

# AB PAREX BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PAREX BANKAS AB

### *Report on the Financial Statements*

We have audited the accompanying 2007 financial statements of AB Parex Bankas, a joint stock company registered in the Republic of Lithuania (hereinafter the Bank), and consolidated financial statements of the Bank together with its subsidiary UAB Parex Faktoringas ir Lizingas (hereinafter the Group), which comprise the Bank's and the Group's balance sheets as of 31 December 2007, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

### *Management's Responsibility for the Financial Statements*

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2007, and their financial performance and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

### *Report on Other Legal and Regulatory Requirements*

At the end of our audit the management was still drafting the Management Report, therefore in this report we could not present our assessment of the Management Report.

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

Jonas Akelis  
Auditor's licence  
No. 000003



The audit was completed on 28 March 2008.

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## SEPARATE AND CONSOLIDATED BALANCE SHEETS

Assets	Note	The Bank		The Group	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
Cash and due from banks					
<i>Cash</i>		22,720	15,808	22,720	15,808
<i>Placements with the central bank</i>	3	81,073	26,286	81,073	26,286
<i>Placements with banks and other credit institutions</i>	4	20,747	15,268	20,747	15,268
		<u>124,540</u>	<u>57,362</u>	<u>124,540</u>	<u>57,362</u>
Financial assets at fair value through profit or loss					
<i>Financial derivatives</i>	5, 6	1,297	191	1,297	191
<i>Equity securities</i>	5	4,460	12,284	4,460	12,284
		<u>5,757</u>	<u>12,475</u>	<u>5,757</u>	<u>12,475</u>
Investment in subsidiary	31	5,543	-	-	-
Available-for-sale financial assets					
<i>Debt securities</i>	7	173,746	109,736	173,746	109,736
<i>Equity securities</i>	7	77	77	77	77
		<u>173,823</u>	<u>109,813</u>	<u>173,823</u>	<u>109,813</u>
Finance lease receivables	10	-	-	147,685	-
Loans and receivables	8	1,266,173	543,795	1,254,773	543,795
Prepaid income tax		-	-	306	-
Deferred income tax asset	26	1,141	-	1,752	-
Property and equipment	9	21,758	21,493	22,316	21,493
Intangible assets	11	9,163	9,472	9,922	9,472
Other assets	12	5,861	6,032	6,572	6,032
<b>Total assets</b>		<u><b>1,613,759</b></u>	<u><b>760,442</b></u>	<u><b>1,747,446</b></u>	<u><b>760,442</b></u>

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## SEPARATE AND CONSOLIDATED BALANCE SHEETS (CONT'D)

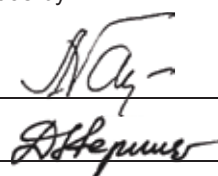
Liabilities and shareholder's equity	Note	The Bank		The Group	
		31 December 2007	31 December 2006	31 December 2007	31 December 2006
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss					
<i>Financial derivatives</i>	6	409	76	409	76
Due to banks	13	684,211	223,826	814,901	223,826
Due to customers	14	674,424	410,797	674,117	410,797
Finance lease liabilities	16	14,981	219	14,557	219
Income tax payable		863	591	863	591
Deferred income tax liability	26	-	580	-	580
Subordinated loans	15	8,149	15,819	8,149	15,819
Other liabilities	17	37,434	31,668	39,704	31,668
<b>Total liabilities</b>		<b>1,420,471</b>	<b>683,576</b>	<b>1,552,700</b>	<b>683,576</b>
<b>Shareholder's equity</b>					
Capital and reserves					
<i>Registered share capital</i>		180,000	62,000	180,000	62,000
<i>Reserve capital</i>	18	917	917	917	917
<i>Revaluation reserve of property and equipment</i>	18	2,822	2,812	2,822	2,812
<i>Revaluation reserve of financial assets</i>	18	(2,892)	(1,232)	(2,892)	(1,232)
<i>Other reserves</i>		2,850	1,580	2,850	1,580
<i>Retained earnings</i>		9,591	10,789	11,049	10,789
<b>Total shareholder's equity</b>		<b>193,288</b>	<b>76,866</b>	<b>194,746</b>	<b>76,866</b>
<b>Total shareholder's equity and liabilities</b>		<b>1,613,759</b>	<b>760,442</b>	<b>1,747,446</b>	<b>760,442</b>

The accompanying notes are an integral part of these financial statements.

These financial statements were signed and approved on behalf of the Bank for issue on 28 March 2008 by:

Chairman of the Board Alma Vaitkunskienė

Chief Accountant Dalia Steponaitytė

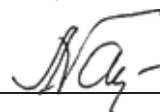
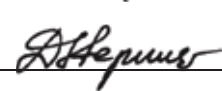


## SEPARATE AND CONSOLIDATED INCOME STATEMENTS

	Note	The Bank		The Group	
		2007	2006	2007	2006
Interest revenue		66,527	29,994	74,735	29,994
Interest expenses		(41,699)	(15,243)	(45,121)	(15,243)
<b>Net interest income</b>	20	<b>24,828</b>	<b>14,751</b>	<b>29,614</b>	<b>14,751</b>
Service fee and commission revenue		14,317	11,352	14,143	11,352
Service fee and commission expenses		(3,499)	(2,864)	(3,499)	(2,864)
<b>Net service fee and commission income</b>	21	<b>10,818</b>	<b>8,488</b>	<b>10,644</b>	<b>8,488</b>
Net income on securities trading	22	900	827	900	827
Net foreign exchange gain	23	7,732	7,010	7,783	7,010
Other income		2,988	670	3,139	670
<b>Other operating income</b>		<b>11,620</b>	<b>8,507</b>	<b>11,822</b>	<b>8,507</b>
(Impairment) for financial assets, net	24	(3,881)	(1,963)	(5,824)	(1,963)
Operating expenses	25	(43,085)	(24,078)	(44,976)	(24,078)
<b>Profit before income tax expenses</b>		<b>300</b>	<b>5,705</b>	<b>1,280</b>	<b>5,705</b>
<b>Income tax benefit (expenses)</b>	26	<b>(260)</b>	<b>(814)</b>	<b>218</b>	<b>(814)</b>
<b>Net profit</b>		<b>40</b>	<b>4,891</b>	<b>1,498</b>	<b>4,891</b>

The accompanying notes are an integral part of these financial statements.

These financial statements were signed and approved on behalf of the Bank for issue on 28 March 2008 by:

Chairman of the Board	Alma Vaitkunskienė	
Chief Accountant	Dalia Steponaitytė	

## SEPARATE STATEMENT OF CHANGES IN EQUITY

The Bank	Registered share capital	Reserve capital	Revaluation reserve of property and equipment	Revaluation reserve of financial assets	Other reserves	Retained earnings	Total
<b>Balance as of 31 December 2005</b>	<b>31,000</b>	<b>917</b>	<b>3,009</b>	<b>(1,509)</b>	<b>6</b>	<b>7,275</b>	<b>40,698</b>
Sale of financial assets available for sale	-	-	-	(1)	-	-	(1)
Revaluation of financial assets available for sale	-	-	-	278	-	-	278
Sale of revalued property and equipment	-	-	(170)	-	-	170	-
Change in property and equipment revaluation reserve due to depreciation	-	-	(27)	-	-	27	-
<b>Total income and expenses for the year, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>(197)</b>	<b>277</b>	<b>-</b>	<b>197</b>	<b>277</b>
Net profit	-	-	-	-	-	4,891	4,891
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>(197)</b>	<b>277</b>	<b>-</b>	<b>5,088</b>	<b>5,168</b>
Increase of share capital	31,000	-	-	-	-	-	31,000
Transfer to legal reserve	-	-	-	-	364	(364)	-
Transfer to other reserves	-	-	-	-	1,210	(1,210)	-
<b>Balance as of 31 December 2006</b>	<b>62,000</b>	<b>917</b>	<b>2,812</b>	<b>(1,232)</b>	<b>1,580</b>	<b>10,789</b>	<b>76,866</b>
Sale of financial assets available for sale	-	-	-	149	-	-	149
Revaluation of financial assets available for sale	-	-	-	(1,809)	-	-	(1,809)
Changes in property and equipment revaluation reserve due to depreciation	-	-	(32)	-	-	32	-
Change due to change of deferred income tax asset	-	-	42	-	-	-	42
<b>Total income and expenses for the year, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>(1,660)</b>	<b>-</b>	<b>32</b>	<b>(1,618)</b>
Net profit	-	-	-	-	-	40	40
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>(1,660)</b>	<b>-</b>	<b>72</b>	<b>(1,578)</b>
Subordinated loan transfer to share capital	7,670	-	-	-	-	-	7,670
Increase of share capital	110,330	-	-	-	-	-	110,330
Transfer to legal reserve	-	-	-	-	1,270	(1,270)	-
<b>Balance as of 31 December 2007</b>	<b>180,000</b>	<b>917</b>	<b>2,822</b>	<b>(2,892)</b>	<b>2,850</b>	<b>9,591</b>	<b>193,288</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

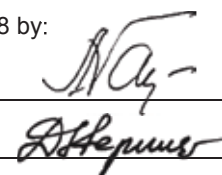
The Group	Registered share capital	Reserve capital	Revaluation reserve of property and equipment	Revaluation reserve of financial assets	Other reserves	Retained earnings	Total
<b>Balance as of 31 December 2005</b>	<b>31,000</b>	<b>917</b>	<b>3,009</b>	<b>(1,509)</b>	<b>6</b>	<b>7,275</b>	<b>40,698</b>
Sale of financial assets available for sale	-	-	-	(1)	-	-	(1)
Revaluation of financial assets available for sale	-	-	-	278	-	-	278
Sale of revalued property and equipment	-	-	(170)	-	-	170	-
Change in property and equipment revaluation reserve due to depreciation	-	-	(27)	-	-	27	-
<b>Total income and expenses for the year, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>(197)</b>	<b>277</b>	<b>-</b>	<b>197</b>	<b>277</b>
Net profit	-	-	-	-	-	4,891	4,891
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>(197)</b>	<b>277</b>	<b>-</b>	<b>5,088</b>	<b>5,168</b>
Increase of share capital	31,000	-	-	-	-	-	31,000
Transfer to legal reserve	-	-	-	-	364	(364)	-
Transfer to other reserves	-	-	-	-	1,210	(1,210)	-
<b>Balance as of 31 December 2006</b>	<b>62,000</b>	<b>917</b>	<b>2,812</b>	<b>(1,232)</b>	<b>1,580</b>	<b>10,789</b>	<b>76,866</b>
Sale of financial assets available for sale	-	-	-	149	-	-	149
Revaluation of financial assets available for sale	-	-	-	(1,809)	-	-	(1,809)
Change in property and equipment revaluation reserve due to depreciation	-	-	(32)	-	-	32	-
Change due to change of deferred tax asset	-	-	42	-	-	-	42
<b>Total income and expenses for the year, recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>(1,660)</b>	<b>-</b>	<b>32</b>	<b>(1,618)</b>
Net profit	-	-	-	-	-	1,498	1,498
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>(1,660)</b>	<b>-</b>	<b>1,530</b>	<b>(120)</b>
Subordinated loan transfer to share capital	7,670	-	-	-	-	-	7,670
Increase of share capital	110,330	-	-	-	-	-	110,330
Transfer to legal reserve	-	-	-	-	1,270	(1,270)	-
<b>Balance as of 31 December 2007</b>	<b>180,000</b>	<b>917</b>	<b>2,822</b>	<b>(2,892)</b>	<b>2,850</b>	<b>11,049</b>	<b>194,746</b>

The accompanying notes are an integral part of these financial statements.

These financial statements were signed and approved on behalf of the Bank for issue on 28 March 2008 by:

Chairman of the Board Alma Vaitkunskienė

Chief Accountant Dalia Steponaitytė



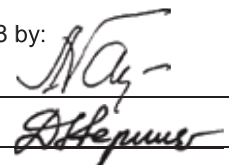
## SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

	The Bank		The Group	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net result for the year	40	4,891	1,498	4,891
<b>Adjustments to reconcile net profit or loss to net cash provided by operating activities:</b>				
Income tax expenses	260	814	(218)	814
Unrealised foreign currency gains and losses	8,891	2,435	8,962	2,435
Depreciation / amortisation	3,965	2,007	4,040	2,007
Valuation allowance	3,881	1,963	5,824	1,963
Other non-cash-items	(2,766)	-	(2,766)	-
<b>Operating</b>				
Change in accrued interest income	(3,246)	(1,597)	(3,550)	(1,597)
Change in accrued interest expenses	6,529	897	7,035	897
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>	<b>17,554</b>	<b>11,410</b>	<b>20,825</b>	<b>11,410</b>
<b>(Increase) decrease in operating assets:</b>				
(Increase) in loans and receivables	(722,839)	(260,847)	(855,302)	(260,847)
Decrease in financial assets held for trading	(1,106)	(10,042)	(1,106)	(10,042)
(Increase) decrease in other assets	(700)	(3,515)	(1,600)	(3,515)
<b>Increase (decrease) in operating liabilities:</b>				
Increase in deposits from credit institutions	459,201	119,384	589,891	119,384
Increase in deposits (other than from credit institutions)	257,329	106,854	257,022	106,854
Increase in other financial liabilities	4,978	6,353	6,341	6,353
Income tax (paid)	(2,735)	-	(3,039)	-
<b>Net cash flow from (to) operating activities</b>	<b>11,682</b>	<b>(30,403)</b>	<b>13,032</b>	<b>(30,403)</b>
<b>Investing activities</b>				
Cash (payments) to acquire tangible assets	(2,411)	(3,550)	(2,472)	(3,550)
Cash receipts from the sale of tangible assets	-	1,576	-	1,576
Cash (payments) to acquire intangible assets	(1,516)	(9,274)	(2,263)	(9,274)
Cash (payments) for the investment in subsidiaries, net of cash acquired	(5,543)	-	(5,480)	-
(Acquisition) of available for sale financial assets	(285,120)	(137,654)	(285,120)	(137,654)
Sale of financial assets available for sale	221,110	128,626	221,110	128,626
<b>Net cash flow (to) investing activities</b>	<b>(73,480)</b>	<b>(20,276)</b>	<b>(74,225)</b>	<b>(20,276)</b>
<b>Financing activities</b>				
Loans received (paid)	14,557	-	14,557	-
Subordinated loans received (paid)	-	7,789	-	7,789
Cash proceeds from issuing shares	110,330	31,000	110,330	31,000
<b>Net cash flow from financing activities</b>	<b>124,887</b>	<b>38,789</b>	<b>124,887</b>	<b>38,789</b>
Net increase in cash and cash equivalents	63,089	(11,890)	63,694	(11,890)
Effect of changes in exchange rates on cash	4,089	(2,405)	3,484	(2,405)
Cash and cash equivalents at beginning of the period	57,362	71,657	57,362	71,657
<b>Cash and cash equivalents at end of the period</b>	<b>124,540</b>	<b>57,362</b>	<b>124,540</b>	<b>57,362</b>
<b>Cash flows from operating activities include:</b>				
Interest received	61,441	29,652	69,649	29,652
Interest (paid)	(33,038)	(12,981)	(36,472)	(12,981)
Dividends received	3	10	3	10

The accompanying notes are an integral part of these financial statements.

