

Bankas Snoras AB

2007 Separate and Consolidated Financial Statements

Prepared According to International Financial Reporting Standards

Presented together with Independent Auditors' report

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Independent auditor's report to the shareholders of Bankas Snoras AB

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

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these 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.

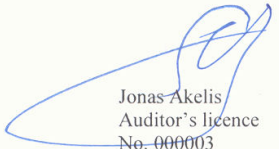
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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



Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 7 March 2008.

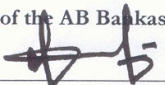

CONSOLIDATED AND SEPARATE BALANCE SHEETS

(LTL thousand)

	Notes	Group		Bank	
		As of 31 December		As of 31 December	
		2007	2006	2007	2006
Assets					
Cash and cash equivalents	3	3,099,436	1,754,600	1,587,821	964,575
Financial assets at fair value through profit or loss	4	848,053	467,010	708,028	379,441
Amounts due from credit institutions	5	438,360	173,002	387,828	158,364
Available-for-sale financial assets	7	33,835	866,486	32,865	865,502
Assets of subsidiary classified as held for sale	35	-	371,479	-	36,720
Loans to customers, net	6	4,086,816	2,537,860	2,648,726	1,552,173
Held-to-maturity financial assets	7	149,999	145,287	126,309	73,114
Investments in subsidiaries	1	-	-	136,912	85,707
Investment property	8	34,100	18,381	-	-
Property and equipment	9	203,232	133,227	105,890	80,668
Intangible assets	10	20,845	19,190	3,607	2,524
Deferred income tax assets	11	544	250	-	-
Other assets	13	81,764	52,708	15,788	12,619
Total assets		8,996,984	6,539,480	5,753,774	4,211,407
Liabilities					
Amounts due to credit institutions	15	519,312	897,580	382,596	646,466
Derivative financial liabilities	4	2,677	1,667	418	411
Liabilities of subsidiary classified as held for sale	35	-	361,344	-	26,941
Debt securities issued	17	639,920	8,324	625,378	8,324
Amounts due to customers	16	7,017,321	4,721,612	4,117,040	3,107,308
Subordinated loans	14	114,379	108,024	70,198	70,002
Current income tax liabilities		8,490	5,179	3,558	5,179
Deferred income tax liabilities	11	11,718	9,245	5,160	3,171
Provisions	12	-	204	-	140
Other liabilities	13	87,672	78,041	44,942	42,521
Total liabilities		8,401,489	6,191,220	5,249,290	3,910,463
Equity					
Share capital	18	253,354	157,267	253,354	157,267
Share surplus		99,137	305	99,137	305
Reserves		65,379	67,327	55,255	67,043
Retained earnings		123,864	93,927	96,738	76,329
Total equity attributable to equity holders of the parent		541,734	318,826	504,484	300,944
Minority interest		53,761	29,434	-	-
Total equity		595,495	348,260	504,484	300,944
Total equity and liabilities		8,996,984	6,539,480	5,753,774	4,211,407

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

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

President	Raimondas Baranauskas		7 March 2008
Chief Accountant	Zita Selenkoviene		7 March 2008

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

	<i>Notes</i>	<i>Group</i>		<i>Bank</i>	
		<i>For the year ended</i>		<i>For the year ended</i>	
		<i>31 December</i>		<i>31 December</i>	
		<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Interest revenue		425,620	270,727	233,951	149,708
Interest expense		(229,218)	(119,500)	(146,003)	(83,010)
Net interest income	22	196,402	151,227	87,948	66,698
(Impairment) recovery of interest earning assets	12	(1,271)	(8,659)	11,476	(204)
Net interest income after impairment of interest earning assets		195,131	142,568	99,424	66,494
Fee and commission revenue		103,151	93,881	72,168	68,795
Fee and commission expenses		(24,129)	(18,336)	(8,910)	(7,805)
Net fee and commission income	23	79,022	75,545	63,258	60,990
Gains less losses from transactions with financial assets designated at fair value through profit or loss	24	(3,378)	-	(1,447)	-
Gains less losses from transactions with financial instruments classified as held for trading	25	(675)	(1,137)	(3,066)	(4,925)
Gains less losses from transactions in foreign currencies	26	29,617	25,547	10,604	18,454
Gains less losses from sales of available-for-sale financial assets		(2,164)	453	(2,164)	453
Sale of minority interest*	1	-	-	14,408	5,819
Dividend revenue		1,147	47	10,155	2,133
Other income	27	8,316	8,013	1,831	805
Other non interest income		32,863	32,923	30,321	22,739
Salaries and benefits	28	(106,216)	(81,976)	(55,116)	(42,472)
Depreciation and amortisation	9, 10	(20,243)	(18,279)	(8,722)	(7,875)
Other operating expenses	28	(88,785)	(71,707)	(43,951)	(38,013)
Other (impairment and provisions) releases	12	140	(5)	140	40
Operating expenses		(215,104)	(171,967)	(107,649)	(88,320)
Profit before income tax		91,912	79,069	85,354	61,903
Income tax expense	11	(18,995)	(14,090)	(13,631)	(10,047)
Profit for the year from continuing operations		72,917	64,979	71,723	51,856
Discontinued operation		-	356	-	-
Profit for the year		72,917	65,335	71,723	51,856
Attributable to:					
Minority interest		5,545	3,691	-	-
Equity holders of the parent		67,372	61,644	71,723	51,856
		72,917	65,335	71,723	51,856
	<i>Note</i>	<i>2007</i>	<i>2006</i>		
			(revised)		
Basic and diluted earnings per share	19	0.32	0.45		
Basic and diluted earnings per share for continuing operations	19	0.32	0.45		

*The gain from sale of shares of subsidiary in amount of LTL 14,408 thousand (LTL 5,819 thousand in 2006) in the consolidated financial statements of the Group was accounted for directly in the statement of changes in equity

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2007 and 2006

*(LTL thousand)***Group**

	<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>
As of 31 December 2005	137,267	305	2,790	18,312	-	(20)	40,808	45,872	16,658	261,992
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	453	-	-	-	-	453
Revaluation of financial assets	-	-	-	-	(3,103)	-	-	-	-	(3,103)
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
Total income and expenses for the period	-	-	-	-	(2,650)	(154)	-	61,644	3,691	62,531
Increase of share capital (Note 18)	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)	-	-
As of 31 December 2006	157,267	305	8,790	18,312	(2,650)	(174)	43,049	93,927	29,434	348,260
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	(2,164)	-	-	-	-	(2,164)
Revaluation of financial assets	-	-	-	-	4,748	-	-	-	-	4,748
Revaluation of property and equipment	-	-	-	23,719	-	-	-	-	2,997	26,716
Reserve of foreign currency translation	-	-	-	-	-	230	-	-	-	230
Total income and expense recognised directly in equity	-	-	-	23,719	2,584	230	-	-	2,997	29,530
Net profit	-	-	-	-	-	-	-	67,372	5,545	72,917
Total income and expenses for the period	-	-	-	23,719	2,584	230	-	67,372	8,542	102,447
Transfer of revaluation reserve to the retained earnings	-	-	-	(56)	-	-	-	56	-	-
Increase of share capital (Note 18)	96,087	98,832	-	-	-	-	(39,020)	(15,887)	15,434	155,446
Dividends	-	-	-	-	-	-	-	(25,061)	(2,364)	(27,425)
Sale of minority interest (Note 1)	-	-	-	-	-	-	-	14,052	2,715	16,767
Transfer to reserve capital	-	-	7,400	-	-	-	-	(7,400)	-	-
Transfer to other reserves	-	-	-	-	-	-	3,195	(3,195)	-	-
As of 31 December 2007	253,354	99,137	16,190	41,975	(66)	56	7,224	123,864	53,761	595,495

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

SEPARATE STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2007 and 2006

(LTL thousand)

Bank

	<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>Total equity</i>
As of 31 December 2005	137,267	305	2,790	18,312	-	-	40,352	42,321	241,347
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	453	-	-	-	453
Revaluation of financial assets	-	-	-	-	(3,103)	-	-	-	(3,103)
Total income and expense recognised directly in equity	-	-	-	-	(2,650)	-	-	-	(2,650)
Net profit	-	-	-	-	-	-	-	51,856	51,856
Total income and expenses for the period	-	-	-	-	(2,650)	-	-	51,856	49,206
Transfer of revaluation reserve to the retained earnings	-	-	-	(2)	-	-	-	2	-
Increase of share capital (Note 18)	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)	-
As of 31 December 2006	157,267	305	8,790	18,310	(2,650)	-	42,593	76,329	300,944
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	(2,164)	-	-	-	(2,164)
Revaluation of financial assets	-	-	-	-	4,765	-	-	-	4,765
Revaluation of property and equipment	-	-	-	14,265	-	-	-	-	14,265
Total income and expense recognised directly in equity	-	-	-	14,265	2,601	-	-	-	16,866
Net profit	-	-	-	-	-	-	-	71,723	71,723
Total income and expenses for the period	-	-	-	14,265	2,601	-	-	71,723	88,589
Transfer of revaluation reserve to the retained earnings	-	-	-	(56)	-	-	-	56	-
Increase of share capital (Note 18)	96,087	98,832	-	-	-	-	(39,020)	(15,887)	140,012
Dividends	-	-	-	-	-	-	-	(25,061)	(25,061)
Transfer to reserve capital	-	-	7,400	-	-	-	-	(7,400)	-
Transfer to other reserves	-	-	-	-	-	-	3,022	(3,022)	-
As of 31 December 2007	253,354	99,137	16,190	32,519	(49)	-	6,595	96,738	504,484

