

# **Bankas Snoras AB**

## **2006 Consolidated Financial Statements**

*Prepared According to International Financial Reporting Standards*

*Presented together with Independent Auditors' report*

## **Independent auditors' report to the shareholders of Bankas Snoras AB**

### Report on the Financial Statements

We have audited the accompanying 2006 consolidated financial statements of the Bankas Snoras AB together with its subsidiaries (the "Group"), which comprise Group's consolidated balance sheet as of 31 December 2006, the consolidated statements of income, changes in equity and cash flows for the year then ended, and 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 consolidated 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 consolidated 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.

### *Auditors' 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. 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

### Report on Other Legal Requirements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The financial information of the Bank and Financial Group in section *Information Disclosures Required by Laws* is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is properly prepared in all material respects in relation to the consolidated financial statements taken as whole.

Furthermore, we have read the Annual Report of Management of the Board for the year ended 31 December 2006 and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC

Audit company's licence No. 000514

Jonas Akelis  
Auditor's licence  
No. 000003

Ramūnas Bartašius  
Auditor's licence  
No. 000362

The audit was completed on 2 March 2007.

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**CONSOLIDATED BALANCE SHEETS***(LTL thousand)*

	<i>Notes</i>	<i>Years ended 31 December,</i>	
		<i>2006</i>	<i>2005</i> (restated)
<b>Assets</b>			
Cash and cash equivalents	3	1,754,600	1,294,159
Financial assets at fair value through profit or loss	4, 22	467,010	931,831
Amounts due from credit institutions	5	173,002	37,195
Available-for-sale financial assets	7	866,486	-
Assets of subsidiary classified as held for sale	36	371,479	-
Held-to-maturity financial assets	7	145,287	156,196
Loans to customers, net	6, 13	2,537,860	1,865,862
Investments in associates	8	-	600
Investment property	9	18,381	17,056
Property and equipment	10	133,227	124,937
Intangible assets	11	19,190	19,345
Deferred income tax assets	12	250	-
Other assets	13, 14	52,708	60,389
<b>Total assets</b>		<b>6,539,480</b>	<b>4,507,570</b>
<b>Liabilities</b>			
Amounts due to credit institutions	16	897,580	566,019
Derivative financial liabilities	4, 22	1,667	556
Liabilities of subsidiary classified as held for sale	36	361,344	-
Debt securities issued	18	8,324	16,713
Amounts due to customers	17	4,721,612	3,484,041
Subordinated loans	15	108,024	89,018
Current income tax liabilities	12	5,179	7,803
Deferred income tax liabilities	12	9,245	10,667
Provisions	13	204	114
Other liabilities	14	78,041	70,647
<b>Total liabilities</b>		<b>6,191,220</b>	<b>4,245,578</b>
<b>Equity</b>			
Share capital	19	157,267	137,267
Reserves		67,632	62,195
Retained earnings		93,927	45,872
<b>Total equity attributable to equity holders of the parent</b>		<b>318,826</b>	<b>245,334</b>
Minority interest		29,434	16,658
<b>Total equity</b>		<b>348,260</b>	<b>261,992</b>
<b>Total equity and liabilities</b>		<b>6,539,480</b>	<b>4,507,570</b>

Signed and authorized for release on behalf of the Board of Directors of the AB Bankas Snoras:

_____ President	_____ Raimondas Baranauskas	_____ 2 March 2007
_____ Chief Accountant	_____ Zita Selenkoviėnė	_____ 2 March 2007

**CONSOLIDATED STATEMENTS OF INCOME***(LTL thousand)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Interest income</b>			(restated)
On loans to customers		189,963	108,380
On debt securities		41,988	31,366
On loans and placements with credit institutions		34,682	10,081
		<b>266,633</b>	<b>149,827</b>
<b>Interest expense</b>			
On deposits		(106,088)	(50,905)
Placements from credit institutions		(8,330)	(7,340)
On debt securities issued		(653)	(153)
On subordinated loans		(4,429)	(1,088)
		<b>(119,500)</b>	<b>(59,486)</b>
<b>Net interest income</b>		<b>147,133</b>	<b>90,341</b>
(Impairment) of interest earning assets	13	(8,659)	(5,665)
<b>Net interest income after impairment of interest earning assets</b>		<b>138,474</b>	<b>84,676</b>
Fee and commission income		93,881	55,261
Fee and commission expenses		(18,336)	(11,678)
<b>Net fee and commission income</b>	23	<b>75,545</b>	<b>43,583</b>
Gains less losses from transactions with financial assets at fair value through profit or loss	24	(5,484)	(11,375)
Gains less losses from transactions with derivative instruments	25	4,800	(2,567)
Gains less losses from transactions in foreign currencies	26	25,547	18,475
Dividend income		47	35
Other income	27	12,107	8,008
<b>Other non interest income</b>		<b>37,017</b>	<b>12,576</b>
Salaries and benefits	28	(81,976)	(44,129)
Depreciation and amortisation	10, 11	(18,279)	(10,448)
Other operating expenses	28	(71,707)	(35,435)
Other (impairment and provisions) releases	13	(5)	394
<b>Operating expenses</b>		<b>(171,967)</b>	<b>(89,618)</b>
<b>Profit before income tax</b>		<b>79,069</b>	<b>51,217</b>
Income tax expense	12	(14,090)	(5,943)
Profit from subsidiary classified as held for sale		356	-
<b>Profit for the year</b>		<b>65,335</b>	<b>45,274</b>
Attributable to:			
Minority interest		3,691	631
Equity holders of the parent		61,644	44,643
		<b>65,335</b>	<b>45,274</b>
Basic and diluted earnings per share	20	0.43	0.33

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2006 and 2005

(LTL thousand)

	<i>Attributable to the equity holders of the Bank</i>									
	<i>Share Capital</i>	<i>Share surplus</i>	<i>Reserve capital</i>	<i>Revaluation reserve of property and equipment</i>	<i>Revaluation reserve of financial assets</i>	<i>Reserve of foreign currency translation</i>	<i>Other general reserves</i>	<i>Retained earnings</i>	<i>Minority interest</i>	<i>Total equity</i>
<b>As of 1 January 2004</b>	137,267	305	2,790	18,312	-	-	39,563	12,083	-	210,320
Reserve of foreign currency translation	-	-	-	-	-	(20)	-	-	-	(20)
Total income and expense recognised directly in equity	-	-	-	-	-	(20)	-	-	-	(20)
Net profit	-	-	-	-	-	-	-	44,643	631	45,274
<b>Total income and expenses for the period</b>	-	-	-	-	-	(20)	-	44,643	631	45,254
Transfer to other general reserves	-	-	-	-	-	-	1,245	(1,245)	-	-
Dividends	-	-	-	-	-	-	-	(9,609)	-	(9,609)
Minority interest emerged with the acquisition of Latvijas Krājbanka A/S (Note 29)	-	-	-	-	-	-	-	-	16,027	16,027
<b>As of 31 December 2005</b>	137,267	305	2,790	18,312	-	(20)	40,808	45,872	16,658	261,992
Revaluation of financial assets	-	-	-	-	(2,650)	-	-	-	-	(2,650)
Reserve of foreign currency translation	-	-	-	-	-	(154)	-	-	-	(154)
Total income and expense recognised directly in equity	-	-	-	-	(2,650)	(154)	-	-	-	(2,804)
Net profit	-	-	-	-	-	-	-	61,644	3,691	65,335
<b>Total income and expenses for the period</b>	-	-	-	-	(2,650)	(154)	-	61,644	3,691	62,531
Increase of share capital (Note 19)	20,000	-	-	-	-	-	-	-	-	20,000
Dividends	-	-	-	-	-	-	-	(9,608)	-	(9,608)
Sale of minority interest (Note 1)	-	-	-	-	-	-	-	4,260	9,085	13,345
Transfer to reserve capital	-	-	6,000	-	-	-	-	(6,000)	-	-
Transfer to other reserves	-	-	-	-	-	-	2,241	(2,241)	-	-
<b>As of 31 December 2006</b>	157,267	305	8,790	18,312	(2,650)	(174)	43,049	93,927	29,434	348,260

**CONSOLIDATED STATEMENTS OF CASH FLOWS***(LTL thousand)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i> (restated)
<b>Cash flows from operating activities</b>			
<b>Income (expenses)</b>			
Interest income		269,708	134,922
Interest (expenses)		(103,403)	(45,332)
Recovery of loans previously written-off		2,826	2,920
Income from foreign exchange operations, net		25,928	12,478
(Expenses) from operations with securities, net		(3,808)	(1,959)
Service fees and commission income, net		75,545	54,276
Remuneration-related (expenses)		(82,410)	(43,809)
Profit from subsidiary classified as held for sale		356	-
Other (expenses)		(73,183)	(43,332)
<b>Operating result</b>		<b>111,559</b>	<b>70,164</b>
<b>(Increase) decrease in assets</b>			
(Increase) decrease in loans and placements with credit institutions		(134,636)	165,132
(Increase) in loans		(690,734)	(493,295)
Decrease (increase) in securities		457,980	(252,793)
Decrease (increase) in other assets		6,524	(16,719)
(Increase) in assets		(360,866)	(597,675)
<b>Increase (decrease) in liabilities</b>			
Increase in amounts due to credit institutions		330,845	216,671
Increase in public deposits and letters of credit		1,236,297	1,098,604
(Decrease) increase in debt securities issued		(8,389)	16,713
Increase in other liabilities		23,897	25,792
Increase in liabilities		1,582,650	1,357,780
Net cash flows from operating activities before taxes		1,333,343	830,269
Income tax		(9,016)	(1,598)
<b>Net cash from operating activities after taxes</b>		<b>1,324,327</b>	<b>828,671</b>
<b>Cash from (used in) investing activities</b>			
(Acquisitions) of tangible and intangible fixed assets		(27,514)	(20,705)
Cash inflow from acquisitions subsidiary, net of cash paid	29	-	60,755
Cash inflow from acquisitions subsidiary classified as held for sale	29	(21,745)	-
Disposals of tangible assets		-	788
(Investments into) available for sale securities		(869,136)	-
(Investments into) and redemption of held to maturity investments		25,210	(65,413)
Dividends received		47	35
<b>Net cash (used in) investing activities</b>		<b>(893,138)</b>	<b>(24,540)</b>
<b>Cash (used in) from financing activities</b>			
Subordinated loans received		18,860	71,346
Increase of the share capital		20,000	-
Dividends (paid)	21	(9,608)	(9,609)
<b>Net cash from financing activities</b>		<b>29,252</b>	<b>61,737</b>
<b>Increase in cash</b>			
Cash and cash equivalents at the beginning of the financial year		1,294,159	428,291
Cash and cash equivalents at the end of the financial year	3	1,754,600	1,294,159

(LTL thousand)

## 1. Principal Activities

**Bankas Snoras AB** (the “Bank”) is the parent company in the Group. It was formed on 17 March 1992 under the laws of the Republic of Lithuania. The Bank operates under a general banking license issued by the Bank of Lithuania (“BoL”). The Bank's main office is in Vivulskio Str. 7, Vilnius, Lithuania and it has 10 branches in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Utena, Marijampolė, Mažeikiai, Alytus, Tauragė and 222 operating outlets.

The Bank offers the following banking services: accepts deposits from individuals, issues loans and provides short-term trade financing and consults clients, processes payments in Litas and other currencies, issues and services magnetic and microchip cards, collects payments, exchanges currency and provides other services.

The controlling shareholder of the Bank is Mr. V. Antonov. The Bank is the member of Conversbank Group and its financial statements are consolidated into the financial statements of Conversbank Group consolidated financial statements.

The authorized and issued share capital of the Bank consists of 13,727 thousand ordinary shares and 2,000 thousand preference shares with the par value of LTL 10 each. As of 31 December 2006 and 2005 all shares were fully paid.

<b>Shareholders (ordinary shares) of Bankas Snoras AB</b>	<b>2006, %</b>	<b>2005, %</b>
Conversgroup (Luxemburg) Holding Company	49.89	49.89
Mr. Raimondas Baranauskas, chairman of the Bank's Board	9.99	9.99
Nuntel Holding LLC	9.89	9.89
Hoffman Development LLC	8.76	8.76
Skepi Shipping Co limited	8.31	8.31
CTPS Limited	5.21	5.21
Other: number of shareholders/owned %	1,538/7.95	1,178/7.95
<b>Total</b>	<b>100.00</b>	<b>100.0</b>

  

<b>Shareholders (preference shares) of Bankas Snoras AB</b>	<b>2006, %</b>	<b>2005, %</b>
Conversgroup Holding Company	45.00	-
Mr. Raimondas Baranauskas, chairman of the Banks Board	10.00	-
Clients of Skandinaviska Enskilda Banken	24.56	-
Žilinskis Algirdas Liudvikas	6.82	-
Other: number of shareholders/owned%	173/13.62	-
<b>Total</b>	<b>100.00</b>	<b>-</b>

As of 31 December 2006 the members of the Board of Directors and Management Board controlled 1,372,960 shares (10.00%) (2005 – 1,372,960 or 10.00%) of the Bank.

