debt securities in issue	24	22,912	22,912	45,284	45,284
Special and lending funds	23	7,294	7,294	16,900	16,900
Current income tax liabilities		390	-	138	-
Deferred income tax liabilities	8	5,668	-	-	-
Other financial liabilities	25	3,456	-	3,922	-
Other non-financial liabilities	25	16,566	7,984	10,772	6,707
Liabilities related to a subsidiary that is held for sale	20	-	-	1,296	-
Total liabilities		2,628,247	2,612,610	2,443,086	2,433,958
EQUITY					
Share capital	27	234,858	234,858	234,858	234,858
Share premium	27	47,861	47,861	47,861	47,861
Reserve capital	27	2,611	2,611	2,611	2,611
Other reserves	27	-	-	-	-
Statutory reserve	27	1,891	1,289	960	648
Financial assets revaluation reserve		5,194	5,194	(1,182)	(1,182)
Retained earnings		21,206	27,043	9,110	12,812
		313,621	318,856	294,218	297,608
Non-controlling interest		835	-	-	-
Total equity		314,456	318,856	294,218	297,608
Total liabilities and equity		2,942,703	2,931,466	2,737,304	2,731,566

These financial statements were approved by the Bank's Board and signed on behalf of the Board on 7 March 2013 by:

Audrius Žiugžda
Chief Executive Officer

Vita Adomaitytė
Chief accountant

The accounting policies and notes on pages 9 to 91 constitute an integral part of these financial statements.

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THE GROUP'S STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to the owners of the Bank							Total	Non-controlling interest	Total equity
		Share capital	Share premium	Reserve capital	Financial assets revaluation	Statutory reserve	Other reserves	Retained earnings			
31 December 2010		204,858	46,661	2,611	(2)	6,667	10,000	(19,614)	251,181	-	251,181
Release of statutory and other reserves to cover losses		-	-	-	-	(5,707)	(10,000)	15,707	-	-	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200	-	31,200
Total comprehensive income (loss)		-	-	-	(1,180)	-	-	13,017	11,837	-	11,837
31 December 2011		234,858	47,861	2,611	(1,182)	960	-	9,110	294,218	-	294,218
Transfer to statutory reserve		-	-	-	-	931	-	(931)	-	-	-
Increase in share capital	27	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary										734	734
Total comprehensive income (loss)		-	-	-	6,376	-	-	13,027	19,403	101	19,504
31 December 2012		234,858	47,861	2,611	5,194	1,891	-	21,206	313,621	835	314,456

The accounting policies and notes on pages 9 to 91 constitute an integral part of these financial statements.

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THE BANK'S STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital 204,858	Share premium 46,661	Reserve capital 2,611	Financial assets revaluation 1,369	Statutory reserve 6,422	Other reserves 10,000	Retained earnings (15,774)	Total 256,147
31 December 2010									
Release from statutory and other reserves to cover losses	27	-	-	-	-	(5,774)	(10,000)	15,774	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200
Total comprehensive income (loss)		-	-	-	(2,551)	-	-	12,812	10,261
31 December 2011		234,858	47,861	2,611	(1,182)	648	-	12,812	297,608
Transfer to statutory reserve	27	-	-	-	-	641	-	(641)	-
Total comprehensive income (loss)		-	-	-	6,376	-	-	14,872	21,248
31 December 2012		234,858	47,861	2,611	5,194	1,289		27,043	318,856

The accounting policies and notes on pages 9 to 91 constitute an integral part of these financial statements.

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

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

	Notes	Year ended			
		31 December 2012		31 December 2011	
		Group	Bank	Group (re-presented)	Bank
Operating activities					
Interest received		105,620	103,312	102,777	98,045
Interest paid		(66,991)	(66,990)	(62,359)	(62,364)
Fees and commissions received		16,545	16,617	14,208	14,152
Fees and commissions paid		(8,445)	(7,944)	(5,724)	(5,703)
Cash (outflows) inflows from trade in trading securities		10,154	9,152	(3,363)	(3,363)
Net inflows from foreign exchange operations		4,796	4,795	4,608	4,610
Recoveries on loans previously written off		1,243	715	1,756	1,157
Salaries and related payments to and on behalf of employees		(29,088)	(23,399)	(26,264)	(21,623)
Other cash receipts, sale of assets		26,447	1,066	13,807	710
Other cash payments		(14,794)	(14,324)	(26,010)	(12,451)
Income tax (paid)		(957)	-	-	-
Net cash flow from operating activities before change in operating assets and liabilities		44,530	23,000	13,436	13,170
Change in operating assets and liabilities:					
(Increase) decrease in trading securities		(33,154)	(33,154)	66,425	63,505
Decrease (increase) in loans to credit and financial institutions		10	10	570	(55,520)
Increase in loans to customers		(807)	(18,192)	(423,859)	(366,698)
Decrease (increase) in other current assets		(56,805)	2,052	10,267	8,535
(Decrease) increase in liabilities to credit and financial institutions		(64,619)	(62,332)	99,906	99,883
Increase in deposits		271,806	271,685	220,799	220,986
(Decrease) in special and lending funds		(9,606)	(9,606)	(11,210)	(11,210)
Increase in other liabilities		3,692	1,058	7,824	4,175
Decrease (increase) of net assets of a subsidiary held for sale	20	-	-	(1,130)	-
Change		110,517	151,521	(30,408)	(36,344)
Net cash flow from (used in) operating activities		155,047	174,521	(16,972)	(23,174)
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(5,296)	(2,439)	(14,476)	(7,877)
Disposal of property, plant and equipment and intangible assets		4,778	2,719	5,256	1,876
(Purchase) of held-to-maturity securities		(31,400)	(31,400)	(31,424)	(28,356)
Proceeds from redemption of held-to-maturity securities		76,405	73,337	29,951	23,531
Dividends received		60	1,060	42	42
(Purchase) of available-for-sale securities		(349,138)	(349,006)	(211,236)	(210,667)
Sale of available-for-sale securities		188,519	188,519	189,732	189,732
(Purchase) of associated companies	16	-	-	(5,767)	-
Acquisition of subsidiary, net of cash acquires	16	(16,973)	(35,357)	-	-
Net cash flow from (used in) investing activities		(133,045)	(152,567)	(37,922)	(31,719)
Financing activities					
Increase in share capital	27	-	-	31,200	31,200
Debt securities in issue	33	1,514	1,514	111,933	111,933
Redemption of debt securities in issue		(25,507)	(25,507)	(72,793)	(72,793)
Net cash flow from (used in) financing activities		(23,993)	(23,993)	70,340	70,340
Net increase (decrease) in cash and cash equivalents		(1,991)	(2,039)	15,446	15,447
Cash and cash equivalents at 1 January		223,846	223,844	208,400	208,397
Cash and cash equivalents at 31 December	10	221,855	221,805	223,846	223,844

The accounting policies and notes on pages 9 to 91 constitute an integral part of these financial statements.

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

GENERAL INFORMATION

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

The Head Office of the Bank is located in Šiauliai, Tilžės str. 149, LT-76348. At the end of the reporting period the Bank had 14 branches and 42 client service units (2011: 14 branches and 38 client service units). As at 31 December 2012 the Bank had 481 employees (31 December 2011: 494). As at 31 December 2012 the Group had 556 employees (31 December 2011: 559 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 – ŠBTf, real estate management activities).
- Pavasaris UAB (hereinafter – Pavasaris, development of residential quarter),

The Group also had the following subsidiary:

- Kėdainių oda UAB (leather processing).

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*.

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, all derivative financial instruments and investment properties.

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 2012

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective for annual periods beginning on or after 1 July 2011). 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 amendment did not have an impact on the Bank and the Group's financial statements.

Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Bank and the Group

Presentation of Items of Other Comprehensive Income, amendments to IAS 1 (effective for annual periods beginning on or after 1 July 2012). The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank and the Group expect the amended standard to change presentation of their financial statements, but have no impact on measurement of transactions and balances.

IFRS 10, Consolidated Financial Statements. Replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities" (effective for annual periods beginning on or after 1 January 2014). IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after 1 January 2014). Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). Aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank and the Group are currently assessing the impact of the standard on their financial statements.

IAS 27 (revised 2011), Separate Financial Statements. (effective for annual periods beginning on or after 1 January 2014). The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Bank is currently assessing the impact of the amended standard on its financial statements.

Amended IAS 19, Employee Benefits (effective for annual periods beginning on or after 1 January 2013). Makes significant changes (i) to the recognition and measurement of defined benefit pension expense and termination benefits, and (ii) to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Bank and the Group are currently assessing the impact of the amended standard on their financial statements.

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

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Bank and the Group are currently assessing the impact of the amendments on the Group and the timing of its adoption by the Group.

Disclosures – Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

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.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

The group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of postacquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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 statement of comprehensive income for the reporting period. All non-monetary liabilities and assets are translated using the exchange rate prevailing on the date of acquisition.

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

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

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 statement of comprehensive income on all debt instruments 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income

Dividends are recognised in the statement of comprehensive income 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 2011 and 2012 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.

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.

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 statement of comprehensive income.

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.

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

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. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

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 the statement of comprehensive income. However interest calculated using the effective interest rate is recognised in the statement of comprehensive income

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 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.'

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

Impairment of financial assets

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant as well as for those that are not individually significant. 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 Statement of comprehensive income. 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 after all the necessary procedures to recover the asset 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 Statement of comprehensive income in impairment charge for credit losses.

In the case of 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 the statement of comprehensive income – is removed from other comprehensive income and recognised in the statement of comprehensive income.

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 2011 and 31 December 2012.

Gains and losses on disposals of fixed assets are determined by reference to their carrying amount and are charged to the Statement of comprehensive income.

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 statement of comprehensive income 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

Operating leases

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 Statement of comprehensive income on a straight-line basis over the period of lease.

a) Group company is the lessor

Operating leases

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

Finance leases

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 apartments 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 Statement of comprehensive income 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 probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be 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 Statement of comprehensive income 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 Šiauliai 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 Klaipėda 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 the statement of comprehensive income 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 other net 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 Statement of comprehensive income 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 Statement of comprehensive income 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.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise buildings for commercial activities and landplots for undetermined future use.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Group uses the size of the property measured in square meters.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is determined by comparable market prices, or, if these are unavailable, is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually by external or internal appraisers.

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for non-traded options), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a loan received, or interest rate floor in a loan granted, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss.

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

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 Board of the Bank 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 Group'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's 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 to grow.

Large entities are defined as entities employing more than 250 employees. Small and medium size entities are defined as entities 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.

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

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

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.

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.

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

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).

ŠIAULIŲ BANKAS AB
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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:

	2012		2011	
	Group	Bank	Group	Bank
			4,147	
Loans and advances to banks	4,137	4,137		4,147
Loans and advances to customers:	1,731,858	2,052,809	1,786,631	2,069,758
Loans and advances to financial institutions	-	216,789	1,319	174,886
Loans to individuals (Retail):	194,394	159,927	205,297	193,071
- Consumer loans	41,878	12,048	18,030	12,726
- Mortgages	95,290	95,290	103,516	103,516
- Credit cards	7,590	3,111	10,424	3,502
- Other (reverse repurchase agreements, other loans backed by securities, other)	49,636	49,478	73,327	73,327
Loans to business customers:	1,537,464	1,676,093	1,580,015	1,701,801
- Large corporates	132,834	132,834	176,391	176,391
- SME	1,281,193	1,419,822	1,293,075	1,417,006
- Central and local authorities, administrative bodies and other	123,437	123,437	110,549	108,404
Finance lease receivables	183,863	-	163,741	-
- Individuals	8,750	-	7,210	-
- Business customers	175,113	-	156,531	-
Trading assets:			16,216	16,216
- Debt securities	50,741	50,741	16,216	16,216
			-	-
Derivative financial instruments	13 690	13 690	-	-
Securities available for sale	203,641	203,641	30,379	30,379
- Debt securities	203,641	203,641	30,379	30,379
Investment securities held to maturity	273,031	273,031	306,349	303,281
- Debt securities	273,031	273,031	306,349	303,281
Other financial assets	5,970	133	23,125	116
Credit risk exposures relating to off –balance sheet items are as follows:				
Financial guarantees	88,313	88,360	73,351	73,396
Letters of credit	3,541	3,541	5,064	5,064
Loan commitments and other credit related liabilities	114,483	115,966	126,281	122,860
At 31 December	2,673,268	2,806,049	2,529,688	2,623,170

The table above represents a worst case scenario of credit risk exposure at 31 December 2012 and 2011, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are net carrying amount as reported in the balance sheet.

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1.5. Loans and advances

Loans and advances are summarised as follows:

31 December 2012

	2012			
	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	1,517,839	-	1,625,208	216,789
Past due but not impaired	128,477	-	125,920	-
Impaired	197,141	-	195,323	-
Gross	1,843,457	-	1,946,451	216,789
Less: allowance for impairment	111,599	-	110,431	-
Net	1,731,858	-	1,836,020	216,789

31 December 2011

	2011			
	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	1,594,398	1,319	1,708,322	174,886
Past due but not impaired	104,745	-	103,245	-
Impaired	176,752	-	171,841	-
Gross	1,875,895	1,319	1,983,408	174,886
Less: allowance for impairment	90,583	-	88,536	-
Net	1,785,312	1,319	1,894,872	174,886

During the year ended 31 December 2012, the Group's total loans and advances decreased by 1.8%. The Group's total impairment provision for loans and advances is LTL 111,599 thousand (2011: LTL 90,583 thousand) and it accounts for 6.05% of the respective portfolio (2011: 4.83%). The Group's impaired loans and advances to customers comprise 10.69% of the total portfolio (2011: 9.42%).

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.

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

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. 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.

31 December 2012

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	36,488	52,798	6,167	15,794	111,247
Watch	552	15,738	97	17,883	34,270
Substandard	919	10,694	318	7,280	19,211
Total	37,959	79,230	6,582	40,957	164,728

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	486,390	85,599	-	108,914	680,903
Watch	587,837	20,415	-	8,580	616,832
Substandard	43,633	6,074	-	5,669	55,376
Total	1,117,860	112,088	-	123,163	1,353,111

31 December 2011

	Group loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	14,847	57,324	8,504	43,990	124,665
Watch	772	15,699	41	18,122	34,634
Substandard	35	13,610	-	5,690	19,335
Total	15,654	86,633	8,545	67,802	178,634

	Group loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	455,593	61,477	1,319	99,183	617,572
Watch	558,232	103,767	-	6,833	668,832
Substandard	120,603	9,093	-	983	130,679
Total	1,134,428	174,337	1,319	106,999	1,417,083

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31 December 2012

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	9,884	52,798	2,896	15,636	81,214
Watch	551	15,738	69	17,883	34,241
Substandard	39	10,694	0	7,280	18,013
Total	10,474	79,230	2,965	40,799	133,468

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	634,227	85,599	216,789	108,914	1,045,529
Watch	578,629	20,415	-	8,580	607,624
Substandard	43,633	6,074	-	5,669	55,376
Total	1,256,489	112,088	216,789	123,163	1,708,529

31 December 2011

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Standard	10,233	57,324	3,303	43,990	114,850
Watch	580	15,699	41	18,122	34,442
Substandard	35	13,610	-	5,690	19,335
Total	10,848	86,633	3,344	67,802	168,627

	Bank loans to business customers				Total
	SME	Large corporates	Financial institutions	Central and local authorities and other	
Standard	575,692	61,477	174,886	99,183	911,238
Watch	562,064	103,767	-	6,833	672,664
Substandard	120,603	9,093	-	983	130,679
Total	1,258,359	174,337	174,886	106,999	1,714,581

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.

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.

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b) Loans and advances past due but not impaired. Past due but not impaired loans are loans for which principal or interest is past due but no allowance for impairment is recognized.