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

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

(LTL thousand)

	<i>Group</i>		<i>Bank</i>	
	<i>For the year ended</i>		<i>For the year ended</i>	
	<i>31 December</i>		<i>31 December</i>	
<i>Notes</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Operating activities				
Net result for the year	72,917	65,335	71,723	51,856
Adjustments to reconcile net profit or loss to net cash provided by operating activities:	112,926	55,005	52,147	25,823
Income tax expenses	18,995	14,090	13,631	10,047
Unrealised foreign currency gains and losses	16,674	8,344	13,151	8,472
Depreciation / amortisation	20,243	18,279	8,722	7,875
Impairment	5,665	11,485	(8,155)	2,112
Provisions, net	(140)	5	(140)	(129)
Investing and financing				
(Gains) losses on sale of investments, net	-	-	(14,408)	(5,819)
(Gains) losses on sale of tangible assets, net	(1,527)	850	(219)	(24)
Operating				
Change in accrued interest income	(2,839)	(61)	(1,208)	(8,838)
Change in accrued interest expenses	55,855	2,013	40,773	12,127
Cash flows from operating profits before changes in operating assets and liabilities	185,843	120,340	123,870	77,679
(Increase) decrease in operating assets:				
(Increase) in balances with central banks	(256,991)	(134,636)	(229,393)	(134,249)
(Increase) in loans and receivables	(1,543,743)	(690,734)	(1,070,144)	(476,333)
Decrease in financial assets held for trading	201,517	454,055	116,644	460,878
(Increase) decrease in other assets	4,223	(41,846)	(16,372)	9,987
Increase (decrease) in operating liabilities:				
Increase (decrease) in deposits from credit institutions	(377,032)	330,845	(263,267)	209,223
Increase (decrease) in deposits (other than from credit institutions)	2,332,879	1,290,279	1,038,551	647,811
Increase (decrease) in other financial liabilities	1,157	(1,286)	(1,667)	(711)
Income tax (paid)	(17,032)	(9,516)	(15,666)	(5,294)
Cash flow from operating activities	530,821	1,317,501	(317,444)	788,991
Investing activities				
Cash (payments) to acquire tangible assets	9	(58,342)	(26,276)	(16,535)
Cash receipts from the sale of tangible assets		2,804	549	425
Cash (payments) to acquire intangible assets	10	(5,028)	(2,790)	(2,006)
Cash (payments) for the investment in subsidiaries, net of cash acquired		(159)	(1,186)	(54,061)
Cash receipts from the disposal of associates, subsidiaries, net of cash disposed		(-)	-	17,264
Effect on cash and cash equivalents on transfer of subsidiary		(65,596)	49,556	-
(Purchase of) available-for-sale assets		(32,815)	(863,431)	(32,865)
Sale of available-for-sale assets		853,025	-	853,025
(Purchase) of financial assets designated at fair value through profit or loss		(573,415)	-	(437,647)
Cash (payments) to acquire held-to-maturity investments		(136,319)	-	(126,103)
Cash receipts from the redemption of held-to-maturity investments		131,005	12,105	73,114
Net cash flow from investing activities		115,160	(831,473)	274,611
			(873,308)	

(Cont'd on next page)

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

(LTL thousand)

	<i>Group</i>		<i>Bank</i>		
	<i>For the year ended</i>		<i>For the year ended</i>		
	<i>31 December</i>		<i>31 December</i>		
<i>Notes</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	
Financing activities					
Dividends (paid)	(27,425)	(9,608)	(25,061)	(9,608)	
Cash receipts from the sale of shares in subsidiaries to minority interest	17,264	7,532	-	-	
Issue of debt certificates (including bonds)	614,108	-	599,959	-	
(Repayments) of debt certificates (including bonds)	(8,324)	(8,389)	(8,324)	(7,736)	
Cash proceeds from the issuance of subordinated liabilities	6,101	18,860	-	-	
Cash proceeds from issuing shares or other equity instruments	155,446	20,000	140,012	20,000	
Net cash flow from financing activities	757,170	28,395	706,586	2,656	
Net increase in cash and cash equivalents	1,403,151	514,423	663,753	(81,661)	
Net foreign exchange difference	(58,315)	(53,982)	(40,507)	(37,497)	
Cash and cash equivalents at beginning of the period	1,754,600	1,294,159	964,575	1,083,733	
Cash and cash equivalents at end of the period	3	3,099,436	1,754,600	1,587,821	964,575

	<i>Group</i>		<i>Bank</i>	
	<i>For the year ended</i>		<i>For the year ended</i>	
	<i>31 December</i>		<i>31 December</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Interest received	414,566	206,650	230,231	141,235
Interest (paid)	(173,363)	(117,487)	(105,233)	(70,883)
Dividends received	1,147	47	10,155	2,133

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

(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 248 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 subsidiary companies of the Bank provide the real estate management, construction and renovation, asset management, consumer financing and securities fund management services to the participants of the markets of Lithuania and Baltic states.

The Bank till 19 February 2007 was the member of Conversbank Group and its financial statements were consolidated into the financial statements of Conversbank Group consolidated financial statements.

Shareholders (ordinary shares) of Bankas Snoras AB	<i>As of 31 December</i>	
	<i>2007, %</i>	<i>2006, %</i>
Mr. Vladimir Antonov, chairman of the Bank's Council	68.65	0.00
Mr. Raimondas Baranauskas, chairman of the Bank's Board	25.10	9.99
Conversgroup Holding Company	0.00	49.89
Nuntel holding LLC	0.00	9.89
Hoffman development LLC	0.00	8.76
Skepi shipping Co limited	0.00	8.31
CTPS limited	0.00	5.21
Other: number of shareholders/owned %	2.365/6,25	1,538 / 7.95
Total	100.00	100.00

Shareholders (preference shares) of Bankas Snoras AB	<i>As of 31 December</i>	
	<i>2007, %</i>	<i>2006, %</i>
Conversgroup Holding Company	45.00	45.00
Mr. Raimondas Baranauskas, chairman of the Bank's Board	10.00	10.00
Clients of Skandinaviska Enskilda Banken	9.93	24.56
Mr. Žilinskis Algirdas Liudvikas	5.64	6.82
Other: number of shareholders/owned %	305/29.43	173/13.62
Total	100.00	100.00

As of 31 December 2007 the members of the Board of Directors and Management Board controlled 58,584,341 shares (25.10%) (2006 – 1,372,960 or 10.00%) of the Bank.

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

Subsidiary	<i>Ownership %</i>		<i>Country</i>	<i>Industry</i>
	<i>2007</i>	<i>2006</i>		
Snoro Lizingas UAB	100%	100%	Lithuania	Consumer financing
Snoro rizikos kapitalo valdymas UAB	100%	-	Lithuania	Debt recovery
Vilniaus kapitalo vystymo projektai UAB	60%	100%	Lithuania	Real estate
Snoro Turto Valdymas UAB	100%	100%	Lithuania	Venture capital projects
Snoro Fondų Valdymas UAB	100%	100%	Lithuania	Fund management
Snoro Investicijų Valdymas UAB	100%	100%	Lithuania	Real estate
Latvijas Krājbanka A/S	75.93%	75%	Latvia	Banking
Krājinvestīcijas SIA	75.93%	75%	Latvia	Real estate
Ieguldījumu Pārvaldes Sabiedrība LKB Asset Management	75.93%	75%	Latvia	Fund management
Ieguldījumu Sabiedrība Astra Fondi A/S	75.93%	75%	Latvia	Fund management
Pirmais Atklātais Pensiju Fonds A/S	75.93%	-	Latvia	Fund management
LKB Lizings SIA	75.93%	-	Latvia	Consumer financing
Conversbank (UK) Ltd. (held for sale)	-	100%	Great Britain	Fund management

(LTL thousand)

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.

The Bank's unconsolidated financial statements are presented according to the requirements of local laws. In stand alone financial statements of the Bank, the investments in subsidiaries are accounted for using the cost method.

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. In 16 November 2007, Snoro lizingas founded 100% controlled subsidiary company Snoro rizikos kapitalo valdymas UAB. The company's principal activity is debt recovery.

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. On 29 December 2007 the Bank sold 40% of Vilniaus Kapitalo Vystymo Projektai UAB shares. Gain from sale of shares in amount of LTL 14,408 thousand in the consolidated financial statements of the Group was accounted for directly in the statement of changes in equity.

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 venture capital projects. In 21 December 2007 this subsidiary acquired 23.8 of shares in Dutch company Spyker Cars N.V.

Snoro Fondų Valdymas 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.