The Bank has the following subsidiaries, which were consolidated in these financial statements:

<b>Subsidiary</b>	<b>Ownership %</b>		<b>Country</b>	<b>Industry</b>
	<b>2006</b>	<b>2005</b>		
Snoro Lizingas UAB	100%	100%	Lithuania	Consumer financing
Vilniaus Kapitalo Vystymo Projektai UAB	100%	100%	Lithuania	Real estate
Snoro Turto Valdymas UAB	100%	100%	Lithuania	Financing intermediary
Snoro Fondų Valdymas UAB (former Interfa UAB)	100%	100%	Lithuania	Fund management
Snoro Investicijų Valdymas UAB	100%	100%	Lithuania	Real estate
Latvijas Krājbanka A/S	75%	83%	Latvia	Banking
Krājinvestīcijas SIA	75%	83%	Latvia	Real estate
Ieguldījumu Pārvaldes Sabiedrība LKB Assets Management	75%	-	Latvia	Fund management
Ieguldījumu Sabiedrība Astra Fondi A/S	75%	-	Latvia	Fund management
Conversbank (UK) Ltd. (held for sale)	100%	-	Great Britain	Fund management

The Bank and the above mentioned subsidiaries are further referred as a Group. In the consolidated financial statements all inter-company balances and transactions were eliminated. Consolidated financial statements were prepared using the same accounting principles for similar transactions and events.



(LTL thousand)

## 1. Principal Activities (cont'd)

Snoro Lizingas UAB was formed as a closed joint stock company under the laws of the Republic of Lithuania on 30 April 1999. The company's principal activity is consumer financing.

Vilniaus Kapitalo Vystymo Projektai UAB was formed as a closed joint stock company under the laws of the Republic of Lithuania on 17 November 2000. The company's principal activity is real estate development, rent and sale.

Snoro Turto Valdymas UAB was formed as a closed joint stock company under the laws of the Republic of Lithuania on 18 December 2003. The company's principal activity is project financing in the CIS.

Snoro Fondų Valdymas UAB (former Interfa UAB) was formed as a closed joint stock company under the laws of the Republic of Lithuania on 4 March 1992. The company's principal activity is fund management.

Snoro Investicijų Valdymas UAB was formed as a closed joint stock company under the laws of the Republic of Lithuania on 14 February 2005. The company's principal activity is real estate management.

In September 2005 the Bank acquired 83.01% interest in the Latvian commercial bank Latvijas Krājbanka A/S. Latvijas Krājbanka A/S was founded in 1924 as Latvijas Pasta Krājbanka (Latvian Post Savings Bank). In June 1940 it was reorganised and included into the structure of the USSR Savings Bank. On 3 September 1991 the Supreme Council of the Republic of Latvia decided to re-establish Latvijas Krājbanka A/S. Latvijas Krājbanka A/S took over all rights of the former USSR National Savings Bank and on 15 October 1992 received a license to perform banking operations. On 29 March 1994 the Bank was re-registered as a state joint-stock company Latvijas Krājbanka A/S. On 26 October 2006 the Bank sold 8.01% of Latvijas Krājbanka A/S shares. Gain from sale of shares in amount of LTL 5,819 thousand in the consolidated financial statements of the Group was accounted for directly in the statement of changes in equity.

Latvijas Krājbanka A/S has a 100% owned Limited Liability Company Krājinvestīcijas with a share capital of LVL 5,000. The Limited Liability Company Krājinvestīcijas was registered with the Latvian Enterprise Registry on 30 June 2004. The principal activities of Krājinvestīcijas are real estate property management.

In 2004 subsidiary of the Bank Latvijas Krājbanka A/S acquired 120,000 newly issued shares (LVL 121 thousand) of Ieguldījumu Sabiedrība Astra Fondi A/S. The shares comprised 50% of the share capital. Astra fund manages the second level pension funds Klasika and Ekstra. As of 1 April 2006 Latvijas Krājbanka A/S acquired the remaining 50% of shares. Accordingly Ieguldījumu Sabiedrība Astra Fondi A/S from being an associated company became a subsidiary and is fully consolidated in these financial statements.

In 2006 subsidiary of the Bank Latvijas Krājbanka A/S founded 100% controlled investment fund management equity LKB Assets Management.

In March 2006 the United Kingdom Financial Services Authority (FSA) gave its permission for the Bank, the Convers group, controlling the Bank, and Mr. Vladimir Antonov (the controlling shareholder of Convers group) to acquire a bank in UK - Pointon York Limited UK (later renamed to Conversbank (UK) Ltd.). The transaction was performed by the Bank on behalf of Mr. Vladimir Antonov and the shares were held by the Bank in trust. The Bank did not gain the control over this bank. As of 29 September 2006 the main shareholder of the Group, Mr. V. Antonov transferred the control of Conversbank (UK) Ltd. to the Bank (Note 35). According to the order of FSA, the share capital of Conversbank (UK) Ltd. was increased by GBP 1,900 thousand (LTL 9,779 thousand). AB Bankas Snoras acquired all newly issued shares. Taking into consideration that the Bank was willing to transfer the shares of Conversbank (UK) Ltd. as soon as possible, this investment is treated as an asset held for sale and is disclosed according to 5 IFRS. On 5 February 2007 the Bank transferred the control of Conversbank (UK) Ltd. (Note 36).

Conversbank (UK) Ltd. (former Pointon York Ltd.) was established in 1971, the bank licence was received in 1981. The bank is involved in fund management.

As of 31 December 2006 the number of employees of the Group was 1,949 (1,815 as of 31 December 2005).

(LTL thousand)

## 2. Significant Accounting Policies

### *Basis of presentation*

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities through profit or loss, available-for-sale financial assets and investment property that have been measured at fair value.

### *Statement of compliance*

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC), effective as of 31 December 2006 as adopted by the European Union.

### *Functional and presentation currency*

The financial statements are presented in thousands of Lithuanian Litas (LTL), the local currency of the Republic of Lithuania (which is also the Group's functional currency), except per share amounts and unless otherwise stated. Subsidiaries in Latvia maintain their records in Latvian Lat (LVL). As these financial statements are presented in LTL thousands, individual amounts were rounded. Due to rounding, totals in the tables may not add up.

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

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- 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 once adopted by EU.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). 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.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date 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.
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that the entity shall 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Basis of presentation (cont'd)*

- 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). 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 once adopted by EU.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments".

### *IFRS 7 "Financial Instruments: Disclosures" and IAS 1 amendment "Capital Disclosures"*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

### *IFRS 8 "Operating Segments"*

The Group is still estimating the impact of adoption of IFRS 8 "Operating Segments" to its financial statements.

### *Subsidiaries*

Subsidiaries, which are those entities in which the Group 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 Group 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 unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

### *Acquisition of Subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets, liabilities and contingent liabilities acquired in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of change in equity since the date of the combination. Minority interest is presented within equity.

The sale of minority interest is recorded directly in the Group's statement of changes in equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Investments in associates*

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for using equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the statement of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### *Error corrections*

The Group shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

### *Comparative figures*

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

On the 22 September 2005 the Bank acquired 83.01% of shares with voting right in Latvijas Krājbanka A/S. As of 31 December 2005 the fair value of assets, liabilities and contingent liabilities was not yet estimated and therefore postponed in order to perform the independent appraisal of intangible assets Latvijas Krājbanka A/S. The appraisal of intangible assets was received in December 2006. It stated that the fair value of intangible assets at the date of acquisition was LTL 18,805 thousand, i.e. higher by LTL 14,409 thousand than it was recognised in the balance sheet of Latvijas Krājbanka A/S at the date of acquisition (Note 29). The increase mainly comprise Latvijas Krājbanka brand name, non-contractual customer relationships and core deposits value.

Year 2005 comparative information was adjusted, in order to reflect this estimation. The value of intangible assets increased by LTL 14,409 thousand, also a deferred tax liability in amount of LTL 2,202 thousand was accounted for. There was no goodwill after this adjustment. Since the day of acquisition, the amortization of intangible assets increased by LTL 337 thousand, accordingly, the result of the Group in 2005 by this amount was adjusted.

### *Financial assets and financial liabilities*

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

Financial assets in the scope of IAS 39 are classified as either financial assets 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 investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation 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 Group. Settlement day refers to the recognition of an asset on the day it is transferred to the Group and to the derecognition of an asset, on the day that it is transferred by the Group. All other purchases or sales are recognised as derivative instruments until settlement occurs.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Financial assets and financial liabilities (cont'd)*

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

##### *Derivative Financial Instruments*

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized 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.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

##### *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 acquisition cost 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 income and expense and dividend income respectively.

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

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy,
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. 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 income and expense and dividend income respectively.

#### Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Financial assets and financial liabilities (cont'd)*

#### 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 at their settlement date. From the date of signing a contractual agreement till the settlement 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 Group cannot estimate how often or when clients would use such an option and therefore impact of such repayment, if any, was not reflected in the financial statements of the Group.

#### *Non-performing loans*

Loans are treated as non-performing when loan principal or interest payable is overdue for 90 and more days for corporate clients and 180 and more days for private individuals.

#### *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 possible credit losses. The management of 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 Group finances its customers through buying their claims. Companies alienate rights to invoices due at a future date to the Group. Factoring transactions comprise factoring transactions with a right to recourse (the Group is entitled to selling the overdue claim back to the customer) and factoring transactions without a right to recourse (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 factoring balance includes the aggregate amount of factored invoices outstanding as of the reporting date and all amounts accrued for the unpaid amount.

#### 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 with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Financial assets and financial liabilities (cont'd)*

#### Debt issued and other borrowed funds

Issued financial instruments and their components, which are not designated at fair value through profit or loss, are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amounts separately determined as the fair value of the liability component on the date of issue.

After initial recognition, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

### *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;
- 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 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 Group has transferred its rights to receive cash flows from an asset 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 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 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 Group's continuing involvement is the amount of the transferred asset that 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 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 legally enforceable 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Cash and cash equivalents*

Cash, precious metals, current accounts with the Central Banks and current accounts with other banks due to their high liquidity with maturity up to three months are accounted for as cash and cash equivalents in the cash flow statement.

Compulsory reserves with the Central Banks are treated as cash and cash equivalents, as according to the requirements of the Bank of Lithuania and the Bank of Latvia, the Group is obliged to upkeep average rate of funds during the required period, but on the daily basis whole amount is at the Group's disposition.

### *Sale and repurchase agreements and lending securities*

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and amortised over the life of the repurchase agreements using fixed interest rate for the whole period.

Borrowed securities are not included into the financial statements, unless they were sold to the third party. In that case, the purchase and sale would be recorded as profit or loss in the sales income. Liability to return these securities is presented at fair value as trade liability.

### *Leases*

#### *Finance - Group as a lessee*

The Group recognizes 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. 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 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 - Group as a lessor*

The Group recognises lease receivables at value 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 - Group as a 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 recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

#### *Operating - Group as a lessor*

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are included in 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 Group's property and equipment.



(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Taxation*

The current income tax expense is calculated in accordance with the regulations of the Republic of Lithuania or applicable regulations of the state of incorporation of subsidiary.

Until 1 January 2006 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates 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%.

In Lithuania 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. Losses incurred on 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.

In 2006 and 2005 the standard income tax rate in Latvia was 15% and is based on the taxable profit reported for the taxation period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting 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 the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to be applied to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group in Lithuania and Latvia also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other administrative and operating expenses.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Property and equipment*

Property and equipment, except for 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 property and equipment when that cost is incurred if the recognition criteria are met. Buildings are recorded at revaluated 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 economic lives of assets.

In the case of revaluation, when the estimated fair value of an asset is lower than its balance value, the balance 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.

In the case of revaluation, when the estimated fair value of an asset is higher than its balance value, the balance value of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property and equipment under the capital 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.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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 of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	60 years
Service outlets	20 years
Motor vehicles	6 years
Furniture and fixtures	5-7 years
Computers and office equipment	1-5 years

Leasehold improvements are amortized over 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.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for recognition.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Investment properties*

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

### *Projects under development*

Projects under development represent real estate projects in development which are acquired and further developed for generating profit. Projects under development are accounted for at lower of cost or net realizable value and included in other assets caption in the balance sheet. Cost also includes the cost of development and other directly attributable costs.

### *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 subsidiary or associate 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 Group 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Other intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. 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 economic lives 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. Estimated useful lives of intangibles with finite useful lives are presented below:

	<u>Years</u>
Non-contractual customer relationship	10 years
Core deposit intangibles	7 years
Other intangible assets (computer software and licences)	1 – 5 years

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 development and maintaining computer software programmes are recorded as an expense when incurred.

### *Impairment of financial assets*

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 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 (the significance level of the Group is LTL 345 thousand or EUR 100 thousand). If the Group determines 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 possible future 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 using 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Impairment of financial assets (cont'd)*

#### Due from banks and loans and advances to customers (cont'd)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of 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 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 directly 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 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 asset's 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 previously charged are credited to the income statement.

#### Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan terms. 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.

### *Impairment of other assets*

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 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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Credit-related commitments*

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Commitments to extend credit are treated as risk assets for capital adequacy calculation purposes.