These financial statements were signed and approved on behalf of the Bank for issue on 28 March 2008 by:

Chairman of the Board	Alma Vaitkunskienė		
Chief Accountant	Dalia Steponaitytė		



## Note 1. Background information

AB PAREX BANKAS (hereinafter the Bank) was established on 24 October 1996 (as AB Industrijos Bankas, and on 5 October 2000, according to the resolution of the Bank of Lithuania No. 127, the official name of the Bank was changed from AB Industrijos Bankas to AB PAREX BANKAS). The address of its registered office is as follows:

K. Kalinausko Str. 13,  
Vilnius,  
Lithuania.

The Bank has 6 branches in Lithuanian cities (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys and Alytus).

On 16 July 1998, according to the resolution of the Bank of Lithuania No. 134, the Bank was granted license No. 17 that allowed the Bank to perform all operations of a commercial bank. The Bank accepts deposits, grants loans, performs monetary and documentary settlements, exchanges currencies and grants guarantees for its clients. The Bank also trades in securities, provides consulting and custody services. The Bank provides services to both corporate and retail sectors.

The Group comprises the Bank together with its 100% owned subsidiary UAB Parex Faktoringas ir lizingas.

As of 31 December 2007 the Bank employed 461 employees (340 – employees as of 31 December 2006). As of 31 December 2007 the Group employed 494 employees (340 – employees as of 31 December 2006).

As of 31 December 2007 and 2006 A/S Parex Banka (Latvia) was the sole shareholder of the Bank.

The authorized and issued share capital of the Bank consists of 1,800 thousand ordinary shares with a par value of LTL 100 each. As of 31 December 2007 and 2006 all shares were fully paid.

The shareholders of the Bank have a statutory right to approve these financial statements or not to approve it and to require preparation of another set of financial statements.

## Note 2. Significant accounting policies

### ***Basis of presentation***

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value, and land and buildings stated at revalued amounts.

### *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union effective as of 31 December 2007.

### *Functional and presentation currency*

The functional currency of the Bank and its subsidiary is the local currency of the Republic of Lithuania, litas (LTL). The amounts shown in these financial statements are presented in thousand litas, unless otherwise stated. Information presented has been rounded to the nearest thousand. Due to rounding, totals in the tables may not add up.

Litas is pegged to EUR at the rate of 3.4528 Litass for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### *Adoption of new and/or changed IFRSs*

The Bank and the Group have adopted the following new and amended IFRS during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Bank and the Group. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures.
- Amendments to IAS 1 Capital Disclosures.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 Scope of IFRS 2.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.

## Note 2. Significant accounting policies (cont'd)

The principal effects of these changes are as follows:

**IFRS 7 *Financial Instruments: Disclosures*.** This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's and the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

**IFRIC 7 *Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"*.** This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. The interpretation had no impact on the financial position or performance of the Bank and the Group.

**Amendments to IAS 1 *Capital disclosures*.** This amendment requires the Bank and the Group to make new disclosures to enable users of the financial statements to evaluate the Bank's and the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 27.

**IFRIC 8 *Scope of IFRS 2*.** This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value of the share-based payment. As equity instruments are not issued to employees or suppliers, the interpretation had no impact on the financial position or performance of the Bank and the Group.

**IFRIC 9 *Reassessment of Embedded Derivatives*.** IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the financial position or performance of the Bank and the Group.

**IFRIC 10 *Interim Financial Reporting and Impairment*.** The Bank and the Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Bank and the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Bank and the Group.

The Bank and the Group has not applied the following IFRS and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 *Segment Reporting*.
- IAS 1 *Presentation of Financial Statements – Revised* (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 *Borrowing Costs – Revised* (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Bank and the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 *Consolidated and Separate Financial Statements – Revised* (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognised on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.

## Note 2. Significant accounting policies (cont'd)

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendments to IAS 32 require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Additional disclosures are required about the instruments affected by the amendments.
- Amendment to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognised, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Bank and the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Bank and the Group expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's and the Group's financial statements in the period of initial application, except for IAS 1 Presentation of Financial Statements – Revised.

### *IAS 1 Presentation of Financial Statements – Revised*

This standard sets out new requirements on the presentation of the statement of changes in equity and introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" and requires a separate disclosure of all items reclassified from other comprehensive income to profit and loss as well as disclosure of the income tax relating to each component of other comprehensive income. Also, requirements related to the presentation of the financial statements in a case of their retrospective restatement are amended and new terminology, replacing "balance sheet" with "statement of financial position" and "cash flow statement" with "statement of cash flows", although the titles are not obligatory, is introduced. The Bank and the Group are still estimating the impact of the adoption of this revision.

## Note 2. Significant accounting policies (cont'd)

### **Basis of consolidation**

The consolidated financial statements include the financial results of the Bank and wholly owned UAB Parex Faktoringas ir Lizingas.

### **Subsidiaries**

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated but may result in recognising an impairment loss where the transaction provides evidence of an impairment of the asset transferred. Accounting policies applied by subsidiaries are consistent with those applied by the Group.

The subsidiary UAB Parex Faktoringas ir Lizingas was acquired in a transaction under common control. As the transaction has substance from the Bank's perspective the business combination is accounted for using the purchase method. Refer to the accounting policy on Goodwill below.

Investments in a subsidiary in the Bank's separate financial statements are accounted for at cost less impairment losses, if any.

### **Comparative figures**

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year. In year 2006 balance sheet and notes of the Bank and the Group Other liabilities caption amounting to LTL 219 thousand (the same amount for both) was reclassified to Finance lease liabilities caption. In year 2006 income statement and notes of the Bank and the Group Operating expenses caption in amount of LTL 198 thousand (the same amount for both) was reclassified to Service fee and commission expenses caption.

### **Foreign currencies**

Starting from 2 February 2002 LTL is pegged to EUR at the rate of LTL 3.4528 for EUR 1.

Amounts denominated in other currencies than LTL are translated into LTL at the official exchange rate of the Bank of Lithuania prevailing at the date of transaction. Gains and losses resulting from the settlement of monetary items and from the translation of monetary assets and liabilities denominated in other currencies than LTL are recognised in the income statement.

Monetary assets and liabilities denominated in other currencies than LTL are revalued to LTL at the rates established by the Bank of Lithuania at the balance sheet date. The official exchange rates of the main currencies, used for the revaluation of balance sheet items as at the year end were as follows (LTL units to currency unit):

	31 December 2007	31 December 2006
EUR	3.4528	3.4528
USD	2.3572	2.6304
LVL	4.9567	4.9537
10 RUB	0.9608	0.9708

### **Revenue and expense recognition**

Interest revenue and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other revenue and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

### **Cash and cash equivalents**

Cash and current accounts with the Bank of Lithuania and current accounts with other banks due to their high liquidity with an original maturity up to three months, which are subject to an insignificant risk of changes in value, are accounted for as cash and cash equivalents in the cash flow statement.

## Note 2. Significant accounting policies (cont'd)

### *Intangible assets*

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful lives of 1 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired business at the date of acquisition. Goodwill arising from the acquisition of a subsidiary is included in intangible assets. Goodwill from the acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### *Property and equipment*

Property and equipment, excluding land and buildings, are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Land and buildings are recorded at revalued amounts, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful lives of assets. The revaluation reserve for buildings is being reduced in conformity with depreciation of revalued buildings.

In case of revaluation, when the estimated fair value of an asset is lower than its book value, the book value of this asset is immediately reduced to the amount of fair value and such impairment is recognised as expenses. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve, to the extent it does not exceed the amount of such increase.

## Note 2. Significant accounting policies (cont'd)

In the case of revaluation, when the estimated fair value of an asset is higher than its book value, the book value of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property, plant and equipment under the shareholder's equity caption. However, such increase in value is recognised as income only to the extent it does not exceed the amount of the previous revaluation decrease recognised as expenses.

Parts of some items of property and equipment may require replacement at regular intervals. Items of property and equipment may also be acquired to make a less frequently recurring replacement. Under the recognition principles for property and equipment, the Bank and the Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.

Leasehold improvements are amortised over the shorter of the lease term and the life of the related leased asset. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Depreciation is computed on a straight-line basis over the following average estimated useful lives:

Buildings	70 - 80 years
Office equipment	4 - 6 years
Vehicles	6 years

Land is not depreciated.

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment. Depreciation expenses for the year are included into the income statement.

Repairs, and renewals that do not meet the recognition criteria for property and equipment, are charged to the income statement when the expenditure is incurred.

### **Financial assets and financial liabilities**

The Bank and the Group recognises financial asset on its balance sheet when, and only when, the Bank and the Group become a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets held at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Bank and the Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this classification at each financial year-end.

All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Bank and the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Bank and the Group and to the derecognition of an asset, on the day that it is transferred by the Bank and the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

### Financial assets and financial liabilities at fair value through profit or loss

As of balance sheet dates, the Bank and the Group did not have financial assets or financial liabilities designated at fair value through profit or loss.

### *Financial assets or financial liabilities held for trading*

Financial assets or financial liabilities classified as held for trading other than derivatives are included in the category "financial assets at fair value through profit or loss". Financial assets or financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Such assets or liabilities are initially accounted for at fair value and are subsequently revalued at the fair value, which is market price. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expense and dividends on such investments are recognised as interest revenue and expense and dividend revenue respectively.

## Note 2. Significant accounting policies (cont'd)

In the normal course of business, the Group and the Bank enters into various derivative financial instruments including futures, forwards and swaps in the financial markets. Such financial instruments are primarily held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from derivative instruments.

### Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank and the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This 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 and discounts. For investments carried at amortised cost, gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and advances are recognised on drawdown. From the date of signing a contractual agreement till the drawdown date they are accounted for as off-balance sheet items.

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Bank and the Group cannot estimate how often or when clients would use such an option and therefore the cash flows or the expected life cannot be estimated reliably and, consequently, the contractual cash flows over the full contractual term were used by the Bank and the Group in determining the effective interest rate.

### *Non-performing loans*

Loans are treated as non-performing when loan principal or interest payable is overdue for 90 and more days.

### *Write-offs*

When the loans and advances cannot be recovered and all collateral has been realised, they are written-off and charged against impairment for incurred credit losses. The management of the Bank and the Group makes the decision on writing-off loans. Recoveries of loans previously written-off are credited to the income statement.

### *Factoring*

A factoring transaction is a funding transaction wherein the Bank and the Group finances its customers through buying their claims. Companies alienate rights to invoices due at a future date to the Bank and the Group. Factoring transactions provided by the Bank and the Group comprise factoring transactions with a right to recourse (the Bank and the Group is entitled to selling the overdue claim back to the customer) and factoring transactions without a right to recourse (the Bank and the Group is not entitled to selling the overdue claim back to the customer). The factor's revenue comprises the lump-sum contract fee charged on the conclusion of the contract, commission fees charged for processing the invoices, and interest income depending on the duration of the payment term set by the purchaser. The fees are treated and accounted for in similar manner as loans related fees.

The factoring balance includes the aggregate amount of factored invoices outstanding as of the reporting date and all amounts accrued for the unpaid amount.

## Note 2. Significant accounting policies (cont'd)

### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories.

After initial recognition available-for-sale financial assets are measured at fair value based on available market prices or quotes of brokers. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis. The result of revaluation of available for sale securities is recognised in revaluation reserve of financial assets, reported under equity. Revaluation of available for sale debt securities is calculated as difference between market value and amortised cost calculated using original effective interest rate. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as gain (loss) from sale of available-for-sale securities. If there is objective evidence that the value of an investment has been impaired, the cumulative net loss that has been recognised directly in equity is charged to the income statement. Interest earned while holding available-for-sale financial assets is reported as interest income.