In the first half of 2007 Latvijas Krājbanka A/S share capital was increased with issuing 800,000 ordinary and 2,834 preferred shares with par LVL 1 for each type of shares. During the second half of 2007 the share issue was finished for amount of 2,240,000 ordinary shares.

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

In 9 January 2007 the subsidiary of the Bank A/S Latvijas Krājbanka founded a 100% controlled company SIA LKB Līzings. The share capital of the company is LVL 120 thousand (594 thousand in LTL equivalent). The principal activities of LKB Līzings A/S - consumer financing.

In 30 June 2007 the subsidiary of the Bank A/S Latvijas Krājbanka acquired 100% of shares in a pension fund management company A/S Pirmais Atklātais Pensiju Fonds. The share capital of the company is LVL 32 thousand (160 thousand in LTL equivalent).

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 in 31 December 2006 was treated as an asset held for sale and is disclosed according to IFRS 5. On 5 February 2007 the Bank transferred the control of Conversbank (UK) Ltd. (Note 35). The subsidiary was disposed for its carrying value to Mr. V. Antonov.

As of 31 December 2007 the number of employees of the Group was 2,111 (1,949 as of 31 December 2006). As of 31 December 2007 the number of employees of the Bank was 1,103 (1,004 as of 31 December 2006).

(LTL thousand)

2. Significant Accounting Policies

Basis of presentation

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

Statement of compliance

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

Presentation currency

The financial statements are presented in thousands of Lithuanian Litas (LTL), the local currency of the Republic of Lithuania, 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 IFRS

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

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

The principal effects of these changes are as follows:

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

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

IAS 1 Presentation of Financial Statements. This amendment requires the Bank and the Group to make new disclosures to enable users of the financial statements to evaluate the Bank’s and the Group’s objectives, policies and processes for managing capital. These new disclosures are shown in Note 34.

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

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

(LTL thousand)

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

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

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- IAS 1 Presentation of Financial Statements – Revised (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). IAS 1 has been revised to enhance the usefulness of the information presented in the financial statements. Revision includes number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements in a case of their retrospective restatement.
- IAS 23 Borrowing Costs – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Bank and the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.
- IAS 27 Consolidated and Separate Financial Statements – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). Revised standard requires that changes in ownership interest in a subsidiary are accounted for as equity transactions. Also, accounting for losses incurred by the subsidiary was changed: such losses will be allocated between the controlling and non-controlling interests even if the losses exceed the non-controlling equity investment in the subsidiary. On a loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. In addition, revised standard provides more guidance as to when multiple arrangements should be accounted for as a single transaction. These most significant changes introduced by the revised standard will be applied prospectively, except for the multiple arrangements that have been accounted for as a single transaction – these arrangements require retrospective assessment.
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009 once adopted by EU). The amendments to IAS 32 require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation. Additional disclosures are required about the instruments affected by the amendments.
- IFRS 3 Business Combinations – Revised (effective for annual periods beginning on or 1 January 2009 once adopted by EU). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares). Also a number of changes are introduced in accounting for business combinations that will impact the amount of goodwill recognized, the results in the period when the acquisition occurs, and future revenues reported. In accordance with the transitional requirements of the Standard, the Bank and the Group will adopt this as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standard will not be restated.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

(LTL thousand)

- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008 once adopted by EU). This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled.
- IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008 once adopted by EU). This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan.

The Bank and the Group expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's and the Group's financial statements in the period of initial application, except for IFRS 8 Operating Segments and IAS 1 Presentation of Financial Statements – Revised.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine business and geographical segments as primary or secondary reporting segments of the Group. The Group has preliminarily assessed that the operating segments were the same as the geographical segments identified under IAS 14 *Segment Reporting*.

IAS 1 Presentation of Financial Statements – Revised

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

Subsidiaries

Subsidiaries, which are those entities in which the Group and the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and the Bank and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated but may result in recognising an impairment loss where the transaction provides evidence of an impairment of the asset transferred. 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 directly or indirectly by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets, liabilities and contingent 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 and the ability of the minority to fund the losses. All such losses are allocated to the Group.

Accounting for subsidiaries in separate financial statements

In separate financial statements the investments in subsidiaries that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 are accounted for at cost less impairment losses.

(LTL thousand)

Financial assets and financial liabilities

The Group and the Bank recognise financial asset on its balance sheet when, and only when, the Group and the Bank 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 and the Bank determine the classification of their financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this classification at each financial year-end.

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

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

Derivative Financial Instruments

In the normal course of business, the Group and the Bank 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 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 and subsequently measured at 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.

(LTL thousand)

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 and the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

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

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

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 incurred credit losses. The management of the Group and the Bank 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 whereby the Group and the Bank finance their customers through buying their claims. Companies alienate rights to invoices due at a future date to the Group and the Bank. Factoring transactions comprise factoring transactions with a right to recourse (the Group and the Bank are entitled to selling the overdue claim back to the customer) and factoring transactions without a right to recourse (the Group and the Bank 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)

Debt issued and other borrowed funds

Issued financial instruments and their components are classified as liabilities, where the substance of the contractual arrangement results in the Group and the Bank 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, which are not designated at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest 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; or
- the Group and the Bank 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 and the Bank 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 and the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank'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 and the Bank 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 and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank 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 and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Offsetting

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

Cash and cash equivalents

Cash, current accounts with the Central Banks and current accounts with other banks due to their high liquidity with maturity up to three months as from the date of deposit or acquisition are accounted for as cash and cash equivalents in the cash flow statement.

(LTL thousand)

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 and the Bank are obliged to upkeep average rate of funds during the required period, but on the daily basis the whole amount is at the Group's and the Bank'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 a third party. A liability for the obligation to return these securities is recognised at fair value as a trading liability.

Leases

Finance - Group and Bank as a lessee

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

Operating - Group and Bank 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 revenue. 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.

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.

(LTL thousand)

In 2007 and 2006 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 balance sheet 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.

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

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 revalued amounts, being the 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 would be determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful lives of assets.

In the case of revaluation, when the fair value of an asset is lower than its carrying amount, the carrying amount of this asset is immediately reduced to the amount of fair value and the decrease is recognised as expenses. However, such decrease 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 fair value of an asset is higher than its carrying amount, the carrying amount of this asset is increased to the amount of fair value and such increase is recorded directly in equity in the revaluation reserve of property and equipment. 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 available for use. 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)

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. Any difference at that date between the carrying amount and fair value is treated in the same way as a revaluation of Property and equipment. 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 sale. Projects under development are accounted for at lower of cost or net realizable value and included in other assets captioned 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 businesses at the date of acquisition. Goodwill arising from the acquisition of a subsidiary is included in intangible assets. Goodwill from the acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

(LTL thousand)

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 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 and the Bank assess 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 and the Bank 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 and the Bank is LTL 345 thousand or EUR 100 thousand). If the Group and the Bank 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's and the Bank'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.

(LTL thousand)

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 directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held to maturity investments

For held to maturity investments the Group and the Bank assess 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 and the Bank 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 and the Bank 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 and the Bank 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.

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 and the Bank are 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 and the Bank 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 and the Bank 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 and the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required for settling any financial obligation arising as a result of the guarantee.

(LTL thousand)

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 and the Bank 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 terminated, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Group and the Bank on behalf of a customer authorising a third party to draw drafts on the Group and the Bank 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 recognised when the Group and the Bank have 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 recognised 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 and the Bank 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 and the Bank do 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 and the Bank have no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares 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 average 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 after adjustments for income or expense related to dilutive potential ordinary shares 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.

(LTL thousand)

Contingencies

Contingent liabilities are not recognised in the financial statements but disclosed unless the possibility of an outflow of resources in settlement is remote. 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 evaluation of impairment (including goodwill), provisions for loan commitments and stand-by facilities, fair value, and realisation of deferred tax assets.

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

The Group and the Bank regularly review their loans and receivables to assess impairment. The Group and the Bank 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 and the Bank estimate 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 and the Bank use their 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 and the Bank 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 and the Bank 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.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

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

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.

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and 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.

(LTL thousand)

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency using the exchange 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):

	31 December	31 December
	2007	2006
1 EUR*	3,4528	3,4528
1 USD	2,3572	2,6304
100 RUB	9,6085	9,9708
1 LVL**	4,9567	4,9537
1 GBP	4,7088	5,1468

*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.

Fair values of financial assets and liabilities

For financial instruments traded in active 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. In the absence of an active market 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 and the Bank'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>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Cash at hand	223,135	199,099	136,679	119,629
Current accounts with the Central Banks	415,561	542,252	263,337	276,650
Current accounts with other credit institutions	755,691	479,178	710,681	433,938
Time deposits with credit institutions up to 90 days	1,705,049	534,071	477,124	134,358
Cash and cash equivalents	3,099,436	1,754,600	1,587,821	964,575

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 and the Bank'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%. 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. 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 reserve rate 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 or designated as financial assets at fair value through profit or loss upon initial recognition.