In the ordinary course of the business the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, under Other liabilities caption, being premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required 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 recognized 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 Group will make payments in the event when a customer cannot meet its obligations to the third parties. In case of execution of such a guarantee it is subsequently accounted for as balance sheet item and is subject for impairment assessment. Until a 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 Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions. Letters of credit are collateralized by the underlying shipments of goods. Letters of credit are treated as risk assets for capital adequacy calculation purposes.

### *Provisions*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow or recourse 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 presented 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 recognized as a borrowing cost.

*Provisions made to guarantees and stand-by facilities.*

The amount of the loss is recognized when it is probable that the Group will recognize an outflow of economic benefit that can be reliably estimated and represents a present legal or constructive obligation.

### *Retirement and Other Employee Benefit Obligations*

The Group does not have any pension arrangements separate from the State pension system of the Republic of Lithuania and the Republic of Latvia where applicable, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Share capital*

#### *Share Capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital (share surplus).

#### *Dividends*

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

### *Earnings per share*

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

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

### *Contingencies*

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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

The preparation of financial statements 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 depreciation and evaluation of impairment (including goodwill), provisions for loan commitments and stand-by facilities.

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

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment 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 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 Group uses its experienced judgment 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.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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.

(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *Income and expense recognition*

Interest income and expense are recognized 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 recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income 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.

Income from penalty payments is recognised on a cash basis.

### *Foreign currency translation*

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction and the Bank of Lithuania exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. 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):

	<u>31 December 2006</u>	<u>31 December 2005</u>
1 EUR*	3.4528	3.4528
1 USD	2.6304	2.9102
100 RUB	9.9708	10.1312
1 LVL**	4.9537	4.9565
1 GBP	5.1468	5.0141

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

\*\*Starting from 1 January 2005 LVL is pegged to EUR at the rate of LVL 0.702804 for EUR 1

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Lithuanian Litas at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the statement of income.

### *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.



(LTL thousand)

## 2. Significant Accounting Policies (cont'd)

### *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 ask 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 flow 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.

### *Subsequent events*

Post-year-end events that provide additional information about 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.

(LTL thousand)

**3. Cash and Cash Equivalents**

Cash and cash equivalents comprise:

	<i>2006</i>	<i>2005</i>
Cash at hand	199,099	161,855
Current accounts with the Central Banks	542,252	315,804
Current accounts with other credit institutions	479,178	622,969
Time deposits with credit institutions up to 90 days	534,071	193,531
<b>Cash and cash equivalents</b>	<b>1,754,600</b>	<b>1,294,159</b>

The credit institutions in Lithuania and Latvia have to keep a computed deposit (compulsory reserve) at the Central bank. The amount of it depends on the funds, attracted by credit institutions. The Group's right to withdraw the deposit is restricted by laws, according to which the monthly average amount of deposit has to be equal to the compulsory reserve, calculated according to the requirements of the Bank of Lithuania and the Bank of Latvia.

The compulsory reserve rate in Lithuania is 6%. Until 24 September 2005 there was no interest income for the compulsory reserve at the Bank of Lithuania. Since the day mentioned, the interest is calculated from the base of compulsory reserves, calculated according to the requirements of European Central Bank (ECB). There is no interest for the remaining compulsory reserves. As of 31 December 2006, 1/3 of the compulsory reserves was interest bearing. The interest rate for the interest bearing part is equal to the ECB refinancing interest rate, valid on the day of transaction.

The rate of compulsory reserves in Latvia is 8%.

**4. Financial Assets and Liabilities at Fair Value through Profit or Loss**

Financial assets at fair value through profit or loss are held for trading. These assets comprise of:

	<i>2006</i>	<i>2005</i>
Treasury bills and bonds of the Republic of Lithuania	207,425	171,854
Other governments' debt securities	89,612	582,194
Corporate bonds	118,901	172,578
Corporate shares	2,938	1,838
Investment funds' units	45,145	-
Derivative financial instruments	2,989	3,367
<b>Financial assets at fair value through profit or loss</b>	<b>467,010</b>	<b>931,831</b>

Coupon rates (yields for treasury bills) and maturities of these securities are as follows:

	<i>2006</i>		<i>2005</i>	
	%	Maturity	%	Maturity
Treasury bills and bonds of the Republic of Lithuania	2.5 - 10	2007 - 2016	2.5 - 11	2006 - 2015
Other governments' debt securities	3.5 - 11	2007 - 2015	2.5 - 10	2006 - 2013
Corporate bonds	3.3 - 5.6	2007 - 2013	2.875 - 11	2006 - 2015

(LTL thousand)

**4. Financial Assets and Liabilities at Fair Value through Profit or Loss (cont'd)**

The Group acquired derivative financial instruments for trading purposes. Outstanding transactions with derivative financial instruments and trading liabilities are as follows:

	<i>2006</i>			<i>2005</i>		
	<b>Notional principal</b>	<b>Fair values</b>		<b>Notional principal</b>	<b>Fair value</b>	
		<b>Asset</b>	<b>Liability</b>		<b>Asset</b>	<b>Liability</b>
<b>Foreign exchange contracts</b>						
Forwards and Swaps – foreign	421,199	416	1,571	214,231	109	546
Forwards and Swaps – domestic	193,358	2	96	30,385	10	10
Call options	-	2,571	-	-	3,248	-
<b>Total</b>	<b>614,557</b>	<b>2,989</b>	<b>1,667</b>	<b>244,616</b>	<b>3,367</b>	<b>556</b>

Call options represent embedded derivative instruments, separated from structured bonds (Note 7). As no market exists for those derivative instruments, they are valued using theoretical option pricing models.

**5. Amounts Due from Credit Institutions**

Amounts due from credit institutions comprise time deposits of more than 90 days.

	<i>OECD</i>		<i>Lithuania</i>		<i>Russia</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Time deposits of more than 90 days	144,485	37,177	2,201	18	26,316	-	173,002	37,195
<b>Amounts due from credit institutions</b>	<b>144,485</b>	<b>37,177</b>	<b>2,201</b>	<b>18</b>	<b>26,316</b>	<b>-</b>	<b>173,002</b>	<b>37,195</b>

**6. Loans to Customers, net**

Loans to customers comprise:

	<i>2006</i>	<i>2005</i>
Loans to customers	2,219,247	1,593,343
Overdrafts	243,730	174,643
Bills of exchange	86,930	126,265
Reverse repurchase agreements	20,667	16,466
Factoring	1,981	1,236
	<b>2,572,555</b>	<b>1,911,953</b>
Less: allowance for loan impairment (Note 13)	(34,695)	(46,091)
<b>Loans to customers, net</b>	<b>2,537,860</b>	<b>1,865,862</b>

During 2006 the management of the Group has made certain assumptions to arrive at the current estimates of impairment. The management of the Group constantly monitors the loan portfolio and investigates market trends so that it could make necessary changes in impairment estimation, if required. Having other information available, management of the Group may change assumptions for the impairment assessment, which would result in a change of the impairment allowance.

Securities acquired under reverse repurchase agreements can be sold in absence of default of the customer. Fair value of securities acquired under reverse repurchase agreements as of 31 December 2006 was LTL 35,162 thousand (LTL 27,013 thousand as of 31 December 2005).

*(LTL thousand)***6. Loans to Customers, net (cont'd)**

Loans have been extended to the following types of customers:

	<u>2006</u>	<u>2005</u>
Personal companies	1,203,415	978,455
Individuals	1,273,427	877,601
State budget or municipal authorities	11,553	9,545
State companies	21,348	246
Other	28,117	15
<b>Loans to customers, net</b>	<b><u>2,537,860</u></b>	<b><u>1,865,862</u></b>

Loans are issued within the following industry sectors:

	<u>2006</u>	<u>2005</u>
Individuals	1,273,427	877,601
Financial intermediary services	272,206	443,822
Services	264,930	50,178
Real estate	193,694	84,160
Trading	155,044	141,130
Manufacturing	143,825	99,169
Constructions	119,365	-
Agriculture and food processing	39,837	91,079
Transport	32,965	18,242
Government and municipalities	11,643	4,717
Metallurgy	302	221
Electricity	-	17,115
Fuel, gas and chemical	-	5,428
Other	30,622	33,000
<b>Loans to customers, net</b>	<b><u>2,537,860</u></b>	<b><u>1,865,862</u></b>

The table below presents breakdown of loans to actual payable of the customer and accrued and/ or impaired amounts:

	<u>2006</u>	<u>2005</u>
Unpaid principal	2,574,762	1,909,716
Accrued and unpaid interest	10,248	9,060
Deferred income	(12,455)	(6,823)
Impairment loss allowance	(34,695)	(46,091)
<b>Loans to customers, net</b>	<b><u>2,537,860</u></b>	<b><u>1,865,862</u></b>

Interest income earned on impaired loans during 2006 was LTL 3,270 thousand (LTL 2,419 thousand in 2005).

(LTL thousand)

**7. Available-for-Sale and Held-to-Maturity Financial Assets**

Held-to-maturity financial assets comprise:

	<i>2006</i>		<i>2005</i>	
	<b>Carrying value</b>	<b>Nominal value</b>	<b>Carrying value</b>	<b>Nominal value</b>
Corporate bonds	79,005	79,905	75,201	77,764
Governments' bonds	66,282	64,928	80,995	77,695
<b>Held-to-maturity securities</b>	<b>145,287</b>	<b>144,833</b>	<b>156,196</b>	<b>155,459</b>

Interest rates and maturities of these financial assets are as follows:

	<i>2006</i>		<i>2005</i>	
	<b>%</b>	<b>Maturity</b>	<b>%</b>	<b>Maturity</b>
Corporate bonds	2.5-9.75	2007-2013	2.5-6.15	2007
Governments' bonds	5-5.625	2007-2013	5.625-8.125	2006 - 2007

Available-for-sale financial assets includes:

	<i>2006</i>		<i>2005</i>	
	<b>Balance value</b>	<b>Fair value</b>	<b>Balance value</b>	<b>Fair value</b>
Treasury bills and bonds of the Republic of Lithuania	984	968	-	-
Other governments' bond	865,502	855.633	-	-
<b>Available-for-sale financial assets</b>	<b>866,486</b>	<b>856.601</b>	<b>-</b>	<b>-</b>

Held-to-maturity securities include structured bonds, purchased by the Group in 2005. Derivative instruments, embedded in those bonds, were separated and reported under derivative instruments caption (Note 4). After separation of embedded derivatives, securities acquired are valued at amortised cost using market yields of similar bonds by their maturity and credit risk at acquisition date, as no active market exists for those securities. Amortised cost of those securities as of 31 December 2006 was LTL 67,802 thousand (as of 31 December 2005 LTL 66,148 thousand).

Fair value of held-to-maturity financial instruments amounted to LTL 143,877 thousand as 31 December 2006 (LTL 153,190 thousand 31 December 2005).

Interest income earned on held-to-maturity securities in 2006 amounted to LTL 4,150 thousand (in 2005 LTL 643 thousand).

(LTL thousand)

## 8. Investments in Associates

In 2005, the subsidiary of the Bank Latvijas Krājbanka A/S purchased 120,000 newly issued shares (LVL 121 thousand) of Ieguldījumu Sabiedrība Astra Fondi A/S representing 50% of the share capital. Astra fund manages 2<sup>nd</sup> level pension funds Klasika and Ekstra. The investment into associate was accounted for using equity method. As of 31 December 2005 the Group's share of associate's assets comprised mainly current assets, amounting to LTL 614 thousand. The net assets amounted to LTL 600 thousand. The share of 2005 revenues and net profit amounted respectively to LTL 36 thousand and LTL 19 thousand.

In 2006 Latvijas Krājbanka A/S acquired the remaining 50% of the voting shares of Ieguldījumu Sabiedrība Astra Fondi A/S (Note 29). Thus, the Ieguldījumu Sabiedrība Astra Fondi A/S became the subsidiary of the Group and it is entirely consolidated from the date of acquisition in these financial statements.