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	2,864	7,218	602	4,323	15,007
Past due 30-60 days	125	1,554	7	280	1,966
Past due 60-90 days	30	283	13	178	504
Past due more than 90 days	19	1,827	14	279	2,139
Total	3,038	10,882	636	5,060	19,616
Fair value of collateral	-	19,385	-	7,549	26,934

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	107,275	1,311	275	108,861
Fair value of collateral	178,388	7,193	707	186,288

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Past due up to 30 days	1,537	6,988	980	2,082	11,587
Past due 30-60 days	73	1,593	67	308	2,041
Past due 60-90 days	7	530	74	24	635
Past due more than 90 days	-	2,057	-	930	2,987
Total	1,617	11,168	1,121	3,344	17,250
Fair value of collateral	-	19,909	-	6,464	26,373

	Group loans to business customers			
	SME	Large corporates	Central and local authorities and other	Total
Past due up to 30 days	53,725	2,054	1,022	56,801
Past due 30-60 days	1,318	-	-	1,318
Past due 60-90 days	2,901	-	122	3,023
Past due more than 90 days	26,092	-	261	26,353
Total	84,036	2,054	1,405	87,495
Fair value of collateral	132,086	3,313	1,532	136,931

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	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	982	7,218	75	4,323	12,598
Past due 30-60 days	51	1,554	-	280	1,885
Past due 60-90 days	-	283	-	178	461
Past due more than 90 days	9	1,827	-	279	2,115
Total	1,042	10,882	75	5,060	17,059
Fair value of collateral	-	19,385	-	7,549	26,934

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	72,506	365	72	72,943
Past due 30-60 days	9,595	-	-	9,595
Past due 60-90 days	1,166	-	-	1,166
Past due more than 90 days	24,008	946	203	25,157
Total	107,275	1,311	275	108,861
Fair value of collateral	178,388	7,193	707	186,288

31 December 2011

	Bank loans to individuals (retail)				Total
	Consumer loans	Mortgages	Credit cards	Other	
Past due up to 30 days	1,101	6,988	76	2,082	10,247
Past due 30-60 days	61	1,593	-	308	1,962
Past due 60-90 days	-	530	-	24	554
Past due more than 90 days	-	2,057	-	930	2,987
Total	1,162	11,168	76	3,344	15,750
Fair value of collateral	-	19,909	-	6,464	26,373

	Bank loans to business customers			Total
	SME	Large corporates	Central and local authorities and other	
Past due up to 30 days	53,725	2,054	1,022	56,801
Past due 30-60 days	1,318	-	-	1,318
Past due 60-90 days	2,901	-	122	3,023
Past due more than 90 days	26,092	-	261	26,353
Total	84,036	2,054	1,405	87,495
Fair value of collateral	132,086	3,313	1,532	136,931

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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 and the Bank as security is as follows:

31 December 2012

31 December 2012

		Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total	
Impaired loans	2,055	12,143	1,504	11,519	27,221	
Fair value of collateral	-	7,460	-	1,482	8,942	

		Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total	
Impaired loans	37,451	132,469	-	169,920	
Fair value of collateral	19,025	73,517	-	92,542	

31 December 2011

31 December 2011

		Group loans to individuals (retail)			
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,656	13,036	3,111	5,906	24,709
Fair value of collateral	-	8,516	-	2,584	11,100

		Group loans to business customers		
	Large corporates	SME	Central and local authorities and other	Total
Impaired loans	-	149,644	2,399	152,043
Fair value of collateral	-	88,804	2,399	91,203

31 December 2012

31 December 2012

		Bank loans to individuals (retail)				
		Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans		1,509	12,143	388	11,519	25,559
Fair value of collateral		-	7,460	-	1,482	8,942

		Bank loans to business customers			
		SME	Large corporates	Central and local authorities and other	Total
Impaired loans		132,313	37,451	-	169,764
Fair value of collateral		73,517	19,025	-	92,542

31 December 2011

December 2011

		Bank loans to individuals (retail)			
	Consumer loans	Mortgages	Credit cards	Other	Total
Impaired loans	2,604	13,036	807	5,906	22,353
Fair value of collateral	-	8,516	-	2,584	11,100

		Bank loans to business customers			
	SME	Large corporates	Central and local authorities and other		Total
Impaired loans	149,488	-	-		149,488
Fair value of collateral	88,804	-	-		88,804

During 2012 the Bank's estimated interest income on impaired loans amounted to LTL 2,499 thousand (2011: LTL 3,557 thousand).

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

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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 2012 amounted to LTL 33 million (2011: LTL 50 million).

Renegotiated loans according to the class of financial assets.

31 December 2012

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Renegotiated loans	34	401	-	1,045	1,480
Bank loans to business customers					
	SME	Large corporates	Central and local authorities and other	Total	
Renegotiated loans		18,972	4,784	7,806	31,562

31 December 2011

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Renegotiated loans	8	743	-	2,842	3,593
Bank loans to business customers					
	SME	Large corporates	Central and local authorities and other	Total	
Renegotiated loans		43,517	2,856	-	46,373

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 2012 amounted to LTL 251 million (2011: LTL 298 million). Totally unsecured loans comprise only consumer loans, credit cards and loans issued by the Bank to its subsidiaries.

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31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	43,041	8,238	8,722	18,638	78,639
Loans collateralised by:	11	94,017	-	38,898	132,926
- residential real estate	11	81,890	-	14,421	96,322
- other real estate	-	5,951	-	19,989	25,940
- securities	-	153	-	1,494	1,647
- guarantees	-	5,927	-	913	6,840
- cash deposits	-	96	-	1,198	1,294
- other assets	-	-	-	883	883
Total	43,052	102,255	8,722	57,536	211,565

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	252,693	32,716	-	111,629	397,038
Loans collateralised by:	1,104,911	118,134	-	11,809	1,234,854
- residential real estate	71,004	930	-	1,016	72,950
- other real estate	747,232	79,073	-	8,227	834,532
- securities	40,158	4,798	-	-	44,956
- guarantees	150,159	2,378	-	2,443	154,980
- cash deposits	12,454	975	-	24	13,453
- other assets	83,904	29,980	-	99	113,983
Total	1,357,604	150,850	-	123,438	1,631,892

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	19,909	8,998	12,777	39,538	81,222
Loans collateralised by:	18	101,839	-	37,514	139,371
- residential real estate	18	87,596	-	13,426	101,040
- other real estate	-	6,557	-	21,186	27,743
- securities	-	180	-	698	878
- guarantees	-	6,558	-	69	6,627
- cash deposits	-	948	-	1,384	2,332
- Other assets	-	-	-	751	751
Total	19,927	110,837	12,777	77,052	220,593

	Group loans to business customers				
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	308,990	51,153	1,319	96,592	458,054
Loans collateralised by:	1,059,118	125,238	-	14,211	1,198,567
- residential real estate	58,625	930	-	2,319	61,874
- other real estate	714,731	78,007	-	7,039	799,777
- securities	43,392	258	-	-	43,650
- guarantees	146,184	4,902	-	4,604	155,690
- cash deposits	10,370	10,881	-	65	21,316
- other assets	85,816	30,260	-	184	116,260
Total	1,368,108	176,391	1,319	110,803	1,656,621

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Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	13,014	8,238	3,428	18,480	43,160
Loans collateralised by:	11	94,017	-	38,898	132,926
- residential real estate	11	81,890	-	14,421	96,322
- other real estate	-	5,951	-	19,989	25,940
- securities	-	153	-	1,494	1,647
- guarantees	-	5,927	-	913	6,840
- cash deposits	-	96	-	1,198	1,294
- other assets	-	-	-	883	883
Total	13,025	102,255	3,428	57,378	176,086

Bank loans to business customers					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	400,510	32,716	216,789	111,629	761,644
Loans collateralised by:	1,095,567	118,134	-	11,809	1,225,510
- residential real estate	71,004	930	-	1,016	72,950
- other real estate	751,181	79,073	-	8,227	838,481
- securities	26,158	4,798	-	-	30,956
- guarantees	150,159	2,378	-	2,443	154,980
- cash deposits	12,454	975	-	24	13,453
- other assets	84,611	29,980	-	99	114,690
Total	1,496,077	150,850	216,789	123,438	1,987,154

31 December 2011

Bank loans to individuals (retail)					
	Consumer loans	Mortgages	Credit cards	Other	Total
Unsecured loans	14,596	8,998	4,227	39,538	67,359
Loans collateralised by:	18	101,839	-	37,514	139,371
- residential real estate	18	87,596	-	13,426	101,040
- other real estate	-	6,557	-	21,186	27,743
- securities	-	180	-	698	878
- guarantees	-	6,558	-	69	6,627
- cash deposits	-	948	-	1,384	2,332
- other assets	-	-	-	751	751
Total	14,614	110,837	4,227	77,052	206,730

Bank loans to business customers					
	SME	Large corporates	Financial institutions	Central and local authorities and other	Total
Unsecured loans	449,200	51,155	174,886	96,592	771,832
Loans collateralised by:	1,042,682	125,238	-	11,812	1,179,732
- residential real estate	58,625	930	-	2,019	61,574
- other real estate	714,760	78,007	-	4,940	797,707
- securities	25,849	258	-	-	26,107
- guarantees	146,184	4,902	-	4,604	155,690
- cash deposits	10,370	10,881	-	65	21,316
- other assets	86,894	30,260	-	184	117,338
Total	1,491,882	176,393	174,886	108,404	1,951,564

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1.6. Finance lease receivables

Finance lease receivables are summarised as follows:

	2012			2011		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Neither past due nor impaired	7,600	148,489	156,089	5,790	120,118	125,908
Past due but not impaired	725	24,646	25,371	975	34,358	35,333
Impaired	1,092	3,060	4,152	988	3,152	4,140
Gross	9,417	176,195	185,612	7,753	157,628	165,381
Less: allowance for impairment	667	1,082	1,749	543	1,097	1,640
Net	8,750	175,113	183,863	7,210	156,531	163,741

During the year ended 31 December 2012, finance lease receivables portfolio increased by 12,23% (2011: increased by 56.11%). Total impairment provision for finance lease receivables is LTL 1,749 thousand (2011: LTL 1,640 thousand) and it accounts for 0.94% of the respective portfolio (2011: 0.99%).

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.

	2012			2011		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Standard	7,430	42,153	49,583	5,682	45,529	51,211
Watch	6	70,562	70,568	-	65,930	65,930
Substandard	164	35,774	35,938	108	8,659	8,767
Total	7,600	148,489	156,089	5,790	120,118	125,908

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

	2012			2011		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Past due up to 3 days	305	8,074	8,379	260	15,226	15,486
Past due 4-40 days	384	16,273	16,657	584	18,478	19,062
Past due 41-90 days	36	42	78	122	654	776
Past due more than 90 days	-	257	257	9	-	9
Total	725	24,646	25,371	975	34,358	35,333
Fair value of collateral	307	14,067	14,374	333	21,388	21,721

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c) Finance lease receivables individually impaired

	Individuals	Business customers	Total
31 December 2012			
Individually impaired	1,092	3,060	4,152
Fair value of collateral	25	906	931
31 December 2011			
Individually impaired	988	3,152	4,140
Fair value of collateral	78	1,475	1,553

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.

	2012			2011		
	Individuals	Business customers	Total	Individuals	Business customers	Total
Unsecured finance lease receivables	-	-	-	-	-	-
Finance lease receivables secured by:	-	-	-	-	-	-
- transport vehicles	4,957	41,386	46,343	2,653	37,058	39,711
- residential real estate	1,587	89,615	91,202	139	70,583	70,722
- airplanes	-	7,623	7,623	-	8,092	8,092
- production equipment	34	12,540	12,574	27	23,838	23,865
- other equipment	554	18,344	18,898	482	8,847	9,329
- other assets	2,285	6,687	8,972	4,452	9,210	13,662
Total	9,417	176,195	185,612	7,753	157,628	165,381

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1.7. Other financial assets

	2012		2011	
	Group Business customers	Bank Business customers	Group Business customers	Bank Business customers
Neither past due nor impaired	1,605	133	17,593	116
Past due but not impaired	-	-	782	-
Impaired	7,027	-	6276	-
Gross	8,632	133	24,651	116
Less: allowance for impairment	2,662	-	1,526	-
Net	5,970	133	23,125	116

a) *Amounts receivable neither past due nor impaired*

	2012		2011	
	Group Business customers	Bank Business customers	Group Business customers	Bank Business customers
Standard	1,605	133	17,593	116
Watch	-	-	-	-
Sub-standard	4,365	-	782	-
Total:	5,970	133	18,375	116

b) *Impaired amounts receivable*

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

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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 2012 and 2011: 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 – 15%, health and social work – 10%. As at 31 December 2012 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
Loans and advances to banks	4,137	-	-	-	-	-	-	-	-	-	-	4,137
Loans and advances to customers:	277,876	231,599	279,022	374,562	211,004	106,077	94,848	38,124	50,508	159,927	229,262	2,052,809
Loans and advances to financial institutions	216,789	-	-	-	-	-	-	-	-	-	-	216,789
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	159,927	-	159,927
- Mortgages	-	-	-	-	-	-	-	-	-	95,290	-	95,290
- Consumer loans	-	-	-	-	-	-	-	-	-	12,048	-	12,048
- Credit cards	-	-	-	-	-	-	-	-	-	3,111	-	3,111
- Other	-	-	-	-	-	-	-	-	-	49,478	-	49,478
Loans to business customers:	61,087	231,599	279,022	374,562	211,004	106,077	94,848	38,124	50,508	-	229,262	1,676,093
- SME	61,087	231,599	207,744	374,562	197,011	106,077	94,848	30,870	7,098	-	108,926	1,419,822
- Large corporates	-	-	71,278	-	12,991	-	-	6,935	38,777	-	2,853	132,834
- Central and local authorities, administrative bodies and other	-	-	-	-	1,002	-	-	319	4,633	-	117,483	123,437
Trading assets:	3,164	3,461	9,333	53	-	-	-	4,658	-	-	30,529	51,198
- Debt securities	3,028	3,461	9,330	0	-	-	-	4,393	-	-	30,529	50,741
- Equity securities	136	-	3	53	-	-	-	265	-	-	-	457
Derivative financial instruments	93	1644	3,374	2,371	2,481	1,206	262	769	93	660	739	13,690
Securities available for sale	10,854	5,663	64,042	-	3,543	-	5,184	25,453	5,626	-	85,020	205,385
- Equity securities	368	-	27	-	-	-	-	-	-	-	1,349	1,744
- Debt securities	10,486	5,663	64,015	-	3,543	-	5,184	25,453	5,626	-	83,671	203,641
Investment securities held-to-maturity	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
-debt securities	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
Other financial assets	133	-	-	-	-	-	-	-	-	-	-	133
Credit risk exposures relating to off –balance sheet items are as follows:	5,417	16,630	16,733	2,821	41,742	329	1,362	1,763	7	-	5,097	91,901
Financial guarantees	1,876	16,630	16,733	2,821	41,742	329	1,362	1,763	7	-	5,097	88,360
Letters of credit	3,541	-	-	-	-	-	-	-	-	-	-	3,541
Loan commitments and other credit related liabilities	3,238	20,801	8,195	4,627	11,872	13,707	444	4,802	626	7,004	38,695	114,011
At 31 December 2012	308,767	279,798	384,563	384,434	270,642	121,319	102,100	97,688	56,860	167,591	632,535	2,806,295
At 31 December 2011	239,340	285,790	350,164	404,714	233,722	116,101	93,961	58,329	55,532	197,722	591,889	2,627,264

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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 communi- cation	Health and social work	Loans to individuals	Other	Total
Loans and advances to banks	4,137	-	-	-	-	-	-	-	-	-	-	4,137
Loans and advances to customers:	45,448	231,599	274,230	240,384	211,004	106,077	96,828	38,124	50,508	194,394	243,262	1,731,858
Loans and advances to financial institutions	-	-	-	-	-	-	-	-	-	-	-	0
Loans to individuals (Retail):	-	-	-	-	-	-	-	-	-	194,394	-	194,394
- Consumer loans	-	-	-	-	-	-	-	-	-	95,290	-	95,290
- Mortgages	-	-	-	-	-	-	-	-	-	41,878	-	41,878
- Credit cards	-	-	-	-	-	-	-	-	-	7,590	-	7,590
- Other	-	-	-	-	-	-	-	-	-	49,636	-	49,636
Loans to business customers:	45,448	231,599	274,230	240,384	211,004	106,077	96,828	38,124	50,508	-	243,262	1,537,464
- SME	45,448	231,599	202,952	240,384	197,011	106,077	96,828	30,870	7,098	-	122,926	1,281,193
- Large corporates	-	-	71,278	-	12,991	-	-	6,935	38,777	-	2,853	132,834
- Central and local authorities, administrative bodies and other	-	-	-	-	1,002	-	-	319	4,633	-	117,483	123,437
Finance lease receivables	3,358	24,779	33,340	28,382	6,809	5,808	18,073	23,511	2,250	8,750	28,803	183,863
- individuals	-	-	-	-	-	-	-	-	-	8,750	-	8,750
- business customers	3,358	24,779	33,340	28,382	6,809	5,808	18,073	23,511	2,250	-	28,803	175,113
Trading assets:	3,164	3,461	9,333	53	-	-	-	4,658	-	-	30,529	51,198
- Debt securities	3,028	3,461	9,330	-	-	-	-	4,393	-	-	30,529	50,741
- Equity securities	136	-	3	53	-	-	-	265	-	-	-	457
Derivative financial instruments	93	1644	3,374	2,371	2,481	1,206	262	769	93	660	739	13,690
Securities available for sale	10 854	5 663	65 497	70	3 543	0	5 184	25 453	6 196	-	85 151	207 611
- Debt securities	10,486	5,663	64,015	-	3,543	-	5,184	25,453	5,626	-	83,671	203,641
- Equity securities	368	-	1,482	70	-	-	-	-	570	-	1,480	3,970
Investment securities held-to-maturity	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
- Debt securities	3,855	-	3,864	-	-	-	-	22,119	-	-	243,193	273,031
Other assets	284	3	35	4,483	-	970	-	-	-	10	185	5,970
Credit risk exposures relating to off-balance sheet items are as follows:	5,415	16,630	16,688	2,821	41,742	329	1,362	1,763	7	-	5,097	91,854
Financial guarantees	1,874	16,630	16,688	2,821	41,742	329	1,362	1,763	7	-	5,097	88,313
Letters of credit	3,541	-	-	-	-	-	-	-	-	-	-	3,541
Loan commitments and other credit related liabilities	2,421	20,845	7,508	3,240	12,267	13,707	444	4,802	626	8,463	39,963	114,286
At 31 December 2012	79,029	304,624	413,869	281,804	277,846	128,097	122,153	121,199	59,680	212,277	676,922	2,677,498
At 31 December 2011	35,596	294,689	404,615	351,788	236,601	123,923	94,492	101,006	65,136	223,135	609,899	2,540,880

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 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 Bank's, 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. Long position means that Bank's assets are higher then its liabilities, whereas shorts means that liabilities exceed assest. The Bank also calculates Total open position (TOP), which is the higher of the separately added short and long positions. There are no pre-set required ratios for short and long positions. The requirements are set for a currency position or for total open position irrespective whether it is short or long. As at 31 December 2012 the Group's and Bank's TOP to capital ratio was 1.02% (2011: 0.49%).