Trading assets comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Treasury bills and bonds of the Republic of Lithuania	146,511	207,425	146,079	141,799
Other governments' debt securities	26,359	89,612	26,359	89,362
Corporate bonds	67,851	118,901	67,851	97,705
Corporate shares	2,314	2,938	2,314	2,651
Investment funds' units	821	45,145	-	45,145
Derivative financial instruments	20,092	2,989	18,649	2,779
Trading assets	263,948	467,010	261,252	379,441

The Group and the Bank designate part of available for sale financial assets as at fair value through profit or loss upon their initial recognition. Such initial designation is performed due to the accounting mismatch, which would arise between futures, accounted for at fair value through profit or loss (acquired for the purpose of economic hedging of changes in fair value of available for sale assets) and available for sale financial assets which otherwise would be revalued using the fair value reserve within equity.

Financial assets designated as at fair value through profit and loss upon initial recognition comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Treasury bills and bonds of the Republic of Lithuania	39,376	-	-	-
Other governments' debt securities	295,599	-	295,599	-
Corporate bonds	213,053	-	151,177	-
Corporate shares	36,077	-	-	-
Available for sale assets designated at fair value through profit and loss upon initial recognition	584,105	-	446,776	-

(LTL thousand)

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

<i>Group</i>	<i>2007</i>		<i>2006</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Treasury bills and bonds of the Republic of Lithuania	3.7 – 5.6	2008-2015	2.5 – 10	2007 - 2016
Other governments' debt securities	2.5 – 10.6	2008-2020	3.5 – 11	2007 - 2015
Corporate bonds	1.5 – 12.79	2008-2017	3.3 – 5.6	2007 - 2013

<i>Bank</i>	<i>2007</i>		<i>2006</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Treasury bills and bonds of the Republic of Lithuania	3.7 – 5.6	2008-2015	5.0 – 5.6	2007-2013
Other governments' debt securities	2.5 – 10.6	2008-2012	5.0 – 5.6	2007-2013
Corporate bonds	1.5 – 9.7	2008-2017	2.5 – 5.6	2007-2013

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

<i>Group</i>	<i>2007</i>			<i>2006</i>		
	<i>Notional principal</i>	<i>Fair value</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Assets</i>	<i>Liabilities</i>		<i>Assets</i>	<i>Liabilities</i>
Foreign exchange contracts						
Forwards and Swaps – foreign	936,998	3,163	2,677	421,199	416	1,571
Forwards and Swaps – domestic	138,115	333	-	193,358	2	96
Foreign exchange contracts total	1,075,113	3,496	2,677	614,557	418	1,667
Call options						
Currency basket linked options	51,028	7,328	-	34,528	269	-
Equity indices linked options	86,320	6,123	-	34,528	2,302	-
Commodity indices linked options	14,143	3,145	-	-	-	-
Call options total	151,491	16,596	-	69,056	2,571	-
Total	1,226,604	20,092	2,677	683,613	2,989	1,667

<i>Bank</i>	<i>2007</i>			<i>2006</i>		
	<i>Notional principal</i>	<i>Fair value</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Assets</i>	<i>Liabilities</i>		<i>Assets</i>	<i>Liabilities</i>
Foreign exchange contracts						
Forwards and Swaps – foreign	344,667	1,720	418	156,279	206	315
Forwards and Swaps – domestic	138,115	333	-	193,358	2	96
Foreign exchange contracts total	482,782	2,053	418	349,637	208	411
Call options						
Currency basket linked options	51,028	7,328	-	34,528	269	-
Equity linked options	86,320	6,123	-	34,528	2,302	-
Commodity indices linked options	14,143	3,145	-	-	-	-
Call options total	151,491	16,596	-	69,056	2,571	-
Total	634,273	18,649	418	418,693	2,779	411

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

(LTL thousand)

5. Amounts Due from Credit Institutions

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

<i>Group</i>	<i>OECD</i>		<i>Lithuania</i>		<i>Russia</i>		<i>Other countries</i>		<i>Total</i>	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Time deposits of more than 90 days	312,521	144,485	58,029	2,201	98	26,316	67,712	-	438,360	173,002
Amounts due from credit institutions	312,521	144,485	58,029	2,201	98	26,316	67,712	-	438,360	173,002
<i>Bank</i>	<i>OECD</i>		<i>Lithuania</i>		<i>Russia</i>		<i>Other countries</i>		<i>Total</i>	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Time deposits of more than 90 days	312,521	129,847	58,029	2,201	-	26,316	17,278	-	387,828	158,364
Amounts due from credit institutions	312,521	129,847	58,029	2,201	-	26,316	17,278	-	387,828	158,364

6. Loans to Customers, net

Loans to customers comprise:

	<i>Group</i>		<i>Bank</i>	
	2007	2006	2007	2006
Loans to customers	3,747,754	2,219,247	2,313,715	1,243,638
Credit lines	295,638	243,730	270,275	220,615
Promissory notes	7,407	86,930	7,405	86,930
Reverse repurchase agreements	54,489	20,667	54,489	20,667
Factoring	11,472	1,981	9,930	600
	4,116,760	2,572,555	2,655,814	1,572,450
Less: allowance for loan impairment (Note 12)	(29,944)	(34,695)	(7,088)	(20,277)
Loans to customers, net	4,086,816	2,537,860	2,648,726	1,552,173

During 2007 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. The Bank's and the Group's fair value of securities acquired under reverse repurchase agreements as of 31 December 2007 was LTL 76,748 thousand (LTL 35,162 thousand as of 31 December 2006).

Loans have been extended to the following types of customers:

	<i>Group</i>		<i>Bank</i>	
	2007	2006	2007	2006
Corporate clients	2,131,000	1,203,415	1,709,562	1,004,463
Individuals	1,868,482	1,273,427	879,043	510,577
State budget or municipal authorities	42,878	21,348	39,640	21,295
State companies	5,402	11,553	5,402	7,546
Other	39,054	28,117	15,079	8,292
Loans to customers, net	4,086,816	2,537,860	2,648,726	1,552,173

(LTL thousand)

Loans are issued within the following industry sectors:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Individuals	1,868,482	1,273,427	879,043	510,577
Real estate	588,753	193,694	373,827	72,080
Trading	282,857	155,044	208,067	98,953
Manufacturing	255,565	143,825	192,090	102,734
Services	218,078	264,930	162,409	161,620
Transport	203,286	32,965	101,958	25,118
Financial services	201,402	272,206	414,857	439,484
Construction	198,208	119,365	160,487	96,253
Agriculture and food processing	106,425	39,837	66,199	7,455
Electricity	32,370	-	25,099	-
Government and municipalities	24,221	11,643	20,948	7,723
Fuel, gas and chemical	3,473	-	-	-
Other	103,696	30,924	43,742	30,176
Loans to customers, net	4,086,816	2,537,860	2,648,726	1,552,173

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

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Unpaid principal	4,117,578	2,574,762	2,652,826	1,572,397
Accrued and unpaid interest	19,852	10,248	9,686	4,479
Deferred income	(20,670)	(12,455)	(6,698)	(4,424)
Impairment loss allowance	(29,944)	(34,695)	(7,088)	(20,279)
Loans to customers, net	4,086,816	2,537,860	2,648,726	1,552,173

The Group's and the Bank's interest income earned on impaired loans during 2007 was accordingly LTL 2,768 thousand and LTL 1,137 thousand (LTL 5,134 thousand and LTL 3,270 thousand in 2006, respectively).

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

Held-to-maturity financial assets comprise:

<i>Group</i>	<i>2007</i>		<i>2006</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Corporate bonds	141,036	152,750	79,005	79,905
Governments' bonds	8,963	7,894	66,282	64,928
Held-to-maturity securities	149,999	160,644	145,287	144,833

<i>Bank</i>	<i>2007</i>		<i>2006</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Corporate bonds	126,309	137,348	73,114	74,317
Held-to-maturity securities	126,309	137,348	73,114	74,317

(LTL thousand)

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

<i>Group</i>	<i>2007</i>		<i>2006</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds	2.5 – 9.93	2008-2010	2.5 – 9.75	2007-2013
Governments' bonds	5.0 – 5.12	2008-2013	5.0 – 6.1	2007-2013

<i>Bank</i>	<i>2007</i>		<i>2006</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds	2.5	2008-2010	2.5 – 6.1	2007

Available-for-sale financial assets include:

<i>Group</i>	<i>2007</i>		<i>2006</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Treasury bills and bonds of the Republic of Lithuania	969	968	984	968
Other governments' bond	32,866	33,079	865,502	855,633
Available-for-sale financial assets	33,835	34,047	866,486	856,601

<i>Bank</i>	<i>2007</i>		<i>2006</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Other governments' bond	32,865	32,111	865,502	855,633
Available-for-sale financial assets	32,865	32,111	865,502	855,633

Held-to-maturity securities include structured bonds, purchased by the Bank in 2007 and 2006. 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 2007 was LTL 126,309 thousand (as of 31 December 2006 LTL 67,802 thousand).

The Group's and the Bank's fair value of held-to-maturity financial instruments amounted accordingly to LTL 149,935 thousand and LTL 126,309 thousand as 31 December 2007 (LTL 143,877 thousand and LTL 71,825 thousand as of 31 December 2006, respectively).