## 9. Investment Property

Investment properties are stated at fair value, which has been determined based on valuation performed by independent appraisers as of 31 December 2006. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

	<u>2006</u>	<u>2005</u>
Opening balance as at 1 January	17,056	-
Additions	11,521	12,255
Sale	(14,957)	-
Net gain from a fair value adjustment	4,761	4,801
<b>Closing balance as at 31 December</b>	<b>18,381</b>	<b>17,056</b>

## 10. Property and Equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers, office and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2005</b>	<b>54,718</b>	<b>17,639</b>	<b>75,419</b>	<b>7,979</b>	<b>6,740</b>	<b>162,495</b>
Additions	3,518	433	15,376	1,766	5,183	26,276
Write-offs	(205)	(813)	(4,150)	(1,445)	(823)	(7,436)
Transfers	-	-	(1,113)	-	(719)	(1,832)
<b>31 December 2006</b>	<b>58,031</b>	<b>17,259</b>	<b>85,532</b>	<b>8,300</b>	<b>10,381</b>	<b>179,503</b>
<b>Accumulated depreciation and impairment</b>						
<b>31 December 2005</b>	<b>1,116</b>	<b>2,649</b>	<b>29,496</b>	<b>4,297</b>	<b>-</b>	<b>37,558</b>
Depreciation charge	1,240	3,253	9,055	1,235	-	14,783
Write-offs	(49)	(518)	(4,105)	(1,365)	-	(6,037)
Transfers	-	-	(28)	-	-	(28)
<b>31 December 2006</b>	<b>2,307</b>	<b>5,384</b>	<b>34,418</b>	<b>4,167</b>	<b>-</b>	<b>46,276</b>
<b>Net book value:</b>						
<b>31 December 2005</b>	<b>53,602</b>	<b>14,990</b>	<b>45,923</b>	<b>3,682</b>	<b>6,740</b>	<b>124,937</b>
<b>31 December 2006</b>	<b>55,724</b>	<b>11,875</b>	<b>51,114</b>	<b>4,133</b>	<b>10,381</b>	<b>133,227</b>

(LTL thousand)

**10. Property and Equipment (cont'd)**

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers, office and other equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2004</b>	<b>28,882</b>	<b>2,436</b>	<b>68,835</b>	<b>7,686</b>	<b>1,269</b>	<b>109,108</b>
Additions	-	1,121	4,141	1,070	5,936	12,268
Additions emerged with the acquisition of Latvijas Krājbanka A/S (Note 29)	25,937	14,919	4,174	986	-	46,016
Write-offs	(101)	(837)	(2,168)	(1,763)	(465)	(5,334)
Transfers	-	-	437*	-	-	437
<b>31 December 2005</b>	<b>54,718</b>	<b>17,639</b>	<b>75,419</b>	<b>7,979</b>	<b>6,740</b>	<b>162,495</b>
<b>Accumulated depreciation and impairment</b>						
<b>31 December 2004</b>	<b>569</b>	<b>2,187</b>	<b>24,838</b>	<b>5,302</b>	-	<b>32,896</b>
Depreciation charge	550	1,184	6,805	728	-	9,267
Disposals	(3)	(722)	(2,147)	(1,733)	-	(4,605)
Transfers	-	-	-	-	-	-
<b>31 December 2005</b>	<b>1,116</b>	<b>2,649</b>	<b>29,496</b>	<b>4,297</b>	-	<b>37,558</b>
<b>Net book value:</b>						
<b>31 December 2004</b>	<b>28,313</b>	<b>249</b>	<b>43,997</b>	<b>2,384</b>	<b>1,269</b>	<b>76,212</b>
<b>31 December 2005</b>	<b>53,602</b>	<b>14,990</b>	<b>45,923</b>	<b>3,682</b>	<b>6,740</b>	<b>124,937</b>

\*In 2005 the group reclassified ATMs to property and equipment.

Depreciation expenses were accounted for as operating expenses in the income statement.

On 31 December 2003 the Bank revalued its buildings and service outlets. The revaluation was performed by independent property appraisers Vestavia UAB. The revaluation of buildings was performed on the market value basis and revaluation of service outlets under the depreciated replacement cost basis.

If buildings and service outlets of the Group were carried at cost, carrying value of those assets would have been LTL 32,605 thousand as of 31 December 2006 (LTL 40,891 thousand as of 31 December 2005).

(LTL thousand)

**11. Intangible Assets**

The movements in intangible assets were as follows:

	<i>Non- contractual customer relationships</i>	<i>Base deposits</i>	<i>Brand name</i>	<i>Licences and computer software</i>	<i>Pension funds portfolio</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2005</b>	2,133	8,005	4,271	9,523	-	23,932
Additions	-	-	-	2,790	-	2,790
Additions emerged with the acquisition of A/S "Ieguldījumu Sabiedrība Astra Fondi" (Note 29)	-	-	-	-	1,182	1,182
Write-offs	-	-	-	(774)	-	(774)
<b>31 December 2006</b>	2,133	8,005	4,271	11,539	1,182	27,130
<b>Accumulated amortisation and impairment</b>						
<b>31 December 2005</b>	53	284	-	4,250	-	4,587
Charge for the year	212	1,140	-	2,144	-	3,496
Impairment	-	-	-	-	591	591
Write-offs	-	-	-	(734)	-	(734)
<b>31 December 2006</b>	265	1,424	-	5,660	591	7,940
<b>Net book value:</b>						
<b>31 December 2005</b>	2,080	7,721	4,271	5,273	-	19,345
<b>31 December 2006</b>	1,868	6,581	4,271	5,879	591	19,190

Amortisation expenses were accounted for as operating expenses in the income statement.

Latvijas Krājbanka brand name in the amount of LTL 4,271 thousand, acquired in 2005 with acquisition with of 83.01% Latvijas Krājbanka A/S of through the business combination in 2005, is considered to have an indefinite life. It was assumed that branded net income of Latvijas Krājbanka A/S include net interest and net commission income, while profit on securities trading and foreign exchange and other operating income was perceived as non-branded net income. Accordingly, Latvijas Krājbanka brand name was allocated to Latvia's geographical unit (net interest and net commission income as cash-generating units) and the cash flow projection for Latvia's geographical unit was used while assessing impairment of Krājbanka brand name.

The recoverable value of Latvia's geographical unit was determined based on a value in use calculation. The cash flow projections based on the financial budgets for a four-year period were included in the calculation.

The calculation of value in use is most sensitive to the following key assumptions:

- *Discount rates.* This is the benchmark used by the management to assess the operating performance and to evaluate future investment proposals. In determining appropriate discount rates for cash-generating units, the regard was given to the weighted average cost of capital of Latvijas Krājbanka A/S;
- *Growth rate estimates.* The estimated growth of Latvia's geographical unit was assessed at 5% per annum, as a conservative approach.

With regards to the assessment of value in use of Latvia's geographical unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed their recoverable amount.

The acquisition of pension funds portfolio is related to the acquisition of Ieguldījumu Sabiedrība Astra Fondi A/S (Note 29).



(LTL thousand)

**11. Intangible Assets (cont'd)**

	<i>Non- contractual customer relationships</i>	<i>Base deposits</i>	<i>Brand name</i>	<i>Licences and computer software</i>	<i>Total</i>
<b>Cost</b>					
<b>31 December 2004</b>	-	-	-	<b>4,833</b>	<b>4,833</b>
Additions	-	-	-	1,225	1,225
Additions emerged with the acquisition of Latvijas Krājbanka A/S (Note 31)	2,133	8,005	4,271	3,910	18,319
Disposals	-	-	-	(445)	(445)
<b>31 December 2005</b>	<b>2,133</b>	<b>8,005</b>	<b>4,271</b>	<b>9,523</b>	<b>23,932</b>
<b>Accumulated amortization and impairment</b>					
<b>31 December 2004</b>	-	-	-	<b>3,834</b>	<b>3,834</b>
Charge for the year	53	284	-	844	1,181
Disposals	-	-	-	(428)	(428)
<b>31 December 2005</b>	<b>53</b>	<b>284</b>	<b>4,271</b>	<b>4,250</b>	<b>4,587</b>
<b>Net book value:</b>					
<b>31 December 2004</b>	-	-	-	<b>999</b>	<b>999</b>
<b>31 December 2005</b>	<b>2,080</b>	<b>7,721</b>	<b>4,271</b>	<b>5,273</b>	<b>19,345</b>

(LTL thousand)

**12. Taxation**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2006</u>	<u>2005</u>
Current income tax	15,872	8,992
Correction of prior year income tax	(110)	(1,291)
Change in deferred income tax	(1,672)	(1,758)
<b>Income tax expenses</b>	<b>14,090</b>	<b>5,943</b>
<b>Components of deferred income tax</b>		
<i>Deferred income tax assets</i>		
Revaluation of securities	1,118	1,250
Loss carry forward transferable from 2005-2006	975	546
Revaluation of derivative instruments	-	1,049
Vacation pay and bonus accrual	803	505
Non-tax deductible impairment of financial assets	2,349	1,529
Deferred administration fee	1,519	571
Loss carry forward from 2002-2006	294	546
Other deferred tax asset items	233	141
<b>Total deferred income tax assets</b>	<b>7,291</b>	<b>6,137</b>
Less: valuation allowance	(3,446)	(3,743)
<b>Deferred income tax assets, net</b>	<b>3,845</b>	<b>2,394</b>
<i>Deferred income tax liabilities</i>		
Revaluation of property and equipment and investment properties	(8,462)	(8,951)
Investment incentive	(1,741)	(1,908)
Revaluation of derivative instruments	(167)	-
Deferred commission expenses	(526)	-
Correction to fair value of intangible assets	(1,944)	(2,202)
<b>Total deferred income tax liabilities</b>	<b>(12,840)</b>	<b>(13,061)</b>
<b>Deferred income tax, net</b>	<b>(8,995)</b>	<b>(10,667)</b>

The Group has incurred taxable loss in previous periods, which 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 and offset against future taxable income.

For the portion, where the management of the Group does not expect to realise deferred tax asset in the nearest future, it was decided to make realisation allowance for it.

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:

	<u>2006</u>	<u>2005</u>
Income tax calculated at statutory 19% tax rate (2005 – 15%)	15,023	7,683
Permanent differences	(2,329)	(2,502)
Effect of different tax rates in other countries	(965)	-
Prior year income tax correction	(110)	(1,291)
Change in taxation treatment of temporary differences	2,768	-
Change in valuation allowance	(297)	2,361
Effect of changes in tax rate	-	(308)
<b>Total income tax</b>	<b>14,090</b>	<b>5,943</b>

(LTL thousand)

**13. Allowances for Impairment and Provisions**

The changes in allowances for impairment of interest earning assets were as follows:

	<u>Loans to customers</u>
<b>31 December 2004</b>	<b>39,520</b>
Charge (reversal)	8,585
Write-offs	(2,155)
Effect of changes in currency rates	141
<b>31 December 2005</b>	<b>46,091</b>
Charge (reversal)	11,485
Write-offs	(22,819)
Effect of changes in currency rates	(62)
<b>31 December 2006</b>	<b>34,695</b>

Below is presented reconciliation of impairment recorded to the income statement:

	<u>2006</u>	<u>2005</u>
Charge (reversal)	11,485	8,585
Recoveries of previously written-off loans	(2,826)	(2,920)
<b>As reported in income statement</b>	<b>8,659</b>	<b>5,665</b>

The movements in allowances for impairment of other assets and provisions were as follows:

	<i>Guarantees issued and credit</i>		
	<u>Other assets</u>	<u>commitments</u>	<u>Total</u>
<b>31 December 2004</b>	<b>194</b>	<b>552</b>	<b>746</b>
Charge (reversal)	50	(444)	(394)
Effect of changes in currency rates	-	6	6
Write-off	(211)	-	(211)
<b>31 December 2005</b>	<b>33</b>	<b>114</b>	<b>147</b>
Charge (reversal)	(84)	89	5
Effect of changes in currency rates	51	1	52
Write-off	-	-	-
<b>31 December 2006</b>	<b>-</b>	<b>204</b>	<b>204</b>

(LTL thousand)

**14. Other Assets and Other Liabilities**

Other assets comprise:

	<u>2006</u>	<u>2005</u>
<b>Other assets</b>		
Projects under development	24,126	24,495
Accounts receivable for credit cards	6,320	5,183
Prepayments	6,102	4,454
Inventories	4,820	2,994
Deferred expenses	2,416	2,080
Accounts receivable	1,867	2,325
VAT receivable	668	2,275
Transit accounts	663	4,653
Accrued income for other assets	207	254
Letters of credit	-	9,480
Other asset	5,519	2,229
<b>Total other assets</b>	<b>52,708</b>	<b>60,422</b>
Impairment of other assets	-	(33)
<b>Total other assets, net</b>	<b>52,708</b>	<b>60,389</b>

Letters of credit as of 31 December 2005 represented payments of the Bank to the customers after the notice of the bank of a counterparty about forthcoming settlement according to the letter of credit issued by the counterparty.

Other liabilities comprise:

	<u>2006</u>	<u>2005</u>
<b>Other liabilities</b>		
Accounts payable	30,274	29,101
Transit accounts	13,324	18,426
Payments collected for utilities	12,385	8,590
Accrued expenses	8,053	7,904
Advances received	2,018	1,833
Deferred income	668	578
Other	11,319	4,215
<b>Total other liabilities</b>	<b>78,041</b>	<b>70,647</b>

Transit accounts represent funds that were disbursed from / to the correspondent account of the Bank, but that have not been written off from / to customers' accounts as of the reporting date.

**15. Subordinated loans**

As of 14 September 2005 the Bank received a subordinated loan from its controlling shareholder, who is a private individual. The contractual subordinated loan amount is LTL 69,056 thousand (EUR 20 million) with term of 15 years. This loan bears EUR LIBOR 12 month plus 1.8% margin. As of 31 December 2006 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70,002 thousand. The loan agreement foresees the possibility of conversion to the shares of the Bank, but terms for conversion are not outlined.

As of 31 December 2006, the Bank's subsidiary's Latvijas Krājbanka A/S outstanding subordinated loan from Convers Group Management Company amounted to LTL 19,152 thousand (LTL 19,162 thousand in 2005). The debt terms include an interest rate of 7% and a term of seven years, maturing on 8 November 2012. According to the agreement on subordinated debt with Convers Group Management Company dated on 8 November 2005, the borrower has the right to receive the invested funds at the end of the loan agreement or if the bank is liquidated. The borrower has rights to apply for conversion of the subordinated loan into shares according to the Agreement and legislation. Subordinated loan agreement foresees sharp conversion price of LVL 1.15 per share.