### ***Derecognition of financial assets and liabilities***

#### Financial assets

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

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

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

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

#### Financial liabilities

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

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

### ***Offsetting***

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

## Note 2. Significant accounting policies (cont'd)

### ***Impairment of financial assets***

The Bank and the Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Bank and the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank and the Group determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 income statement. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's and the Group's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank and the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### Held to maturity investments

For held to maturity investments the Bank and the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

#### Renegotiated loans

Where possible, the Bank and the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of a new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that the future payments are likely to occur. The loans continue to be the subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

## **Note 2. Significant accounting policies (cont'd)**

### ***Impairment of other assets***

The Bank and the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank and the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### ***Fair values of financial assets and liabilities***

For financial instruments traded in organised financial markets the fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. For unquoted equity investments fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flows analysis. Where the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the financial statements.

### ***Leases***

#### **Finance – Bank and Group as lessee**

The Bank and the Group recognises finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank and the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### **Finance – Bank and Group as lessor**

The Bank and the Group recognises lease receivables at an amount equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

#### **Operating – Bank and Group as lessee**

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses.

## **Note 2. Significant accounting policies (cont'd)**

### Operating – Bank and Group as lessor

The Bank and the Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease revenue from operating leases is recognised in statement of income on a straight-line basis over the lease term as revenue. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental revenue over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Bank's and the Group's property and equipment.

### **Share capital**

Share capital is shown in the balance sheet at the amount subscribed.

### **Income tax**

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

Standard income tax rate in Lithuania is 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulated that along with 15% corporate income tax, for one financial year beginning on 1 January 2006 companies have to pay an additional 4% tax calculated based on the income tax principles, and one financial year beginning on 1 January 2007 – 3% tax. After the year 2007 the income tax rate applied to the companies in the Republic of Lithuania will be 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it is probable that they will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

### **Off-balance sheet items**

All obligations that, depending on how they evolve, might give rise to the balance sheet exposures are accounted for as off-balance sheet exposures. This allows the Bank and the Group to assess capital requirement and to allocate funds required to cover those obligations.

### **Related parties**

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to unilaterally or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or where parties are under common control. In addition, members of key management personnel as well as their close family members, and close family members of individuals that unilaterally or jointly control the Bank or exercise significant influence over it are related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

## **Note 2. Significant accounting policies (cont'd)**

### ***Credit-related commitments***

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Bank and the Group has the authority to cancel such agreement if the client's risk increases. Commitments to extend credit are treated as risk assets for capital adequacy calculation purposes.

In the ordinary course of the business the Bank and the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, under Other liabilities caption, being premium received. Subsequent to initial recognition, the Bank's and the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of probable expenditure required in settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded to the income statement under Impairment expenses caption. The premium received is recognised in the income statement in Net fees and commissions income on a straight line basis over the life of guarantee.

Guarantees represent irrevocable assurances that the Bank and the Group will make payments in the event when a customer cannot meet its obligations to the third parties. In case that payments under such a guarantee have become probable it is subsequently accounted for as balance sheet item and is subject for impairment assessment. Until guarantee is executed, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions. Letters of credit are collateralised by the underlying shipments of goods. Letters of credit are treated as risk assets for capital adequacy calculation purposes.

### ***Provisions***

Provisions are recognised when the Bank and the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow or recourses embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognised in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### ***Contingencies***

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

## **Note 2. Significant accounting policies (cont'd)**

### ***Use of estimates in the preparation of financial statements***

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment for loan losses, provisions for loan commitments and stand-by facilities, fair value and realisation of deferred tax assets.

Below are presented key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where. For fair value of financial assets and liabilities see Note 34

The Bank and the Group regularly reviews its loans and receivables to assess impairment. The Bank and the Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank and the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Bank and the Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. For carrying amounts see Note 8 and Note 10.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For carrying amounts see Note 26.

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

### ***Subsequent events***

Post-year-end events that provide additional information about the Bank's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**Note 3. Placements with the central bank**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Compulsory reserves	76,326	26,286	76,326	26,286
Funds in correspondent accounts	4,747	-	4,747	-
<b>Total</b>	<b>81,073</b>	<b>26,286</b>	<b>81,073</b>	<b>26,286</b>

The portion of compulsory reserve calculated in accordance with requirements of the European Central Bank is held as interest bearing deposits and the remaining portion of compulsory reserve is held as non-interest bearing deposit. Interest bearing part as of 31 December 2007 amounted to 1/3 of all compulsory reserves. Interest rate for interest bearing part equals to the ECB refinance rate, valid on the day of transaction.

**Note 4. Placements with banks**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Funds in correspondent accounts	20,747	15,268	20,747	15,268
<b>Total</b>	<b>20,747</b>	<b>15,268</b>	<b>20,747</b>	<b>15,268</b>

**Note 5. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss of the Bank and the Group are held for trading.

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Investment funds units	4,174	11,900	4,174	11,900
Corporate securities	286	384	286	384
Derivative financial instruments	1,297	191	1,297	191
<b>Total</b>	<b>5,757</b>	<b>12,475</b>	<b>5,757</b>	<b>12,475</b>

### Note 6. Financial derivatives

Below are presented notional amounts and fair values of financial derivatives of the Bank and the Group:

31 December 2007	Notional amount		Fair value	
	Asset	Liability	Asset	Liability
Spots	23,902	23,873	40	11
Swaps	269,717	268,744	1,149	211
Forwards	42,429	42,532	108	187
<b>Total</b>	<b>336,048</b>	<b>335,149</b>	<b>1,297</b>	<b>409</b>

31 December 2006	Notional amount		Fair value	
	Asset	Liability	Asset	Liability
Spots	22,212	22,168	67	23
Swaps	97,858	97,788	124	53
Forwards	-	-	-	-
<b>Total</b>	<b>120,070</b>	<b>119,956</b>	<b>191</b>	<b>76</b>

### Note 7. Available-for-sale financial assets

Available-for-sale debt securities of the Bank and the Group as of 31 December 2007 and 2006 represent corporate debt securities issued by foreign entities and debt securities issued by the Republic of Lithuania.

Available-for-sale equity securities of the Bank and the Group as of 31 December 2007 and 2006 represent equity securities of not listed companies.

Initial yields and maturities of these securities are as follows:

	2007		2006	
	Yield	Maturity	Yield	Maturity
Corporate debt securities	3.61%- 5.97%	2008.01- 2016.04	3.26% - 5.97%	2007.05- 2016.10
Securities of the Republic of Lithuania	3.93%- 4.85%	2008.01- 2013.01	-	-

### Note 8. Loans and receivables

As of 31 December 2007 the Bank and the Group has entered into reverse repurchase agreements amounting to LTL 9,449 thousand (LTL 7,236 thousand as of 31 December 2006). The Bank and the Group has the possibility to trade underlying securities in absence of clients' default with the obligation to sell such securities back at the maturity date. In case of clients' default underlying securities remains with the Bank and the Group. Fair value of the securities pledged was LTL 13,778 thousand as of 31 December 2007 (LTL 11,693 thousand as of 31 December 2006).

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Loans to customers	1,257,637	539,519	1,246,237	539,519
Reverse repurchase agreements	9,449	7,236	9,449	7,236
Factoring	6,696	775	6,696	775
<b>Total</b>	<b>1,273,782</b>	<b>547,530</b>	<b>1,262,382</b>	<b>547,530</b>
Less: individual impairment	(2,066)	(1,263)	(2,066)	(1,263)
Less: collective impairment	(5,543)	(2,472)	(5,543)	(2,472)
<b>Loans and receivables</b>	<b>1,266,173</b>	<b>543,795</b>	<b>1,254,773</b>	<b>543,795</b>

**Note 8 Loans and receivables (cont'd)**

Loans have been granted to following types of customers:

	The Bank		The Group	
	2007	2006	2007	2006
Corporate clients	604,438	264,408	604,438	264,408
Private individuals	641,077	272,296	641,077	272,296
Government departments and municipal authorities	5,573	5,483	5,573	5,483
State companies	2,965	-	2,965	-
Other	12,120	1,608	720	1,608
<b>Loans to customers, net</b>	<b>1,266,173</b>	<b>543,795</b>	<b>1,254,773</b>	<b>543,795</b>

**Note 9. Property and equipment**

Changes in property and equipment during the year 2007 are presented in the table below:

The Bank	Land and buildings	Vehicles	Office equipment and other	Total
	<b>Acquisition cost or revalued amounts</b>			
As of 31 December 2006	17,294	1,374	11,956	30,624
Additions	-	562	1,849	2,411
Disposals and write-offs	-	-	(865)	(865)
As of 31 December 2007	17,294	1,936	12,940	32,170
<b>Accumulated depreciation and impairment</b>				
As of 31 December 2006	926	715	7,490	9,131
Charges for the year	221	234	1,685	2,140
Disposals and write-offs	-	-	(859)	(859)
As of 31 December 2007	1,147	949	8,316	10,412
<b>Net book value</b>				
As of 31 December 2006	16,368	659	4,466	21,493
As of 31 December 2007	16,147	987	4,624	21,758

**Note 9. Property and equipment (cont'd)**

Changes in property and equipment during the year 2006 are presented in the table below:

<b>The Bank / The Group</b>	<b>Land and buildings</b>	<b>Vehicles</b>	<b>Office equipment and other</b>	<b>Total</b>
<b>Acquisition cost or revalued amounts</b>				
As of 31 December 2005	17,132	1,025	9,734	27,891
Additions	850	349	2,351	3,550
Disposals and write-offs	(688)	-	(129)	(817)
As of 31 December 2006	<u>17,294</u>	<u>1,374</u>	<u>11,956</u>	<u>30,624</u>
<b>Accumulated depreciation and impairment</b>				
As of 31 December 2005	709	554	6,330	7,593
Charges for the year	232	161	1,295	1,688
Disposals and write-offs	(15)	-	(135)	(150)
As of 31 December 2006	<u>926</u>	<u>715</u>	<u>7,490</u>	<u>9,131</u>
<b>Net book value</b>				
As of 31 December 2005	<u>16,423</u>	<u>471</u>	<u>3,404</u>	<u>20,298</u>
As of 31 December 2006	<u>16,368</u>	<u>659</u>	<u>4,466</u>	<u>21,493</u>

<b>The Group</b>	<b>Land, buildings and other real estate</b>	<b>Vehicles</b>	<b>Office equipment and other</b>	<b>Total</b>
<b>Acquisition cost or revalued amounts</b>				
As of 31 December 2006	17,294	1,374	11,956	30,624
Additions arising with acquisition of the subsidiary (Note 31)	-	505	53	558
Additions	-	562	1,910	2,472
Disposals and write-offs	-	-	(868)	(868)
As of 31 December 2007	<u>17,294</u>	<u>2,441</u>	<u>13,051</u>	<u>32,786</u>
<b>Accumulated depreciation and impairment</b>				
As of 31 December 2006	926	715	7,490	9,131
Charges for the year	221	285	1,595	2,201
Disposals and write-offs	-	-	(862)	(862)
As of 31 December 2007	<u>1,147</u>	<u>1,000</u>	<u>8,223</u>	<u>10,470</u>
<b>Net book value</b>				
Net book value as of 31 December 2006	<u>16,368</u>	<u>659</u>	<u>4,466</u>	<u>21,493</u>
Net book value as of 31 December 2007	<u>16,147</u>	<u>1,441</u>	<u>4,728</u>	<u>22,316</u>

Depreciation was accounted for under operating expenses.

**Note 10. Finance lease receivables**

The finance lease receivables of the Group may be analysed as follows (the Bank did not have finance lease receivables):

	Group	
	2007	2006
Types of assets:		
Vehicles	134,008	-
Real estate	2,467	-
Equipment	10,551	-
Other assets	659	-
<b>Finance lease, net</b>	<b>147,685</b>	<b>-</b>

	Gross investment in the lease		Present value of minimum lease payments	
	2007	2006	2007	2006
<b>Finance lease payments receivable:</b>				
Up to one year	27,423	-	26,657	-
One to five years	103,041	-	87,714	-
Over five years	43,308	-	33,314	-
Total	173,773	-	147,685	-
Less: unearned income	(26,088)	-	-	-
<b>Present value of minimum lease payments</b>	<b>147,685</b>	<b>-</b>	<b>147,685</b>	<b>-</b>

**Note 11. Intangible assets**

Changes in intangible assets during the year 2007 are presented in the table below:

The Bank	Software	Licences	Total
<b>Acquisition cost</b>			
As of 31 December 2006	1,187	10,918	12,105
Additions	827	689	1,516
As of 31 December 2007	2,014	11,607	13,621
<b>Accumulated amortisation</b>			
As of 31 December 2006	1,004	1,629	2,633
Charge for the year	138	1,687	1,825
As of 31 December 2007	1,142	3,316	4,458
<b>Net book value</b>			
As of 31 December 2006	183	9,289	9,472
As of 31 December 2007	872	8,291	9,163

**Note 11. Intangible assets (cont'd)**

Changes in intangible assets during the year 2006 are presented in the table below:

<b>The Bank / The Group</b>	<b>Software</b>	<b>Licences</b>	<b>Total</b>
<b>Acquisition cost</b>			
As of 31 December 2005	1,047	1,784	2,831
Additions	140	9,134	9,274
As of 31 December 2006	1,187	10,918	12,105
<b>Accumulated amortisation</b>			
As of 31 December 2005	924	1,391	2,315
Charge for the year	80	238	318
As of 31 December 2006	1,004	1,629	2,633
<b>Net book value</b>			
As of 31 December 2005	123	393	516
As of 31 December 2006	183	9,289	9,472

Changes in intangible assets during the year 2007 are presented in the table below:

<b>The Group</b>	<b>Goodwill</b>	<b>Software</b>	<b>Licences</b>	<b>Total</b>
<b>Acquisition cost</b>				
As of 31 December 2006	-	1,187	10,918	12,105
Additions arising with acquisition of the subsidiary (Note 31)		26	-	26
Additions	713	861	689	2,263
As of 31 December 2007	713	2,074	11,607	14,394
<b>Accumulated amortisation</b>				
As of 31 December 2006	-	1,004	1,629	2,633
Charge for the year	-	152	1,687	1,839
As of 31 December 2007	-	1,156	3,316	4,472
<b>Net book value</b>				
As of 31 December 2006	-	183	9,289	9,472
As of 31 December 2007	713	918	8,291	9,922

Amortisation expenses are included into operating expenses.