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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 2012 and prognosis that exchange rate fluctuations will remain the same in 2013. 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, 2013	Annual reasonable shift, 2012
LVL	0.5%	1%
GBP	4.5%	4.5%
DKK	0.3%	0.5%
USD	6%	7%
SEK	10%	3%
Other currencies	4%	6.5%

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 2012	At 31 December 2011
<i>Group</i>	Impact on profit or loss and equity	Impact on profit or loss and equity
US Dollars	26	6
GBP	3	1
DKK	1	1
SEK	74	13
LVL	1	2
Other currencies	72	31
Total	177	54

	At 31 December 2012	At 31 December 2011
<i>Bank</i>	Impact on profit or loss and equity	Impact on profit or loss and equity
US Dollars	26	6
GBP	3	1
DKK	1	1
SEK	74	13
LVL	1	2
Other currencies	72	31
Total	177	54

The presumable FX rate change creates acceptable impact on the Group's and the Bank's annual profit and makes LTL 177 thousand in 2012 higher/lower impact for the Group and the Bank (2011: 54 thousand LTL).

The Bank's and Group'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.

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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 and the Group'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.

Group	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 2012							
Total financial assets	380,747	543,467	798,257	98,937	617,568	254,237	2,693,213
Total financial liabilities	340,077	427,380	517,669	622,362	67,145	618,082	2,592,715
Net interest sensitivity gap at 31 December 2012	40,670	116,087	280,588	(523,425)	550,423	(363,845)	100,498
31 December 2011							
Total financial assets	398,784	560,439	772,547	139,569	384,241	304,450	2,560,030
Total financial liabilities	415,875	397,950	490,184	488,218	110,208	511,230	2,413,665
Net interest sensitivity gap at 31 December 2011	(17,091)	162,489	282,363	(348,649)	274,033	(206,780)	146,365

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 2012 and 31 December 2011.

	31 December 2012		31 December 2011	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	(444)	(12,842)	1,915	(1,918)
Interest rate decrease by 1p.p.	444	12,842	(1,915)	1,918

The shift of yield curve according to above mentioned parameters creates acceptable impact on Group's total comprehensive income and makes LTL 444 thousand in 2012 (2011: LTL 1,915 thousand) higher/lower impact on profit and LTL 12,842 thousand in 2012 (2011: LTL 1,918 thousand) higher/lower impact on other comprehensive income.

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

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Bank	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 2012							
Total financial assets	419,951	529,989	798,003	199,256	631,388	243,601	2,822,188
Total financial liabilities	340,238	427,380	517,669	622,367	67,145	616,919	2,591,718
Net interest sensitivity gap at 31 December 2012							
	79,713	102,609	280,334	(423,111)	564,243	(373,318)	230,470
31 December 2011							
Total financial assets	416,797	574,807	756,739	247,141	380,596	273,708	2,649,788
Total financial liabilities	415,875	397,950	490,184	488,218	110,208	507,601	2,410,036
Net interest sensitivity gap at 31 December 2011							
	922	176,857	266,555	(241,077)	270,388	(233,893)	239,752

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, except for effects on derivative financial instruments, as at 31 December 2012 and 31 December 2011.

	31 December 2012		31 December 2011	
	Increase (decrease) in profit	Increase (decrease) in other comprehensive income	Increase (decrease) in profit	Increase (decrease) in other comprehensive income
Interest rate increase by 1p.p.	67	(12,842)	2,378	(1,918)
Interest rate decrease by 1p.p.	(67)	12,842	(2,378)	1,918

The shift of yield curve according to above mentioned parameters creates acceptable impact on Bank's total comprehensive income and makes LTL 67 thousand in 2012 (2011: LTL 2,378 thousand) higher/lower impact on profit and LTL 12,842 thousand in 2012 (2011: LTL 1,918 thousand) higher/lower impact on other comprehensive income.

The shift of yield curve up by 1p.p. would cause decrease in value of derivative financial instruments by LTL 6,875 thousand in 2012, the decrease would be accounted in profit (loss). The shift of yield curve down by 0.5 p.p. would cause increase in value of derivative financial instruments by LTL 5,385 thousand in 2012, the increase would be accounted in profit (loss).

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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. The required liquidity limit set by Bank of Lithuania is 30 per cent. For the purpose of managing liquidity risk, in addition to the liquidity ratio set by the Bank of Lithuania, which as at 31 December 2012 the Group's ratio was 41.56 (2011: 37.26) and the Bank's 42.78 (2011: 38.36), 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 2012 the above Group's ratio was 24.41 per cent (2011: 21.05 per cent), and the Bank's – 24.51 per cent (2011: 21.09 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 2012 the above ratio on the Group's and the Bank's level was 225.01 (2011: 160.01 per cent) per cent and 224.47 (2011: 159.97 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 2012 *mobile* liabilities formed a share in the total liabilities on the Group's level equal to 12.15 per cent (2011: 14.74 per cent), on the Bank's level – 12.25 per cent (2011: 14.80 per cent).

The Group and the Bank also monitors liquidity gap ratios. Based on the Bank's liquidity risk management policy the lowest recommended limit of this ratio is -40 per cent. Recommended limit of ratio is not stated for the Group. As at 31 December 2012 the Group's and the Bank's ratio was -43.24 per cent (2011: -41.88 per cent) and -33.38 per cent (2011: -33.59 per cent) respectively.

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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 2012	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	17,664	39,557	118,033	202,695	39,633	417,582
Due to customers	-	744,508	314,932	1,036,123	79,336	7,999	2,182,898
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	-	772,803	369,897	1,155,361	285,276	47,632	2,630,969
Group							
31 December 2011	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	54,924	45,021	77,940	274,685	42,474	495,044
Due to customers	-	680,285	260,912	852,466	101,969	7,818	1 903 450
Debt securities in issue	-	-	-	23,574	23,778	-	47,352
Special and lending funds	-	6,218	36	6,351	4,677	-	17,282
Total liabilities (contractual maturity dates)	-	741,427	305,969	960,331	405,109	50,292	2 463 128
Bank							
31 December 2012	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	19,957	39,557	118,038	202,695	39,633	419,880
Due to customers	-	744,669	314,932	1,036,123	79,336	7,999	2,183,059
Debt securities in issue	-	7,119	15,408	538	-	-	23,065
Special and lending funds	-	3,512	-	667	3,245	-	7,424
Total liabilities (contractual maturity dates)	-	775,257	369,897	1,155,366	285,276	47,632	2,633,428
Bank							
31 December 2011	Maturity undefined	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities							
Due to banks	-	54,935	45,021	77,940	274,685	42,474	495,055
Due to customers	-	680,567	260,912	851,505	101,969	7,818	1,902,771
Debt securities in issue	-	-	-	23,574	23,778	-	47,352
Special and lending funds	-	6,218	36	6,351	4,677	-	17,282
Total liabilities (contractual maturity dates)	-	741,720	305,969	959,370	405,109	50,292	2,462,460

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3.3. Remaining contractual maturity off - balance sheet items

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

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 2012							
Loan commitments	112,094	-	-	-	-	-	112,094
Finance lease commitments	434	-	-	-	-	-	434
Guarantees	88,313	-	-	-	-	-	88,313
Other commitments	2,299	416	57	4,295	169	18	7,254
Total	203,140	416	57	4,295	169	18	208,095
At 31 December 2011							
Loan commitments	120,847	-	-	-	-	-	120,847
Finance lease commitments	32	2,173	-	-	-	-	2,205
Guarantees	73,351	-	-	-	-	-	73,351
Other commitments	3,403	-	-	5,064	-	-	8,467
Total	197,633	2,173	-	5,064	-	-	204,870
Bank							
	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 2012							
Loan commitments	114,011	-	-	-	-	-	114,011
Guarantees	88,360	-	-	-	-	-	88,360
Other commitments	2,121	204	-	3,541	-	-	5,866
Total	204,492	204	-	3,541	-	-	208,237
At 31 December 2011							
Loan commitments	119,631	-	-	-	-	-	119,631
Guarantees	73,396	-	-	-	-	-	73,396
Other commitments	3,403	-	-	5,064	-	-	8,467
Total	196,430	-	-	5,064	-	-	201,494

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

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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 and Group's balance sheets 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-interest bearing 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 2012.

f) Other financial assets and other financial liabilities

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

Bank

As at 31 December 2012

	Carrying amount	Fair value
Assets		
Loans	2,052,809	2,058,711
Loans to individuals:	159,927	154,500
- Consumer loans	12,048	12,905
- Mortgages	95,290	84,657
- Credit cards	3,111	3,368
- Other	49,478	53,570
Loans to business customers	1,676,093	1,689,016
- Central and other authorities	123,437	120,324
- Large corporates	132,834	143,212
- SME	1,419,822	1,425,480
Loans and advances to financial institutions	216,789	215,195
Investment securities held-to-maturity	273,031	290,558
Other financial assets	133	133

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Liabilities		
Due to other banks and financial institutions	408,568	419,479
Due to customers	2,165,852	2,169,529
Due to individuals	1,617,097	1,620,420
Due to private companies	383,005	383,225
Due to other enterprises	165,750	165,884
Debt securities in issue	22,912	23,610
Special and lending funds	7,294	8,051

As at 31 December 2011

	Carrying amount	Fair value
Assets		
Loans	2,069,758	2,105,649
Loans to individuals:	193,071	192,388
- Consumer loans	12,726	13,960
- Mortgages	103,516	98,633
- Credit cards	3,502	4,164
- Other	73,327	75,631
Loans to business customers	1,701,801	1,740,870
- Central and other authorities	108,404	110,481
- Large corporates	176,391	171,671
- SME	1,417,006	1,458,718
Loans and advances to financial institutions	174,886	172,391
Investment securities held-to-maturity	303,281	299,737
Other financial assets	116	116
Liabilities		
Due to other banks and financial institutions	470,900	499,080
Due to customers	1,894,167	1,896,567
Due to individuals	1,309,689	1,311,462
Due to private companies	372,923	373,438
Due to other enterprises	211,555	211,667
Debt securities in issue	45,284	45,586
Special and lending funds	16,900	16,715

Group

As at 31 December 2012

	Carrying amount	Fair value
Assets		
Loans	1,731,858	1,736,384
Loans to individuals:	194,394	185,440
- Consumer loans	41,878	39,007
- Mortgages	95,290	84,657
- Credit cards	7,590	8,103
- Other	49,636	53,673
Loans to business customers	1,537,464	1,550,944
- Central and other authorities	123,437	120,324
- Large corporates	132,834	143,212
- SME	1,281,193	1,287,408
Loans and advances to financial institutions	-	-
Finance lease receivables	183,863	159,480

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Investment securities held-to-maturity	273,031	290,558
Other financial assets	5,970	5,868
Liabilities		
Due to other banks and financial institutions	406,270	417,181
Due to customers	2,165,691	2,169,368
Due to individuals	1,617,097	1,620,420
Due to private companies	382,844	383,064
Due to other enterprises	165,750	165,884
Debt securities in issue	22,912	23,610
Special and lending funds	7,294	8,051
As at 31 December 2011		
	Carrying amount	Fair value
Assets		
Loans	1,786,631	1,822,591
Loans to individuals:	205,297	204,865
- Consumer loans	18,030	19,080
- Mortgages	103,516	98,633
- Credit cards	10,424	11,521
- Other	73,327	75,631
Loans to business customers	1,580,015	1,618,229
- Central and other authorities	110,549	112,626
- Large corporates	176,391	171,671
- SME	1,293,075	1,333,932
Loans and advances to financial institutions	1,319	(503)
Finance lease receivables	163,741	141,616
Investment securities held-to-maturity	306,349	303,041
Other financial assets	23,125	20,568
Liabilities		
Due to other banks and financial institutions	470,889	499,069
Due to customers	1,893,885	1,897,246
Due to individuals	1,308,728	1,311,462
Due to private companies	373,602	374,117
Due to other enterprises	211,555	211,667
Debt securities in issue	45,284	45,586
Special and lending funds	16,900	16,715

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

4.2. Financial assets and liabilities measured at fair value

a) Fair value hierarchy

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 hierarchy

	2012		2011	
	Group	Bank	Group	Bank
LEVEL I				
Financial assets at fair value through profit or loss				
Listed equity securities	357	357	267	267
Units of investment funds	97	97	85	85
Bonds of the Government of the Republic of Lithuania	20,600	20,600	16,216	16,216
Local corporate debt securities	30,141	30,141	-	-
Available for sale financial assets				
Bonds of the Government of the Republic of Lithuania	21,293	21,293	10,602	10,602
Bonds of foreign countries governments	-	-	19,777	19,777
Bonds of foreign countries corporates	147,311	147,311	-	-
Investment fund units	353	353	298	298
TOTAL LEVEL I	220,152	220,152	47,245	47,245
LEVEL III				
Financial assets at fair value through profit or loss				
Unlisted equity securities	3	3	6	6
Derivative financial instruments	13,690	13,690		
Available for sale financial assets				
Unlisted equity securities	3,517	1,391	4,940	1,391
TOTAL LEVEL III	17,310	15,084	4,946	1,397

During year 2012 the Group has recognized LTL 1,455 thousand impairment (2011: LTL 14 thousand increase in value) related to unlisted equity securities. The reduction /increase in value has been included into Net gain (loss) from operations with securities line in profit (loss) (2011: Net gain (loss) from revaluation of financial assets line in 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 Bank's operational risk management objectives include as follows: proper identification and assessment of operational risk; implementation of effective internal controls, prevention of major events and losses; proper organisation and maintenance of internal control environment by regular reviews of internal control methods and learning lessons from past experience; concentration of financial and time resources to identification of key sources of operational risk and to its management across all lines of activities of the Bank.

In view of operational risk management system, the Bank's activities can be grouped into the following categories: credit facilities, other financial services to customers, cash and other valuables, property, plant and equipment, categories not related to the provision of financial services to customers, and information security.

The following sources of operational risk can be distinguished at the Bank:

1. Information systems (failures of hardware, software, telecommunication systems, etc.).
2. Human factor effect.
3. Working conditions (violation of safe work conditions, etc.).
4. Natural forces.

The Bank accumulates information about operational risk events. For this purpose the Bank has established a system with the description of its operation included in the Procedure for Registration of Operational Risk Events approved by the Bank's Board.

Organisation and monitoring of internal control environment form an integral part of the Bank's operational risk management process. The Bank's internal control is a continuous process in day-to-day activities at the Bank, during which the Bank's personnel aim to ensure: effective operation of the Bank; prevention of the Bank from potential losses as a result of operational risk events; reliable, relevant and timely financial and other information used internally or for regulatory purpose, or by third parties; the Bank's compliance with the laws, regulatory legislation of the Bank of Lithuania and other legal acts, the Bank's strategy and internal policy.

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.

6. Stress tests

Besides the regular assessment of the risks and the capital requirement calculation the Group also performs stress tests which are a part of Internal Capital Adequacy Assessment Process (ICAAP). 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.

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.

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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 institutions exceeding 10 per cent of capital of those institutions.

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.