As of 31 December the Bank's subsidiary's Latvijas Krājbanka A/S outstanding subordinated loan from Akademgrupp was LTL 18,870 thousand. According to the agreement on subordinated loans with Akademgrupp dated on 27 December 2006, the borrower has the right to receive the invested funds at the end of the loan agreement or if the bank is liquidated. The debt terms include an interest rate of 8.6% and a term of seven years, maturing on 27 December 2013.

*(LTL thousand)***16. Amounts Due to Credit Institutions**

Amounts due to credit institutions comprise:

	<u>2006</u>	<u>2005</u>
Time deposits and loans	885,721	452,447
Repurchase agreements	-	90,271
Current accounts	11,859	23,301
<b>Amounts due to credit institutions</b>	<b>897,580</b>	<b>566,019</b>

Fair value of securities under Repurchase transactions.

**17. Amounts Due to Customers**

The amounts due to customers include the following:

	<u>2006</u>	<u>2005</u>
Time deposits	2,798,501	1,964,221
Current accounts	1,923,111	1,519,820
<b>Amounts due to customers</b>	<b>4,721,612</b>	<b>3,484,041</b>

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

	<u>2006</u>	<u>2005</u>
Individuals	2,941,773	2,105,810
Private enterprises	1,318,544	1,250,186
State and budgetary organisations	139,246	116,847
Other	322,049	11,198
<b>Amounts due to customers</b>	<b>4,721,612</b>	<b>3,484,041</b>

An analysis of customer accounts by sector follows:

	<u>2006</u>	<u>2005</u>
Individuals	2,941,713	2,105,810
Services	623,430	20,521
Trade	288,413	341,122
Manufacturing	55,603	103,477
Real estate	54,536	70,071
Transport and communication	52,892	100,642
Constructions	30,975	24,967
Insurance	19,922	7,147
Intermediation activity	18,953	2,529
Construction of equipment	12,049	10,720
Fuel	11,118	32,122
Agriculture	4,883	1,190
Chemicals	1,592	1,913
Metallurgy	230	1,035
Electricity	-	10,739
Other	605,303	650,036
<b>Amounts due to customers</b>	<b>4,721,612</b>	<b>3,484,041</b>

(LTL thousand)

## 18. Debt Securities Issued

As of 31 December 2006 the Group has the discount debt securities issued which have the aggregate par value of LTL 30,000 thousand with discount rate of 4.5 % and maturing on 20 September 2007. The discount debt securities' amortised cost amounts to LTL 8,324 thousand as of 31 December 2006.

As of 31 December 2005 the Group had the discount debt securities issued which had the aggregate par value of LTL 20,000 thousand with discount rate of 3.95 % and maturing on 18 September 2006. The discount debt securities' the amortised cost amounted to LTL 16,713 thousand as of 31 December 2005.

## 19. Equity

Movements in shares outstanding, issued and fully paid were as follows (including preference shares):

Calculation of weighted average for 2006	Number of shares	Par value	Issued/ 365 (days)	Weighted average of ordinary shares
Shares issued as of 31 December 2005	13,726,720	10	365/365	13,726,720
17 November 2006*	2,000,000	10	44/365	-
<b>Shares issued as of 31 December 2006</b>	<b>15,726,720</b>	<b>10</b>	<b>365/365</b>	<b>13,726,720</b>

\*The shares issued as of 17 November 2006 are preference shares with non-cumulative 10% dividend. The shares are without voting right and therefore excluded from the calculations of the weighted average.

Calculation of weighted average for 2005	Number of shares	Par value	Issued/ 365 (days)	Weighted average of ordinary shares
Shares issued as of 31 December 2004	13,726,720	10	365/365	13,726,720
<b>Shares issued as of 31 December 2005</b>	<b>13,726,720</b>	<b>10</b>	<b>365/365</b>	<b>13,726,720</b>

### Nature and purpose of other reserves

#### Revaluation reserve for property and equipment

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

#### Revaluation reserve for financial assets

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

#### Reserve of foreign currency translation

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### Legal reserve

The legal reserve is created as required by the regulations of the Republic of Lithuania and Republic of Latvia, in respect of general risks, including future losses and other unforeseen risks or contingencies. The fund has been created in accordance with the Group's charter, which provides for the creation of a fund for these purposes of not less than 10% of the Group's share capital reported in accordance with Lithuanian Legislation.

#### Reserve capital

Reserve capital can be either offset against future losses or used for the share capital increase but cannot be distributed in any other manner.

#### Other general reserves

Other general reserves represent funds which can be freely distributed by the equity holders of the parent and does not have any specific designation.

(LTL thousand)

**20. Earnings per Share**

	<u>2006</u>	<u>2005</u>
Net profit attributable to Bank shareholders	61,644	44,643
Dividends attributable to preferred shares	(2,000)	-
Profit attributable to ordinary shares	59,644	44,643
Weighted average number of ordinary shares as of 31 December 2006 (thousand)	13,727	13,727
Number of shares after share split (thousand)*	137,270	137,270
<b>Basic earnings per ordinary share (LTL)</b>	<b>0.43</b>	<b>0.33</b>
<b>Diluted earnings per ordinary share (LTL)</b>	<b>0.43</b>	<b>0.33</b>

\*In January 2007 the par value of ordinary shares was decreased from LTL 10 to LTL 1 by increasing the number of shares respectively.

On the 17 November 2006 the Bank has registered a new emission of LTL 20,000 thousand nominal amount preference shares. Preference shares are without voting rights and with 10% non cumulative dividends. Once the dividends are declared, LTL 2,000 thousand is to be paid for these shares.

The Group has been granted subordinated loans that can be converted into shares, but because neither the conversion date nor conversion terms are reliably set, diluted earnings can not be calculated and therefore corresponds to basic earnings per share.

**21. Dividends per Share**

	<u>2006</u>	<u>2005</u>
Dividends paid	9,608	9,609
Number of shares after share split (thousand) (Note 20)	137,270	137,270
<b>Dividends per ordinary share (LTL)</b>	<b>0.7</b>	<b>0.7</b>

**22. Commitments and Contingencies***Legal*

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

*Financial commitments and contingencies*

As of 31 December, the Group's financial commitments and contingencies comprised the following:

	<u>2006</u>	<u>2005</u>
<b>Credit related commitments</b>		
Credit commitments	413,494	357,193
Issued guarantees	26,284	11,644
	<b>439,778</b>	<b>368,837</b>
Less - Provisions	(204)	(114)
	<b>439,574</b>	<b>368,723</b>

Below are presented future lease payments of the Group under operating lease agreements:

Within one year	2,260	950
From one to five years	10,298	2,138
<b>Total</b>	<b>12,558</b>	<b>3,088</b>

(LTL thousand)

**23. Net Fee and Commission Income**

Net fee and commission income comprises of:

	<u>2006</u>	<u>2005</u>
Settlement operations	20,106	15,883
Payment card servicing	29,078	15,608
Commissions for other payments	14,190	7,912
Cash collection	8,769	4,844
Collection of payments for utilities	6,043	4,513
Currency exchange operations	2,807	2,279
Securities' operations	3,365	1,209
Guarantees and letters of credit	972	794
Other income	8,551	2,219
<b>Fee and commission income</b>	<b><u>93,881</u></b>	<b><u>55,261</u></b>
Settlement operations	1,967	3,401
Payment card servicing	7,131	3,199
Exaction fee	562	1,279
Commissions to suppliers	1,097	1,017
Cash collection	1,022	819
Securities' operations	1,718	662
Intermediary services	-	300
Currency exchange operations	105	55
Guarantees	-	5
Other expenses	4,734	941
<b>Fee and commission expense</b>	<b><u>18,336</u></b>	<b><u>11,678</u></b>
<b>Net fee and commission income</b>	<b><u>75,545</u></b>	<b><u>43,583</u></b>

**24. Gains less Losses from Transactions with Financial Assets at Fair Value through Profit or Loss**

Net result from transactions with financial assets at fair value through profit or loss comprises of:

	<u>2006</u>	<u>2005</u>
Trading result	(9,410)	(2,905)
Revaluation result	3,926	(8,470)
<b>Gains less losses from securities at fair value through profit or loss</b>	<b><u>(5,484)</u></b>	<b><u>(11,375)</u></b>

**25. Gains less Losses from Transactions with Derivative Instruments**

Net result from transactions in derivative instruments comprises of:

	<u>2006</u>	<u>2005</u>
Realised gain from derivative instruments	920	2,842
Unrealised gain (loss) derivative instruments	3,880	(5,409)
<b>Gains less losses from derivative instruments</b>	<b><u>4,800</u></b>	<b><u>(2,567)</u></b>



*(LTL thousand)***26. Gains less Losses from Transactions in Foreign Currencies**

Net result from transactions in foreign currencies comprises of:

	<u>2006</u>	<u>2005</u>
Realised gain	25,008	10,077
Unrealised gain	539	8,398
<b>Net foreign exchange gain</b>	<b><u>25,547</u></b>	<b><u>18,475</u></b>

Realised gain represents foreign currency dealing result. Unrealised gain appears during balance sheet revaluation.

**27. Other Income**

Other income comprise

	<u>2006</u>	<u>2005</u>
Change in fair value of investment property	4,761	4,801
Income from sale of assets	1,601	2,007
Other income	5,745	1,200
<b>Other income</b>	<b><u>12,107</u></b>	<b><u>8,008</u></b>

**28. Salaries, Benefits and Other Operating Expenses**

Salaries and benefits, and other operating expenses comprise:

	<u>2006</u>	<u>2005</u>
Salaries and benefits	65,014	34,174
Social security costs	16,962	9,955
<b>Salaries and benefits</b>	<b><u>81,976</u></b>	<b><u>44,129</u></b>
Repair and maintenance of property and equipment	12,062	5,794
Marketing, advertising and representation	10,069	6,334
Communications	9,060	5,308
Rent	6,784	2,362
Taxes, other than income tax	6,613	4,861
Charity	3,392	402
Legal and other consultancy	2,946	1,604
Security	2,870	1,581
Loss on disposal property and equipment	2,451	178
Data processing	1,671	1,699
Stationery	1,143	538
Business travel and other related expenses	1,010	491
Personnel training	496	267
Other	11,140	4,016
<b>Other operating expenses</b>	<b><u>71,707</u></b>	<b><u>35,435</u></b>

(LTL thousand)

**29. Business Combination***Acquisition in 2006*

On 1 April 2006 Latvija Krājbanka A/S has acquired the remaining 50% of the shares having the voting rights of Ieguldījumu Sabiedrība Astra Fondi A/S, which is engaged in management of pension funds. In such a way Ieguldījumu Sabiedrība Astra Fondi A/S became a subsidiary of the Group and is fully consolidated in these financial statements since the date of acquisition.

According to the share purchase agreement, Latvijas Krājbanka A/S has to make additional payments to the former shareholders of Ieguldījumu Sabiedrība Astra Fondi A/S until 31 December 2020. The payment amount will be calculated based on the average annual value of the pension fund. According to International Financial Reporting Standards the acquisition value is the amount of the payment made, including payments expected to be made in the future. As a result, in calculations of present value of future payments, the acquisition value of Ieguldījumu Sabiedrība Astra Fondi A/S has been increased by LTL 1,186 thousand at the date of the transaction.

The fair value of assets, liabilities and contingent liabilities of Ieguldījumu Sabiedrība Astra Fondi A/S as at the date of acquisition were:

	<i>Recognised on acquisition</i>	<i>Carrying value</i>
Net balances of loans and placements with credit institutions	506	506
Held-to-maturity financial assets and financial assets at fair value through profit or loss	690	690
Loans to non-banking clients	10	10
Property and equipment	30	30
Intangible assets	10	10
Pension funds portfolio*	1,182	-
Other assets	4	10
	<b>2,432</b>	<b>1,256</b>
Total liabilities	<b>60</b>	<b>60</b>
Fair value of net assets	2,372	
Group's share of the fair value of net assets (50%)	1,186	
Goodwill arising on acquisition	-	
<b>Consideration paid</b>	<b>1,186</b>	

\*After the acquisition of A/S "Ieguldījumu sabiedrība Astra Fondi" the Group has performed the fair value estimation of its assets. The valuation showed that at the date of this acquisition the Group had acquired the right to manage pension funds portfolio. This right was recognized as an intangible asset (Note 11).

From the date of the acquisition until 31 December 2006 the revenues and net profit of A/S "Ieguldījumu sabiedrība Astra Fondi" amounted to respectively LTL 157 thousand and LTL 64 thousand. The net cash inflow from acquisition was not significant. If the business combination had taken place at the beginning of the year, the revenues and the profit of the Group would not be materially different.