The management of the Bank has performed a preliminary Purchase Price Allocation and preliminarily assessed that the difference between the purchase price and the fair value of the acquired identifiable net assets largely comprises goodwill that reflects expected synergies of acquisition; therefore the initial accounting for this acquisition is provisional and the purchase price allocation in analogy to IFRS 3 *Business combinations* will be performed by the management of the Bank during year 2008.

**Note 12. Other assets**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Payments through ATMs	1,698	2,085	1,698	2,085
Deferred expenses	2,237	1,488	2,263	1,488
Accounts receivable	458	948	158	948
Advance payments to suppliers	174	804	645	804
International VISA payments	-	210	-	210
Other transit accounts	292	184	292	184
Supplies for operations	701	136	707	136
Other assets	301	177	809	177
<b>Total other assets, net</b>	<b>5,861</b>	<b>6,032</b>	<b>6,572</b>	<b>6,032</b>

**Note 13. Due to banks**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Term deposits	675,184	215,167	675,184	215,167
Loans from the ultimate parent*	-	-	130,690	-
Overnight deposits	7,553	5,578	7,553	5,578
Funds in correspondent accounts	1,474	3,081	1,474	3,081
<b>Total</b>	<b>684,211</b>	<b>223,826</b>	<b>814,901</b>	<b>223,826</b>

\*Loan was granted by the ultimate parent of the subsidiary of the Bank. No assets were pledged for the loan received. Term deposits due to the ultimate parent comprised 93% and 79% of total term deposits in year 2007 and 2006 respectively.

**Note 14. Due to customers**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Demand deposits	262,936	213,379	262,629	213,379
Term deposits	411,488	197,418	411,488	197,418
<b>Total</b>	<b>674,424</b>	<b>410,797</b>	<b>674,117</b>	<b>410,797</b>

Amounts due to customers include accounts with the following types of customers:

	The Bank		The Group	
	2007	2006	2007	2006
Individuals	322,169	154,715	322,169	154,715
Corporate clients	285,002	225,836	285,002	225,836
Government departments and state owned enterprises	26,410	2,805	26,410	2,805
Other	40,843	27,441	40,536	27,441
<b>Amounts due to customers</b>	<b>674,424</b>	<b>410,797</b>	<b>674,117</b>	<b>410,797</b>

**Note 15. Subordinated loans**

On 26 March 2002 the Bank has signed LTL 7,670 thousand subordinated loan agreement with A/S Parex Banka for a 7 year period and another loan on 11 December 2006 amounting to LTL 8,149 thousand for a 6 year period. In year 2007 in accordance with shareholder's decision the subordinated loan of LTL 7,670 was transferred to share capital of the Bank. The subordinated loan of LTL 8,149 thousand outstanding as of 31 December 2007 includes an option to convert debt to the share capital, however no specific conversion conditions are foreseen in the loan agreement, which would be agreed on good faith.

**Note 16. Finance lease liabilities**

The Bank	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
<b>Minimum lease payments:</b>				
Up to one year	3,566	85	3,291	83
One to five years	13,317	153	11,690	136
Over five years	-	-	-	-
Total	16,883	238	14,981	219
Less: future interest	(1,902)	(20)	-	-
<b>Present value of minimum lease payments</b>	<b>14,981</b>	<b>218</b>	<b>14,981</b>	<b>219</b>

The Group	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
<b>Minimum lease payments:</b>				
Up to one year	3,351	85	3,082	83
One to five years	13,077	153	11,475	136
Over five years	-	-	-	-
Total	16,428	238	14,557	219
Less: future interest	(1,871)	(20)	-	-
<b>Present value of minimum lease payments</b>	<b>14,557</b>	<b>218</b>	<b>14,557</b>	<b>219</b>

**Note 17. Other liabilities**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
International transfers till settlement date	18,055	9,508	18,055	9,508
Outgoing payments till settlement date	5,296	7,007	5,296	7,007
Incoming payments till settlement date	3,755	3,377	3,755	3,377
Amounts paid by residents to suppliers	1,761	2,480	1,761	2,480
Accrued vacation pay	1,920	1,205	1,985	1,205
Amounts payable to suppliers	1,401	1,151	2,809	1,151
Clients' cash for acquisition of securities	418	776	418	776
Taxes, other than income tax	89	49	239	49
Other payment related liabilities	1,001	1,463	1,001	1,463
Other financial liabilities	2,744	3,900	2,744	3,900
Other liabilities	994	752	1,641	752
	<b>37,434</b>	<b>31,668</b>	<b>39,704</b>	<b>31,668</b>

**Note 18. Capital and reserves**

Issued share capital amounting to LTL 180,000 thousand of the Bank consists of 1,800 thousand ordinary shares with the par value of LTL 100 each. Share capital was increased in 2007 by issuing 1,800 ordinary shares. As of 31 December 2007 and 2006 all shares were fully paid.

Reserve capital amounting to LTL 917 thousand as of 31 December 2007 and 2006 respectively can be either offset against future losses or used for a share capital increase but cannot be distributed in any other manner.

*Revaluation reserve of property and equipment*

The revaluation reserve of property and equipment is used to record increase in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

*Financial assets fair value reserve*

In this reserve changes in fair value of available for sale financial assets are accounted for.

**Note 19. Off-balance sheet assets and liabilities**

Off-balance sheet items consist of:

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Contingent liabilities and commitments				
Lending commitments	194,740	70,424	194,740	70,424
Guarantees and warranties issued	18,990	13,646	18,990	13,646
Letters of credit issued	395	260	395	260
<b>Total contingent liabilities and commitments</b>	<b>214,125</b>	<b>84,330</b>	<b>214,125</b>	<b>84,330</b>

The amounts for guarantees in the above table represent the maximum amount that could become payable. The unamortised premiums in relation to such guarantees are recognised as liabilities.

As of 31 December 2007 the Bank signed the trust agreements, according to which had assets and liabilities amounting to LTL 7,675 thousand under management.

**Note 20. Interest revenue and interest expenses**

	The Bank		The Group	
	2007	2006	2007	2006
Interest revenue				
on loans and receivables	57,039	21,994	57,039	21,994
on available-for-sale debt securities	6,307	6,384	6,307	6,384
on cash at bank and other credit and financial institutions	1,780	811	1,328	811
on impaired loans and receivables	696	536	696	536
on finance lease receivables	-	-	8,660	-
on compulsory reserves at the Bank of Lithuania	705	269	705	269
<b>Total interest revenue</b>	<b>66,527</b>	<b>29,994</b>	<b>74,735</b>	<b>29,994</b>
Interest expenses				
on due to the banks and other credit institutions	(26,493)	(9,229)	(29,940)	(9,229)
on due to customers	(14,980)	(6,009)	(14,980)	(6,009)
on finance leases	(226)	(5)	(201)	(5)
<b>Total interest expenses</b>	<b>(41,699)</b>	<b>(15,243)</b>	<b>(45,121)</b>	<b>(15,243)</b>
<b>Interest income, net</b>	<b>24,828</b>	<b>14,751</b>	<b>29,614</b>	<b>14,751</b>

Compulsory deposit insurance contributions are included under interest expenses. Insurance expenses are calculated as established percentage from deposit base and in substance represent part of effective yield on deposits.

**Note 21. Service fee and commission revenue and expenses**

	The Bank		The Group	
	2007	2006	2007	2006
Service fee and commission revenue				
Commission on money transfers	4,593	5,715	4,593	5,715
Payment cards servicing	2,956	1,578	2,956	1,578
For operations with securities	1,996	1,186	1,996	1,186
Currency exchange commission	1,711	964	1,711	964
Cash disbursement commission	1,099	796	1,099	796
Payment collection services	672	437	672	437
Other	1,290	676	1,116	676
<b>Total service fee and commission revenue</b>	<b>14,317</b>	<b>11,352</b>	<b>14,143</b>	<b>11,352</b>
Service fee and commission expenses				
Accounts servicing	(774)	(1,069)	(774)	(1,069)
Payment cards servicing	(1,304)	(740)	(1,304)	(740)
For operations with securities	(792)	(629)	(792)	(629)
Euro exchange	(402)	(230)	(402)	(230)
Other	(227)	(196)	(227)	(196)
<b>Total service fee and commission expenses</b>	<b>(3,499)</b>	<b>(2,864)</b>	<b>(3,499)</b>	<b>(2,864)</b>
<b>Net service fee and commission income</b>	<b>10,818</b>	<b>8,488</b>	<b>10,644</b>	<b>8,488</b>

**Note 22. Net income on securities trading**

	The Bank		The Group	
	2007	2006	2007	2006
Realised gain on trading in securities held for trading	573	1,049	573	1,049
Realised gain on sale of available-for-sale securities	182	54	182	54
Dividends received	3	10	3	10
Revaluation effect of securities held for trading	142	(286)	142	(286)
<b>Net income on securities trading</b>	<b>900</b>	<b>827</b>	<b>900</b>	<b>827</b>

**Note 23. Net foreign exchange gain**

	The Bank		The Group	
	2007	2006	2007	2006
Realised gain on foreign exchange trading, net	(1,017)	4,576	(1,037)	4,576
Balance sheet revaluation, net	7,959	2,248	8,030	2,248
Derivatives revaluation, net	790	186	790	186
<b>Net foreign exchange gain</b>	<b>7,732</b>	<b>7,010</b>	<b>7,783</b>	<b>7,010</b>

**Note 24. (Impairment) of financial assets**

	The Bank		The Group	
	2007	2006	2007	2006
<b>Impairment expenses</b>				
Impairment of loans portfolio	(3,885)	(2,126)	(3,885)	(2,126)
Impairment of finance lease portfolio	-	-	(1,943)	-
Loan loss recovery	4	163	4	163
<b>Impairment (expenses), net of releases and recoveries</b>	<b>(3,881)</b>	<b>(1,963)</b>	<b>(5,824)</b>	<b>(1,963)</b>

**Note 24. Impairment of financial assets (cont'd)**

Change in impairment balance during 2007 and 2006 are presented in the table below:

	<u>The Bank</u> <u>Impairment of</u> <u>financial assets</u>	<u>The Group</u> <u>Impairment of</u> <u>financial assets</u>
Impairment as of 1 January 2006	1,614	1,614
Impairment charged to the income statement <i>for individually assessed loans</i>	611	611
<i>for collectively assessed loans</i>	1,515	1,515
Effect of foreign exchange rates	(5)	(5)
Impairment charged to the income statement	2,121	2,121
Impairment as of 1 January 2007	3,735	3,735
Impairment charged to the income statement <i>for individually assessed loans</i>	807	1,355
<i>for collectively assessed loans</i>	3,078	4,473
Impairment charged to the income statement	3,885	5,828
Effect of foreign exchange rates	(11)	(11)
<b>Impairment as of 31 December 2007</b>	<b>7,609</b>	<b>9,552</b>

**Note 25. Operating expenses**

	<u>The Bank</u>		<u>The Group</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Employees' salaries	17,005	9,702	17,866	9,702
Social security	5,228	2,990	5,493	2,990
Rent of buildings and property expenses	3,965	2,217	4,061	2,217
Amortisation and depreciation	3,965	2,007	4,040	2,007
Taxes, other than income tax	2,498	1,530	2,509	1,530
Office equipment maintenance expenses	3,147	1,524	3,185	1,524
Transportation, post and communication expenses	1,551	989	1,622	989
Payments to service organizations				
<i>Professional fees, legal services and consultation expenses</i>	453	355	545	355
<i>REUTERS services</i>	189	184	189	184
<i>SWIFT membership fee</i>	169	150	169	150
<i>Other fees</i>	270	184	270	184
	1,081	873	1,173	873
Advertising and marketing	1,869	760	1,967	760
Publishing	565	346	565	346
Business trips and training	494	299	506	299
Representation expenses	490	248	518	248
Office stationary	387	138	456	138
Support and charity	269	134	273	134
Other expenses	571	321	742	321
<b>Total</b>	<b>43,085</b>	<b>24,078</b>	<b>44,976</b>	<b>24,078</b>

**Note 26. Income tax**

	The Bank		The Group	
	2007	2006	2007	2006
Current income tax expenses	1,163	591	1,163	591
Prior year income tax correction	265	-	299	-
Change in deferred income tax	(1,168)	223	(1,680)	223
<b>Income tax expenses (benefit)</b>	<b>260</b>	<b>814</b>	<b>(218)</b>	<b>814</b>
<b>Components of deferred income tax</b>				
Tax loss carried forward from 2007 on financial instruments	1,035	-	1,035	-
Tax loss carried forward from 2007	-	-	91	-
Fair value reserve	510	-	510	-
Impairment of property and equipment	83	85	83	85
Lease portfolio allowance	-	-	311	-
Origination fee deferral on lease	-	-	158	-
Vacation pay and other accruals	311	69	316	69
Other items	-	-	54	-
<b>Deferred income tax asset</b>	<b>1,939</b>	<b>154</b>	<b>2,558</b>	<b>154</b>
<b>Deferred income tax liabilities</b>				
Revaluation of property and equipment	(314)	(357)	(314)	(357)
Revaluation of derivatives	(133)	(20)	(133)	(20)
Capitalised VAT	(332)	(324)	(332)	(324)
Other items	(19)	(33)	(27)	(33)
<b>Deferred income tax liabilities</b>	<b>(798)</b>	<b>(734)</b>	<b>(806)</b>	<b>(734)</b>
<b>Deferred income tax, net</b>	<b>1,141</b>	<b>(580)</b>	<b>1,752</b>	<b>(580)</b>
Deferred income tax change recognised in equity	553	34	553	34
Deferred income tax asset arising on acquisition	-	-	99	-
Deferred income tax change recognised in the income statement	1,168	(223)	1,680	(223)
<b>Deferred tax change, total</b>	<b>1,721</b>	<b>(189)</b>	<b>(2,332)</b>	<b>(189)</b>

Deferred income tax was calculated using the following tax rates (based on the expected realisation date): 2006 – 19%, 2007 – 18%, 2008 and forward – 15%. Changes regarding income tax regulations are specified in Note 2.