The Group's and the Bank's interest income earned on held-to-maturity securities in 2007 amounted accordingly to LTL 4,704 thousand and LTL 2,755 thousand (accordingly in 2006 - LTL 4,150 and 2,090 thousand).

8. Investment Property

Investment properties are stated at fair value, which has been determined based on valuation performed by independent appraisers as of 31 December 2007. 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. The revaluation of buildings was performed on the market value basis

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Opening balance as at 1 January	18,381	17,056	-	-
Additions	11,594	11,521	-	-
Sale	-	(14,957)	-	-
Net gain from a fair value adjustment	4,125	4,761	-	-
Closing balance as at 31 December	34,100	18,381	-	-

(LTL thousand)

9. Property and Equipment

The movements in property and equipment were as follows:

<i>Group</i>	<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>
Cost/revalued amounts*						
31 December 2006	58,031	17,259	85,532	8,300	10,381	179,503
Additions	18,832	13,492	14,871	3,303	7,844	58,342
Revaluation	27,464	-	-	-	-	27,464
Disposals	(2,415)	(2,465)	(7,877)	(1,793)	(32)	(14,582)
Transfers	11,686	-	6,098	-	(17,801)	(17)
31 December 2007	113,598	28,286	98,624	9,810	392	250,710
Accumulated depreciation and impairment						
31 December 2006	2,307	5,384	34,418	4,167	-	46,276
Depreciation charge	1,567	3,625	10,125	1,360	-	16,677
Revaluation	(2,170)	-	-	-	-	(2,170)
Disposals	(1,673)	(1,937)	(7,961)	(1,734)	-	(13,305)
Transfers	-	-	-	-	-	-
31 December 2007	31	7,072	36,582	3,793	-	47,478
Net book value:						
31 December 2006	55,724	11,875	51,114	4,133	10,381	133,227
31 December 2007	113,567	21,214	62,042	6,017	392	203,232
 <i>Group</i>						
	<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>
Cost/revalued amounts*						
31 December 2005	54,718	17,639	75,419	7,979	6,740	162,495
Additions	3,518	433	15,376	1,766	5,183	26,276
Disposals	(205)	(813)	(4,150)	(1,445)	(823)	(7,436)
Transfers	-	-	(1,113)	-	(719)	(1,832)
31 December 2006	58,031	17,259	85,532	8,300	10,381	179,503
Accumulated depreciation and impairment						
31 December 2005	1,116	2,649	29,496	4,297	-	37,558
Depreciation charge	1,240	3,253	9,055	1,235	-	14,783
Disposals	(49)	(518)	(4,105)	(1,365)	-	(6,037)
Transfers	-	-	(28)	-	-	(28)
31 December 2006	2,307	5,384	34,418	4,167	-	46,276
Net book value:						
31 December 2005	53,602	14,990	45,923	3,682	6,740	124,937
31 December 2006	55,724	11,875	51,114	4,133	10,381	133,227

*Revalued amounts for buildings.

(LTL thousand)

<i>Bank</i>	<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>
Cost/revalued amounts*						
31 December 2006	32,356	2,644	66,712	6,512	9,954	118,178
Additions	1,532	2,140	3,591	1,428	7,844	16,535
Revaluation	14,611	-	-	-	-	14,611
Disposals	(230)	(270)	(5,053)	(151)	(32)	(5,736)
Transfers	11,259	-	6,098	-	(17,374)	(17)
31 December 2007	59,528	4,514	71,348	7,789	392	143,571
Accumulated depreciation and impairment						
31 December 2006	1,549	2,000	30,421	3,540	-	37,510
Depreciation charge	635	86	6,281	797	-	7,799
Revaluation	(2,170)	-	-	-	-	(2,170)
Disposals	(14)	(269)	(5,024)	(151)	-	(5,458)
Transfers	-	-	-	-	-	-
31 December 2007	-	1,817	31,678	4,186	-	37,681
Net book value:						
31 December 2006	30,807	644	36,291	2,972	9,954	80,668
31 December 2007	59,528	2,697	39,670	3,603	392	105,890

<i>Bank</i>	<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>
Cost/revalued amounts*						
31 December 2005	28,136	2,350	66,264	6,941	5,649	109,340
Additions	4,341	412	4,582	979	5,128	15,442
Disposals	(121)	(118)	(4,134)	(1,408)	(823)	(6,604)
Transfers	-	-	-	-	-	-
31 December 2006	32,356	2,644	66,712	6,512	9,954	118,178
Accumulated depreciation and impairment						
31 December 2005	1,035	2,029	28,651	4,203	-	35,918
Depreciation charge	519	89	5,850	701	-	7,159
Disposals	(5)	(118)	(4,080)	(1,364)	-	(5,567)
Transfers	-	-	-	-	-	-
31 December 2006	1,549	2,000	30,421	3,540	-	37,510
Net book value:						
31 December 2005	27,101	321	37,613	2,738	5,649	73,422
31 December 2006	30,807	644	36,291	2,972	9,954	80,668

*Revalued amounts for buildings.

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

On 31 December 2007 the Bank and the Group revalued its buildings. The revaluation was performed by independent property appraisals. The revaluation of buildings was performed on the market value basis.

If buildings of the Group and the Bank were carried at cost, carrying value of those assets would have been LTL 34,172 thousand and LTL 22,509 thousand as of 31 December 2007, respectively (LTL 34,778 thousand and LTL 23,116 thousand as of 31 December 2006, respectively).

(LTL thousand)

10. Intangible Assets

The Group's movements in intangible assets were as follows:

<i>Group</i>	<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>
Cost						
31 December 2006	2,133	8,005	4,271	11,539	1,182	27,130
Additions	-	-	-	5,028	-	5,028
Disposals	-	263	-	(917)	-	(654)
31 December 2007	2,133	8,268	4,271	15,650	1,182	31,504
Accumulated amortisation and impairment						
31 December 2006	265	1,424	-	5,660	591	7,940
Charge for the year	213	1,111	-	2,242	-	3,566
Impairment	-	-	-	-	-	-
Disposals	-	-	-	(847)	-	(847)
31 December 2007	478	2,535	-	7,055	591	10,659
Net book value:						
31 December 2006	1,868	6,581	4,271	5,879	591	19,190
31 December 2007	1,655	5,733	4,271	8,595	591	20,845
Group						
	<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>
Cost						
31 December 2005	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
Disposals	-	-	-	(774)	-	(774)
31 December 2006	2,133	8,005	4,271	11,539	1,182	27,130
Accumulated amortisation and impairment						
31 December 2005	53	284	-	4,250	-	4,587
Charge for the year	212	1,140	-	2,144	-	3,496
Impairment	-	-	-	-	591	591
Disposals	-	-	-	(734)	-	(734)
31 December 2006	265	1,424	-	5,660	591	7,940
Net book value:						
31 December 2005	2,080	7,721	4,271	5,273	-	19,345
31 December 2006	1,868	6,581	4,271	5,879	591	19,190

(LTL thousand)

Latvijas Krājbanka brand name in the amount of LTL 4,271 thousand, acquired in 2005 with the acquisition with of 83.01% Latvijas Krājbanka A/S 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 amount 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.* In determining appropriate discount rates for cash-generating units, the regard was given to risk free rate (10 year Latvian Government bond yield) and market risk premium related to the assets tested for impairment. The calculated discount rate is equal to 16.5%;
- *Growth rate estimates.* The estimated growth of Latvia's geographical unit was assessed according the planned results, as a conservative approach. The growth rates are equal to 36% and 28% for the years 2008 and 2009, whereas the growth rates beyond the budgets (years 2010 and 2011) are equal to 10%.

The assessment of value in use of Latvia's geographical unit showed the carrying value of it to be lower than the recoverable amount. A reasonably possible change in a key assumptions on which management has based its determination of the unit's recoverable amount did not show the carrying amount to exceed its recoverable amount

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

The Bank's movements in intangible assets were as follows:

<i>Bank</i>	<i>Licences and computer software</i>		<i>Bank</i>	<i>Licences and computer software</i>	
		<i>Total</i>			<i>Total</i>
Cost			Cost		
31 December 2006	6,487	6,487	31 December 2005	4,992	4,992
Additions	2,006	2,006	Additions	2,068	2,068
Write-offs	(289)	(289)	Write-offs	(573)	(573)
31 December 2007	8,204	8,204	31 December 2006	6,487	6,487
Accumulated amortisation and impairment			Accumulated amortisation and impairment		
31 December 2006	3,963	3,963	31 December 2005	3,820	3,820
Charge for the year	923	923	Charge for the year	716	716
Write-offs	(289)	(289)	Write-offs	(573)	(573)
31 December 2007	4,597	4,597	31 December 2006	3,963	3,963
Net book value:			Net book value:		
31 December 2006	2,524	2,524	31 December 2005	1,172	1,172
31 December 2007	3,607	3,607	31 December 2006	2,524	2,524

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

(LTL thousand)