	Group	2012 Bank	Group	2011 Bank
Tier 1 capital				
Ordinary shares	234,858	234,858	234,858	234,858
Share premium	47,861	47,861	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Previous year's retained earnings	8,179	12,171	(3,913)	-
Current year loss	-	-	-	-
Other reserves (statutory reserve)	1,891	1,289	960	648
Negative financial assets revaluation reserve	-	-	(1,182)	(1,182)
Less: Intangible assets	(1,207)	(903)	(916)	(894)
Total Tier 1 capital	294,193	297,887	280,279	283,902
Tier 2 capital				
85 % financial assets revaluation reserve	4,415	4,415	-	-
Total Tier 2 capital	4,415	4,415	-	-
Less Investments in other credit or financial institutions	-	(2,505)	-	(1,647)
Total capital	298,608	299,797	280,279	282,255
Capital requirements for:				
(Credit risk) of groups of positions under the Standardised Approach	166,071	166,817	157,588	158,179
Debt financial instruments	2,335	2,335	140	140
Equity securities	73	73	57	57
Foreign exchange positions	8,558	8,563	7,149	7,097
Operational risk under the Basic Indicator Approach	11,885	9,453	8,252	7,500
Total capital requirements	188,921	187,241	173,186	172,973
Capital adequacy (solvency) ratio, %	12.64	12.81	12.95	13.05

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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 Statement of comprehensive income, 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 2012 would be higher or lower by LTL 5,558 thousand (2011: LTL 4,529 thousand) and LTL 5,552 thousand (2011: LTL 4,427 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 2012 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.

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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 2012 and in the statement of comprehensive income for the year then ended:

	Šiauliai region	Vilnius region	Klaipėda region	Head- quarters, including Kaunas	Leasing	Investment management	Real estate development and other	Eliminations	Total Group
Internal	526	14,050	4,462	(6,399)	(6,000)	(818)	(5,171)	(650)	-
External	19,546	2,467	6,958	13,820	12,708	311	1,689	-	57,499
Net interest income	20,072	16,517	11,420	7,421	6,708	(507)	(3,482)	(650)	57,499
Internal	42	14,028	4,410	(5,677)	(6,142)	(818)	(5,191)	(652)	-
External	24,709	5,974	9,968	10,649	12,222	385	1,692	-	65,599
Net interest, fee and commissions income	24,751	20,002	14,378	4,972	6,080	(433)	(3,499)	(652)	65,599
Internal	-	-	-	(455)	-	-	-	455	-
External	(26,793)	503	1,069	(2,516)	(80)	(1,454)	(1,131)	-	(30,402)
Impairment expenses	(26,793)	503	1,069	(2,971)	(80)	(1,454)	(1,131)	455	(30,402)
Internal	(6,672)	(5,141)	(5,821)	16,887	(180)	(14)	(33)	974	-
External	(4,884)	(4,262)	(4,256)	(22,105)	(3,225)	(1,345)	(27,821)	-	(67,898)
Operating expenses	(11,556)	(9,403)	(10,077)	(5,218)	(3,405)	(1,359)	(27,854)	974	(67,898)
Amortisation charges	-	(2)	(3)	(277)	(8)	-	(5)	-	(295)
Depreciation charges	(274)	(199)	(322)	(2,172)	(894)	(14)	(745)	-	(4,620)
Internal	(24)	(7)	5	1,270	(1)	34	67	(1,344)	-
External	1,774	1,194	956	15,554	1,153	815	31,321	-	52,767
Net other income	1,750	1,187	961	16,824	1,152	849	31,388	(1,344)	52,767
Profit (loss) before tax	(12,122)	12,088	6,006	11,158	2,845	(2,411)	(1,846)	(567)	15,151
Income tax	-	-	-	(2,258)	(419)	-	654	-	(2,023)
Profit (loss) per segment after tax	(12,122)	12,088	6,006	8,900	2,426	(2,411)	(1,293)	(567)	13,128
Non-controlling interest	-	-	-	-	-	-	101	-	101
Profit (loss) for the year attributable to the owners of the Bank	(12,122)	12,088	6,006	8,900	2,426	(2,411)	(1,293)	(567)	13,027
Total segment assets	788,223	728,196	499,949	915,098	230,008	18,527	188,692	(425,990)	2,942,703
Total segment liabilities	800,345	716,108	493,943	602,214	225,056	15,649	149,131	(374,199)	2,628,247
Net segment assets (shareholders' equity)	(12,122)	12,088	6,006	312,884	4,952	2,878	39,561	(51,791)	314,456

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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 2011 and in the statement of comprehensive income for the year then ended:

Re-presented	Šiauliai region	Vilnius region	Klaipėda region	Head- quarters, including Kaunas	Leasing	Investment manage- ment	Real estate develop- ment	Elimina- tions	Total Group
Internal	(168)	11,987	5,319	(7,657)	(4,628)	(1,319)	(3,534)	-	-
External	21,599	(34)	4,982	14,023	10,091	1,075	3,019	-	54,755
Net interest income	21,431	11,953	10,301	6,366	5,463	(244)	(515)	-	54,755
Internal	(545)	11,967	5,246	(7,021)	(4,772)	(1,320)	(3,555)	-	-
External	26,217	2,328	7,431	12,877	10,072	1,195	3,116	-	63,236
Net interest, fee and commissions income	25,672	14,295	12,677	5,853	5,300	(125)	(439)	-	63,236
Internal	-	-	-	-	-	-	-	-	-
External	(4,333)	(1,113)	(729)	(3,386)	(599)	313	(774)	-	(10,621)
Impairment expenses	(4,333)	(1,113)	(729)	(3,386)	(599)	313	(774)	-	(10,621)
Internal	-	-	-	(198)	(194)	(50)	(46)	488	-
External	(4,258)	(3,619)	(3,885)	(21,264)	(2,966)	(634)	(13,756)	-	(50,382)
Operating expenses	(4,258)	(3,619)	(3,885)	(21,462)	(3,160)	(684)	(13,802)	488	(50,382)
Amortisation charges	-	(2)	(3)	(230)	(7)	-	(1)	-	(246)
Depreciation charges	(469)	(313)	(401)	(1,994)	(1,000)	(14)	(583)	-	(4,774)
Internal	(656)	151	(218)	986	167	17	41	(488)	-
External	1,350	575	629	(608)	592	555	14,366	-	17,459
Net other income	694	726	411	378	759	572	14,407	(488)	17,459
Profit (loss) before tax	17,306	9,974	8,070	(20,838)	1,293	62	(1,192)	-	14,672
Income tax	-	-	-	(1,700)	(147)	-	198	-	(1,649)
Profit (loss) per segment after tax	17,306	9,974	8,070	(22,538)	1,146	62	(997)	-	13,023
Non-controlling interest	-	-	-	-	-	-	-	-	-
Profit (loss) for the year attributable to the owners of the Bank	17,306	9,974	8,070	(22,538)	1,146	62	(997)	-	13,023
Total segment assets	794,265	715,899	454,784	766,618	184,457	38,330	114,974	(332,023)	2,737,304
Total segment liabilities	776,959	705,925	446,714	504,360	180,931	33,041	109,140	(313,984)	2,443,086
Net segment assets (shareholders' equity)	17,306	9,974	8,070	262,258	3,526	5,289	5,834	(18,039)	294,218

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.

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NOTE 1 NET INTEREST INCOME

	2012		2011	
	Group	Bank	Group re-presented	Bank
Interest income:				
on loans to other banks and financial institutions and placements with credit institutions	1,928	8,585	2,059	6,693
on loans to customers	97,631	98,049	91,576	91,882
on debt securities	17,407	17,407	19,192	17,505
- held to maturity	11,687	11,687	11,582	9,895
- available for sale	4,757	4,757	5,940	5,940
- at fair value through profit or loss	963	963	1,670	1,670
on finance leases	9,145	-	7,975	-
Total interest income	126,111	124,041	120,802	116,080
Interest expense:				
on liabilities to other banks and financial institutions and amounts due to credit institutions	(13,548)	(13,547)	(13,693)	(13,693)
on customer deposits and other repayable funds	(44,310)	(44,310)	(43,169)	(43,168)
compulsory insurance of deposits	(9,133)	(9,133)	(8,312)	(8,312)
on debt securities issued	(1,621)	(1,621)	(853)	(853)
on finance leases	-	-	-	(3)
Total interest expense	(68,612)	(68,611)	(66,027)	(66,029)
Net interest income	57,499	55,430	54,775	50,051

NOTE 2 NET FEE AND COMMISSION INCOME

	2012		2011	
	Group	Bank	Group re-presented	Bank
Fee and commission income:				
for money transfer operations	10,360	10,466	8,918	9,008
for payment card services	2,254	2,254	1,858	1,872
for base currency exchange	1,983	1,990	1,672	1,681
for operations with securities	148	148	145	145
other fee and commission income	1,800	1,759	1,615	1,446
Total fee and commission income	16,545	16,617	14,208	14,152
Fee and commission expense:				
for payment card services	(6,026)	(6,026)	(4,108)	(4,108)
for money transfer operations	(1,860)	(1,838)	(1,521)	(1,497)
for operations with securities	(77)	(77)	(80)	(80)
for base currency exchange	(2)	(2)	(3)	(3)
other fee and commission expenses	(480)	(1)	(15)	(15)
Total fee and commission expense	(8,445)	(7,944)	(5,727)	(5,703)
Net fee and commission income	8,100	8,673	8,481	8,449

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

NOTE 3 NET GAIN (LOSS) FROM OPERATIONS WITH INVESTMENT SECURITIES

	2012		2011	
	Group	Bank	Group	Bank
Securities held for trading				
Realised gain on trading equity securities	43	43	(9)	(9)
Unrealised gain on trading equity securities	41	41	(91)	(91)
Realised gain (loss) on trading debt securities	3,481	3,481	(302)	(302)
Unrealised (loss) on trading debt securities	351	351	(30)	(30)
Realised gain (loss) on trading options	(172)	(172)	-	-
Net gain on trading securities	3,744	3,744	(432)	(432)
Realised gain (loss) on debt securities held to maturity	1,000	-	(1,962)	(1,962)
Realised gain (loss) on available-for-sale debt securities	5,765	5,765	(1,089)	(1,089)
Dividend and other income from equity securities held for trading	17	17	15	15
Dividend and other income from available-for-sale equity securities	82	80	27	27
Total	10,608	9,606	(3,441)	(3,441)

NOTE 4 OTHER OPERATING EXPENSES

	2012		2011	
	Group	Bank	Group re-presented	Bank
Salaries, social security and other related expenses	29,440	23,630	27,207	22,059
Raw materials and consumables used	11,967	-	8,578	-
Construction works	7,740	-	-	-
Rent and maintenance of premises	5,017	4,639	4,869	4,074
Office equipment maintenance	1,189	1,132	1,078	1,047
Depreciation of fixed tangible assets	4,620	2,967	4,774	3,177
Amortisation of intangible assets	295	282	246	235
Transportation, post and communications expenses	2,059	2,081	2,241	1,982
Real estate tax and other taxes	2,882	294	1,641	280
Advertising and marketing expenses	1,055	791	819	772
Training and business trip expenses	172	122	120	75
Charity	196	192	238	207
Service organisation expenses	1,007	908	690	617
Legal costs incurred due to debt recovery	464	345	590	517
Other operating expenses	4,710	2,120	2,311	1,594
Total	72,813	39,503	55,402	36,636

NOTE 5 GAIN FROM DISPOSAL OF ASSETS

In 2012 gain on disposal of real estate assets at the Group amounted to LTL 1,999 thousand (Bank LTL 57 thousand). In 2011 gain on disposal of real estate assets at the Group amounted to LTL 2,164 thousand (Bank LTL 31 thousand).

NOTE 6 OTHER OPERATING INCOME

	2012		2011	
	Group	Bank	Group	Bank
Revenue from sale of goods	14,747	-	10,933	-
Revenue from sale of apartments	12,517	-	-	-
Income from lease of assets	2,522	688	1,776	367
Other income	1,234	321	1,135	369
Total	31,020	1,009	13,844	736

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

NOTE 7 IMPAIRMENT LOSSES ON LOANS

	2012		2011	
	Group	Bank	Group	Bank
Impairment losses on loans:				
Impairment charge for the year	28,199	28,359	11,046	10,718
Recoveries of loans previously written off	(955)	(715)	(1,402)	(1,157)
Total impairment losses on loans	27,244	27,644	9,644	9,561
Impairment losses on finance lease receivables:				
Impairment charge for the year	239	-	589	-
Recovered previously written-off finance lease receivables	(288)	-	(354)	-
Total impairment losses (reversals) on finance lease	(49)	-	235	-
Impairment losses on other assets:				
Investments in subsidiaries	-	455	-	-
Loss on revaluation of investments to Pavasaris (note 20)	574			
Available for sale securities and other assets	2,633	93	742	-
Total impairment losses on other assets	3,207	548	742	-
Total	30,402	28,192	10,621	9,561

NOTE 8 INCOME TAX

	2012		2011	
	Group	Bank	Group	Bank
Current tax	1,058	-	138	-
Deferred taxes	953	2,258	1,791	1,700
Adjustments of previous year income tax	12	-	-	-
Total	2,023	2,258	1,929	1,700

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:

	2012		2011	
	Group	Bank	Group	Bank
Profit before income tax	15,151	17,130	14,674	14,512
Tax calculated at a tax rate of 15%	2,273	2,570	2,201	2,177
Income not subject to tax	(1,990)	(486)	(1,936)	(551)
Expenses not deductible for tax purposes	1,949	174	1,453	74
Adjustment of previous year income tax	12	-	-	-
Utilisation of tax losses for which no deferred tax asset was recognized	(221)	-	(69)	-
Income tax charge	2,023	2,258	1,649	1,700

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NOTE 8 INCOME TAX (CONTINUED)

Deferred tax assets	Group					Bank			
	Revaluation of financial instruments and other assets	Accruals	Tax losses carried forward	Revaluation of investment property	Total	Revaluation of financial instruments	Accruals	Tax losses carried forward	Total
At 31 December 2010	(167)	(173)	(10,565)	-	(10,905)	-	(173)	(10,463)	(10,636)
To be credited/(charged) to net profit	171	(65)	1,709	-	1,815	(22)	(65)	1,811	1,724
To be credited/(charged) to equity	(461)	-	-	-	(461)	(461)	-	-	(461)
At 31 December 2011	(457)	(238)	(8,856)	-	(9,551)	(483)	(238)	(8,652)	(9,373)
To be credited/(charged) to net profit	951	(35)	65	(45)	936	1,033	(35)	1,243	2,241
To be credited/(charged) to equity	461	-	-	-	461	461	-	-	461
At 31 December 2012	955	(273)	(8,791)	(45)	(8,154)	1,011	(273)	(7,409)	(6,671)

Deferred tax liabilities	Group			Bank		
	Revaluation of securities	Fixed assets	Total	Revaluation of securities	Fixed assets	Total
At 31 December 2010	55	443	498	55	404	459
To be credited/(charged) to net profit	(40)	16	(24)	(40)	16	(24)
To be credited/(charged) to equity	(15)	-	(15)	(15)	-	(15)
At 31 December 2011	-	459	459	-	420	420
To be credited/(charged) to net profit	13	4	17	13	-	17
Acquired in business combination	16	-	5,668	-	-	-
To be credited/(charged) to equity	681	-	681	681	-	681
At 31 December 2012	694	6,131	6,825	694	424	1,118

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 the Group will be sufficient to realize the accumulated tax losses. Therefore deferred tax asset from the accumulated tax 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:

	2012		2011	
	Group	Bank	Group	Bank
Deferred tax assets	(8,154)	(6,671)	(9,551)	(9,373)
Deferred tax liabilities	6,825	1,118	459	420
Net deferred tax (asset)	(1,329)	(5,553)	(9,092)	(8,953)

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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). The management believes that there is no dilution effect as a part of loan was returned in 2013 and a new loan agreement signed (note 36).. Therefore, diluted earnings per share are the same as basic earnings per share in 2012.

The number of shares in issue for the year ended 31 December 2012 was 234,857 thousand. Weighted average number of shares in issue for the year ended 31 December 2011 was 217,104 thousand (216 days – 204,858 thousand shares, 149 days – 234,857 thousand shares).

Earnings per share

Group	2012	2011 (re-presented)
Net profit from continuing operations	13,128	13,023
Net loss from discontinued operations	-	-
Net profit (loss) attributable to equity holders	13,128	13,023
Weighted average number of shares in issue during the period (thousand units)	234,857	217,104
Basic and diluted earnings (loss) per share (LTL)	0,06	0,06
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	-	-

Bank	2012	2011
Net profit from continuing operations	14,872	12,812
Net loss from discontinued operations	-	-
Net profit (loss) attributable to equity holders	14,872	12,812
Weighted average number of shares in issue during the period (thousand units)	234,857	217,104
Basic and diluted earnings (loss) per share (LTL)	0,06	0,06
Basic and diluted earnings (loss) per share (LTL) from discontinued operations	-	-

NOTE 10 CASH AND CASH EQUIVALENTS

	2012		2011	
	Group	Bank	Group	Bank
Cash and other valuables	47,107	47,106	29,990	29,988
Balances in bank deposit accounts	5,000	5,000	15,001	15,001
Balances in bank correspondent accounts	21,647	21,598	85,530	85,530
Placements with Central Bank:				
Deposits in Central Bank	-	-	1,500	1,500
Correspondent account with Central Bank	62,471	62,471	14,822	14,822
Mandatory reserves in national currency	85,630	85,630	77,003	77,003
Total placements with Central Bank	148,101	148,101	93,325	93,325
Total	221,855	221,805	223,846	223,844

The compulsory reserves held in the Bank of Lithuania are estimated on a monthly basis based on the value of indicated liabilities using the established compulsory reserve rate. With effect from 24 January 2013, the compulsory reserve rate has been reduced from 4% to 3% . . The mandatory reserves are held with the Bank of Lithuania in the form of deposits. The Bank

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of Lithuania pays interest for the required reserves. The Bank is free to use the funds held in the current account with the Bank of Lithuania, the average monthly amount of which may be not less than the estimated compulsory reserves.

NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS

In 2012, the Bank granted certain loans to customers with variable interest rate, however, the floor for interest rate was also set in the agreements. The floor presents a put option issued by the client and thus is treated as a derivate embedded in the host contract (loan granted). Accounting standards mandate that if at the moment of granting the loan the floor interest rate is above the contractual variable interest rate, then the embedded derivative is not closely related with host contract and thus should be separated and accounted for separately.

Upon initial separation of the derivative, the related amount is credited to the loan balance and becomes part of the effective interest rate of the loan, whereas the embedded derivative is fair valued at each balance sheet date. The Bank uses Black-Sholes model to price options. Certain inputs are derived from the market (e.g. historical volatility of EURIBOR and VILIBOR rates as well as EURIBOR forward curves), while forward curves for VILIBOR are derived from EURIBOR forward curves with an adjustment of historical spread between EURIBOR and VILIBOR.

Details of the derivatives are presented below (both for the Bank and for the Group):

	2012
Initial recognition	
Value of the embedded derivative	9,505
Credit to loans granted	(9,505)
Subsequent measurement	
Increase in the fair value of the derivative (gain in profit and loss)	4,185
Fair value of the derivative as of 31 December	13,690

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NOTE 12 TRADING SECURITIES

	2012		2011	
	Group	Bank	Group	Bank
Debt securities:				
Government bonds	20,600	20,600	16,216	16,216
Corporate bonds	23,569	23,569	-	-
State controlled entities' bonds	6,572	6,572	-	-
Total debt securities	50,741	50,741	16,216	16,216
Equity securities:				
Listed	357	357	267	267
Unlisted	3	3	6	6
Units of investment funds	97	97	85	85
Total equity securities	457	457	358	358
Total	51,198	51,198	16,574	16,574
Breakdown of debt securities by their maturity:				
Short-term (up to 1 year)	14,938	14,938	14,401	14,401
Long-term (over 1 year)	35,803	35,803	1,815	1,815
Total	50,741	50,741	16,216	16,216

Trading securities have not been pledged as at 31 December 2012 and 2011.

Except of unlisted securities all of the 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 quoted prices in active markets for identical assets and liabilities.

Breakdown of the Bank's and the Group's trading securities as at 31 December 2012 and 2011:

Rating	Government debt securities		Corporate debt securities		Corporate equity securities		Investment fund units	
	2012	2011	2012	2011	2012	2011	2012	2011
From AA- to AA+	-	-	3,437	-	-	-	-	-
From A- to A+	-	-	17,951	-	-	-	-	-
From BBB- to BBB+	20,600	16,216	8,753	-	-	-	-	-
From BB- to BB+	-	-	-	-	-	-	-	-
Lower than BB-	-	-	-	-	38	60	-	-
No rating	-	-	-	-	322	213	97	85
Total	20,600	16,216	30,141	-	360	273	97	85

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NOTE 13 LOANS TO CUSTOMERS

	2012		2011	
	Group	Bank	Group	Bank
Gross loans to customers	1,843,457	2,163,240	1,877,214	2,158,294
Allowance for loan impairment	(111,599)	(110,431)	(90,583)	(88,536)
NET LOANS TO CUSTOMERS	1,731,858	2,052,809	1,786,631	2,069,758
Breakdown of loans to customers according to maturity				
Short-term (up to 1 year)	520,324	798,240	547,725	809,443
Long-term (over 1 year)	1,216,427	1,259,462	1,238,906	1,260,315
Total	1,731,858	2,052,809	1,786,631	2,069,758
			Group	Bank
Allowance for loan impairment as at 31 December 2010			80,380	77,855
Allowance for impairment of loans written off during the year as uncollectible			(940)	(134)
Currency translation differences and other adjustments			97	97
Increase in allowance for loan impairment (Note 7)			11,046	10,718
Allowance for loan impairment as at 31 December 2011			90,583	88,536
Allowance for impairment of loans written off during the year as uncollectible			(7,113)	(6,394)
Currency translation differences and other adjustments			(70)	(70)
Increase in allowance for loan impairment (Note 7)			28,199	28,359
Allowance for loan impairment as at 31 December 2012			111,599	110,431

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

31 December 2012

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 December 2011	1,898	7,322	2,353	3,723	15,296
Change in allowance for loan impairment	2,268	(356)	(2,037)	4,175	4,050
Loans written off during the year	(2,175)	-	-	-	(2,175)
As at 31 December 2012	1,991	6,966	316	7,898	17,171

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NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 December 2011	-	75,287	-	75,287
Change in allowance for loan impairment	18,016	6,133	-	24,149
Loans written off during the year	-	(4,938)	-	(4,938)
Influence of FX rate shift	-	(70)	-	(70)
As at 31 December 2012	18,016	76,412	-	94,428

31 December 2011

	Group loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2010	1,342	6,149	2,706	3,771	13,968
Change in allowance for loan impairment	933	1,173	76	86	2,268
Loans written off during the year	(377)	-	(429)	(134)	(940)
As at 31 Dec 2011	1,898	7,322	2,353	3,723	15,296

31 December 2011

	Group loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2010	-	66,412	-	66,412
Change in allowance for loan impairment	-	8,778	-	8,778
Loans written off during the year as uncollectible	-	-	-	-
Influence of FX rate shift	-	97	-	97
As at 31 Dec 2011	-	75,287	-	75,287

31 December 2012

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 31 Dec 2010	1,889	7,322	725	3,723	13,659
Change in allowance for loan impairment	546	(356)	(409)	4,175	3,956
Loans written off during the year	(1,456)	-	-	-	(1,456)
As at 31 Dec 2011	976	6,966	316	7,898	16,159

	Bank loans to business customers			
	Large corporates	SME	Central and local authorities and other	Total
As at 31 Dec 2011	-	74,877	-	74,877
Change in allowance for loan impairment	18,016	6,387	-	24,403
Loans written off during the year	-	(4,938)	-	(4,938)
Exchange rate impact	-	(70)	-	(70)
As at 31 Dec 2012	18,016	76,256	-	94,272

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

NOTE 13 LOANS TO CUSTOMERS (CONTINUED)

31 December 2011

	Bank loans to individuals (retail)				
	Consumer loans	Mortgages	Credit cards	Other	Total
As at 1 Jan 2010	1,342	6,149	649	3,771	11,911
Change in allowance for loan impairment	547	1,173	76	86	1,882
Loans written off during the year	-	-	-	(134)	(134)
As at 31 Dec 2011	1,889	7,322	725	3,723	13,659
	Bank loans to business customers				Total
	Large corporates	SME	Central and local authorities and other		
As at 1 Jan 2010	-	65,944	-	-	65,944
Change in allowance for loan impairment	-	8,836	-	-	8,836
Loans written off during the year	-	-	-	-	-
As at 31 Dec 2011	-	74,780	-	-	74,780

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 2011	41,400	93,414	56,157	190,971
Change during 2012	4,152	30,180	(17,438)	16,894
Balance at 31 December 2012	45,552	123,594	38,719	207,865
Unearned finance income on finance leases:				
Balance at 31 December 2011	6,361	13,034	6,195	25,590
Change during 2012	285	(319)	(3,303)	(3,337)
Balance at 31 December 2012	6,646	12,715	2,892	22,253
Net investments in leasing before provisions:				
At 31 December 2011	35,039	80,380	49,962	165,381
At 31 December 2012	38,906	110,879	35,827	185,612
Changes in provisions:				
Balance as at 31 December 2010	-	1,952	-	1,952
Additional provisions charged	-	589	-	589
Provisions for finance lease debts written off	-	(901)	-	(901)
Balance at 31 December 2011	-	1,640	-	1,640
Additional provisions charged	-	239	-	239
Provisions for finance lease debts written off	-	(130)	-	(130)
Balance at 31 December 2012	-	1,749	-	1,749
Net investments in leasing after provisions:				
At 31 December 2011	35,039	78,740	49,962	163,741
At 31 December 2012	38,906	109,130	35,827	183,863

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

NOTE 14 FINANCE LEASE RECEIVABLES (CONTINUED)

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

	2012			2011		
	Individuals	Business customers	Total	Individuals	Business customers	Total
As at 1 January	543	1,097	1,640	992	960	1,952
Change in allowance for finance lease impairment	127	112	239	64	525	589
Amounts written off during the year	(3)	(127)	(130)	(513)	(388)	(901)
As at 31 December	667	1,082	1,749	543	1,097	1,640

NOTE 15 INVESTMENT SECURITIES

	2012		2011	
	Group	Bank	Group	Bank
Securities available for sale:				
Equity securities:				
Unlisted equity securities	3,617	1,391	4,940	1,391
Investment fund units	353	353	298	298
TOTAL	3,970	1,744	5,238	1,689
Debt securities:				
Local government bonds	21,293	21,293	10,602	10,602
Treasury debt securities of foreign countries	35,037	35,037	19,777	19,777
Foreign countries corporates debt securities	147,11	147,311	-	-
Total	203,641	203,641	30,379	30,379
Total securities available for sale	207,611	205,385	35,617	32,068
Breakdown of securities available for sale according to maturity				
Short-term (up to 1 year)	-	-	-	-
Long-term (over 1 year)	207,611	205,385	35,617	32,068
Total	207,611	205,385	35,617	32,068

Breakdown of the Bank's securities available for sale as at 31 December 2012 and 2011:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2012	2011	2012	2011	2012	2011	2012	2011
AAA	13,353	-	-	-	-	-	-	-
From AA- to AA+	-	8,013	10,381	-	-	-	-	-
From A- to A+	9,504	5,938	44,202	-	-	-	-	-
From BBB- to BBB+	29,981	15,324	92,728	-	-	-	-	-
From BB- to BB+	1,829	1,104	-	-	-	-	-	-
Lower than BB-	1,663	-	-	-	-	-	-	-
No rating	-	-	-	-	1,391	1,391	353	298
Total	56,330	30,379	147,311	-	1,391	1,391	353	298

(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 2012 and 2011:

Rating	Treasury bills		Corporate debt securities		Corporate equity securities		Investment fund units	
	2012	2011	2012	2011	2012	2011	2012	2011
AAA	13,353		-	-	-	-	-	-
From AA- to AA+	-	8,013	10,381	-	-	-	-	-
From A- to A+	9,504	5,938	44,202	-	-	-	-	-
From BBB- to BBB+	29,981	15,324	92,728	-	-	-	-	-
From BB- to BB+	1,829	1,104	-	-	-	-	-	-
Lower than BB-	1,663	-	-	-	-	-	-	-
No rating	-	-	-	-	3,617	4,940	353	298
Total	56,330	30,379	147,311	-	3,617	4,940	353	298

Bank	Financial assets revaluation reserve	Deferred income tax asset (liabilities)	Financial assets revaluation reserve
31 December 2010	1,384	(15)	1,369
Revaluation	(4,781)	-	(4,781)
Sale or redemption	2,109	-	2,109
Amortisation of revaluation related to held-to-maturity investments	(355)	-	(355)
Deferred income tax	-	476	476
31 December 2011	(1,643)	461	(1,182)
Revaluation	6,244	-	6,244
Sale or redemption	1,830	-	1,830
Amortisation of revaluation related to held-to-maturity investments	(556)	-	(556)
Deferred income tax	-	(1,142)	(1,142)
31 December 2012	5,875	(681)	5,194

Group	Financial assets revaluation reserve	Deferred income tax asset (liabilities)	Financial assets revaluation reserve
31 December 2010	13	(15)	(2)
Revaluation	(3,410)	-	(4,781)
Sale or redemption	2,109	-	2,109
Amortisation of revaluation related to held-to-maturity investments	(355)	-	(355)
Deferred income tax	-	476	476
31 December 2011	(1,643)	461	(1,182)
Revaluation	6,244	-	6,244
Sale or redemption	1,830	-	1,830
Amortisation of revaluation related to held-to-maturity investments	(556)	-	(556)
Deferred income tax	-	(1,142)	(1,142)
31 December 2012	5,875	(681)	5,194

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NOTE 15 INVESTMENT SECURITIES (CONTINUED)

	2012		2011	
	Group	Bank	Group	Bank
Held-to-maturity securities:				
Local government bonds	209,340	209,340	263,045	263,045
Local corporate bonds	-	-	3,068	-
Foreign government bonds	31,172	31,172	24,144	24,144
Foreign corporate bonds	32,519	32,519	16,092	16,092
Total held-to-maturity securities	273,031	273,031	306,349	303,281
Breakdown of held to maturity securities according to maturity				
Short-term (up to 1 year)	90,679	90,679	61,556	61,556
Long-term (over 1 year)	182,352	182,352	244,793	241,725
Total	273,031	273,031	306,349	303,281

The cash flows and other movements of held-to-maturity securities:

	2012	2011
As at 1 January	303,281	207,635
Acquisitions	32,099	28,324
Redemptions	(62,396)	(11,153)
Accrued interest	11,687	9,895
Received coupon payment	(10,941)	(9,739)
Reclassifications	(556)	80,926
Realised loss on disposal (Note 3)	-	(1,962)
Disposals	-	(677)
Foreign currency exchange rate impact	(143)	32
As at 31 December	273,031	303,281

By 31 December 2011, the Bank has reclassified a part of its available for sale debt securities portfolio to held-to-maturity securities. Management of the bank has assessed that it has an intention to hold these securities to their maturity. Carrying amount of the reclassified securities as at 31 December 2012 is LTL 124,857 thousand (as at 31 December 2011 - LTL 125,517 thousand). During 2012 other comprehensive expenses recognized in relation to the amortisation of revaluation reserve of these debt securities amounted to LTL 556 thousand (during 2011 - LTL 724 thousand). If the reclassification had not been performed, other comprehensive income recognized in 2012 in relation to these securities would be equal to LTL 9 696 thousand (in 2011 – other comprehensive loss of 1,245 thousand). There were no reclassifications in 2012,

The carrying amounts and fair values of the Bank's held-to-maturity securities:

	2012		2011	
	Fair value	Carrying amount	Fair value	Carrying amount
Local government bonds	222,285	209,340	260,666	263,045
Foreign state companies bond	2,749	2,681	-	-
Foreign government bonds	33,911	31,172	22,967	24,144
Foreign corporate bonds	31,613	29,838	16,104	16,092
Total held-to-maturity securities	290,558	273,031	299,737	303,281

As at 31 December 2012 the Bank has pledged held – to- maturity investments with carrying amount of LTL 30,448 thousand under repurchase agreement. Repurchase agreement settlement date is 29 March 2013, No investment securities were pledged as at 31 December 2011.

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Breakdown of the Bank's held-to-maturity securities as at 31 December 2012 and 2011:

Rating	Treasury bills		State companies debt securities		Corporate debt securities	
	2012	2011	2012	2011	2012	2011
Bank						
AAA	-	8,106	-	-	-	-
From AA- to AA+	8,092	-	-	-	6,811	6,798
From A- to A+	17,704	10,686	-	-	8,615	-
From BBB- to BBB+	209,340	263,045	2,681	-	14,412	9,294
From BB- to BB+	5,376	5,352	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	240,512	287,189	2,681	-	29,838	16,092

Breakdown of the Group's held-to-maturity securities as at 31 December 2012 and 2011:

Rating	Treasury bills		State companies debt securities		Corporate debt securities	
	2012	2011	2012	2011	2012	2011
Group						
AAA	-	8,106	-	-	-	-
From AA- to AA+	8,092	-	-	-	6,811	6,798
From A- to A+	17,704	10,686	-	-	8,615	-
From BBB- to BBB+	209,340	263,045	2,681	-	14,412	9,294
From BB- to BB+	5,376	5,352	-	-	-	-
Lower than BB-	-	-	-	-	-	-
No rating	-	-	-	-	-	3,068
Total	240,512	287,189	2,681	-	29,838	19,160

NOTE 16 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Bank	2012			
	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated directly controlled subsidiaries				
UAB ŠB Lizingas	100.0%	5,000	2,000	3,000
UAB ŠB Investicijų Valdymas*	100.0%	4,040	2,382	1,658
UAB ŠB Turto Fondas	100.0%	5,117	846	4,271
UAB SBTF	100.0%	2,000	-	2,000
UAB "Pavasaris"	97.93%	35,357	-	35,357
UAB Minera	100.0%	5,505	-	5,505
Total		57,019	5,228	51,791

	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated indirectly controlled subsidiaries:				
UAB „Kėdainių oda“**	100.0%	12,000	10	11,990

Bank	2011			
	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated subsidiaries:				
UAB ŠB Lizingas	100.0%	5,000	3,000	2,000
UAB ŠB Investicijų Valdymas	100.0%	4,040	927	3,113
UAB ŠB Turto Fondas	100.0%	5,117	846	4,271
UAB SBTF	100.0%	2,000	-	2,000
UAB Minera	100.0%	5,505	-	5,505
Total		21,662	4,773	16,889

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	Share in equity	Acquisition cost	Impairment provision	Carrying amount
Investments in consolidated indirectly controlled subsidiaries:				
UAB „Kėdainių oda“*	100.0%	12,000	10	11,990

*Indirectly controlled by subsidiary UAB SB Investicijų Valdymas

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 2010 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 impairment have been reperformed as at 31 December 2011 and 31 December 2012. As a result of tests performed the management of the Bank considered that partial impairment release was necessary in 2012.