The changes in deferred tax related to revaluation of property and equipment and available for sale securities are recognised directly in shareholder's equity.

**Note 26. Income tax (cont'd)**

Income tax expenses, applicable to the current year result, can be reconciled with income tax expenses calculated using statutory income tax rate for the pretax income as follows:

	The Bank		The Group	
	2007	2006	2007	2006
Income tax calculated at statutory 18% tax rate (19% - in 2006)	54	1,084	230	1,084
Non-taxable income	(93)	(119)	(824)	(119)
Prior year income tax correction	265	-	299	-
Effect of changes in tax rate	34	163	77	163
Change in valuation allowance	-	(314)	-	(314)
<b>Total income tax expenses (benefit)</b>	<b>260</b>	<b>814</b>	<b>(218)</b>	<b>814</b>

**Note 27. Capital adequacy**

Capital adequacy refers to the sufficiency of the Bank's capital resources to cover the credit and similar risks arising from the portfolio of assets of the Bank and off-balance sheet item exposures of the Bank.

The capital adequacy calculation rules include assessment of credit, market, foreign exchange, interest rate, equity securities and other risks. The required minimum capital adequacy ratio is 8% of risk-weighted assets.

Capital adequacy ratio calculation summary is presented in the table below:

**The Bank**

Capital adequacy calculation	2007		2006	
	Nominal	Weighted	Nominal	Weighted
Tier 1 equity items	190,435	190,468	68,815	68,815
Tier 2 equity items	9,332	9,339	14,377	14,377
Deductions from capital	(14,152)	(14,152)	(9,472)	(9,472)
<b>Eligible capital</b>	<b>185,615</b>	<b>185,615</b>	<b>73,720</b>	<b>73,720</b>
Risk assets				
0% risk assets	190,509	-	43,315	-
20% risk assets	19,709	3,942	13,886	2,777
50% risk assets	309,268	154,634	129,646	64,823
100% risk assets	1,075,661	1,075,661	551,839	551,839
Off-balance sheet risk commitments	214,125	61,303	84,330	26,540
Trading book requirements		19,700		28,150
<b>Total risk exposure</b>		<b>1,315,240</b>		<b>674,129</b>
<b>Capital adequacy ratio, %</b>		<b>14.11</b>		<b>10.94</b>

Calculated capital consists of Tier 1 capital, which comprises share capital, retained earnings (current year profit is not included) and reserve capital. The other component of recalculated capital is Tier 2 capital, which includes subordinated long term debt, legal reserve and revaluation reserves.

**Note 27. Capital adequacy (cont'd)**

**The Group**

	2007		2006	
	Nominal	Weighted	Nominal	Weighted
<b>Capital adequacy calculation</b>				
Tier 1 equity items	190,435	190,435	68,815	68,815
Tier 2 equity items	9,332	9,332	14,377	14,377
Deductions from capital	(9,921)	(9,921)	(9,472)	(9,472)
<b>Eligible capital</b>	<b>189,846</b>	<b>189,846</b>	<b>73,720</b>	<b>73,720</b>
<b>Risk assets</b>				
0% risk assets	190,509	-	43,315	-
20% risk assets	19,709	3,942	13,886	2,777
50% risk assets	309,268	154,634	129,646	64,823
100% risk assets	1,213,579	1,213,579	551,839	551,839
Off-balance sheet risk commitments	214,125	61,303	84,330	26,540
Trading book requirements		17,300		28,150
<b>Total risk exposure</b>		<b>1,450,758</b>		<b>674,129</b>
<b>Capital adequacy ratio, %</b>		<b>13.09</b>		<b>10.94</b>

## Note 28. Related party transactions

During the year 2007 and 2006 a number of banking transactions were entered into with related parties in the normal course of business. The related parties of the Bank and the Group are considered Parex Group companies and key management personnel.

The Bank and the Group earns income from foreign currency transactions, servicing of payment cards, operations with securities, and interest income from related parties. The Bank and the Group incurs servicing of payment cards expenses, interest expenses and other expenses due to transactions with related parties.

The outstanding balances with related parties of the Bank as of 31 December 2007 and transactions per 2007 with related parties were as follows:

	Amounts due to	Amounts due from	Income	Expenses
A/S Parex Banka (Latvia)	635,084	3,003	367	31,823
AP Anlage & Privatbank AG (Switzerland)	31,075	-	1	2,085
UAB Parex investicijų valdymas	1,106	-	199	24
UAB Parex faktoringas ir lizingas	731	11,400	457	631

The outstanding balances with related parties of the Group as of 31 December 2007 and transactions per 2007 with related parties were as follows:

	Amounts due to	Amounts due from	Income	Expenses
A/S Parex Banka (Latvia)	765,774	3,003	367	35,325
AP Anlage & Privatbank AG (Switzerland)	31,075	-	1	2,085
UAB Parex investicijų valdymas	1,106	-	199	24

AB Parex Bankas acquired investment units from funds managed by parent group companies in 2007 amounting to LTL 2,361 thousand, in 2006 – LTL 11,900 thousand.

The outstanding balances with related parties as of 31 December 2006 and transactions per 2006 with related parties were as follows:

The Bank / The Group	Amounts due to	Amounts due from	Income	Expenses
A/S Parex Banka (Latvia)	251,169	1,893	91	9,701
AP Anlage & Privatbank AG (Switzerland)	42,410	-	30	1,541
UAB Parex investicijų valdymas	4,550	-	114	8
UAB Parex faktoringas ir lizingas	327	-	63	57

Besides the above mentioned balances and transactions, as of 31 December 2007 the Bank and the Group has entered in a few financial derivative contracts with A/S Parex Banka. Assets and liabilities due to financial derivatives agreements amounted to LTL 1,297 thousand and LTL 134 thousand respectively as of 31 December 2007. Assets and liabilities due to financial derivatives agreements with A/S Parex Banka amounted to LTL 80 thousand and LTL 61 thousand as of 31 December 2006 respectively.

Management Board of the Bank consists of the chairman of the Board and 4 board members, each being responsible for specific division: Retail, Corporate, Business development and Treasury. The remuneration of the Board amounted to LTL 1,474 thousand and related social security of LTL 456 thousand in 2007 (LTL 1,026 thousand and LTL 318 thousand in 2006). Management Board of the Bank received loans amounting to LTL 2,008 thousand in 2006.

The Management Board of the Group consists of the 7 employees: 6 board members and head of administration of subsidiary, each being responsible for specific division. The remuneration of the Management Board amounted to LTL 1,534 thousand and related social security of LTL 475 thousand in 2007. Management Board of the Group received loans amounting to LTL 2,008 thousand in 2007 and finance lease amounting to LTL 56 thousand.

### Note 29. Operating lease

The Bank and the Group have various operating lease agreements for premises and other facilities. Lease terms do not contain restrictions on the Bank's activities concerning dividends, additional loans or further leasing. The future minimum lease payments under operating leases are as follows:

	The Bank		The Group	
	2007	2006	2007	2006
Up to one year	2,778	1,825	2,946	1,825
One to five years	6,114	5,555	6,954	5,555
<b>Total</b>	<b>8,892</b>	<b>7,380</b>	<b>9,900</b>	<b>7,380</b>

Operating lease expenses in 2007 and 2006 amounted to LTL 1,996 thousand and LTL 975 thousand respectively and are included in operating expenses.

### Note 30. Compliance with the regulatory requirements of the Bank of Lithuania

As of 31 December 2007 the Bank and the Group were in compliance with the maximum credit exposure to one borrower, related parties and major loan, capital adequacy, open foreign currency position and liquidity limits established by the Bank of Lithuania.

### Note 31. Investment in subsidiary

On 4 July 2007, the Bank acquired 100% of the voting shares of Parex Faktoringas ir Lizingas, a company involved in leasing activities. The purchase price allocation was only performed on a provisional basis (refer to Note 11). The provisional values of identifiable assets, liabilities and contingent liabilities based on carrying amounts of Parex Faktoringas ir Lizingas UAB as at the date of acquisition were:

	Recognised on acquisition	Carrying value
Cash and cash equivalents	63	63
Loans to non-banking clients	107,625	107,625
Property and equipment	2,691	2,691
Intangible assets	26	26
Other assets	2,101	2,101
	<u>112,506</u>	<u>112,506</u>
Amounts due to credit institutions	103,652	103,652
Other liabilities	4,024	4,024
	<u>107,676</u>	<u>107,676</u>
Group's share of the fair value of net assets	4,830	
Goodwill arising on acquisition	713	
Consideration paid	<u>5,543</u>	

The purchase price allocation has not been completed yet.

The total cost of the combination was LTL 5,543 thousand and was paid entirely in cash. The net cash inflow on acquisition was as follows:

Cash (paid)	5,543
Less: cash	(63)
Net cash outflow due to acquisition	<u>5,480</u>

From the date of the combination, Parex faktoringas ir lizingas UAB contributed LTL 1,458 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit of the Group would have been LTL 1,770 thousand, net interest income – LTL 33,828 thousand.

**Note 32. Cash and cash equivalents**

	The Bank		The Group	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Cash	22,720	15,808	22,720	15,808
Funds at correspondent accounts with the Bank of Lithuania and compulsory reserves in local currency	81,073	26,286	81,073	26,286
Placements with banks	20,747	15,268	20,747	15,268
<b>Cash and cash equivalents</b>	<b>124,540</b>	<b>57,362</b>	<b>124,540</b>	<b>57,362</b>

**Note 33. Risk management**

Management of risk is an essential element of the Bank and Group's regular management process. Risk monitoring is the responsibility of the Board of the Bank. Risk management within the Group is controlled by independent and structural units, i.e. the Credit Risk Management Division, Operational Risk management Unit and others. Broad risk management guidelines are applied across all A/S Parex banka group companies. The risks control and reporting is arranged independently of business operations and it is organized through setting and follow-up of risk limits. The risk management process in the Bank and the Group is regulated by several Risk Management Policies.

The objective of the Bank and Group is to ensure low risk exposure, meanwhile maintaining the well-diversified asset portfolio, hedged risks on financial markets, and low operational risk.

Risks are assessed in relation to the expected yield. Risk exposures that are not acceptable for the Group are avoided. The Bank and the Group does not assume high or uncontrollable risks irrespective of the amount of benefits they bring. Operational risks are minimised.

The Bank pursues a prudent risk management policy, relevant for the Bank's business mandate in Lithuania and specifics, ensuring the effective total risk mitigation across the Parex Group.

Risk management is the responsibility of the Risk Management committee and line officers who are monitoring risks on the daily basis.

In the ordinary course of business, the Group is exposed to various risks. Those risks include mainly credit risk, market risk, and liquidity risk. In order to manage the above risks, the Group has approved the risk management policies, which are briefly summarised below.

Interest rate risk

Interest rate risk arises from the potential adverse effect arising from fluctuations of interest rates on the Bank's and the Group's income and economic value.

Interest rate risk is assessed and decisions are made by the Risk Management Committee; further the decisions are approved by the Bank's Management Board. Risk is managed by competent structural units in accordance with the Group's internal regulations.

The Risk Management Committee sets the acceptable level of interest rate risk, defines the Bank's and the Group's internal limit system, controls compliance with the limits set, and supervises how risk management instruments are used.

The fundamental element of interest rate risk management is clear, accurate, and timely risk assessment. To assess interest rate risk on cash-flows and interest-bearing financial instruments, scenario analysis is applied.

**Note 33. Risk management (cont'd)**

Credit risk

Credit risk is the risk that the Bank and the Group will incur the loss because its customers or counterparties failed to discharge their contractual obligations. The Bank and the Group manage and control credit risk by setting limits on the amount of risk they are willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits. The Bank and the Group have established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revision. The credit quality review process allows the Bank and the Group to assess the potential loss to which it is exposed and to take corrective action. The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for components of the balance sheet and off balance sheet. The maximum exposure is shown gross, before the mitigation through the use of collateral agreements.

	<u>The Bank</u>		<u>The Group</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Balance sheet items before trading and investing activities</b>				
Demand deposits with the Bank of Lithuania	81,073	26,286	81,073	26,286
Due from banks	20,747	15,268	20,747	15,268
Loans and receivables from customers	1,266,173	543,795	1,254,773	543,795
Finance lease receivable, net	-	-	147,685	-
<b>Off balance sheet items</b>				
Guarantees and letters of credit	19,385	13,906	19,385	13,906
Loan commitments	194,740	70,424	194,740	70,424
<b>Total balance and off balance sheet items before trading and investing activities</b>	<b>1,582,118</b>	<b>669,679</b>	<b>1,718,403</b>	<b>669,679</b>
<b>Trading and investing activities</b>				
Financial assets at fair value through profit or loss	1,297	191	1,297	191
Financial assets available for sale (securities)	173,746	109,736	173,746	109,736
<b>Total trading and investing activities</b>	<b>175,043</b>	<b>109,927</b>	<b>175,043</b>	<b>109,927</b>
<b>Total credit exposure</b>	<b>1,757,161</b>	<b>779,606</b>	<b>1,893,446</b>	<b>779,606</b>

**Note 33. Risk management (cont'd)**

Credit exposure includes items with credit risk that form part of Bank and the Group's core banking operations. Trading and investing activities includes items with credit risk that form part of its trading activities.