(LTL thousand)

**29. Business Combination****Acquisition in 2005**

On 22 September 2005, the Bank acquired 83.01% of the voting shares of Latvijas Krājbanka A/S. The fair value of identifiable assets, liabilities and contingent liabilities of Latvijas Krājbanka A/S as at the date of acquisition were:

	<i>Recognised on acquisition</i>	<i>Carrying value</i>
	(restated)	
Cash and demand deposits with the Bank of Latvia	76,875	76,875
Net balances due from credit institutions	81,981	81,966
Loans to non-banking clients	713,141	731,257
Financial assets (Held-to-maturity, Financial assets at fair value through profit or loss)	172,268	167,232
Property and equipment	46,016	32,237
Intangible assets	18,805	4,396
Other assets	27,921	36,862
	<b>1,137,007</b>	<b>1,130,825</b>
Amounts due to credit institutions	(75,299)	(75,274)
Amounts due to customers	(921,230)	(911,788)
Subordinated loan	(16,872)	(16,867)
Deferred income tax liability	(2,202)	-
Other liabilities	(27,335)	(52,489)
Minority interest	(16,027)	(12,642)
	<b>(1,058,965)</b>	<b>(1,069,060)</b>
Fair value of net assets	78,042	
Goodwill arising on acquisition	-	
<b>Consideration paid</b>	<b>78,042</b>	

The total consideration of the combination was LTL 78,042 thousand and was paid entirely in cash. The net cash inflow on acquisition was as follows:

Cash (paid)	(78,042)
Less:	
Cash	56,831
Cash equivalents	81,966
Cash and cash equivalents	138,797
<b>Net cash inflow</b>	<b>60,755</b>

The fair value adjustments at 31 December 2005 were provisional as the Group had sought an independent appraisal of the intangible assets owned by Latvijas Krājbanka A/S.

The appraisal of intangible assets was received in December 2006 and showed that the fair value of intangible assets at the date of acquisition was LTL 18,805 thousand, i.e. LTL 14,409 thousand compared to the provisional value recognised in the balance sheet of Latvijas Krājbanka A/S. The increase was caused by recognition of Latvijas Krājbanka brand name, non-contractual customer relationships and core deposit intangible.

Year 2005 comparative information has been restated to reflect this adjustment. The value of intangible assets was increased by LTL 14,409 thousand and deferred tax liability was recognised in amount of LTL 2,202 thousand (Note 12). There was no goodwill remaining after the restatement. The increased amortisation charge on intangible assets from the acquisition date in 2005 amounted to LTL 337 thousand.

From the date of the combination up until 31 December 2005, Latvijas Krājbanka A/S contributed LTL 3,360 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 52,593 thousand, net interest income – LTL 122,434 thousand.

(LTL thousand)

**30. Segment Reporting**

For the purposes of this analysis, the Group's activities were divided into two main geographical segments: Lithuania (the Bank and its subsidiaries in Lithuania) and Latvia (subsidiaries in Latvia - Latvijas Krājbanka A/S, Krājinvestīcijas SIA and Ieguldījumu Sabiedrība Astra Fondi A/S). The type of products and services included in each reported segment are the same. Transactions between the geographical segments are generally made on commercial terms and conditions. General corporate overheads were not allocated to the geographical segments.

	<i>Lithuania</i>		<i>Latvia</i>		<i>Discontinued operations</i>		<i>Eliminations</i>		<i>Group</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Total income from external customers	259,796	188,985	138,402	28,695	-	-	(667)	(269)	397,531	217,411
Income from segments	202	140	465	129	-	-	(667)	(269)	-	-
<b>Total income</b>	<b>259,998</b>	<b>189,125</b>	<b>138,867</b>	<b>28,824</b>	<b>-</b>	<b>-</b>	<b>(1,334)</b>	<b>(538)</b>	<b>397,531</b>	<b>217,411</b>
Profit before tax	59,060	47,395	20,009	3,822	-	-	-	-	79,069	51,217
Income tax	(11,269)	(5,741)	(2,821)	(202)	-	-	-	-	(14,090)	(5,943)
Minority interest	-	-	(3,691)	(631)	-	-	-	-	(3,691)	(631)
Profit of subsidiary held for sale	-	-	-	-	356	-	-	-	356	-
<b>Net profit</b>	<b>47,791</b>	<b>41,654</b>	<b>13,497</b>	<b>2,989</b>	<b>356</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,644</b>	<b>44,643</b>
Segment assets*	4,157,222	3,311,704	2,020,255	1,204,569	371,479	-	(9,476)	(8,703)	6,539,480	4,507,570
Segment liabilities*	3,988,295	3,128,730	1,902,251	1,116,877	334,403	-	(33,729)	(29)	6,191,220	4,245,578
Capital expenditure (including intangibles, excluding goodwill)	-	18,970	-	1,735	-	-	-	-	27,514	20,705
Depreciation and amortisation	8,452	7,954	9,827	2,157	-	-	-	-	18,279	10,111
Change in impairment	8,116	5,728	543	(63)	-	-	-	-	8,659	5,665
Number of employees at the end of the period	1,079	941	870	874	-	-	-	-	1,949	1,815

\*Segment assets and liabilities are presented according to the companies' location.

Business segments are not identified by the management of the Group, as the Group does not measure the performance according to the business lines.

(LTL thousand)

### 31. Financial Risk Management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main financial risks inherent to the Group's operations are those related to credit, liquidity and changes in interest and foreign exchange rates. A summary description of the Group's risk management policies in relation to those risks follows.

#### *Credit risk*

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a recurring basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sublimits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Financial assets, bearing credit risk, comprise deposits and funds at banks and other credit and financial institutions, loans to customers, overdraft facilities, bills of exchange, factoring, debt securities (except for the ones issued by the central banks or governments of the A group countries), prepayments and income, accrued for these financial assets. Total amount of such assets as of 31 December 2006 was LTL 3,742,650 thousand of the Group (as of 31 December 2005 – LTL 2,270,953 thousand).

(LTL thousand)

**31. Financial Risk Management (cont'd)***Geographical concentration*

The geographical concentration of Group's monetary assets and liabilities is set out below:

	2006					2005				
	<i>Lithuania</i>	<i>Latvia</i>	<i>OECD</i>	<i>Other countries</i>	<i>Total</i>	<i>Lithuania</i>	<i>Latvia</i>	<i>OECD</i>	<i>Other countries</i>	<i>Total</i>
<b>Assets:</b>										
Cash and cash equivalents	406,437	571,370	481,256	295,537	1,754,600	372,364	185,848	569,689	166,258	1,294,159
Financial assets at fair value through profit or loss	145,202	81,619	199,866	40,323	467,010	173,811	64,490	634,511	59,019	931,831
Amounts due from credit institutions	2,201	-	144,485	26,316	173,002	18	-	37,177	-	37,195
Available-for-sale financial assets	983	-	837,331	28,172	866,486	-	-	-	-	-
Assets of classified subsidiary held for sale	-	-	371,479	-	371,479	-	-	-	-	-
Held-to-maturity financial assets	-	66,332	73,114	5,841	145,287	-	81,275	71,918	3,003	156,196
Loans to customers, net	1,170,210	919,628	68,982	379,040	2,537,860	765,050	743,077	116,536	241,199	1,865,862
Investment property	18,381	-	-	-	18,381	9,763	-	-	7,293	17,056
Property and equipment	83,723	49,504	-	-	133,227	79,516	45,421	-	-	124,937
Intangible assets	2,278	16,912	-	-	19,190	11,287	8,058	-	-	19,345
Other assets	41,931	9,783	1,042	202	52,958	40,648	8,439	10,741	1,161	60,989
	<b>1,871,346</b>	<b>1,715,148</b>	<b>2,177,555</b>	<b>775,431</b>	<b>6,539,480</b>	<b>1,452,457</b>	<b>1,136,608</b>	<b>1,440,572</b>	<b>477,933</b>	<b>4,507,570</b>
<b>Liabilities:</b>										
Amounts due to credit institutions	52,695	195,114	549,554	100,217	897,580	91,712	80,793	296,514	97,000	566,019
Derivative financial liabilities	411	1,256	-	-	1,667	134	422	-	-	556
Liabilities of subsidiary classified as held for sale	-	-	361,344	-	361,344	-	-	-	-	-
Debt securities issued	8,324	-	-	-	8,324	16,713	-	-	-	16,713
Amounts due to customers	2,095,062	1,539,087	246,866	840,597	4,721,612	1,482,003	954,133	184,485	863,420	3,484,041
Deferred income tax liabilities	3,631	5,614	-	-	9,245	3,712	6,955	-	-	10,667
Provisions	204	-	-	-	204	114	-	-	-	114
Other liabilities	70,016	11,911	834	108,483	191,244	69,816	7,704	772	89,176	167,468
	<b>2,230,343</b>	<b>1,752,982</b>	<b>1,158,598</b>	<b>1,049,297</b>	<b>6,191,220</b>	<b>1,664,204</b>	<b>1,050,007</b>	<b>481,771</b>	<b>1,049,596</b>	<b>4,245,578</b>
<b>Net balance sheet position</b>	<b>(358,997)</b>	<b>(37,834)</b>	<b>1,018,957</b>	<b>(273,866)</b>	<b>348,260</b>	<b>(211,747)</b>	<b>86,601</b>	<b>958,801</b>	<b>(571,663)</b>	<b>261,992</b>
<b>Net off-balance sheet position</b>	<b>(315,873)</b>	<b>(66,725)</b>	<b>(1,623)</b>	<b>(29,272)</b>	<b>(413,493)</b>	<b>-</b>	<b>19,132</b>	<b>316,321</b>	<b>204,459</b>	<b>539,912</b>
<b>Net off balance sheet position – financial commitments and contingencies</b>	<b>(674,870)</b>	<b>(104,559)</b>	<b>1,017,334</b>	<b>(303,138)</b>	<b>(65,233)</b>	<b>(211,747)</b>	<b>105,733</b>	<b>1,275,122</b>	<b>(367,204)</b>	<b>801,904</b>

*(LTL thousand)*

### **31. Financial Risk Management (cont'd)**

#### ***Market risk***

The Group bears market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market changes. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

(LTL thousand)

**31. Financial Risk Management (cont'd)****Currency risk**

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The assets and liabilities of the Group in foreign currencies denominated in Litas according to the official exchange rate as of the year ends are presented below:

	2006					2005						
	LTL	LVL	USD	EUR	Other	Total	LTL	LVL	USD	EUR	Other	Total
<b>Assets:</b>												
Cash and cash equivalents	343,149	539,445	561,462	214,541	96,003	1,754,600	300,415	158,182	630,036	137,632	67,894	1,294,159
Financial assets at fair value through profit or loss	145,202	59,170	199,507	63,131	-	467,010	173,811	52,371	216,781	488,868	-	931,831
Amounts due from credit institutions	18	-	99,874	73,110	-	173,002	18	-	14,627	22,550	-	37,195
Available-for-sale financial assets	985	-	427,031	438,470	-	866,486	-	-	-	-	-	-
Assets classified as subsidiary held for sale	-	-	-	-	371,479	371,479	-	-	-	-	-	-
Held-to-maturity financial assets	-	66,332	6,372	72,583	-	145,287	-	3,233	7,011	145,952	-	156,196
Loans to customers, net	1,077,234	416,594	431,225	612,807	-	2,537,860	647,298	370,096	485,473	362,995	-	1,865,862
Investment property	18,381	-	-	-	-	18,381	9,763	-	-	-	7,293	17,056
Property and equipment	83,723	49,504	-	-	-	133,227	79,516	45,421	-	-	-	124,937
Intangible assets	2,278	16,912	-	-	-	19,190	11,287	8,058	-	-	-	19,345
Other assets	36,379	9,018	1,208	6,268	85	52,958	37,021	8,440	1,716	13,722	90	60,989
	<b>1,707,349</b>	<b>1,156,975</b>	<b>1,726,679</b>	<b>1,480,910</b>	<b>467,567</b>	<b>6,539,480</b>	<b>1,259,129</b>	<b>645,801</b>	<b>1,355,644</b>	<b>1,171,719</b>	<b>75,277</b>	<b>4,507,570</b>
<b>Liabilities:</b>												
Due to credit institutions	43,350	89,593	512,364	250,152	2,121	897,580	90,357	17,790	65,579	388,908	3,385	566,019
Derivative financial liabilities	411	1,256	-	-	-	1,667	134	411	-	11	-	556
Liabilities of subsidiary classified as held for sale	-	-	-	-	361,344	361,344	-	-	-	-	-	-
Debt securities issued	8,324	-	-	-	-	8,324	16,713	-	-	-	-	16,713
Amounts due to customers	1,603,722	1,227,810	1,103,557	729,522	57,001	4,721,612	1,092,750	751,426	1,142,440	438,257	59,168	3,484,041
Deferred income tax liabilities	3,631	5,614	-	-	-	9,245	3,712	6,955	-	-	-	10,667
Provisions	158	-	1	45	-	204	114	-	-	-	-	114
Other liabilities	58,259	10,996	25,440	94,847	1,702	191,244	61,399	5,980	8,178	91,816	95	167,468
	<b>1,717,855</b>	<b>1,335,269</b>	<b>1,641,362</b>	<b>1,074,566</b>	<b>422,168</b>	<b>6,191,220</b>	<b>1,265,179</b>	<b>782,562</b>	<b>1,216,197</b>	<b>918,992</b>	<b>62,648</b>	<b>4,245,578</b>
<b>Net balance sheet position</b>	<b>(10,506)</b>	<b>(178,294)</b>	<b>85,317</b>	<b>406,344</b>	<b>45,399</b>	<b>348,260</b>	<b>(6,050)</b>	<b>(136,761)</b>	<b>139,447</b>	<b>252,727</b>	<b>12,629</b>	<b>261,992</b>
<b>Net off balance sheet position - derivatives</b>	<b>(312,914)</b>	<b>(33,955)</b>	<b>(28,264)</b>	<b>(38,360)</b>	<b>-</b>	<b>413,493</b>	<b>-</b>	<b>38,552</b>	<b>257,205</b>	<b>244,155</b>	<b>-</b>	<b>539,912</b>
<b>Net off balance sheet position - financial commitments and contingencies</b>	<b>(323,420)</b>	<b>(212,249)</b>	<b>57,053</b>	<b>367,984</b>	<b>45,399</b>	<b>(65,233)</b>	<b>(6,050)</b>	<b>(98,209)</b>	<b>396,652</b>	<b>496,882</b>	<b>12,629</b>	<b>801,904</b>

The Group's principal cash flows (revenues, operating expenses) are largely generated in Lithuanian Litas.