11. Taxation

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Current income tax expense	19,412	14,805	13,952	10,583
Correction of prior year income tax	93	(110)	93	(110)
Change in deferred income tax	(510)	(605)	(414)	(426)
Income tax expenses	18,995	14,090	13,631	10,047
Components of deferred income tax				
<i>Deferred income tax assets</i>				
Revaluation of securities	52	1,118	-	1,118
Loss carry forward to 2008-2012 (on financial instruments)	2,558	975	2,012	975
Vacation pay and bonus accrual	35	803	-	356
Impairment of financial assets	1,540	2,349	-	-
Deferred administration fee	2,096	1,519	-	-
Loss carry forward to 2008-2012 (tax losses)	935	294	-	-
Other deferred tax asset items	619	233	-	-
Total deferred income tax assets	7,835	7,291	2,012	2,449
Less: valuation allowance	(3,106)	(3,446)	(712)	(1,187)
Deferred income tax assets, net	4,729	3,845	1,300	1,262
<i>Deferred income tax liabilities</i>				
Revaluation of property and equipment and investment properties	(12,248)	(8,462)	(4,886)	(2,525)
Investment incentive	(1,280)	(1,741)	(1,281)	(1,741)
Revaluation of derivative instruments	(294)	(167)	(293)	(167)
Deferred commission expenses	(408)	(526)	-	-
Fair value step-ups of intangible assets	(1,673)	(1,944)	-	-
Total deferred income tax liabilities	(15,903)	(12,840)	(6,460)	(4,433)
Deferred income tax, net	(11,174)	(8,995)	(5,160)	(3,171)
Presented as:				
Deferred income tax asset	544	250	-	-
Deferred income tax liability	(11,718)	(9,245)	(5,160)	(3,171)
Deferred income tax, net	(11,174)	(8,995)	(5,160)	(3,171)
Deferred tax change, recognized				
(Expenses) income recorded through profit or loss	510	605	414	426
(Expenses) income recorded through equity	(2,689)	(2,277)	(2,403)	(321)
Net deferred tax change	(2,179)	(1,672)	(1,989)	105

The Group and the Bank 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 and the Bank does not expect to realise deferred tax asset in the nearest future, it was decided to make realisation allowance for it.

(LTL thousand)

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:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Income tax calculated at statutory 18% tax rate (2006 – 19%)	16,544	15,023	15,364	11,762
Permanent differences	2,861	439	(1,351)	(995)
Effect of different tax rates in other countries	(931)	(965)	-	-
Prior year income tax correction	93	(110)	93	(110)
Change in taxation treatment of temporary differences	768	-	-	-
Change in valuation allowance	(340)	(297)	(475)	(610)
Total income tax	18,995	14,090	13,631	10,047

12. Allowances for Impairment and Provisions

The changes in allowances for impairment of interest earning assets carried at amortized cost were as follows:

	<i>Loans to customers</i>	
	<i>Group</i>	<i>Bank</i>
31 December 2005	46,091	38,455
Charge (reversal)	11,485	2,112
Write-offs	(22,819)	(20,285)
Effect of changes in currency rates	(62)	(3)
31 December 2006	34,695	20,279
Charge (reversal)	5,666	(8,155)
Write-offs	(10,400)	(5,033)
Effect of changes in currency rates	(17)	(3)
31 December 2007	29,944	7,088

The allowances for impairment made for individually impaired loans of the Group at 31 December 2007 amounts to LTL 19,852 thousand, the Bank – LTL 4,822 thousand (in 2006 – LTL 17,597 thousand, LTL 16,366 thousand respectively). Collective impairment of the Group at 31 December 2007 amounts to LTL 10,092 thousand, the Bank – LTL 2,266 thousand (in 2006 – LTL 17,098 thousand, LTL 3,913 thousand respectively).

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

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Charge (reversal)	5,666	11,485	(8,155)	2,112
Recoveries of previously written-off loans	(4,395)	(2,826)	(3,321)	(1,908)
As reported in income statement	1,271	8,659	(11,476)	204

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

	<i>Group</i>			<i>Bank</i>		
	<i>Guarantees issued and credit</i>		<i>Total</i>	<i>Other assets</i>	<i>Guarantees issued and credit</i>	
<i>Other assets</i>	<i>commitments</i>	<i>Other assets</i>			<i>commitments</i>	<i>Total</i>
31 December 2005	33	114	147	-	51	51
Charge (reversal)	(84)	89	5	-	89	89
Effect of changes in currency rates	51	1	52	-	-	-
31 December 2006	-	204	204	-	140	140
Charge (reversal)	-	(204)	(204)	-	(140)	(14)
Effect of changes in currency rates	-	-	-	-	-	-
31 December 2007	-	-	-	-	-	-

(LTL thousand)

13. Other Assets and Other Liabilities

Other assets comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Other assets				
Projects under development	43,503	24,126	-	-
Prepayments	15,915	8,518	3,724	1,657
Transit accounts	7,136	663	7,136	5,500
Various receivables	4,510	1,867	252	208
Supplies for operations	4,274	4,820	3,829	3,256
Other assets	6,426	12,714	847	1,998
Total other assets	81,764	52,708	15,788	12,619

Other liabilities comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Other liabilities				
Various payables	25,247	30,274	-	169
Accrued expenses	17,390	11,354	8,555	4,485
Transit accounts	12,886	13,324	12,373	13,284
Payments collected for utilities	12,369	12,385	12,146	13,594
Advances received	4,810	2,018	4,396	2,560
Deferred income	1,152	668	245	-
Other	13,818	8,018	7,227	8,429
Total other liabilities	87,672	78,041	44,942	42,521

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

14. 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 2007 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70,198 (in 2006 – 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. The conditions for conversion will be agreed by the parties in good faith.

As of 31 December 2007, the Bank's subsidiary's Latvijas Krājbanka A/S outstanding subordinated loan from Convers Group Management Company amounted to LTL 19,163 thousand (LTL 19,152 thousand in 2006). 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 fixed conversion price of LVL 1.15 per share.

As of 31 December 2007 the Bank's subsidiary's Latvijas Krājbanka A/S had two subordinated loans from Akademgrupp. The outstanding subordinated loan, dated 27 December 2006, was LTL 17,037 thousand (LTL 18,870 thousand in 2006). The debt terms include an interest rate of 8.6% and a term of seven years, maturing on 27 December 2013. The outstanding subordinated loan, dated 27 August 2007, was LTL 7,981 thousand. The debt terms include an interest rate of 9.3% and a term of six years, maturing on 27 August 2013. According to these agreements on subordinated loans with Akademgrupp, the borrower has the right to receive the invested funds at the end of the loan agreement or if the bank is liquidated.

(LTL thousand)

15. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Time deposits and loans	218,945	885,721	82,519	635,545
Repurchase agreements	259,909	-	259,909	-
Current accounts	40,458	11,859	40,168	10,921
Amounts due to credit institutions	519,312	897,580	382,596	646,466

The fair value of securities placed as collateral on repurchase agreements was LTL 273,353 thousands.

16. Amounts Due to Customers

The amounts due to customers include the following:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Time deposits	3,921,403	2,798,501	2,791,466	1,992,679
Current accounts	3,095,918	1,923,111	1,325,574	1,114,629
Amounts due to customers	7,017,321	4,721,612	4,117,040	3,107,308

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

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Individuals	3,694,349	2,941,773	2,381,234	1,802,672
Corporate clients	2,973,358	1,318,544	1,561,108	1,125,464
Government departments and state owned enterprises	344,795	139,246	162,972	128,176
Other	4,819	322,049	11,726	50,996
Amounts due to customers	7,017,321	4,721,612	4,117,040	3,107,308

An analysis of customer accounts by sector follows:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Individuals	3,694,349	2,941,713	2,381,234	1,802,672
Services	1,280,444	623,430	455,424	623,430
Trade	377,656	288,413	377,656	288,413
Real estate	110,393	54,536	112,044	54,718
Transport and communication	85,943	52,892	85,943	52,892
Constructions	43,482	30,975	43,482	30,975
Insurance	26,395	19,922	17,330	16,344
Manufacturing	23,564	55,603	23,647	55,603
Fuel	17,611	11,118	17,611	11,118
Agriculture	15,656	4,883	15,656	4,883
Construction of equipment	14,248	12,049	14,248	12,049
Security brokers	5,580	18,953	17,979	18,616
Chemicals	2,325	1,592	2,242	1,592
Metallurgy	167	230	167	230
Public management	109,851	-	109,851	-
Other	1,209,657	605,303	442,526	133,773
Amounts due to customers	7,017,321	4,721,612	4,117,040	3,107,308

As of 31 December 2007 the Group had deposits from one customer amounting to USD 500 million (LTL 1,179 million). As of 31 December 2007, the Bank had a deposit from one customer in amount of USD 150 million (LTL 354 million). As of 31 December 2006 the Group and the Bank had a deposit from one customer in amount of USD 50 million (LTL 132 million).