Tables below present breakdown of bonds and derivatives by type and grade:

	The Bank		The Group	
	2007	2006	2007	2006
Bonds Government of the Republic of Lithuania	86,716	-	86,716	-
Corporate bonds	87,030	109,736	87,030	109,736
Derivatives with positive fair values	1,297	191	1,297	191
<b>Total</b>	<b>175,403</b>	<b>109,927</b>	<b>175,043</b>	<b>109,927</b>

	The Bank		The Group	
	2007	2006	2007	2006
<b>Bonds and derivatives exposure by rating class</b>				
High grade	153,128	86,928	153,128	86,928
Standard grade	20,618	22,808	20,618	22,808
Not rated	1,297	191	1,297	191
<b>Total</b>	<b>175,043</b>	<b>109,927</b>	<b>175,043</b>	<b>109,927</b>

For trading and investing activities the Bank and the Group has assigned "AAA" to "A" (based on S&P ratings or similar international rating agency equivalent) rating bonds to high grade and "BBB" to "B" rating bonds to standard grade.

Tables below present breakdown of trading and investment activities by geographical region:

The Bank and the Group	2007		2006	
	Government	Corporate	Government	Corporate
<b>Bonds and derivatives exposure by geography</b>				
Lithuania	86,716	50	-	-
Latvia	-	1,241	-	191
Russia	-	13,533	-	14,876
Great Britain	-	10,483	-	14,644
Germany	-	3,529	-	3,845
Norway	-	5,012	-	5,571
Japan	-	3,599	-	4,048
Sweden	-	3,559	-	3,981
USA	-	47,321	-	62,771
<b>Total</b>	<b>86,716</b>	<b>88,327</b>	<b>-</b>	<b>109,927</b>

The Bank and the Group have no impaired or overdue amounts within trading and investment activities.

**Note 33. Risk management (cont'd)**

Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client, by geographical region and by industry sector.

The Bank's maximum credit exposure to 10 clients or counterparties as of 31 December 2007 was LTL 178,131 thousand (LTL 113,591 thousand in 2006) before taking into account collateral.

The Group's maximum credit exposure to 10 clients or counterparty as of 31 December 2007 was LTL 184,227 thousand (LTL 113,591 thousand in 2006) before taking into account collateral.

*Exposure by industry sector*

An industry sector split of the Bank's and Group's financial assets before taking into account collateral held is as follows:

<b>The Bank 2007</b>	<b>Financial institutions</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Repurchase agreements</b>	<b>Total</b>
Mortgage to private individuals	-	426,945	-	-	426,945
Real estate, rent and other	-	-	266,784	-	266,784
Retail and wholesale trade	-	-	248,416	-	248,416
Financial services	113,934	-	4,369	57	118,360
Construction	-	-	74,521	-	74,521
Transport, storage and telecommunications	-	-	45,761	-	45,761
Agriculture, hunting and forestry	-	-	35,147	-	35,147
Manufacturing	-	-	21,115	-	21,115
Fishery	-	-	2,092	-	2,092
Other utility, social and service activities	-	-	4,427	-	4,427
Hotels and restaurants	-	-	3,199	-	3,199
Electricity, gas and water supply	-	-	3,092	-	3,092
Other loans to private individuals	-	314,968	-	6,809	321,777
Other loans to corporate clients	-	-	7,899	2,583	10,482
<b>Total loans and receivables, net of impairment</b>	<b>113,934</b>	<b>741,913</b>	<b>716,822</b>	<b>9,449</b>	<b>1,582,118</b>

<b>The Bank / The Group 2006</b>	<b>Financial institutions</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Repurchase agreements</b>	<b>Total</b>
Mortgage to private individuals	-	146,291	-	-	146,291
Retail and wholesale trade	-	-	98,885	-	98,885
Real estate, rent and other	-	-	95,540	-	95,540
Financial services	42,374	-	7,125	898	50,397
Transport, storage and telecommunications	-	-	39,322	-	39,322
Construction	-	-	38,036	-	38,036
Manufacturing	-	-	16,875	-	16,875
Hotels and restaurants	-	-	5,025	-	5,025
Other utility, social and service activities	-	-	4,425	-	4,425
Agriculture, hunting and forestry	-	-	3,382	-	3,382
Fishery	-	-	2,000	-	2,000
Electricity, gas and water supply	-	-	1,662	-	1,662
Other loans to private individuals	-	154,201	-	5,327	159,528
Other loans to corporate clients	-	-	7,300	1,011	8,311
<b>Total loans and receivables, net of impairment</b>	<b>42,374</b>	<b>300,492</b>	<b>319,577</b>	<b>7,236</b>	<b>669,679</b>

**Note 33. Risk management (cont'd)**

<b>The Group 2007</b>	<b>Financial institutions</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Repurchase agreements</b>	<b>Lease portfolio</b>	<b>Total</b>
Mortgage to private individuals	-	426,945	-	-	-	426,945
Retail and wholesale trade	-	-	248,416	-	25,384	273,800
Real estate, rent and other	-	-	266,784	-	2,073	268,857
Transport, storage and telecommunications	-	-	45,761	-	82,252	128,013
Financial services	102,534	-	4,369	57	595	107,555
Construction	-	-	74,521	-	8,151	82,672
Agriculture, hunting and forestry	-	-	35,147	-	2,777	37,924
Manufacturing	-	-	21,115	-	2,747	23,862
Other utility, social and service activities	-	-	4,427	-	7,601	12,028
Hotels and restaurants	-	-	3,199	-	718	3,917
Electricity, gas and water supply	-	-	3,092	-	-	3,092
Fishery	-	-	2,092	-	-	2,092
Other loans to private individuals	-	314,968	-	6,809	11,236	333,013
Other loans to corporate clients	-	-	7,899	2,583	4,151	14,633
<b>Total loans and receivables, net of impairment</b>	<b>102,534</b>	<b>741,913</b>	<b>716,822</b>	<b>9,449</b>	<b>147,685</b>	<b>1,718,403</b>

*Exposure by geographical area*

<b>The Bank 2007</b>	<b>Financial institutions</b>	<b>Corporate clients</b>	<b>Private individuals</b>	<b>Repurchase agreements</b>	<b>Total</b>
Lithuania	94,780	722,175	715,048	9,449	1,541,452
Germany	3,827	14,644	-	-	18,471
Latvia	3,003	4,264	35	-	7,302
Russia	924	596	1,619	-	3,139
Swiss	1,746	-	-	-	1,746
USA	848	-	-	-	848
U.K.	87	-	120	-	207
Other	8,719	234	-	-	8,953
<b>Total</b>	<b>113,934</b>	<b>741,913</b>	<b>716,822</b>	<b>9,449</b>	<b>1,582,118</b>

<b>The Bank / The Group 2006</b>	<b>Financial institutions</b>	<b>Corporate clients</b>	<b>Private individuals</b>	<b>Repurchase agreements</b>	<b>Total</b>
Lithuania	27,964	281,740	317,584	7,236	634,524
Germany	2,923	16,043	-	-	18,966
USA	4,590	-	-	-	4,590
Russia	1,351	665	1,582	-	3,598
Latvia	1,702	14	4	-	1,720
U.K.	268	-	407	-	675
Swiss	90	-	-	-	90
Other	3,486	2,030	-	-	5,516
<b>Total</b>	<b>42,374</b>	<b>300,492</b>	<b>319,577</b>	<b>7,236</b>	<b>669,679</b>

**Note 33. Risk management (cont'd)**

<b>The Group 2007</b>	<b>Financial institutions</b>	<b>Corporate clients</b>	<b>Private individuals</b>	<b>Repurchase agreements</b>	<b>Lease portfolio</b>	<b>Total</b>
Lithuania	83,380	722,175	715,048	9,449	147,685	1,677,737
Germany	3,827	14,644	-	-	-	18,471
Latvia	3,003	4,264	35	-	-	7,302
Russia	924	596	1,619	-	-	3,139
Swiss	1,746	-	-	-	-	1,746
USA	848	-	-	-	-	848
U.K.	87	-	120	-	-	207
Other	8,719	234	-	-	-	8,953
<b>Total</b>	<b>102,534</b>	<b>741,913</b>	<b>716,822</b>	<b>9,449</b>	<b>147,685</b>	<b>1,718,403</b>

*Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The ability to repay loan is the primary criterion in loan evaluation, though the Bank and the Group always demand collateral. Acceptable collaterals are classified into real estate, movable properties, guarantees, insurance, financial assets and other. Assets accepted as collateral are estimated at their fair value, while estimating present value of loan taking into account the costs for obtaining and selling the collateral. When real estate is appraised, the Bank and the Group also takes into account its liquidity and useful life.

The main types of collateral by value of collateral as of the last appraisal date are as follows:

<b>The Bank 2007</b>	<b>Financial institutions</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Issued guarantees</b>	<b>Total</b>
Commercial and other real estate	310	380,666	1,022,154	3,682	1,406,812
Housing estate	-	842,548	371,828	-	1,214,376
Guarantees	-	8,429	26,071	-	34,500
Equipment	-	7,425	16,943	-	24,368
Deposits	-	93	355	1,557	2,005
Other pledged assets	-	271	103,334	-	103,605
<b>Total</b>	<b>310</b>	<b>1,239,432</b>	<b>1,540,685</b>	<b>5,239</b>	<b>2,785,666</b>

<b>The Bank / The Group 2006</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Issued guarantees</b>	<b>Total</b>
Commercial and other real estate	168,537	658,781	1,382	828,700
Housing estate	172,532	75,535	-	248,067
Deposits	4,821	31,909	2,993	39,723
Equipment	-	19,148	-	19,148
Guarantees	-	9,350	-	9,350
Other pledged assets	-	19,308	-	19,308
<b>Total</b>	<b>345,890</b>	<b>814,031</b>	<b>4,375</b>	<b>1,164,296</b>

**Note 33. Risk management (cont'd)**

<b>The Group 2007</b>	<b>Financial institutions</b>	<b>Loans to private individuals</b>	<b>Loans to corporate clients</b>	<b>Issued guarantess</b>	<b>Finance lease</b>	<b>Total</b>
Commercial and other real estate	310	380,666	1,022,154	3,682	2,467	1,409,279
Housing estate	-	842,548	371,828	-	-	1,214,376
Equipment	-	7,425	16,943	-	10,551	34,919
Guarantees	-	8,429	26,071	-	-	34,500
Deposits	-	93	355	1,557	-	2,005
Other pledged assets	-	271	103,334	-	134,782	238,387
<b>Total</b>	<b>310</b>	<b>1,239,432</b>	<b>1,540,685</b>	<b>5,239</b>	<b>147,800</b>	<b>2,933,466</b>

*Credit quality per class of financial asset*

The credit quality of financial assets is managed by the Bank and Group using an internal credit assessment system. The Bank and the Group have no impaired or overdue amounts within trading and investment activities.

Rating of loans

During evaluation of loans, the Bank and the Group apply specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related client's financial position assessment. The financial position of the client is analysed based on constantly renewed financial information, also taking into account variations in certain financial ratios, affecting the position of the client. Based on a set of defined criteria ratings are assigned to the clients. Lower risk is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreements, collateral is of good quality. Higher risk is assigned to loans with identified default risk, clients with minor breaches in provisions.

<b>The Bank 2007</b>	<b>Neither past due nor impaired</b>		<b>Past due or individually impaired</b>	<b>Total</b>
	<b>Lower risk</b>	<b>Higher risk</b>		
<b>Asset classes</b>				
Financial institutions	12,063	-	-	12,063
Loans to private individuals	510,719	44,410	78,984	634,113
Loans to corporate clients	489,423	93,224	27,901	610,548
Repurchase agreements	9,449	-	-	9,449
<b>Total</b>	<b>1,021,654</b>	<b>137,634</b>	<b>106,885</b>	<b>1,266,173</b>

<b>The Bank / the Group 2006</b>	<b>Neither past due nor impaired</b>		<b>Past due or individually impaired</b>	<b>Total</b>
	<b>Lower risk</b>	<b>Higher risk</b>		
<b>Asset classes</b>				
Financial institutions	710	-	-	710
Loans to private individuals	215,076	13,728	31,362	260,166
Loans to corporate clients	224,326	36,518	14,839	275,683
Repurchase agreements	7,236	-	-	7,236
<b>Total</b>	<b>447,348</b>	<b>50,246</b>	<b>46,201</b>	<b>543,795</b>

**Note 33 Risk management (cont'd)**

The Group 2007	Neither past due nor impaired		Past due or individually impaired	Total
	Lower risk	Higher risk		
<b>Asset classes</b>				
Financial institutions	663	-	-	663
Loans to private individuals	510,719	44,410	78,984	634,113
Loans to corporate clients	489,423	93,224	27,901	610,548
Repurchase agreements	9,449	-	-	9,449
Finance lease receivables	79,671	-	68,014	147,685
<b>Total</b>	<b>1,085,774</b>	<b>137,634</b>	<b>174,899</b>	<b>1,402,458</b>

*Aging analysis of past due but not impaired loans per class of financial asset*

The Bank 2007	Less than 30 days				Total
	31 to 60 days	61 to 90 days	More than 91 days		
<b>Asset classes</b>					
Loans to private individuals	436	105	66	506	1,113
Loans to corporate clients	1,685	1,168	157	125	3,135
<b>Total</b>	<b>2,121</b>	<b>1,273</b>	<b>223</b>	<b>631</b>	<b>4,248</b>

The Bank / the Group 2006	Less than 30 days				Total
	31 to 60 days	61 to 90 days	More than 91 days		
<b>Asset classes</b>					
Loans to private individuals	564	70	148	392	1,174
Loans to corporate clients	396	2	17	115	530
<b>Total</b>	<b>960</b>	<b>72</b>	<b>165</b>	<b>507</b>	<b>1,704</b>

The Group 2007	Less than 30 days				Total
	31 to 60 days	61 to 90 days	More than 91 days		
<b>Asset classes</b>					
Loans to private individuals	436	105	66	506	1,113
Loans to corporate clients	1,685	1,168	157	125	3,135
Finance lease receivables	453	235	58	1,898	2,644
<b>Total</b>	<b>2,574</b>	<b>1,508</b>	<b>281</b>	<b>2,529</b>	<b>6,892</b>

These past due loans are not considered impaired as they are covered by sufficient collateral.