The Bank has identified impairment indicators for its subsidiary ŠB Investicijų valdymas UAB. The Bank recognised impairment of the subsidiary as at 31 December 2012 based on results of the impairment test.

Development of investment in Pavasaris

In September 2011 The Group increased the share in equity of Pavasaris UAB to 49.60%. As of 31 December 2012, ŠB Investicijų Valdymas UAB and ŠB Turto Fondas UAB owned 23.97% and 25.63%, respectively, of share capital of Pavasaris UAB. The Group accounted for Pavasaris UAB as an associate entity as of 31 December 2011.

Financial information of Pavasaris UAB	2011
Total assets as of 31 December	39,838
Total liabilities as of 31 December	36,323
Net assets as of 31 December	3,515
Profit for January – September 2011	1,128
Profit for October – December 2011	22
Share of profits attributable to the Group:	11

Movement of carrying amount of investment in Pavasaris UAB during 2011:

1 January (classified as available-for-sale investment)	11,243
Reversal of impairment (through financial assets revaluation reserve)	1,371
Additional percentage of share capital acquired (in cash)	5,767
Acquisition cost as of 31 December	18,381
Share of profits attributable to the Group:	11
Carrying amount as of 31 December	18,392

In June 2012, the Group increased holding in Pavasaris to 97.93%. The Bank acquired 49.60% holding from its subsidiaries (see above) and 48.33% from third parties.

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The assets and liabilities arising from the acquisition as at the date of acquisition are as follows:

	Acquiree's carry- ing amount	Fair value
<i>Assets</i>		
Property, plant and equipment	596	596
Financial assets	2,903	2,903
Deferred tax asset	191	191
Inventories (completed residential premises)	23,144	28,855
Inventories (assets under construction)	11,872	19,695
Receivables	1,563	1,563
Land lease rights	-	24,253
Cash	2	2
<i>Liabilities</i>		
Loans	33,664	33,664
Trade payables	2,911	2,911
Advances received	336	336
Other liabilities	44	44
Deferred tax liabilities	-	5,668
Net assets at acquisition date	3,316	35,435
Acquired share capital, %	97.93	97.93
Interest in net assets acquired	3,247	34,701
Non-controlling interest	69	734
Fair value of investment held by the Group upon acquisition (49,6% holding)	17,907	
Cash paid upon acquisition of control (extra 48,33% holding)	16,975	
Non-controlling interest	734	
	35,615	
Net assets at acquisition date	35,435	
Total goodwill	180	
Value of investment to Pavasaris as at 31 December 2011	18,392	
Share of profits of associates in 2012 by the date of obtaining the control	89	
Value of investment to Pavasaris in Group accounts at acquisition	18,481	
Fair value of investment to Pavasaris held by the Group at acqui- sition (49,6%)	17,907	
Loss on valuation of investment to FV	(574)	
Group's cash flow		
Cash paid upon acquisition (48,33%)	16,975	
Cash acquired upon acquisition	2	
Net cash outflow	16,973	
Bank's cash flow		
Cash paid upon acquisition (97,87%)	35,357	
Net cash outflow	35,357	

Due to revaluation of previously held interest, the Group incurred a loss of LTL 574 thousand.

The amounts of revenue and profit of Pavasaris UAB since 1 June 2012 till 31 December 2012 included in the consolidated statement of comprehensive income are LTL 12,517 thousand (see Note 6) and LTL 1,457 thousand, respectively. Had the acquisition occurred at 1 January 2012, the combined Group's Revenue from sale of apartments and Group's profit in 2012 would have amounted to LTL 15,176 thousand and LTL 13,525 thousand, respectively.

As at 31 December 2012 the group also consolidates subsidiary controlled through UAB ŠB Investicijų Valdymas. As at 31 December 2011 this subsidiary was accounted as held – for sale disposal group. Disclosure is provided in Note 20.

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NOTE 17 INTANGIBLE ASSETS

	Group	Bank
	Software and licences	Software and licences
<u>As at 31 December 2010:</u>		
Cost	5,336	5,121
Accumulated amortisation	(4,728)	(4,515)
Net book value	608	606
<u>Year ended 31 December 2011:</u>		
Net book value at 1 January	608	606
Acquisitions	551	523
Write-offs		
Amortisation charge	(243)	(235)
Net book value at 31 December	916	894
<u>As at 31 December 2011:</u>		
Cost	5,873	5,635
Accumulated amortisation	(4,957)	(4,741)
Net book value	916	894
<u>Year ended 31 December 2012:</u>		
Net book value at 1 January	916	894
Acquisitions	401	291
Write-offs	-	-
Amortisation charge	(295)	(282)
Net book value at 31 December	1,022	903
<u>As at 31 December 2012:</u>		
Cost	6,204	5,899
Accumulated amortisation	(5,177)	(4,996)
Net book value	1,027	903
Economic life (in years)	3 – 9	3 - 9

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NOTE 18 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings, premises and land	Vehicles	Office equipment	Construction in progress	Total
<u>As at 31 December 2010:</u>					
Cost	40,344	11,786	16,673	-	68,803
Accumulated depreciation	(6,875)	(3,338)	(12,176)	-	(22,389)
Net book value	33,469	8,448	4,497	-	46,414
<u>Year ended 31 December 2011:</u>					
Net book value at 1 January	33,469	8,448	4,497	-	46,414
Acquisitions	1 626	1,309	2,023	-	4,958
Reclassification	351	-	-	-	351
Disposals and write-offs	(23)	(714)	(19)	-	(756)
Depreciation charge	(821)	(1,501)	(1,771)	-	(4,093)
Net book value at 31 December	34 602	7,542	4,730	-	46,874
<u>As at 31 December 2011:</u>					
Cost	41 987	11,451	17,651	-	71,089
Accumulated depreciation	(7,385)	(3,909)	(12,921)	-	(24,215)
Net book value	34 602	7,542	4,730	-	46,874
<u>Year ended 31 December 2012</u>					
Net book value at 1 January	34,602	7,542	4,730	-	46,874
Increase after obtaining a control over UAB "Pavasaris"	369	-	25	-	394
Increase after UAB "Kėdainių oda" reclassification (note 20)	7,105	22	2,673	-	9,800
Acquisitions	684	324	1,669	-	2,677
Reclassifications to investment property	(389)	-	-	-	(389)
Disposals and write-offs	(1,223)	(656)	(145)	-	(2,024)
Depreciation charge	(1,063)	(1,327)	(1,954)	-	(4,344)
Net book value at 31 December	40,085	5,905	6,998	-	52,988
<u>As at 31 December 2012:</u>					
Cost	48,794	10,418	21,251	-	80,463
Accumulated depreciation	(8,709)	(4,513)	(14,253)	-	(27,475)
Net book value	40,085	5,905	6,998	-	52,988
Economic life (in years)	15-50	5-12	3-20	-	-

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NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The total balance of the Group's assets in the table above includes assets leased under operating lease agreements as at 31 December 2012, as follows:

Group	Vehicles	Equipment	Total
<u>As at 31 December 2010:</u>			
Cost	7,460	39	7,499
Accumulated depreciation	(1,914)	(29)	(1,943)
Net book value	5,546	10	5,556
<u>Year ended 31 December 2011:</u>			
Net book value at 1 January	5,546	10	5,556
Acquisitions	267	29	296
Disposals and write-offs	(310)	-	(310)
Depreciation charge	(803)	(5)	(808)
Net book value at 31 December	4,700	34	4,734
<u>As at 31 December 2011:</u>			
Cost	7,266	60	7,326
Accumulated depreciation	(2,566)	(26)	(2,592)
Net book value	4,700	34	4,734
<u>Year ended 31 December 2012:</u>			
Net book value at 1 January	4,700	34	4,734
Acquisitions	103	1	104
Disposals and write-offs	(352)	-	(352)
Depreciation charge	(758)	(6)	(764)
Net book value at 31 December	3,693	29	3,722
<u>As at 31 December 2012:</u>			
Cost	6,674	61	6,735
Accumulated depreciation	(2,981)	(32)	(3,013)
Net book value	3,693	29	3,722
Economic life (in years)	6-12	6-15	-

As at 31 December 2012 and 31 December 2011, there were no property, plant and equipment pledged to third parties.

Future minimum lease payments to be received under non-cancellable operating lease agreements for the Bank and the Group were as follows (this includes investment property disclosed in Note 26):

	2012			2011		
	up to 1 year	1-5 years	over 5 years	up to 1 year	1-5 years	over 5 years
Bank	497	1,310	-	261	178	-
Group	2,615	7,885	8,114	1,978	6,408	15,752

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NOTE 18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Buildings and premises	Vehicles	Office equipment	Construction in progress	Total
<u>As at 31 December 2010:</u>					
Cost	37,505	3,756	15,980	-	57,241
Accumulated depreciation	(5,157)	(1,173)	(11,556)	-	(17,886)
Net book value	32,348	2,583	4,424	-	39,355
<u>Year ended 31 December 2011:</u>					
Net book value at 1 January	32,348	2,583	4,424	-	39,355
Acquisitions	967	412	1,894	-	3,273
Disposals and write-offs		(279)	(19)		(298)
Depreciation charge	(730)	(585)	(1 734)		(3 049)
Reclassification	351			-	351
Net book value at 31 December	32,936	2,131	4,565	-	39,632
<u>As at 31 December 2011:</u>					
Cost	38,878	3,365	16,841	-	59,084
Accumulated depreciation	(5,942)	(1,234)	(12,276)	-	(19,452)
Net book value	32,936	2,131	4,565	-	39,632
<u>Year ended 31 December 2012:</u>					
Net book value at 1 January	32,936	2,131	4,565	-	39,632
Acquisitions	684		1,464	-	2,148
Disposals and write-offs	(706)	(209)	(116)	-	(1,031)
Depreciation charge	(741)	(453)	(1,605)	-	(2,799)
Reclassification	261				261
Net book value at 31 December	32,434	1,469	4,308	-	38,211
<u>As at 31 December 2012:</u>					
Cost	38,736	2,786	17,038	-	58,560
Accumulated depreciation	(6,302)	(1,317)	(12,730)	-	(20,349)
Net book value	32,434	1,469	4,308	-	38,211
Economic life (in years)	15-50	5-12	3-20	-	-

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NOTE 19 OTHER ASSETS

	2012		2011	
	Group	Bank	Group	Bank
Financial assets:				
Amounts receivable	5,970	133	23,125	116
Breakdown of financial assets according to maturity				
Short-term (up to 1 year)	5,454	133	7,152	116
Long-term (over 1 year)	516	-	15,973	-
Non-financial assets:				
Breakdown of non-financial assets according to maturity				
Short-term (up to 1 year)	97,600	4,485	18,313	3,862
Long-term (over 1 year)	52,982	819	36,365	3,603
Inventories	132,803	-	44,327	-
Deferred charges	3,280	1,902	3,031	2,399
Prepayments	4,545	-	2,545	2,295
Foreclosed assets	2,422	1,995	2,710	1,980
Other	7,532	1,406	2,065	791
TOTAL OTHER ASSETS	156,552	5,436	77,803	7,581

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, UAB „Pavasaris“ and Šiaulių banko investicijų valdymas UAB. UAB „Kėdainių oda“ inventories are also included.

	2012		2011	
	Group	Bank	Group	Bank
Breakdown of inventories according to type:				
Apartments held for sale	48,690	-	1,816	-
Property held for sale or development	84,113	-	42,511	-
Total inventories	132,803	-	44,327	-

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

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

Kėdainių oda UAB is controlled by the subsidiary of the Bank Šiaulių banko investicijų valdymas UAB and consolidated since 2010. The management has intention to sell the company and actively search for a potential buyer since obtaining the control, therefore assets, liabilities and profit and loss related to this subsidiary were disclosed as related to the subsidiary that is held for sale in the financial statements as of 31 December 2011 and for the year then ended.

Despite the steps taken by the management to sell Kėdainių oda UAB in 2010 -2012 year period, as at 31 December 2012 the company remains under control of the Bank. In the view of the management, investment to Kėdainių oda UAB and assets and liabilities related to the subsidiary ceased to be classified as held for sale.

In terms of presentation, the results of the discontinued operation were presented in the income statement as continuing in both 2012 and 2011 (re-presented); assets and liabilities were reclassified out off single line item in the statement of financial position as at 31 December 2012.

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2011 and as at 31 December 2012 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

Kėdainių oda UAB	As at 31 December 2011
Long term assets	9,805
Short term assets (except for cash & cash equivalents)	3,856

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Cash & cash equivalents	-
Deffered income tax	338
Total assets	13,999
Long term liabilities	-
Short term liabilities	1,296
Total liabilities	1,296
Total net assets related to discontinued operations	12,703
Net assets attributable to Group	12,703

Cash flows related to the subsidiary that is held for sale for the financial year ended as at 31 December 2011 are provided below.

Kėdainių oda UAB	2011
Net cash flow from (used in) operating activities	(2,911)
Net cash flow from (used in) investing activities	735
Net cash flow (used in) financing activities	2,190
Total net cash flow	14

Profit (loss) reclassified to the continuing operations is provided below :

Kėdainių oda UAB	Year ended as at 31 December 2011
Previously classified as discontinued operations	
Sales income	10,933
Cost of goods sold	(9,869)
Gross profit (loss)	1064
Sales and marketing expenses	-
Operating expenses	(2,034)
Other income (expenses)	5
Operating profit (loss)	(965)
Net profit (loss) from financial activities	-
(Loss) profit before income tax	(965)
Income tax	280
Net profit (loss) for the year	(685)

Impairment test for the assets held by this subsidiary company has been performed as at 31 December 2011 and as at 31 December 2012 and identified that the recoverable amount is not lower than the book value of the assets therefore no impairment has been recognised.

NOTE 21 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	2012		2011	
	Group	Bank	Group	Bank
Correspondent accounts and deposits of other banks and financial institutions:				
Correspondent accounts and demand deposits	13,179	15,472	21,313	21,324
Time deposits	27,383	27,388	75,653	75,653
Total correspondent accounts and deposits of other banks and financial institutions	40,562	42,860	96,966	96,977
Loans received from:				
Other banks	76,421	76,421	72,206	72,206
Other organisations	74,035	74,035	80,364	80,364
International organisations	215,252	215,252	221,353	221,353
Total loans received	365,708	365,708	373,923	373,923
Total	406,270	408,568	470,889	470,900

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Short-term (up to 1 year)	170,815	173,113	171,778	171,789
Long-term (over 1 year)	235,455	235,455	299,111	299,111
Total	406,270	408,568	470,889	470,900

NOTE 22 DUE TO CUSTOMERS

	2012		2011	
	Group	Bank	Group	Bank
Demand deposits:				
National government institutions	37,033	37,033	28,256	28,256
Local government institutions	53,094	53,094	28,961	28,961
Governmental and municipal companies	24,849	24,849	32,932	32,932
Corporate entities	219,489	219,650	184,697	184,979
Non-profit organisations	13,128	13,128	10,755	10,755
Individuals	205,037	205,037	158,431	158,431
Unallocated amounts due to customers	7,364	7,364	12,668	12,668
Total demand deposits	559,994	560,155	456,700	456,982
Time deposits:				
National government institutions	2,198	2,198	3,336	3,336
Local government institutions	2,011	2,011	1,185	1,185
Governmental and municipality companies	24,277	24,277	85,020	85,020
Corporate entities	155,991	155,991	187,944	187,944
Non-profit organisations	9,160	9,160	8,442	8,442
Individuals	1,412,060	1,412,060	1,151,258	1,151,258
Total time deposits	1,605,697	1,605,697	1,437,185	1,437,185
Total	2,165,691	2,165,852	1,893,885	1,894,167
Breakdown of due to customers according to maturity				
Short-term (up to 1 year)	2,081,725	2,081,886	1,787,236	1,787,518
Long-term (over 1 year)	83,966	83,966	106,649	106,649
Total	2,165,691	2,165,852	1,893,885	1,894,167

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

NOTE 23 SPECIAL AND LENDING FUNDS

	2012		2011	
	Group	Bank	Group	Bank
Special funds	2,835	2,835	5,439	5,439
Lending funds	4,459	4,459	11,461	11,461
Total	7,294	7,294	16,900	16,900
Breakdown of special and lending funds according to maturity				
Short-term (up to 1 year)	4,142	4,142	12,487	12,487
Long-term (over 1 year)	3,152	3,152	4,413	4,413
	7,294	7,294	16,900	16,900

The special funds consist of the funds from the mandatory social and health insurance funds. The special funds have to be returned to the institutions which have placed them upon the first requirement of the latter.