(LTL thousand)

17. Debt Securities Issued

As of 31 December 2007 the Group had the coupon debt securities issued with the amortised cost in amount of LTL 639,920 thousand:

- In 21 May 2007 the Bank issued debt securities with the aggregate par value of EUR 175,000 thousand (LTL 604,240 thousand), coupon rate - 7% and maturing on 21 May 2010. The amortised cost of debt securities amounts to LTL 625,378 thousand as of 31 December 2007. As of 31 December 2007 the subsidiary of the Bank Latvijas Krājbanka A/S had these debt securities in amount of LTL 3,269 thousand, which were eliminated in consolidated accounts. The debt securities place various restrictions on the Bank and its subsidiaries including limitations on indebtedness, issuance of guarantees and the pledging, mortgage or sale of certain assets; the debt securities also contain a cross-default provision.
- In 31 January 2007 Latvijas Krājbanka A/S issued debt securities with the aggregate par value of EUR 5,000 thousand (LTL 17,264 thousand), coupon rate – 4.875% and maturing on 31 January 2010. The amortised cost of debt securities amounts to LTL 17,811 thousand as of 31 December 2007.

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

18. Equity

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

Bank

Calculation of weighted average for 2007	Number of shares	Par value	Issued/ 365 (days)	Weighted average of ordinary shares
Ordinary shares issued as of 31 December 2006*	137,267,200	1	365/365	137,267,200
Preference shares issued as of 31 December 2006	2,000,000	10	365/365	-
New emission of ordinary shares on 15 January 2007	54,906,880	1	350/365	52,650,433
New emission of ordinary shares on 16 August 2007	41,180,160	1	137/365	15,465,663
Shares issued as of 31 December 2007	253,354,240		365/365	205,374,296

* In January 2007 the par value of ordinary shares was decreased from LTL 10 to LTL 1 by increasing the number of shares accordingly. The number of ordinary shares in the table above is shown after the influence of share split.

Bank

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	-
Shares issued as of 31 December 2006	15,726,720	10	365/365	13,726,720

The preference shares (nominal value – LTL 20,000 thousands) are without voting right and with non-cumulative 10% dividend, therefore excluded from the calculations of the weighted average.

As of 31 December 2007 and 2006 all shares were fully paid.

(LTL thousand)

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 operations.

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 a share capital increase but cannot be distributed in any other manner.

Other general reserves

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

19. Earnings per Share

	<i>Group</i>	
	<i>2007</i>	<i>2006</i>
		(revised)
Net profit attributable to Bank shareholders from continuing operations	67,372	61,288
Dividends attributable to preferred shares	(2,000)	-
Profit attributable to ordinary shares	65,372	61,288
Net profit attributable to Bank shareholders from discontinued operations	-	356
Weighted average number of ordinary shares as of 31 December 2007 (thousand)*	205,374	137,267
Basic and diluted earnings per ordinary share (LTL)	0.32	0.45
Basic and diluted earnings per ordinary share for continuing operations (LTL)	0.32	0.45
Basic and diluted earnings per ordinary share for discontinued operations (LTL)	0.00	0.00

*In January 2007 the par value of ordinary shares was decreased from LTL 10 to LTL 1 by increasing the number of shares accordingly. The number of ordinary shares in the table above is shown after the influence of share split.

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. In 2007, management reconsidered the treatment of preferred dividends in the calculation of earnings per ordinary share to only deduct such dividends when declared, whereas in 2006 the preferred dividends were accrued. Accordingly, the 2006 comparative earnings per share figures were revised and increased from 0.43 to 0.45 per share. Once the dividends are declared, the first LTL 2,000 thousand is to be paid for these shares. As dividends were declared in 2007, the preferred dividends were deducted from profit attributable to ordinary shares in 2007.

Management has prepared the project profit appropriation, which includes dividends for 2007 (Note 36). Respective amount will be paid to the holders of preference shares, if the profit appropriation is approved by the shareholders.

The Bank and the Group have 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. The conditions for conversion will be agreed by the parties in good faith.

(LTL thousand)

20. Dividends per Share

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Dividends paid on preference shares	2,000	-	2,000	-
Dividends paid on ordinary shares	23,061	9,608	23,061	9,608
Total dividends paid	25,061	9,608	25,061	9,608
Number of preference shares (thousand)	2,000	-	2,000	-
Number of ordinary shares (thousand)	251,354	137,267	251,354	137,267
Shares issued as of 31 December (Note 18)	253,354	137,267	253,354	137,267
Dividends per preference share (LTL)	1.00	-	1.00	-
Dividends per ordinary share (LTL)	0.09	0.07	0.09	0.07

21. Commitments and Contingencies*Legal*

In the ordinary course of business, the Group and the Bank are 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 and the Bank.

Financial commitments and contingencies

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

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Credit related commitments				
Credit commitments	511,222	413,494	450,921	368,286
Issued guarantees	47,694	26,284	38,674	17,798
Total credit related commitments	558,916	439,778	489,597	386,084
Less - Provisions	-	(204)	-	(140)
Credit related commitments, net	558,916	439,574	489,597	385,944

22. Interest income and expenses

Net interest income:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
On placements with central bank	5,892	3,678	2,621	1,534
On loans and placements with credit institutions	73,760	31,020	41,054	22,431
On loans to customers	292,940	194,041	146,230	89,968
On financial assets at fair value through profit or loss	17,922	32,502	14,381	30,236
On held to maturity investments and available for sale financial assets	35,106	9,486	29,651	5,539
Interest income	425,620	270,727	233,957	149,708
On liabilities to and placements from credit institutions	13,474	8,330	6,600	4,561
On subordinated loans	7,158	4,429	4,011	3,071
On deposits and other repayable amounts	161,760	92,128	93,220	63,249
Deposit insurance expenses	18,542	13,960	14,531	11,476
On debt securities issued	28,284	653	27,617	653
Interest expenses	229,218	119,500	146,009	83,010
Net interest income	196,402	151,227	87,948	66,698

(LTL thousand)

23. Net Fee and Commission Income

Net fee and commission income comprises:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Payment card servicing	36,666	29,078	21,189	16,437
Settlement operations	21,439	20,106	12,990	12,883
Commissions for other payments	11,858	14,190	11,858	14,190
Cash collection	9,615	8,769	7,377	6,478
Collection of payments for utilities	4,871	6,043	10,762	12,960
Currency exchange operations	3,622	2,807	3,334	2,574
Securities' operations	3,530	3,365	651	179
Guarantees and letters of credit	104	972	91	435
Other income	11,446	8,551	3,910	2,659
Fee and commission income	103,151	93,881	72,168	68,795
Payment card servicing	8,691	7,131	3,099	2,752
Cash collection	1,848	1,022	1,848	1,022
Settlement operations	1,745	1,967	1,745	1,968
Securities' operations	1,691	1,718	1,600	1,557
Currency exchange operations	262	105	262	105
Other expenses	9,892	6,393	350	401
Fee and commission expense	24,129	18,336	8,910	7,805
Net fee and commission income	79,022	75,545	63,258	60,990

24. Gains less Losses from Transactions with Financial assets designated at fair value through profit or loss

The gains less losses from transactions with securities comprise revaluation result for securities, designated as at fair value through profit or loss upon their initial recognition (Note 4).

25. Gains less Losses from Transactions with Financial Instruments classified as held for trading

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

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Gains less losses from transactions with securities	64	(5,937)	4	(6,727)
Gains less losses from derivative instruments	(739)	4,800	(3,111)	1,802
Gains less losses from transactions with financial instruments at fair value through profit or loss	(675)	(1,137)	(3,067)	(4,925)

26. Gains less Losses from Transactions in Foreign Currencies

Net result from transactions in foreign currencies comprises:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Profit from foreign currency exchange	46,645	25,008	24,100	16,657
(Loss) from revaluation of foreign currency positions	(17,028)	539	(13,497)	1,797
Net foreign exchange gain	29,617	25,547	10,604	18,454

Foreign currency transactions principally consist of commissions on currency sales with customers.

(LTL thousand)

27. Other Income

Other income comprises:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Change in fair value of investment property	4,125	4,761	-	-
Income from sale of assets	2,033	1,601	21	65
Other income	2,158	1,651	1,61	740
Other income	8,316	8,013	1,83	805

28. Salaries, Benefits and Other Operating Expenses

Salaries and benefits, and other operating expenses comprise:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Salaries and benefits	84,030	65,014	42,395	32,474
Social security costs	22,186	16,962	12,721	9,998
Salaries and benefits	106,216	81,976	55,116	42,472
Rent	14,867	6,784	5,77	1,711
Repair and maintenance of property and equipment	12,760	12,062	7,99	8,438
Marketing, advertising and representation	11,021	10,069	6,05	5,329
Communications	9,681	9,060	5,06	5,022
Taxes, other than income tax	7,593	6,613	6,73	5,279
Charity	2,386	3,392	1,09	2,585
Legal and other consultancy	3,364	2,946	91	2,271
Security	3,000	2,870	1,17	1,136
Data processing	2,197	1,671	1,753	1,265
Representation expenses	2,114	932	1,71	514
Business travel and other related expenses	1,992	1,010	74	461
Stationery	1,175	1,143	47	471
Loss on disposal of property and equipment	506	2,451	7	41
Personnel training	473	496	30	368
Other	15,656	10,208	4,07	3,122
Other operating expenses	88,785	71,707	43,95	38,013

(LTL thousand)

29. Business Combination*Acquisition in 2007*

On 1 July 2007 the A/S „Latvijas Krājbanka“ bought 100% of AS „Pirmais atklātais pensiju fonds” (JSC “First Open Pension Funds”), acquiring 29,200 shares for the total amount of LTL 159 thousand (LVL 32 thousand), thus becoming the only holder of the company’s shares.