As of 31 December 2007 the Bank and the Group has accepted collateral for past due or individually impaired loans in total amount of LTL 87,209 thousand and LTL 152,266 thousand respectively (LTL 70,530 thousand LTL 70,530 thousand respectively as of 31 December 2006).

**Note 33. Risk management (cont'd)**

Liquidity risk

The Bank's and the Group's liquidity risk management and control is regulated by the Bank's and the Group's liquidity risk management and control procedure, in which the main limits for the control of the Bank's and the Group's liquidity risk are established.

Liquidity risk is the risk that the Bank or the Group will not have sufficient funds to meet commitments at any given point in time.

The Bank's and the Group's liquidity management is based on the current and desired profile of its Balance Sheet structure. The Bank's and the Group's liquidity forecast is made when forecasting the yearly budgets, forecasting the total amount and profile of the required liability portfolio.

The Bank's and the Group's policy is to be as liquid as it takes to cover all its obligations under all uncertain circumstances that might occur within the market environment within which the Bank and the Group operates. Other tasks of liquidity management are to:

- Comply with the liquidity ratio requirements,
- Optimise the Risk/Return ratio – sufficient liquidity compared with carry,
- React adequately and in time to significant changes in the operating environment.

According to the requirements of the Bank of Lithuania the Bank and the Group have to comply with the requirement to keep the liquidity ratio (liquid assets divided by current liabilities) at the level of not less than 30%.

Liquidity risk ratio is monitored through Asset/Liability structure by term reports.

In the tables below please find attached maturity gap reports (information on contractual maturities of financial liabilities is presented after maturity gap reports).

**Note 33. Risk management (cont'd)**

<b>Maturity gap (the Bank)</b> 31 December 2007	<u>On demand</u>	<u>Up to 3 month</u>	<u>3 – 12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Undef. maturity</u>	<u>Total</u>
<b>Assets</b>							
Cash	22,720	-	-	-	-	-	22,720
Balances with the Bank of Lithuania	81,073	-	-	-	-	-	81,073
Financial assets at fair value through profit or loss	-	1,297	-	-	-	4,460	5,757
Due from banks	20,747	-	-	-	-	-	20,747
Loans to customers, net	57	61,087	169,307	540,420	491,464	3,838	1,266,173
Available for sale financial assets	-	68,739	43,146	41,442	20,419	77	173,823
Investment into subsidiaries	-	-	-	-	-	5,543	5,543
Other non financial assets	-	2,670	54	-	-	35,199	37,923
<b>Total assets</b>	<b>124,597</b>	<b>133,793</b>	<b>212,507</b>	<b>581,862</b>	<b>511,883</b>	<b>49,117</b>	<b>1,613,759</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	409	-	-	-	-	409
Due to banks	1,474	382,672	299,717	348	-	-	684,211
Due to customers	260,673	264,146	138,261	8,905	61	2,378	674,424
Subordinated loan	-	-	-	8,149	-	-	8,149
Other liabilities	3,490	33,607	2,453	11,690	-	2,038	53,278
<b>Total liabilities</b>	<b>265,637</b>	<b>680,834</b>	<b>440,431</b>	<b>29,092</b>	<b>61</b>	<b>197,704</b>	<b>1,613,759</b>
Net assets (liabilities)	(141,040)	(547,041)	(227,924)	552,770	551,822	(148,587)	
Loan commitments	(194,740)	-	-	-	-	-	(194,740)
Net assets (liabilities) including loan commitments	(335,780)	(547,041)	(227,924)	552,770	551,822	(148,587)	(194,740)
<b>Gap as a percentage of total assets</b>	<b>(20.21)</b>	<b>(33.90)</b>	<b>(14.12)</b>	<b>34.26</b>	<b>31.72</b>	<b>(9.21)</b>	<b>(12.07)</b>
<b>The Bank</b>							
Total current assets							281,137
Total current liabilities							857,457
<b>Liquidity ratio, %</b>	<b>32.79</b>						

**Note 33. Risk management (cont'd)**

<b>Maturity gap (the Bank / the Group)</b> 31 December 2006	<u>On demand</u>	<u>Up to 3 month</u>	<u>3 – 12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Undef. maturity</u>	<u>Total</u>
<b>Assets</b>							
Cash	15,808	-	-	-	-	-	15,808
Balances with the Bank of Lithuania	26,286	-	-	-	-	-	26,286
Financial assets at fair value through profit or loss	-	191	-	-	-	12,284	12,475
Due from banks	15,268	-	-	-	-	-	15,268
Loans to customers, net	-	35,524	62,866	261,396	182,281	1,728	543,795
Available for sale financial assets	-	-	2,754	73,132	33,850	77	109,813
Investment into subsidiaries	-	-	-	-	-	-	-
Other non financial assets	-	4,139	-	-	-	32,858	36,997
<b>Total assets</b>	<b>57,362</b>	<b>39,854</b>	<b>65,620</b>	<b>334,528</b>	<b>216,131</b>	<b>46,947</b>	<b>760,442</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	76	-	-	-	-	76
Due to banks	3,445	54,989	165,392	-	-	-	223,826
Due to customers	213,381	134,206	56,286	6,832	92	-	410,797
Subordinated loan	-	-	-	7,670	8,149	-	15,819
Equity	-	-	-	-	-	76,866	76,866
Other liabilities	29,754	1,745	721	136	-	702	33,058
<b>Total liabilities</b>	<b>246,580</b>	<b>191,016</b>	<b>222,399</b>	<b>14,638</b>	<b>8,241</b>	<b>77,568</b>	<b>760,442</b>
Net assets (liabilities)	(189,218)	(151,162)	(156,779)	319,890	207,890	(30,621)	-
Loan commitments	(70,424)	-	-	-	-	-	(70,424)
Net assets (liabilities) including loan commitments	(259,642)	(151,162)	(156,779)	319,890	207,890	(30,621)	(70,424)
<b>Gap as a percentage of total assets</b>	<b>(34.14)</b>	<b>(19.88)</b>	<b>(20.62)</b>	<b>42.07</b>	<b>27.34</b>	<b>(4.03)</b>	<b>(9.26)</b>
<b>The Bank</b>							
Total current assets							151,642
Total current liabilities							417,919
<b>Liquidity ratio, %</b>	<b>36.29</b>						

**Note 33. Risk management (cont'd)**

<b>Maturity gap (the Group)</b> 31 December 2007	<u>On demand</u>	<u>Up to 3 month</u>	<u>3 – 12 months</u>	<u>1 – 5 years</u>	<u>Over 5 years</u>	<u>Undef. maturity</u>	<u>Total</u>
<b>Assets</b>							
Cash	22,720	-	-	-	-	-	22,720
Balances with the Bank of Lithuania	81,073	-	-	-	-	-	81,073
Due from banks	20,747	-	-	-	-	-	20,747
Financial assets at fair value through profit or loss	-	1,297	-	-	-	4,460	5,757
Loans to customers, net	57	61,087	157,907	540,420	491,464	3,838	1,254,773
Available for sale financial assets	-	68,739	43,146	41,442	20,419	77	173,823
Financial lease receivables, net	-	6,664	19,993	82,714	38,314	-	147,685
Other non financial assets	-	2,370	54	-	-	38,444	40,868
<b>Total assets</b>	<b>124,597</b>	<b>140,157</b>	<b>221,100</b>	<b>664,576</b>	<b>550,197</b>	<b>46,819</b>	<b>1,747,446</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	409	-	-	-	-	409
Due to banks	1,474	382,672	299,717	348	-	-	684,211
Due to customers	260,430	264,082	138,261	8,905	61	2,378	674,117
Loans from banks	-	1,549	2,825	126,316	-	-	130,690
Subordinated loan	-	-	-	8,149	-	-	8,149
Equity	-	-	-	-	-	194,746	194,746
Other liabilities	3,922	35,202	2,458	11,504	-	2,038	55,124
<b>Total liabilities</b>	<b>265,826</b>	<b>683,914</b>	<b>443,261</b>	<b>155,222</b>	<b>61</b>	<b>199,162</b>	<b>1,747,446</b>
Net assets (liabilities)	(141,229)	(543,757)	(222,161)	509,354	550,136	(152,343)	
Loan commitments	(194,740)						(194,740)
Net assets (liabilities) including loan commitments	(335,968)	(543,757)	(222,161)	509,354	550,136	(152,343)	(194,740)
<b>Gap as a percentage of total assets</b>	<b>(19.23)</b>	<b>(31.12)</b>	<b>(12.71)</b>	<b>29.15</b>	<b>31.48</b>	<b>(8.72)</b>	<b>(11.14)</b>
<b>The Group</b>							
Total current assets							285,924
Total current liabilities							858,409
<b>Liquidity ratio, %</b>	<b>33.31</b>						

**Note 33. Risk management (cont'd)**

The table below breaks down the liabilities of the Bank and the Group by contractual due date

<b>Financial liabilities (the Bank)</b> 31 December 2007	On demand	Up to 3 month	3 – 12 months	1 – 5 years	Over 5 years	Total
Derivatives contractual amounts receivable	-	25,391	309,758	-	-	335,149
Derivatives contractual amounts payable	-	225,694	110,354	-	-	336,048
Due to banks	9,027	385,486	307,964	8,517	-	710,994
Due to customers	260,558	265,282	141,980	9,715	95	677,630
Financial lease liabilities	-	957	3,727	11,744	-	16,428
Subordinated loan	-	-	-	8,149	-	8,149
Lending commitments	197,740	-	-	-	-	197,740
Guarantees and warranties issued	18,990	-	-	-	-	18,990
Letters of credit issued	395	-	-	-	-	395
<b>Total undiscounted financial liabilities</b>	<b>486,710</b>	<b>902,810</b>	<b>873,783</b>	<b>38,125</b>	<b>95</b>	<b>2,301,523</b>

<b>Financial liabilities (the Bank / the Group)</b> 31 December 2006	On demand	Up to 3 month	3 – 12 months	1 – 5 years	Over 5 years	Total
Derivatives contractual amounts receivable	-	89,080	30,876	-	-	119,956
Derivatives contractual amounts payable	-	89,212	30,858	-	-	120,070
Due to banks	3,445	55,316	170,687	-	8,149	237,597
Due to customers	213,381	134,693	57,472	7,215	121	412,882
Subordinated loan	-	-	-	7,670	8,149	15,819
Lending commitments	70,424	-	-	-	-	70,424
Guarantees and warranties issued	13,646	-	-	-	-	13,646
Letters of credit issued	260	-	-	-	-	260
<b>Total undiscounted financial liabilities</b>	<b>301,156</b>	<b>368,301</b>	<b>289,893</b>	<b>14,885</b>	<b>16,419</b>	<b>990,654</b>

<b>Financial liabilities (the Group)</b> 31 December 2007	On demand	Up to 3 month	3 – 12 months	1 – 5 years	Over 5 years	Total
Derivatives contractual amounts receivable	-	25,391	309,758	-	-	335,149
Derivatives contractual amounts payable	-	225,694	110,354	-	-	336,048
Due to banks	9,027	388,669	316,362	136,959	-	851,017
Due to customers	260,315	265,282	141,980	9,715	95	677,387
Financial lease liabilities	-	957	3,727	11,744	-	16,428
Subordinated loan	-	-	-	8,149	-	8,149
Lending commitments	194,740	-	-	-	-	194,740
Guarantees and warranties issued	18,990	-	-	-	-	18,990
Letters of credit issued	395	-	-	-	-	395
<b>Total undiscounted financial liabilities</b>	<b>483,467</b>	<b>905,993</b>	<b>882,181</b>	<b>166,567</b>	<b>95</b>	<b>2,438,303</b>

**Note 33. Risk management (cont'd)**

**Currency risk**

Foreign exchange risk shall mean the risk that the relevant exchange rate or rates might move against the Bank's and the Group's net open position in foreign currencies emerging either because of foreign exchange trading positions and (or) because of exposures caused by its overall assets and liabilities.

The Bank and the Group hold a minimal (reasonable) level of foreign exchange positions necessary to offer services to clients. The Bank and the Group seek to minimise foreign exchange risk in its lending or asset taking and funding operations by matching the asset and liability side by currencies in such way that always has to comply with the risk ratios established.

Bank shall manage foreign exchange position risk by establishing maximum risk limits as percentage of capital.