(LTL thousand)

**31. Financial Risk Management (cont'd)****Interest rate risk**

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

The tables below summarize the Group's exposure to the interest rate risk. Assets and liabilities of the Group are presented at carrying amounts and categorized by the contractual reprising or maturity dates:

	<i>2006</i>						<i>Total</i>
	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Unde- fined maturity</i>	
<b>Assets</b>							
Cash and cash equivalents	507,616	181	26,456	-	-	1,220,347	1,754,600
Financial assets at fair value through profit or loss	5,292	29,520	107,124	256,312	20,681	48,081	467,010
Amounts due from credit institutions	2,183	133,200	22,964	-	-	14,655	173,002
Available-for-sale financial assets	3,738	321	29,957	756,700	75,770	-	866,486
Assets of subsidiary classified as held for sale	-	-	-	-	-	371,479	371,479
Held-to-maturity financial assets	-	-	131,485	7,526	6,276	-	145,287
Loans to customers, net	158,022	918,685	932,476	486,192	40,040	2,445	2,537,860
Other assets	-	-	-	-	-	223,756	223,756
	<b>676,851</b>	<b>1,081,907</b>	<b>1,250,462</b>	<b>1,506,730</b>	<b>142,767</b>	<b>1,880,763</b>	<b>6,539,480</b>
<b>Liabilities</b>							
Due to credit institutions	748,917	26,837	53,662	55,799	-	12,365	897,580
Derivative financial liabilities	-	-	-	-	-	1,667	1,667
Liabilities of subsidiary classified as held for sale	-	-	-	-	-	361,344	361,344
Debt securities issued	-	-	8,324	-	-	-	8,324
Amounts due to customers	798,503	400,640	1,309,348	284,654	3,450	1,925,017	4,721,612
Subordinated loans	19	946	-	-	107,059	-	108,024
Other liabilities	-	-	-	-	-	92,669	92,669
Equity	-	-	-	-	-	348,260	348,260
	<b>1,547,439</b>	<b>428,423</b>	<b>1,371,334</b>	<b>340,453</b>	<b>110,509</b>	<b>2,741,322</b>	<b>6,539,480</b>
<b>Total interest sensitivity gap</b>	<b>(870,588)</b>	<b>653,484</b>	<b>(120,872)</b>	<b>1,166,277</b>	<b>32,258</b>	<b>(860,559)</b>	<b>-</b>

(LTL thousand)

## 31. Financial Risk Management (cont'd)

	2005						Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde- fined maturity	
<b>Assets:</b>							
Cash and cash equivalents	378,165	17,465	-	-	-	898,529	1,294,159
Financial assets at fair value through profit or loss	155,584	68,943	80,022	544,598	76,585	6,099	931,831
Amounts due from credit institutions	-	-	22,550	-	-	14,645	37,195
Loans to customers	88,266	698,432	715,398	312,680	23,146	27,940	1,865,862
Available-for-sale financial assets	-	-	-	-	-	-	-
Held-to-maturity financial assets	39,211	-	86	115,125	-	1,774	156,196
Other assets	-	-	-	-	-	222,327	222,327
	<b>661,226</b>	<b>784,840</b>	<b>818,056</b>	<b>972,403</b>	<b>99,731</b>	<b>1,171,314</b>	<b>4,507,570</b>
<b>Liabilities:</b>							
Due to credit institutions	435,483	58,335	48,866	-	-	23,335	566,019
Derivative financial liabilities	-	-	-	-	-	556	556
Due to customers	639,784	273,709	856,217	171,033	21,439	1,521,859	3,484,041
Debt securities issued	-	-	16,713	-	-	-	16,713
Subordinated debts	-	800	-	19,162	69,056	-	89,018
Other liabilities	-	-	-	-	-	89,231	89,231
Equity	-	-	-	-	-	261,992	261,992
	<b>1,075,267</b>	<b>332,844</b>	<b>921,796</b>	<b>190,195</b>	<b>90,495</b>	<b>1,896,973</b>	<b>4,507,570</b>
<b>Total interest sensitivity gap</b>	<b>(414,041)</b>	<b>451,996</b>	<b>(103,740)</b>	<b>782,208</b>	<b>9,236</b>	<b>(725,659)</b>	<b>-</b>

As of 31 December, the effective average interest rates for interest bearing financial instruments were as follows:

	2006	2005
	%	%
Financial assets at fair value through profit or loss	2.5 - 11	3.4 - 6.07
Amounts due from credit institutions	3.25 - 5.5	2.3 - 4.426
Amounts due to credit institutions	3.7 - 7	2.5 - 4.0
Loans to customers	3 - 13	4.21 - 8.23
Amounts due to customers	2.6 - 5.4	2.91 - 4.09
Held-to-maturity financial assets	2.5 - 6.15	2.5 - 9.75
Other borrowed funds	7.0 - 8.6	7.0

(LTL thousand)

**31. Financial Risk Management (cont'd)****Liquidity Risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2006							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity	
<b>Assets:</b>								
Cash and cash equivalents	1,220,347	507,616	181	26,456	-	-	-	1,754,600
Financial assets at fair value through profit or loss	-	5,292	24,228	80,756	272,150	36,503	48,081	467,010
Amounts due from credit institutions	-	2,182	133,200	22,964	-	-	14,656	173,002
Available-for-sale financial assets	-	3,737	321	29,957	756,700	75,771	-	866,486
Assets of subsidiary classified as held for sale	-	-	371,479	-	-	-	-	371,479
Held-to-maturity financial assets	-	-	-	131,485	7,526	6,276	-	145,287
Loans to customers	-	113,313	167,637	703,428	1,187,322	363,715	2,445	2,537,860
Other assets	10,246	2,348	1,076	1,413	49	19	208,605	223,756
	<b>1,230,593</b>	<b>634,488</b>	<b>698,122</b>	<b>996,459</b>	<b>2,223,747</b>	<b>482,284</b>	<b>273,787</b>	<b>6,539,480</b>
<b>Liabilities:</b>								
Due to credit institutions	12,365	748,917	26,837	53,662	55,799	-	-	897,580
Derivative financial liabilities	-	1,558	15	94	-	-	-	1,667
Liabilities of subsidiary classified as held for sale	-	-	361,344	-	-	-	-	361,344
Debt securities issued	-	-	-	8,324	-	-	-	8,324
Amounts due to customers	1,925,014	798,503	400,640	1,309,348	284,654	3,450	3	4,721,612
Subordinated loans	-	19	946	-	-	107,059	-	108,024
Deferred income tax liabilities	-	-	-	-	-	-	9,245	9,245
Provisions	-	77	-	14	50	-	63	204
Other liabilities	17,773	45,919	593	5,723	22	-	13,190	83,220
	<b>1,955,152</b>	<b>1,594,993</b>	<b>790,375</b>	<b>1,377,165</b>	<b>340,525</b>	<b>110,509</b>	<b>22,501</b>	<b>6,191,220</b>
<b>Net position</b>	<b>(724,559)</b>	<b>(960,505)</b>	<b>(92,253)</b>	<b>(380,706)</b>	<b>1,883,222</b>	<b>371,775</b>	<b>251,286</b>	<b>348,260</b>
<b>Accumulated gap</b>	<b>(724,559)</b>	<b>(1,685,064)</b>	<b>(1,777,317)</b>	<b>(2,158,023)</b>	<b>(274,801)</b>	<b>96,974</b>	<b>348,260</b>	<b>-</b>

(LTL thousand)

**31. Financial Risk Management (cont'd)***Liquidity Risk*

	<i>2005</i>							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Undefined maturity</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	1,100,628	176,066	17,465	-	-	-	-	1,294,159
Financial assets at fair value through profit or loss	-	161,612	16,287	88,679	550,421	111,507	3,325	931,831
Amounts due from credit institutions	-	-	-	22,550	-	-	14,645	37,195
Held-to-maturity financial assets	-	39,211	-	86	115,125	-	1,774	156,196
Loans to customers	14,319	59,448	659,448	562,976	512,200	43,627	13,844	1,865,862
Other assets	3,627	2,373	9,832	2,860	350	387	202,898	222,327
	<b>1,118,574</b>	<b>438,710</b>	<b>703,032</b>	<b>677,151</b>	<b>1,178,096</b>	<b>155,521</b>	<b>236,486</b>	<b>4,507,570</b>
<b>Liabilities:</b>								
Due to credit institutions	23,335	435,483	58,335	48,866	-	-	-	566,019
Derivative financial liabilities	-	556	-	-	-	-	-	556
Debt securities issued	-	-	-	16,713	-	-	-	16,713
Amounts due to customers	1,521,859	639,784	273,709	856,217	171,033	21,439	-	3,484,041
Subordinated loans	-	-	800	-	19,162	69,056	-	89,018
Deferred income tax liabilities	-	-	-	-	-	-	10,667	10,667
Provisions	-	-	-	-	-	-	114	114
Other liabilities	18,520	41,148	491	5,992	478	-	11,821	78,450
	<b>1,563,714</b>	<b>1,116,971</b>	<b>333,335</b>	<b>927,788</b>	<b>190,673</b>	<b>90,495</b>	<b>22,602</b>	<b>4,245,578</b>
<b>Net position</b>	<b>(445,140)</b>	<b>(678,261)</b>	<b>369,697</b>	<b>(250,637)</b>	<b>987,423</b>	<b>65,026</b>	<b>213,884</b>	<b>261,992</b>
<b>Accumulated gap</b>	<b>(445,140)</b>	<b>(1,123,401)</b>	<b>(753,704)</b>	<b>(1,004,341)</b>	<b>(16,918)</b>	<b>48,108</b>	<b>261,992</b>	<b>-</b>

(LTL thousand)

### 32. Fair Values of Financial Instruments

The estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". 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 Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument.

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

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

**Balances with the Central Banks.** The carrying amount approximates its fair value as these are current accounts at the Bank of Lithuania and Bank of Latvia.

**Financial Assets at Fair Value Through Profit or Loss.** The carrying amount approximates fair value of such investments as they are valued at market rates.

**Held to Maturity Financial Assets.** Fair value of held-to-maturity financial instruments amounted to LTL 143,877 thousand as 31 December 2006 (LTL 153,190 thousand 31 December 2005).

**Amounts Due from and to Credit Institutions.** 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, due to the re-pricing of assets to the market interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximate the carrying amounts.

**Loans to Customers.** 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. Based on the estimates the fair value approximates the carrying amounts.

**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. The fair value approximates the carrying amounts.

**Debt Securities Issued.** These amounts include securities with interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

(LTL thousand)

**33. Related Party Transactions**

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions and their balances in 2006 and 2005 are as follows:

	2006			2005		
	Share-holders	Asso-ciates	Key manage-ment personnel*	Share-holders	Asso-ciates	Key manage-ment personnel*
Loans outstanding at January 1, gross	-	-	1,173	83	-	582
Loans issued during the year	79	-	288	-	8,709	59
Loan repayments during the year	(79)	-	(364)	(83)	-	(155)
Loans outstanding at 31 December, gross	-	-	1,097	-	8,709	486
Less: allowance for impairment at 31 December	-	-	-	-	-	-
Loans outstanding at 31 December, net	-	-	1,097	-	8,709	486
Interest income on loans	1	-	40	4	10	16
Due from banks as of 1 January	143,670	-	-	39,543	-	-
Due from at banks as of 31 December	52,311	-	-	143,670	-	-
Due to banks as of 1 January	2,131	-	-	18,319	-	-
Due to banks as of 31 December	1,716	-	-	2,131	-	-
Deposits as of 1 January	4	-	1,070	-	30	524
Deposits received per year	88,025	-	4,089	4	-	1,013
Deposits withdrawn per year	87,942	-	4,722	-	-	-
Deposits as of 31 December	87	-	437	4	30	1,537
Interest expense on deposits	-	-	31	-	-	72

\*Key management personnel include president of the Bank and his vice-presidents.

Compensation of key management personnel was comprised of the following:

	2006	2005
Salaries and other short-term benefits	2,675	1,095
Social security costs	334	339
<b>Total key management compensation</b>	<b>3,009</b>	<b>1,434</b>

Salaries are shown with the bonuses to the key management.