The lending funds consist of the loans from the ministries of Economy and Finance of the Republic of Lithuania for credits of a special purpose granted by other financial institutions.

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

NOTE 24 DEBT SECURITIES IN ISSUE

On 31 December 2012, the following bonds were valid:

-16.08.2011 - ISIN LT0000402661 - 505-day, interest rate of 4,25 per cent, maturity date - 03.01.2013;
-29.08.2011 - ISIN LT0000402687 - 555-day, interest rate of 5,25 per cent, maturity date - 06.03.2013;
-29.11.2011 - ISIN LT0000402703 - 547-day, interest rate of 4,50 per cent, maturity date - 29.05.2013;
-29.11.2011 - ISIN LT0000402420 - 547-day, interest rate of 4,50 per cent, maturity date - 29.05.2013;

In 2012 the Bank did not issue new bonds.

07.05.2012 the Bank redeemed emission of LTL 15 million which was issued 05.08.2011 and had interest rate of 4,5 per cent, ISIN LT0000390031.

08.2012 the Bank redeemed emission of LTL 7,685 million which was issued in 23.09.2011 and had interest rate of 4,9 per cent, ISIN LT0000410482.

Emission number	Group	2012		2011	
		Bank	Group	Bank	
LT0000390031	-	-	15,274	15,274	
LT0000402687	15,268	15,268	15,268	15,268	
LT0000402661	7,116	7,116	6,936	6,936	
LT0000410482	-	-	7,787	7 787	
LT0000402703	528	528	19	19	
Total:	22,912	22,912	45,284	45,284	

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

NOTE 25 OTHER LIABILITIES

	2012		2011	
	Group	Bank	Group	Bank
Financial liabilities:				
Finance lease liabilities	3,456	-	3,922	-
Breakdown of other financial liabilities according to maturity				
Short-term (up to 1 year)	3,456	-	3,922	-
Long-term (over 1 year)	-	-	-	-
Non-financial liabilities:				
Accrued charges	8,362	6,541	6,072	5,351
Advance amounts received from the buyers of assets	2,057	-	1,322	-
Deferred income	3,003	859	1,182	787
Other liabilities	3,144	584	2,196	569
Total non-financial liabilities	16,565	7,984	10,772	6,707
Breakdown of other non-financial liabilities according to maturity				
Short-term (up to 1 year)	15,194	7,278	9,810	5,963
Long-term (over 1 year)	1,371	706	962	744
Total non-financial liabilities	16,565	7,984	10,772	6,707

NOTE 26 INVESTMENT PROPERTY

Investment property	Bank	Group
Year ended 31 December 2011:		
Revalued amount at 1 January	4,344	24,967
Acquisitions	4,081	9,038
Reclassification	-	(351)
Revaluation at fair value	(351)	-
Disposals and write-offs	(128)	(340)
Revalued amount at 31 December	7,946	33,314
Year ended 31 December 2012:		
Revalued amount at 1 January	7,946	33,314
Acquisitions	-	2,058
Reclassification	(261)	2,061
Disposals and write-offs	-	-
Revaluation at fair value	(168)	75
Revalued amount at 31 December	7,517	37,508

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NOTE 27 SHARE CAPITAL

During 2011 Bank's share capital has been increased from LTL 204,857,533 to LTL 234,857,533 by an additional issue of 30,000 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 1,200 thousand and was recorded as share premium. Increase of share has been registered in register of legal entities as at 4 August 2011.

As of 31 December 2012, 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	19.57
Gintaras Kateiva	6.24
Clients of Skandinaviska Enskilda Banken klientai, Sweden	5.53
AB „Eglės“ sanatorija	5.37
Total	36.71

Another 15 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.

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, Audrius Žiugžda, Daiva Kiburienė, Jonas Bartkus, Vita Adomaitytė, Vytautas Sinius ir Donatas Savickas form a group votes of which are calculated together. As of 31 December 2012, this group possessed 43.17 percent of the authorised capital and votes of the Bank.

As at 31 December 2012, the Bank had 3,671 shareholders (as at 31 December 2011: 3, 805).

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 or annual 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 2012 and as at 31 December 2011 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 2012. 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

	2012		2011	
	Group	Bank	Group	Bank
Financial guarantees issued	88,313	88,360	73,351	73,396
Letters of credit	3,541	3,541	5,064	5,064
Commitments to grant loans	112,528	114,011	123,052	119,631
Other commitments	3,713	2,325	3,403	3,403
Total	208,095	208,237	204,870	201,494

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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 2012, the annual general meeting of shareholders decided not to pay any dividends to the holders of ordinary shares. (in March 2011 the shareholders also decided not to pay any dividends).

In 2012 subsidiary company UAB „Šiaulių banko lizingas“ paid 1,000 LTL dividends. In 2011 Group companies did not pay dividends.

NOTE 30 LIQUIDITY RISK

The structure of the Group's assets and liabilities by maturity as at 31 December 2012 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	221,855	-	-	-	-	-	-	-	221,855
Due from other banks	-	-	-	-	4,120	-	-	17	4,137
Trading securities	-	-	-	998	13,940	2,781	33,022	457	51,198
Loans granted to customers, finance lease receivables	-	55,137	105,926	167,042	224,192	618,107	689,142	561,75	1,915,721
Investment securities									-
- available-for-sale securities	-	-	-	-	-	8,916	194,725	3,970	207,611
- held-to-maturity securities	-	28,538	37,328	-	24,813	31,869	150,483	-	273,031
Intangible assets	-	-	-	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	-	-	-	90,496	90,496
Other assets	168	5,665	2,133	3,500	13,653	50,370	13,177	88,781	177,447
Total assets	222,023	89,340	145,387	171,540	280,718	712,043	1,080,549	241,103	2,942,703
Liabilities									
Due to other banks and financial institutions	13,256	4,364	39,078	63,199	50,918	158,176	77,279	-	406,270
Due to customers	560,126	185,355	315,125	409,676	615,584	69,372	17,594	153	2,172,985
Debt securities in issue		7,116	15,268	528					22,912
Other liabilities	1,589	8,574	1,062	820	2,855	1,348	139	9,693	26,080
Shareholders' equity								314,456	314,456
Total liabilities and shareholders' equity	574,971	205,409	370,533	474,223	669,357	228,896	95,012	324,302	2,942,703
Net liquidity gap	(352,948)	(116,069)	(225,146)	(302,683)	(388,639)	483,147	985,537	(83,199)	-

The structure of the Group's assets and liabilities by remaining maturity as at 31 December 2011 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	222,494	49,599	142,457	143,921	341,430	794,110	848,365	194,928	2,737,304
Total liabilities and shareholders' equity	494,190	257,325	305,279	419,163	530,829	330,772	102,586	297,160	2,737,304
Net liquidity gap	(271,696)	(207,726)	(162,822)	(275,242)	(189,399)	463,338	745,779	(102,232)	-

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NOTE 30 LIQUIDITY RISK (CONTINUED)

The structure of the Bank's assets and liabilities by maturity as at 31 December 2012 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	221,805	-	-	-	-	-	-	-	221,805
Due from other banks	-	-	-	-	4,120	-	-	17	4,137
Trading securities	-	-	-	998	13,940	2,781	33,022	457	51,198
Loans granted to customers, finance lease receivables	-	97,190	152,012	234,042	312,064	604,924	599,994	52,583	2,052,809
Investment securities									-
- available-for-sale securities	-	-	-	-	-	8,916	194,725	1,744	205,385
- held-to-maturity securities	-	28,538	37,328	-	24,813	31,869	150,483	-	273,031
Investments in subsidiaries	-	-	-	-	-	-	-	51,791	51,791
Intangible assets	-	-	-	-	-	-	-	903	903
Property, plant and equipment and investment property	-	-	-	-	-	-	-	45,728	45,728
Other assets	5	1,125	1,673	1,318	2,436	6,131	4,017	7,974	24,679
Total assets	221,810	126,853	191,013	236,358	357,373	654,621	982,241	161,197	2,931,466
Liabilities									
Due to other banks and financial institutions	15,549	4,364	39,078	63,199	50,923	158,176	77,279	-	408,568
Due to customers	560,287	185,355	315,125	409,676	615,584	69,372	17,594	153	2,173,146
Debt securities in issue	-	7,116	15,268	528	-	-	-	-	22,912
Other liabilities	47	3,465	247	240	274	580	126	3,005	7,984
Shareholders' equity	-	-	-	-	-	-	-	318,856	318,856
Total liabilities and shareholders' equity	575,883	200,300	369,718	473,643	666,781	228,128	94,999	322,014	2,931,466
Net liquidity gap	(354,073)	(73,447)	(178,705)	(237,285)	(309,408)	426,493	887,242	(160,817)	-

The structure of the Bank's assets and liabilities by maturity as at 31 December 2011 was as follows:

	On demand	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Maturity undefined	Total
Total assets	222,351	76,612	186,008	199,346	431,067	734,770	754,709	126,703	2,731,566
Total liabilities and shareholders' equity	493,393	251,330	305,047	418,990	530,415	330,554	102,586	299,251	2,731,566
Net liquidity gap	(271,042)	(174,718)	(119,039)	(219,644)	(99,348)	404,216	652,123	(172,548)	-

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

NOTE 31 FOREIGN EXCHANGE TRANSACTIONS AND OPEN CURRENCY POSITIONS

The Group's open positions of prevailing currencies as at 31 December 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	13,787	7,414	21,201	18,452	182,202	221,855
Due from other banks	-	-	-	4,137	-	4,137
Trading securities	9,770	-	9,770	21,389	20,039	51,198
Loans granted to customers, finance lease receivables	9,804	-	9,804	529,755	1,376,162	1,915,721
Investment securities			-			-
- available-for-sale securities	28,890	1,631	30,521	152,040	25,050	207,611
- held-to-maturity securities	8,020	-	8,020	102,334	162,677	273,031
Intangible assets	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	90,496	90,496
Other assets	19	-	19	7,113	170,315	177,447
Total assets	70,290	9,045	79,335	835,220	2,028,148	2,942,703
Liabilities and shareholders' equity						
Due to other banks and financial institutions	613	-	613	313,145	92,512	406,270
Due to customers	67,158	6,050	73,208	417,190	1,682,587	2,172,985
Bonds issued	-	-	-	-	22,912	22,912
Other liabilities	19	5	24	480	25,576	26,080
Shareholders' equity	976	(1)	975	2,443	311,038	314,456
Total liabilities and shareholders' equity	68,766	6,054	74,820	733,258	2,134,625	2,942,703
Net balance sheet position	1,524	2,991	4,515	101,962	(106,477)	-
Open currency exchange transactions	(1,954)		(1,954)	1,959	-	5
Net open position	(430)	2,991	2,561	103,921	(106,477)	5

The Group's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets	70,866	4,374	75,240	849,083	1,812,981	2,737,304
Liabilities and shareholders' equity	72,816	2,192	75,008	759,656	1,902,640	2,737,304
Net balance sheet position	(1,950)	2,182	232	89,427	(89,659)	-
Open currency exchange transactions	1,869	(826)	1,043	(1,045)	-	(2)
Net open position	(81)	1,356	1,275	88,382	(89,659)	(2)

(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 2012 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
Cash and cash equivalents	13,787	7,414	21,201	18,452	182,152	221,805
Due from other banks			-	4,137		4,137
Trading securities	9,770	-	9,770	21,389	20,039	51,198
Loans granted to customers, finance lease receivables	9,804	-	9,804	530,280	1,512,725	2,052,809
Investment securities						
- available-for-sale securities	28,890	1,631	30,521	152,040	22,824	205,385
- held-to-maturity securities	8,020	-	8,020	102,334	162,677	273,031
Investments in subsidiaries	-	-	-		51,791	51,791
Intangible assets	-	-	--	-	903	903
Property, plant and equipment and investment property	-	-	-	-	45,728	45,728
Other assets	18	-	18	6,442	18,219	24,679
Total assets	70,289	9,045	79,334	835,074	2,017,058	2,931,466
Liabilities and shareholders' equity						
Due to other banks and financial institutions	613	-	613	313,145	94,810	408,568
Due to customers	67,158	6,050	73,208	417,197	1,682,741	2,173,146
Bonds issued	-	-	-	-	22,912	22,912
Other liabilities	19	5	24	261	7,699	7,984
Shareholders' equity	976	(1)	975	2,443	315,438	318,856
Total liabilities and shareholders' equity	68,766	6,054	74,820	733,046	2,123,600	2,931,466
Net balance sheet position	1,523	2,991	4,514	102,028	(106,542)	-
Open currency exchange transactions	(1,954)	-	(1,954)	1,959		5
Net open position	(431)	2,991	2,560	103,987	(106,542)	5

The Bank's open positions of prevailing currencies as at 31 December 2011 were as follows:

	USD	Other currencies	Total currencies*	EUR	LTL	Total
Assets						
	70,865	4,374	75,239	848,030	1,808,297	2,731,566
Liabilities and shareholders' equity						
	72,816	2,192	75,008	759,656	1,896,902	2,731,566
Net balance sheet position	(1,951)	2,182	231	88,374	(88,605)	-
Open currency exchange transactions	1,869	(826)	1,043	(1,045)	-	(2)
Net open position	(82)	1,356	1,274	87,329	(88,605)	(2)

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

The Bank has also 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.

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NOTE 32 INTEREST RATE RISK

The table below summarizes the Group's and the Bank's interest rate risks as at 31 December 2011. 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 2012 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						221,855	221,855
Due from other banks				4,120		17	4,137
Trading securities			998	13,940	35,803	457	51,198
Loans granted to customers, finance lease receivables	352,209	536,589	797,259	56,064	165,322	8,278	1,915,721
Investment securities							-
- available-for-sale securities	-	-	-	-	203,641	3,970	207,611
- held-to-maturity securities	28,538	6,878	-	24,813	212,802	-	273,031
- investments to associate companies	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	1,207	1,207
Property, plant and equipment and investment property	-	-	-	-	-	90,496	90,496
Other assets	-	-	-	-	-	177,447	177,447
Total assets	380,747	543,467	798,257	98,937	617,568	503,727	2,942,703
Due to other banks and financial institutions	157,592	113,419	100,493	19,319	-	15,447	406,270
Due to customers	182,485	306,845	401,908	602,515	67,145	612,087	2,172,985
Bonds issued	-	7,116	15,268	528	-	-	22,912
Other liabilities	-	-	-	-	-	26,080	26,080
Shareholders' equity	-	-	-	-	-	314,456	314,456
Total liabilities and shareholders' equity	340,077	427,380	517,669	622,362	67,145	968,070	2,942,703
Interest rate sensitivity gap	40,670	116,087	280,588	(523,425)	550,423	(464,343)	-

Details of the Group's interest rate risk as at 31 December 2011 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	398,784	560,439	772,547	139,569	384,241	481,724	2,737,304
Total liabilities and shareholders' equity	415,875	397,950	490,184	488,218	110,208	834,869	2,737,304
Interest rate sensitivity gap	(17,091)	162,489	282,363	(348,649)	274,033	(353,145)	-

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NOTE 32 INTEREST RATE RISK (CONTINUED)

Details of the Bank's interest rate risk as at 31 December 2012 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	-	-	-	-	-	221,805	221,805
Due from other banks	-	-	-	4,120	-	17	4,137
Trading securities	-	-	998	13,940	35,803	457	51,198
Loans granted to customers, finance lease receivables	391,413	523,111	797,005	156,383	179,142	5,755	2,052,809
Investment securities							-
- available-for-sale securities	-	-	-	-	203,641	1,744	205,385
- held-to-maturity securities	28,538	6,878	-	24,813	212,802		273,031
Investments in subsidiaries	-	-	-	-	-	51,791	51,791
Intangible assets	-	-	-	-	-	903	903
Property, plant and equipment and investment property	-	-	-	-	-	45,728	45,728
Other assets	-	-	-	-	-	24,679	24,679
Total assets	419,951	529,989	798,003	199,256	631,388	352,879	2,931,466
Due to other banks and financial institutions	157,592	113,419	100,493	19,324	-	17,740	408,568
Due to customers	182,646	306,845	401,908	602,515	67,145	612,087	2,173,146
Bonds issued	-	7,116	15,268	528	-	-	22,912
Other liabilities	-	-	-	-	-	7,984	7,984
Shareholders' equity	-	-	-	-	-	318,856	318,856
Total liabilities and shareholders' equity	340,238	427,380	517,669	622,367	67,145	956,667	2,931,466
Interest rate sensitivity gap	79,713	102,609	280,334	(423,111)	564,243	(603,788)	-

Details of the Bank's interest rate risk as at 31 December 2011 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	416,797	574,807	756,739	247,141	380,596	355,486	2,731,566
Total liabilities and shareholders' equity	415,875	397,950	490,184	488,218	110,208	829,131	2,731,566
Interest rate sensitivity gap	922	176,857	266,555	(241,077)	270,388	(473,645)	-

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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 2012		31 December 2011	
	LTL	Other currencies	LTL	Other currencies
Assets				
Due from Central bank	0.76	-	0.62	-
Due from other banks	0.00	5.49	0.48	0.07
Debt securities	3.78	3.31	4.32	4.99
Finance lease receivables	4.96	4.52	5.21	5.44
Loans granted (before provisions)	4.60	4.04	4.97	4.66
Liabilities				
Due to other banks	3.76	2.31	3.87	3.43
Due to financial institutions	0.58	3.55	3.08	2.86
Deposits	2.22	1.98	2.36	1.89
Debt securities in issue	4.98	-	4.92	-

NOTE 33 RELATED-PARTY TRANSACTIONS

Related parties with the Bank are classified as follows:

- members of the Bank's Supervisory Council and Board, their close family members and companies in which these related parties own over 5 per cent interest and/ or hold key management positions;
- subsidiaries of the Bank, includes Šiaulių banko lizingas UAB, Šiaulių banko investicijų valdymas UAB, Šiaulių banko turto fondas UAB, SBTF UAB, Minera UAB, Kėdainių oda UAB, Pavasaris UAB;
- the Shareholders holding over 5 % of the Bank's share capital.