Below is presented information on the Bank's and the Group's open currency positions:

The Bank	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent assets	Contingent liabilities		
31 December 2007						
LTL	916,200	625,153	179,608	26,917	443,738	239.01
EUR	581,371	756,242	27,126	299,096	(446,841)	(240.68)
USD	107,745	224,148	124,700	4,441	3,856	2.08
GBP	792	2,479	2,119	377	55	0.03
RUB	2,251	2,017	-	224	10	0.01
Other	5,400	3,720	2,495	4,471	(296)	(0.16)
<b>Total</b>	<b>1,613,759</b>	<b>1,613,759</b>	<b>336,048</b>	<b>335,526</b>	<b>522</b>	<b>0.28</b>

Long positions					142,521	76.77
Short positions					(139,407)	(75.09)
Eligible capital						185,655

The Bank / the Group	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent assets	Contingent liabilities		
31 December 2006						
LTL	416,654	314,525	39,618	4,754	136,993	187.15
EUR	220,697	273,771	10,254	96,480	(139,300)	(190.30)
USD	115,355	159,134	58,841	14,907	155	0.21
GBP	908	7,471	7,000	-	437	0.60
RUB	1,531	2,166	3,945	3,419	(109)	(0.15)
Other	5,297	3,375	412	396	1,938	2.65
<b>Total</b>	<b>760,442</b>	<b>760,442</b>	<b>120,070</b>	<b>119,956</b>	<b>114</b>	<b>0.16</b>

Long positions					139,521	190.60
Short positions					(139,407)	(190.45)
Eligible capital						73,200

**Note 33. Risk management (cont'd)**

The Group	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent assets	Contingent liabilities		
31 December 2007						
LTL	930,924	628,150	179,608	26,917	455,465	245.33
EUR	687,791	863,391	27,126	299,096	(447,570)	(241.08)
USD	120,288	247,689	124,700	4,441	(7,142)	(3.85)
GBP	792	2,479	2,119	377	55	0.03
RUB	2,251	2,017	-	224	10	0.01
Other	5,400	3,720	2,495	4,471	(296)	(0.16)
<b>Total</b>	<b>1,747,446</b>	<b>1,747,446</b>	<b>336,048</b>	<b>335,526</b>	<b>522</b>	<b>0.28</b>
Long positions					142,521	76.77
Short positions					(139,407)	(75.09)
Eligible capital						185,655

The table below shows estimated sensitivity of overall open foreign currency position to 10% linear increase in currency rates.

Year	The Bank		The Group	
	2007	2006	2007	2006
Effect on pre-tax profit due to the 10% changes in currency rates	+/- 363	+/- 242	+/-296	+/- 242

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a monthly basis. Interest rate risk is managed by forecasting the market interest rates and managing the mismatches between assets and liabilities from re-pricing maturities. The Bank and the Group apply the interest rate risk management methods allowing to measure the Bank's and the Group's sensitivity to interest rate changes by computing the impact to yearly net interest income (which equals the impact on pre-tax profit) in case of parallel shift by 1 percentage point in the interest rates.

**The Bank**

**31 December 2007**

	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
<b>Assets:</b>								
Cash and due from banks	81,073	-	-	-	-	-	43,467	124,540
Investments in equity securities and derivatives	-	-	-	-	-	-	11,377	11,377
Investments in debt securities	32,229	3,599	-	23,709	14,610	47,252	52,347	173,746
Loans and receivables (including financial lease receivables)	173,822	371,907	601,770	34,323	30,225	53,678	448	1,266,173
Other assets	-	-	-	-	-	-	37,923	37,923
<b>Total</b>	<b>287,124</b>	<b>375,506</b>	<b>601,770</b>	<b>58,032</b>	<b>44,835</b>	<b>100,930</b>	<b>145,562</b>	<b>1,613,759</b>
<b>Liabilities:</b>								
Due to banks	136,766	245,907	190,968	108,749	348	-	1,473	684,211
Due to customers	165,523	99,519	71,682	68,878	14,878	5,562	262,939	688,981
Other liabilities and equity	-	-	-	-	-	-	240,567	240,567
<b>Total</b>	<b>302,289</b>	<b>345,426</b>	<b>262,650</b>	<b>177,627</b>	<b>15,226</b>	<b>5,562</b>	<b>504,979</b>	<b>1,613,759</b>
<b>Total interest sensitivity gap</b>	<b>(15,165)</b>	<b>30,080</b>	<b>339,120</b>	<b>(119,595)</b>	<b>29,609</b>	<b>95,368</b>	<b>(359,417)</b>	

**Note 33. Risk management (cont'd)**

The Bank / the Group	31 December 2006							Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	
<b>Assets:</b>								
Cash and due from banks	26,286	-	-	-	-	-	31,076	57,362
Investments in equity securities and derivatives	-	-	-	-	-	-	12,552	12,552
Investments in debt securities	-	-	2,754	-	45,453	61,529	-	109,736
Loans and receivables (including financial lease)	92,616	195,860	236,219	7,712	6,790	2,870	1,728	543,795
Other assets	-	-	-	-	-	-	36,997	36,997
<b>Total</b>	<b>118,902</b>	<b>195,860</b>	<b>238,973</b>	<b>7,712</b>	<b>52,243</b>	<b>64,399</b>	<b>82,353</b>	<b>760,442</b>
<b>Liabilities:</b>								
Due to banks	13,565	41,424	56,001	109,391	-	-	3,445	223,826
Due to customers	70,085	64,123	26,343	29,943	6,379	545	213,379	410,797
Other liabilities and equity	-	-	-	-	-	-	125,819	125,819
<b>Total</b>	<b>83,650</b>	<b>105,547</b>	<b>82,344</b>	<b>139,334</b>	<b>6,379</b>	<b>545</b>	<b>342,643</b>	<b>760,442</b>
<b>Total interest sensitivity gap</b>	<b>35,252</b>	<b>90,313</b>	<b>156,629</b>	<b>(131,622)</b>	<b>45,864</b>	<b>63,854</b>	<b>(260,290)</b>	

The Group	31 December 2007							Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	
<b>Assets:</b>								
Cash and due from banks	81,073	-	-	-	-	-	43,467	124,540
Investments in equity securities and derivatives	-	-	-	-	-	-	5,834	5,834
Investments in debt securities	32,229	3,599	-	23,709	14,610	47,252	52,347	173,746
Loans and receivables (including finance lease receivables)	173,822	372,311	602,102	24,165	128,982	92,288	4,637	1,398,307
Other assets	-	-	-	-	-	-	45,514	45,514
<b>Total</b>	<b>287,124</b>	<b>375,910</b>	<b>602,102</b>	<b>47,874</b>	<b>143,592</b>	<b>139,540</b>	<b>151,799</b>	<b>1,747,941</b>
<b>Liabilities:</b>								
Due to banks	136,766	245,907	190,968	108,749	348	-	1,473	684,211
Due to customers	165,782	100,489	72,652	70,733	26,520	120,236	262,696	819,108
Other liabilities and equity	-	-	-	-	-	-	244,622	244,622
<b>Total</b>	<b>302,548</b>	<b>346,396</b>	<b>263,620</b>	<b>179,482</b>	<b>26,868</b>	<b>120,236</b>	<b>508,791</b>	<b>1,747,941</b>
<b>Total interest sensitivity gap</b>	<b>(15,424)</b>	<b>29,514</b>	<b>338,482</b>	<b>(131,608)</b>	<b>116,724</b>	<b>19,304</b>	<b>(356,992)</b>	

The table below shows the pretax impact of the interest rate increases/decreases by one percentage point on profit.

	The Bank		The Group	
	2007	2006	2007	2006
Pretax impact of interest rate increase by 1% on profit	1,927	1,741	1,885	1,741
Pretax impact of interest rate decrease by 1% on profit	(1,927)	(1,741)	(1,885)	(1,741)

**Note 33. Risk management (cont'd)**

Interest rate fair value risk

The table below shows the change of the value of debt securities if the yield increases / decreases by one percentage point on equity:

The Bank / the Group	Yield change	2007	2006
		Impact on equity	
Available for sale debt securities	+1%	(2,737)	(3,701)
	-1%	2,845	3,907

Equity price risk

Equity price risk is the risk that the Bank and the Group will incur losses related to fluctuations in prices of equity securities and investment fund units held by the Bank and the Group. The Bank and the Group acquires equity securities with the purpose of investment and possible price increase of securities. The management of risk of adverse price movements of those instruments is performed by setting limits upon transactions and individual limits per each issue of equity securities, as well as implementing stop-loss limits. Below is presented reasonable expectations of the management about possible changes in prices of equity securities and investment fund units and resulting pretax impact on the Bank's profit:

The Bank / the Group	Price change	2007	2006
		Pretax impact on profit	
Equity securities	+4%	178	491
	-4%	(178)	(491)

**Note 34. Fair values of financial instruments**

The following methods and assumptions are used by the Bank and the Group to estimate the fair value of these financial instruments:

**Cash.** Represents cash on hand which nominal amount is its fair value.

**Balances with the Bank of Lithuania.** The carrying amount is its fair value as these are current accounts at the Bank of Lithuania.

**Investments at Fair Value through Profit or Loss.** The carrying amount is the fair value of such investments as they are measured at fair value.

**Amounts Due from Banks.** For assets maturing within three months, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For longer term deposits, the estimate was made by discounting of scheduled future cash flows of the individual items through the estimated maturity using prevailing market rates as of the respective year-end.

**Loans to Customers and Finance Lease Receivable.** The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

**Amounts Due to Customers.** For balances maturing within three months the carrying amount approximates fair value due to the relatively short maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

**Note 34. Fair values of financial instruments (cont'd)**

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market price and those involving valuation techniques where all the model inputs are observable in the market.

**The Bank / the Group, 2007**

	<u>Quoted market price</u>	<u>Valuation techniques – market observable inputs</u>	<u>Total</u>
<b>Financial assets</b>			
Derivatives	-	1,297	1,297
Investments through profit or loss	11,300	-	11,300
Available for sale investments	173,823	-	173,823
<b>Total financial assets at fair value</b>	<b>185,123</b>	<b>1,297</b>	<b>186,510</b>
<b>Financial liabilities</b>			
Derivatives	-	409	409
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>409</b>	<b>409</b>

**The Bank / the Group, 2006**

	<u>Quoted market price</u>	<u>Valuation techniques – market observable inputs</u>	<u>Total</u>
<b>Financial assets</b>			
Derivatives	-	191	191
Investments through profit or loss	12,475	-	12,475
Available for sale investments	109,813	-	109,813
<b>Total financial assets at fair value</b>	<b>122,288</b>	<b>191</b>	<b>122,479</b>
<b>Financial liabilities</b>			
Derivatives	-	76	76
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>76</b>	<b>76</b>

The estimated fair value of financial instruments is determined in accordance with the requirements of IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm’s length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s and the Group’s financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. Below presented fair values of financial instruments were calculated based on market observable inputs, except for debt and equity securities and investment funds units acquired which were calculated based on market or redemption prices.

**Note 34. Fair values of financial instruments (cont'd)**

The Bank	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash	22,720	22,720	15,808	15,808
Balances with the Bank of Lithuania	81,073	81,073	26,286	26,286
Investment in subsidiary	5,543	5,543	-	-
Financial assets at fair value through profit or loss	5,757	5,757	12,475	12,475
Available for sale financial assets	173,823	173,823	109,813	109,813
Due from banks	20,747	20,747	15,268	15,268
Loans to customers, net	1,266,173	1,293,631	543,795	553,996
<b>Total financial assets</b>	<b>1,575,836</b>	<b>1,603,294</b>	<b>723,445</b>	<b>733,646</b>
<b>Financial liabilities</b>				
Due to banks	684,211	690,141	223,826	229,363
Financial liabilities at fair value through profit or loss	409	409	76	76
Deposits	674,424	697,357	410,797	430,941
Finance lease liabilities	14,981	16,408	219	-
Subordinated loans	8,149	7,653	15,819	14,856
<b>Total financial liabilities</b>	<b>1,382,174</b>	<b>1,411,968</b>	<b>650,518</b>	<b>675,236</b>

The main part of the loans issued to the clients has variable interest rates. Therefore, the fair value of the loans does not change in response to the reference rate (EURIBOR, VILIBOR, LIBOR).

The Group	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash	22,720	22,720	15,808	15,808
Balances with the Bank of Lithuania	81,073	81,073	26,286	26,286
Financial assets at fair value through profit or loss	5,757	5,757	12,475	12,475
Available for sale financial assets	173,823	173,823	109,813	109,813
Due from banks	20,747	20,747	15,268	15,268
Loans to customers	1,254,773	1,262,770	543,795	553,996
Finance lease receivables	147,685	146,586	-	-
<b>Total financial assets</b>	<b>1,706,578</b>	<b>1,713,476</b>	<b>723,445</b>	<b>733,646</b>
<b>Financial liabilities</b>				
Due to banks	684,211	690,141	223,826	229,363
Financial liabilities at fair value through profit or loss	409	409	76	76
Deposits	674,117	697,357	410,797	430,941
Finance lease liabilities	14,557	16,408	219	-
Subordinated loan	8,149	7,653	15,819	14,856
<b>Total financial liabilities</b>	<b>1,381,443</b>	<b>1,412,464</b>	<b>650,518</b>	<b>675,236</b>

The main part of the loans issued to the clients has variable interest rates. Therefore, the fair value of the loans does not change in response to the reference rate (EURIBOR, VILIBOR, LIBOR).

**Note 35. Subsequent event**

No material subsequent events occurred after the financial year.