As of 14 September 2005 the Bank also received a subordinated loan from its controlling shareholder, who is a private individual. As of 31 December 2006 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70,002 thousand (LTL 69,856 thousand as of 31 December 2005) (Note 15).

*(LTL thousand)***34. Capital Adequacy**

The Bank of Lithuania and Latvian Financial and Capital Market Commission (FCMC) require banks in Lithuania and Latvia respectively to maintain a capital adequacy ratio of 8%, computed based on requirements of respective regulator, Group's capital adequacy is calculated based on Bank of Lithuania requirements. As of 31 December 2006 and 2005, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratios of the Group for the year 2006 can be specified as follows (%):

31 December 2005	9.60
31 March 2006	9.34
30 June 2006	8.51
30 September 2006	10.08
31 December 2006	8.95

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

Capital adequacy calculation, the Group	2006		2005	
	Nominal	Weighted	Nominal	Weighted
Tier 1 equity items	194,256	194,256	141,571	141,571
Tier 2 equity items	150,934	150,934	123,205	123,205
Deductions from capital	(34,522)	(34,522)	(15,361)	(15,361)
<b>Eligible capital</b>	<b>310,668</b>	<b>310,668</b>	<b>249,415</b>	<b>249,415</b>
Risk weighted assets				
0% risk assets	2,019,479	-	743,834	-
20% risk assets	1,145,361	229,072	764,375	152,875
50% risk assets	216,183	108,092	129,762	64,881
100% risk assets	2,656,765	2,656,765	1,918,542	1,918,542
Off balance sheet risk weighted commitments	439,818	200,287	369,538	185,687
Trading book requirement	757,989	276,713	934,908	276,775
<b>Total risk exposure</b>		<b>3,470,929</b>		<b>2,598,760</b>
<b>Capital adequacy ratio</b>		<b>8,95</b>		<b>9,6</b>

(LTL thousand)

**35. Subsequent events**

Subsequent events after balance sheet date are as follows:

- In January 2007 par value of ordinary shares was decreased from LTL 10 to LTL 1 by increasing the number of shares respectively.
- As of 12 January 2007 registered increase in share capital to LTL 212,174,080.
- As of 5 February 2007 transferred ownership of Conversbank (UK) Ltd.
- As of 19 February 2007 Mr. Vladimir Antonov and Mr. Raimondas Baranauskas acquired 93.75% ordinary shares of the Bank.

Following profit appropriation project for Bankas Snoras AB is presented by the management of the Bank:

	<u>2006</u>	<u>2005</u>
Unappropriated retained earnings at the beginning of the period, as reported earlier	24,471	10,127
Effect of changes in accounting policies	-	(8,475)
Unappropriated retained earnings at the beginning of the period	24,471	1,652
Transfer of revaluation reserve to the retained earnings	2	
Current year result	51,856	40,669
Unappropriated retained earnings	76,329	42,321
Unappropriated retained earnings due to the shareholders' decision made on 7 December 2006 regarding capital increase from retained earnings	(15,887)	-
<i>Unappropriated retained earnings to be distributed</i>	60,442	42,321
Distribution:		
To reserve capital	7,400	6,000
To reserve for purchase of own shares	-	207
To other general reserves	3,022	2,034
To pay dividends	25,061	9,609
<b>Undistributed retained earnings carried to next year</b>	<b>24,959</b>	<b>24,471</b>

It is planned that the shareholders will approve LTL 350 thousand tantiemas allocation to the members of the supervisory council and the board. The respective amount was accumulated in the financial statements of the Group.



*(LTL thousand)***36. Discontinued Operations**

As of 29 September 2006, Mr. V. Antonov, the main shareholder of the Group, transferred the control of Conversbank (UK) Ltd. to the Bank (Note 1). With transfer of control, the Bank accounted for the liability to Mr. V. Antonov in amount of LTL 26,941 thousand. The control was transferred until the main shareholder of the Group Mr. V. Antonov is granted the permission of Great Britain Financial Service Authority (FSA) to control this bank.

In October 2006, based on the order of Financial Services Authority, Conversbank (UK) Ltd. share capital was increased by GBP 1,900 thousand (LTL 9,779 thousand). Bankas Snoras AB acquired entire issue of the shares.

In the beginning of 2007 all licences were received and all rights and responsibilities pertaining to Conversbank (UK) Ltd. were transferred to Mr. V. Antonov on 5 February 2007. Taking into consideration that the Bank had a strong intention to transfer Conversbank (UK) Ltd. shares and following IFRS 5 requirements, this investment should be treated as held for sale.

	<i>Years ended</i> <i>31 December 2006</i>
<b>Assets</b>	
Cash and cash equivalents	65,596
Deposits' certificate acquired	576
Held-to-maturity financial assets	236,223
Property and equipment	51,689
Other assets	2,064
<b>Total assets</b>	<u>356,148</u>
<b>Goodwill</b>	<u>15,331</u>
<b>Total assets, directly associated with the subsidiary classified as held for sale</b>	<u><u>371,479</u></u>
<b>Liabilities</b>	
Amounts due to customers	322,303
Subordinated loans	9,779
Other liabilities	2,321
<b>Total liabilities</b>	<u>334,403</u>
<b>Liability for the subsidiary acquired for sale</b>	<u>26,941</u>
<b>Total liabilities, directly associated with subsidiary classified as held for sale</b>	<u><u>361,344</u></u>



(LTL thousand)

**Information Disclosures Required by Laws (cont'd)****Income statements**

<b>Bank</b>			<b>Financial Group</b>	
<u>2006</u>	<u>2005</u>		<u>2005</u>	<u>2005</u>
		<b>Interest income</b>		
89,769	65,395	On loans to customers	191,780	109,931
35,775	29,917	On debt securities	41,979	31,366
24,164	9,366	On loans and placements with credit institutions	34,681	10,081
<b>149,708</b>	<b>104,678</b>		<b>268,440</b>	<b>151,378</b>
		<b>Interest expense</b>		
(63,248)	(45,897)	On deposits	(106,088)	(50,908)
(4,562)	(3,486)	Placements from credit institutions	(7,479)	(7,162)
(653)	(153)	On debt securities issued	(653)	(153)
(3,071)	(800)	On subordinated loans	(4,429)	(1,088)
<b>(71,534)</b>	<b>(50,336)</b>		<b>(118,649)</b>	<b>(59,311)</b>
<b>78,174</b>	<b>54,342</b>	<b>Net interest income</b>	<b>149,791</b>	<b>92,067</b>
(204)	(1,609)	(Impairment) of interest earning assets	(8,659)	(5,665)
<b>77,970</b>	<b>52,733</b>	<b>Net interest income after impairment of interest earning assets</b>	<b>141,132</b>	<b>86,402</b>
68,795	59,293	Fee and commission income	93,925	55,723
(7,805)	(7,151)	Fee and commission expenses	(18,332)	(11,621)
<b>60,990</b>	<b>52,142</b>	<b>Net fee and commission income</b>	<b>75,593</b>	<b>44,102</b>
(455)	(11,380)	Gains less losses from transactions with financial assets at fair value through profit or loss	(5,484)	(11,375)
1,802	(4,246)	Gains less losses from transactions with derivative instruments	4,800	(2,567)
18,454	16,742	Gains less losses from transactions in foreign currencies	25,551	18,477
2,133	3,843	Dividend income	47	35
805	281	Other income	5,538	1,246
<b>22,739</b>	<b>5,240</b>	<b>Other income</b>	<b>30,452</b>	<b>5,816</b>
(42,472)	(33,259)	Salaries and benefits	(81,055)	(43,515)
(7,875)	(7,457)	Depreciation and amortisation	(17,939)	(10,150)
(49,489)	(23,815)	Other operating expenses	(68,641)	(34,792)
40	368	Other (impairment and provisions) releases	(5)	457
<b>(99,796)</b>	<b>(64,163)</b>	<b>Operating expenses</b>	<b>(167,640)</b>	<b>(88,000)</b>
<b>61,903</b>	<b>45,952</b>	<b>Profit before income tax</b>	<b>79,537</b>	<b>48,320</b>
(10,047)	(5,283)	Income tax expense	(13,850)	(5,723)
-	-	Result of subsidiary held for sale	356	-
<b>51,856</b>	<b>40,669</b>	<b>Profit before minority</b>	<b>66,043</b>	<b>42,597</b>
-	-	Attributable to:		
-	-	Minority interest	3,691	631
51,856	40,669	Equity holders of the parent	62,352	41,966
<b>51,856</b>	<b>40,669</b>	<b>Gross profit</b>	<b>66,043</b>	<b>42,597</b>

(LTL thousand)

**Information Disclosures Required by Laws (cont'd)****Statement of Changes in Shareholders' Equity**

	<i>The Bank</i>							<i>Total equity</i>
	<i>Share capital</i>	<i>Share surplus</i>	<i>Reserve capital</i>	<i>Revaluation reserve of property and equipment</i>	<i>Financial assets revaluation reserve</i>	<i>Other general reserves</i>	<i>Retained earnings (loss)</i>	
<b>As of 31 December 2004</b>	<b>137,267</b>	<b>305</b>	<b>2,790</b>	<b>18,312</b>	<b>-</b>	<b>39,313</b>	<b>12,300</b>	<b>210,287</b>
Net profit for the year	-	-	-	-	-	-	40,669	40,669
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,669</b>	<b>40,669</b>
Transfer to other general reserves	-	-	-	-	-	1,039	(1,039)	-
Dividends	-	-	-	-	-	-	(9,609)	(9,609)
<b>As of 31 December 2005</b>	<b>137,267</b>	<b>305</b>	<b>2,790</b>	<b>18,312</b>	<b>-</b>	<b>40,352</b>	<b>42,321</b>	<b>241,347</b>
Transfer of revaluation reserve to the retained earnings	-	-	-	(2)	-	-	2	-
Revaluation of financial assets	-	-	-	-	(2,650)	-	-	(2,650)
Total income and expense recognised directly in equity	-	-	-	(2)	(2,650)	-	2	(2,650)
Net profit for the period	-	-	-	-	-	-	51,856	51,856
<b>Total income and expenses for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(2,650)</b>	<b>-</b>	<b>51,858</b>	<b>49,206</b>
Increase of share capital	20,000	-	-	-	-	-	-	20,000
Dividends	-	-	-	-	-	-	(9,608)	(9,608)
Transfer to reserve capital	-	-	6,000	-	-	-	(6,000)	-
Transfer to other reserves	-	-	-	-	-	2,241	(2,241)	-
<b>As of 31 December 2006</b>	<b>157,267</b>	<b>305</b>	<b>8,790</b>	<b>18,310</b>	<b>(2,650)</b>	<b>42,593</b>	<b>76,329</b>	<b>300,944</b>

*(LTL thousand)***Information Disclosures Required by Laws (cont'd)****Statements of cash flows**

	<i>Bank</i>	
	<i>2006</i>	<i>2005</i>
<b>Cash from banking activities</b>		
<b>Income (expenses)</b>		
Interest income	143,099	96,830
Interest (expenses)	(60,517)	(36,047)
Recovery of loans previously written-off	1,908	2,908
Income from foreign exchange operations, net	17,452	10,764
(Expenses) income from operations with securities, net	(6,123)	(3,639)
Service fees and commission income, net	61,013	53,924
(Expenses) related to wages and salaries	(41,559)	(33,045)
Other (expenses)	(46,317)	(31,583)
<b>Operating result</b>	<b>68,956</b>	<b>60,112</b>
<b>(Increase) decrease in assets</b>		
Decrease (increase) in loans and placements with credit	(134,249)	145,127
(Increase) in loans	(476,333)	(442,557)
(Increase) in securities	466,546	(261,635)
Decrease (increase) in other assets	9,987	(8,985)
(Increase) in assets	(134,049)	(568,050)
<b>Increase in liabilities</b>		
Increase in amounts due to credit institutions	209,223	185,958
Increase in public deposits and letters of credit	610,317	1,039,518
(Decrease) increase in debt securities issued	(7,736)	16,713
Increase in other liabilities	25,341	16,318
Increase in liabilities	837,145	1,258,507
Net cash flows from operating activities before taxes	772,052	750,569
Income tax (paid)	(4,868)	(1,030)
<b>Net cash from operating activities after taxes</b>	<b>767,184</b>	<b>749,539</b>
<b>Cash from (used in) investing activities</b>		
(Acquisitions) of tangible and intangible fixed assets	(16,474)	(10,642)
Cash (outflow) from acquisitions subsidiaries, net of cash (paid)		(78,042)
Disposals of tangible assets	-	-
(Investments into) and redemption of held to maturity securities	(882,393)	(68,661)
Dividends received	2,133	3,843
<b>Net cash (used in) from investing activities</b>	<b>(896,734)</b>	<b>(153,502)</b>
<b>Cash (used in) from financing activities</b>		
Transfers to the equity	20,000	-
Subordinated loans received	-	69,056
Dividends (paid)	(9,608)	(9,609)
<b>Net cash from financing activities</b>	<b>10,392</b>	<b>59,447</b>
<b>Increase in cash</b>	<b>(119,158)</b>	<b>655,484</b>
Cash and cash equivalents at the beginning of the financial year	1,083,733	428,249
Cash and cash equivalents at the end of the financial year	964,575	1,083,733