During 2012, 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 2012	31 December 2011	2012	2011	31 December 2012	31 December 2011	2012	2011
Members of the Council and the Board	1,031	1,823	2.61	3.04	4,857	6,437	4.97	5.62
Other related parties (excluding subsidiaries of the Bank)	5,353	11,472	0.96	1.61	121,954	195,511	3.66	4.68

As at 31 December 2012 balance of allowances for impairment losses that are related to balances of loans to related parties was equal to LTL 0 thousand (as at 31 December 2011: LTL 0 thousand). During 2012 losses incurred due to the increase in the allowances for impairment losses were LTL 0 thousand (during 2011 : LTL 0 thousand).

Transactions with EBRD:

The Bank has received loans from the EBRD, balance of which as at 31 December 2012 was equal to LTL 78,109 thousand (31 December 2011: LTL 91,791 thousand). Loan related interest and other expenses for year 2012 amounted to LTL 4,673 thousand (2011: LTL 5,283 thousand).

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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.

Transactions with subsidiaries:

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 2012	31 December 2011	2012	2011	31 December 2012	31 December 2011	2012	2011
Non-financial institutions	161	268	0.0	0.19	154,609	141,864	3.5	3.53
Financial institutions	2,298	11	0.2	0.00	216,789	173,567	3.5	3.5

Transactions with subsidiaries: Šiaulių Banko Turto Fondas UAB (the Bank's holding is 100%, LTL 5,117 thousand), Šiaulių banko investicijų valdymas UAB (the Bank's holding is 100%, LTL 4,040 thousand), Šiaulių banko lizingas UAB (the Bank's holding is 100%, LTL 2,000 thousand), ŠB TF UAB (the Bank's holding is 100% LTL, 2,000 thousand). Since 31 March 2010 the Bank has acquired two subsidiaries: Minera UAB (the Bank's holding is 100%, LTL 5,505 thousand) and SBTf UAB (the Bank's holding is 100%, LTL 2,000 thousand). In 2012 the Bank acquired control in Pavasaris UAB (the Bank's holding is 97.93%, acquisition cost is LTL 35,357 thousand).

	2012	2011
Assets		
Demand deposits	371,398	315,431
Loans	-	-
Other assets	27	25
Liabilities and shareholders' equity		
Demand deposits	2,459	279
Other liabilities	-	50
Bank's investment	51,791	16,889

Income and expenses arising from transactions with subsidiaries:

	2012	2011
Income		
Interest	12,639	9,486
Commission income	164	166
Income from foreign exchange operations	1	8
Other income	203	255
Expenses		
Interest	-	(5)
Operating expenses	(747)	(198)
Investicijų į dukterines vertės sumažėjimas	(455)	-

Remuneration of the management of the Bank

During 2012 the total amount of salaries and bonuses, including social security contributions and guarantee fund payments, to the Bank's Board members was LTL 2,961 thousand (2011: LTL 2,677 thousand).

NOTE 33 CONCENTRATION EXPOSURE

As at 31 December 2012, 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 56.3 million (the whole amount represents commitments to provide credit facilities), i.e. 18.77% of the Bank's calculated capital (2011: LTL 60.3 million and 21.36 % of the Bank's calculated capital).

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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 2012		31 December 2011	
	Fin. group	Bank	Fin. group	Bank
ASSETS				
Cash and cash equivalents	221,805	221,805	223,845	223,844
Due from other banks	51,198	51,198	4,147	4,147
Trading securities	4,137	4,137	16,574	16,574
Derivative financial instruments	13,690	13,690	-	-
Loans to customers	1,870,329	2,052,809	1,908,417	2,069,758
Finance lease receivables	184,169	-	163,741	-
Investment securities:				
- available-for-sale	205,385	205,385	32,068	32,068
- held to maturity	273,031	273,031	303,281	303,281
Investments in subsidiaries	48,791	51,791	14,889	16,889
Intangible assets	1,017	903	913	894
Property, plant and equipment	42,194	38,211	45,256	39,632
Investment property	7,972	7,517	8,478	7,946
Prepayment of income tax	-	-	-	-
Deferred tax asset	5,600	5,553	9,120	8,952
Other assets	10,046	5,436	9,691	7,581
Total assets	2,939,364	2,931,466	2,740,420	2,731,566
LIABILITIES				
Due to other banks and financial institutions	406,270	408,568	470,889	470,900
Due to customers	2,165,852	2,165,852	1,894,167	1,894,167
Special and lending funds	7,294	7,294	16,900	16,900
Debt securities in issue	22,912	22,912	45,284	45,284
Current income tax liabilities	285	-	56	-
Deferred income tax liabilities	-	-	-	-
Other liabilities	15,943	7,984	13,990	6,707
Total liabilities	2,618,556	2,612,610	2,441,286	2,433,958
EQUITY				
Capital and reserves attributable to owners of the Bank				
Share capital	234,858	234,858	234,858	234,858
Share Premium	47,861	47,861	47,861	47,861
Reserve capital	2,611	2,611	2,611	2,611
Other reserves	-	-	-	-
Statutory reserve	1,489	1,289	848	648
Financial assets revaluation reserve	5,194	5,194	(1,182)	(1,182)
Retained earnings	28,795	27,043	14,138	12,812
Total equity	320,808	318,856	299,134	297,608
Total liabilities and equity	2,939,364	2,931,466	2,740,420	2,731,566

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

NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF COMPREHENSIVE INCOME

	2012		2011	
	Fin. group	Bank	Fin. group	Bank
Continuing operations				
Interest and similar income	130,103	124,041	121,540	116,080
Interest expense and similar charges	(68,611)	(68,611)	(66,026)	(66,029)
Net interest income	61,492	55,430	55,514	50,051
Fee and commission income	16,488	16,617	14,010	14,152
Fee and commission expense	(8,443)	(7,944)	(5,724)	(5,703)
Net fee and commission income	8,045	8,673	8,286	8,449
Provision for impairment losses	(29,272)	(28,192)	(10,160)	(9,561)
Net gain from operations with securities	9,606	9,606	(3,441)	(3,441)
Net foreign exchange gain	4,866	4,865	4,883	4,883
Net gain from revaluation of derivatives	4,185	4,185	-	-
Gain from disposal of assets	723	57	50	31
Other income	1,314	1,009	1,108	736
Administrative and other operating expenses	(42,984)	(39,503)	(40,435)	(36,636)
Operating profit	17,975	16,130	15,805	14,512
Dividends from investments in subsidiaries	-	1,000	-	-
Profit before income tax	17,975	17,130	15,805	14,512
Discontinued operations				
Profit (loss) of discontinued operations before income tax	-	-	-	-
Income tax expense	(2,677)	(2,258)	(1,847)	(1,700)
Profit for the year	15,298	14,872	13,958	12,812
Other comprehensive income				
Gain (loss) from revaluation of financial assets	7,518	7,518	(3,027)	(3,027)
Deferred income tax on gain (loss) from revaluation of financial assets	(1,142)	(1,142)	476	476
Other comprehensive income (loss), net of tax	6,376	6,376	(2,551)	(2,551)
Total comprehensive income	21,674	21,248	11,407	10,261
Income attributable to:				
Owners of the Bank	15,298	14,872	13,958	12,812
Non-controlling interest	-	-	-	-
	15,298	14,872	13,958	13,958
Total comprehensive (loss) attributable to:				
Owners of the Bank	21,674	21,248	11,407	10,261
Non-controlling interest	-	-	-	-
	21,674	21,248	11,407	10,261
Basic and diluted earnings (loss) per share (in LTL per share)	0,06	0,06	0.06	0.06

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NOTE 35 FINANCIAL GROUP INFORMATION (CONTINUED)

STATEMENT OF CASH FLOWS

	Notes	Year ended			
		31 December 2012		31 December 2011	
		Fin. group	Bank	Fin.group	Bank
Operating activities					
Interest received		109,529	103,312	103,518	98,045
Interest paid		(66,990)	(66,990)	(62,391)	(62,364)
Fees and commissions received		16,488	16,617	14,040	14,152
Fees and commissions paid		(8,443)	(7,944)	(5,724)	(5,703)
Cash inflows from trade in trading securities		9,152	9,152	(3,363)	(3,363)
Net income from foreign exchange operations		4,796	4,795	4,610	4,610
Recoveries on loans previously written off		1,243	715	1,756	1,157
Salaries and related payments to and on behalf of employees		(25,630)	(23,399)	(23,486)	(21,623)
Other cash receipts, sale of assets		2,025	1,066	1,082	710
Other cash payments		(14,990)	(14,324)	(13,559)	(12,451)
Income tax paid		(69)	-	-	-
Net cash flow from operating activities before change in operating assets and liabilities		27,111	23,000	16,483	13,170
Change in operating assets and liabilities:					
(Increase)/decrease in trading securities		(33,154)	(33,154)	63,505	63,505
(Increase)/decrease in loans to credit and financial institutions		10	10	(749)	(55,520)
(Increase) in loans to customers		(17,969)	(18,192)	(412,223)	(366,698)
(Increase) in other current assets		(674)	2,052	8,587	8,535
Increase/(decrease) in liabilities to credit and financial institutions		(64,619)	(62,332)	99,896	99,883
Increase in deposits		271,685	271,685	220,986	220,986
Increase/(decrease) in special and lending funds		(9,606)	(9,606)	(11,210)	(11,210)
Increase/(decrease) in other liabilities		1,769	1,058	(8,434)	4,175
Change		147,442	151,521	(39,642)	(36,344)
Net cash flow from/ (used in) operating activities		174,553	174,521	(23,159)	(23,174)
Investing activities					
(Purchase) of property, plant and equipment and intangible assets		(2,702)	(2,439)	(8,452)	(7,877)
Disposal of property, plant and equipment and intangible assets		3,999	2,719	2,431	1,876
(Purchase) of held-to-maturity securities		(31,400)	(31,400)	(28,356)	(28,356)
Proceeds from redemption of held-to-maturity securities		73,337	73,337	23,531	23,531
Dividends received		60	1,060	42	42
(Purchase) of available-for-sale securities		(349,006)	(349,006)	(210,667)	(210,667)
Sale of available-for-sale securities		188,519	188,519	189,732	189,732
Repurchase of shares of subsidiary companies		(35,357)	(35,357)	-	-
Net cash flow used in investing activities		(152,550)	(152,567)	(31,739)	(31,719)
Financing activities					
Increase in share capital	27	-	-	31,200	31,200
Debt securities in issue		1,514	1,514	111,933	111,933
Redemption of debt securities in issue		(25,507)	(25,507)	(72,793)	(72,793)
Net cash flow from financing activities		(23,993)	(23,993)	70,340	70,340
Net increase (decrease) in cash and cash equivalents		(1,990)	(2,039)	15,442	15,447
Cash and cash equivalents at 1 January		223,845	223,844	208,400	208,397
Cash and cash equivalents at 31 December	10	221,855	221,805	223,842	223,844

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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 2010		204,858	46,661	2,611	1,369	6,522	10,000	(15,494)	256,527
Formation of statutory reserve		-	-	-	-	(5,674)	(10,000)	15,674	-
Increase in share capital	27	30,000	1,200	-	-	-	-	-	31,200
Total comprehensive income (loss)		-	-	-	(2,551)	-	-	13,958	11,407
31 December 2011		234,858	47,861	2,611	(1,182)	848	-	14,138	299,134
Formation of statutory reserve						641		(641)	-
Increase in share capital	27	-	-	-	-	-	-	-	-
Total comprehensive income					6,376			15,298	21,674
31 December 2012		234,858	47,861	2,611	5,194	1,489	-	28,795	320,808

NOTE 36 EVENTS AFTER THE REPORTING PERIOD

Takeover of a part of Ūkio Bankas

On 23 February 2013, an agreement was signed between Ūkio Bankas AB registered in Lithuania (legal entity's code 112020136, hereinafter Ūkio Bankas), Šiaulių Bankas AB (legal entity's code 112025254) and a state-owned enterprise Indėlių ir Investicijų Draudimas (legal entity's code 110069451, hereinafter Deposit Insurance Fund) on the transfer of assets, rights, transactions and liabilities of Ūkio Bankas, based on which a part of assets, rights, transactions and liabilities of Ūkio Bankas was transferred to Šiaulių Bankas. Under the agreement, Šiaulių Bankas takes over LTL 1.9bn assets (rights) and LTL 2.7bn liabilities from Ūkio Bankas. The difference of LTL 800m between the liabilities and the assets taken over will be covered by the Deposit Insurance Fund. The assets of Ūkio Bankas transferred to Šiaulių Bankas are based on a preliminary valuation carried out by an audit company, the results of which have been approved by the Board of the Bank of Lithuania. To have an accurate estimation of assets and liabilities transferred, a more detailed final valuation of assets and liabilities transferred will be carried out within 3 months after the date of signing the agreement. If the results of the final valuation show that the value of the assets transferred is higher than that established during the preliminary valuation, Šiaulių Bankas will refund to Ūkio Bankas the difference between the values of the assets established during the preliminary and the final valuations. If the results of the final valuation show that the value of the assets transferred is lower than that established during the preliminary valuation, IDF will pay to Šiaulių Bankas the difference between the values of the assets established during the preliminary and the final valuations (the total amount payable by IDF cannot exceed LTL 800m). In addition, the agreement provides for the possibility for the creditors of Ūkio Bankas to sell four different portfolios of assets within 9 months after the date of signing the agreement: (a) portfolio of real estate transferred into the ownership of Šiaulių Bankas, (b) portfolio of higher risk (potentially lower-quality performance) loan groups, (c) portfolio of subsidiaries of Ūkio Bankas engaged in real estate development activities and (d) portfolio of shares of subsidiaries of Ūkio Bankas engaged in other activities – Ūkio Banko Lizingas UAB and life insurance company Bonum Publicum UAB. Another very important clause in the agreement says that in the event the value of the assets transferred to Šiauliai Bankas increases after 2 years, Šiaulių Bankas will have to refund a part of such increase in the value of the assets to the creditors of Ūkio Bankas. This is applicable to lower risk (potentially higher-quality performance) loan groups and collateral real estate repossessed and sold. In this case the Bank bears no risk, because portfolio of the assets would be fully exchanged in another form of asset – cash, also covering all related administration, financing and other expenses which are foreseen in the agreement.

To finance the takeover, on 4 March 2013 the Lithuanian Ministry of Finance issued a targeted bond issue worth approx. LTL 799m, which was redeemed by Šiaulių Bankas, and granted a loan of the same amount to the Deposit Insurance Fund.

At the end of February 2013, Šiaulių Bankas and EBRD signed an agreement on the subordinated loan for the amount of EUR 20m (LTL 69m) for the period of 10 years, for the purpose of strengthening the capital base of Šiaulių Bankas in its

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takeover of a part of Ūkio Bankas. The subordinated loan was granted when Šiaulių Bankas returned the major portion of convertible loan to EBRD.

From the legal point of view, the transaction is treated as takeover of assets and liabilities, however, management has currently not completed the accounting for the transaction and is analysing the structure of the deal and making consultations as to whether it qualifies for the business combination or not.

The management of Šiaulių Bankas currently assess whether the above-described takeover can be accounted for as a business combination (i.e. a business acquisition) or as an acquisition of assets and the related liabilities.

Repurchased securities

On 3 January 2013 the Bank redeemed bond emission No ISIN LT0000402661 nominated in LTL (with original duration of 505 days), also on 6 March 2013 redeemed bond emission No ISIN LT0000402687 nominated in LTL (with original duration of 555 days).