Fair value of AS "Ieguldījumu sabiedrība „Pirmais atklātais pensiju fonds” assets, liabilities and contingent liabilities on the acquisition date were as follows:

	<i>Recognised on acquisition</i>	<i>Carrying value</i>
Balances due from credit institutions	149	149
Other assets	15	25
Total	164	174
Liabilities	5	5
Bank’s share of net assets measured at fair value	159	-
Paid	159	-

AS „Pirmais atklātais pensiju fonds” turnover and net profit for the time period from 1 July 2007 up to the 31 December 31 2007 comprised LTL 45 thousand and LTL 40 thousand respectively. 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.

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
	2,432	1,256
Total liabilities	60	60
Fair value of net assets	2,372	
Group’s share of the fair value of net assets (50%)	1,186	
Goodwill arising on acquisition	-	
Consideration paid	1,186	

*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 10).

(LTL thousand)

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.

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 and its subsidiaries in Latvia). 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>Eliminations</i>		<i>Group</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Total revenue from external customers	347,855	259,796	222,555	138,402	(8,776)	(667)	561,634	397,531
Revenue from segments	8,350	202	426	465	(8,776)	(667)	-	-
Total revenue	356,205	259,998	222,981	138,867	(17,552)	(1,334)	561,634	397,531
Segment results	63,460	59,060	28,452	20,009	-	-	91,912	79,069
Profit from discontinued operations							-	356
Profit before tax							91,912	79,425
Income tax expense							(18,995)	(14,090)
Profit for the year							72,917	65,335
Segment assets*	5,660,416	4,156,972	3,339,432	2,020,255	(3,408)	(9,476)	8,996,440	6,167,751
Unallocated assets							544	371,729
Total assets							8,996,984	6,539,480
Segment liabilities*	5,293,633	3,952,544	3,109,736	1,896,637	(22,088)	(33,729)	8,381,281	5,815,452
Unallocated liabilities							20,208	375,768
Total liabilities							8,401,489	6,191,220
Capital expenditure (including intangibles, excluding goodwill)	18,471	12,094	43,663	15,420	-	-	62,134	27,514
Depreciation and amortisation	9,414	8,452	10,829	9,827	-	-	20,243	18,279
Change in impairment	(3,708)	8,116	4,979	543	-	-	1,271	8,659
Number of employees at the end of the period	1,214	1,079	897	870	-	-	2,111	1,949

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

The revenues according to customers' location can be specified as follows:

	<i>2007</i>	<i>2006</i>
Lithuanian customers	244,957	194,657
Latvian customers	192,884	128,692
Other	123,793	74,182
Total revenue	561,634	397,531

Business segments are not applicable to the Group.

(LTL thousand)

31. Financial Risk Management

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

Credit risk

The Group and the Bank bear an exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group or the Bank by failing to fulfil an obligation on time. The main principle of the credit policy is the assessment of creditworthiness of every counterparty to receive funding from the bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. The lending is provided according to the Lending policy and Credit risk management policy. The key principles of the latter state that risk-return trade-off shall be properly evaluated; in case of large transaction creditworthiness, reliability and nature of the transaction shall be known. In measuring credit risk of individual customer the Bank applies internal ten grade rating system. In measuring joint portfolio credit risk scoring is applied.

The Group's and the Bank's Credit risk management policy sets lending limits regarding single exposure, related exposures and economic activities exposures. The key approach is that credit risk concentration in one industry segment shall not exceed 15 percent of the total credit portfolio value. The policy also places limits on the credit risk exposure to certain geographical segments.

Credit portfolio is monitored daily and actual exposure against limits is identified. Credit portfolio risk exposure is measured for the total credit portfolio and separately for the groups with the similar characteristics: loans to individuals, mortgages, credit cards limits, and loans to corporate entities.

The Group and the Bank take an exposure on the credit risk of interbank deals, setting limits to such deals and amounts held in correspondent accounts. The limit to the amount held in correspondent accounts is set according to the correspondent bank credit ratings and other reliability parameters.

Debt securities of banking portfolio are subject to individual risk limits and credit ratings.

Maximum exposure to credit risk

The maximum exposure to credit risk of different financial instrument groups without taking in account the value of credit risk decreasing financial instruments is set out below:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Cash equivalents	2,876,301	1,555,501	1,451,142	844,946
Financial assets at fair value through profit or loss	808,842	418,929	705,715	331,645
Amounts due from credit institutions	438,360	173,002	387,828	158,364
Available-for-sale financial assets	33,835	866,486	32,865	865,502
Held-to-maturity financial assets	149,999	145,287	126,309	73,114
Loans to customers, net	4,086,816	2,537,859	2,648,726	1,552,173
Total	8,394,153	5,697,064	5,352,585	3,825,744
Contingent liabilities	511,222	413,494	450,923	368,286
Financial commitments	47,694	26,080	38,674	17,658
Total	558,916	439,574	489,597	385,944
Maximum credit exposure	8,953,069	6,136,638	5,842,182	4,211,688

The maximum credit risk exposure to one client or counterparty as of 31 December 2007 in the Group was LTL 71,065 thousand (as of 31 December 2006 – LTL 49,889 thousand), in the Bank – LTL 71,065 (as of 31 December 2006 – LTL 48,937 thousand).

(LTL thousand)

Maximum exposure to credit risk by industry

Credit risk exposure by industry is set out below:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Individuals	2,181,537	1,540,246	1,192,098	777,396
Banking (including central banks)	3,626,629	1,924,763	2,113,543	1,151,629
Real estate	588,753	193,694	373,827	72,080
Government and municipalities	575,168	1,242,863	521,852	1,104,386
Trading	282,857	155,044	208,067	98,953
Manufacturing	255,565	143,825	192,090	102,734
Financial services	221,098	272,546	447,071	439,497
Services	218,078	264,930	162,409	161,620
Transport	203,286	32,965	101,958	25,118
Constructions	198,208	119,365	160,487	96,253
Agriculture and food processing	106,425	39,837	66,199	7,455
Electricity	32,370	-	25,099	-
Fuel, gas and chemical	3,473	-	-	-
Other	459,622	206,560	277,482	174,567
Total	8,953,069	6,136,638	5,842,182	4,211,688

Maximum exposure to credit risk by countries

Credit risk exposure by countries is set out below:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Lithuania	2,953,065	1,938,881	3,043,855	1,967,120
Latvia	1,981,967	1,662,364	58,348	44,667
OECD	2,845,252	1,779,004	1,724,695	1,579,166
Other countries	1,172,785	756,389	1,015,284	620,735
Total	8,953,069	6,136,638	5,842,182	4,211,688

Credit quality per class of financial assets

Credit quality per class of financial assets are outlined below:

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Neither past due nor impaired	8,555,969	5,920,742	5,703,615	4,127,479
Past due not impaired	355,114	192,145	129,371	75,305
Individually impaired	41,986	23,751	9,196	8,904
Total	8,953,069	6,136,638	5,842,182	4,211,688

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2007 amounts to LTL 75,151 thousand, the Bank – LTL 18,710 thousand (in 2006 – LTL 38,309 thousand, LTL 29,856 thousand respectively). The collateral type - property.

The impairment made for individually impaired loans at 31 December 2007 amounts to LTL 19,852 thousand, the Bank – LTL 4,822 thousand (in 2006 – LTL 17,597 thousand, LTL 16,366 thousand respectively). Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2007 amounts to LTL 61,838 thousand, the Bank – LTL 14,018 thousand (in 2006 – LTL 41,348 thousand and LTL 25,270 thousand respectively).

(LTL thousand)

Group

	<i>Neither past due nor impaired 2007</i>				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	4,118,289	-	-	4,118,289
Financial institutions	2,592,847	351,549	298,644	201,964	3,445,004
Investment activities:					
Bonds	909,887	44,581	55	19,504	974,027
Derivatives	-	-	-	18,649	18,649
Total	3,502,734	4,514,419	298,699	240,117	8,555,969

Group

	<i>Neither past due nor impaired 2006</i>				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	2,643,392	-	-	2,643,392
Financial institutions	904,756	216,217	184,815	540,860	1,846,648
Investment activities:					
Bonds	1,396,649	24,356	-	6,708	1,427,713
Derivatives	-	-	-	2,989	2,989
Total	2,301,405	2,883,965	184,815	550,557	5,920,742

Bank

	<i>Neither past due nor impaired 2007</i>				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	2,652,061	-	-	2,652,061
Financial institutions	1,415,150	436,302	255,436	79,777	2,186,665
Investment activities:					
Bonds	830,541	15,699	-	-	846,240
Derivatives	-	-	-	18,649	18,649
Total	2,245,691	3,104,062	255,436	98,426	5,703,615

Bank

	<i>Neither past due nor impaired 2006</i>				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	1,532,412	-	-	1,532,412
Financial institutions	630,194	413,854	184,701	96,057	1,324,806
Investment activities:					
Bonds	1,256,499	10,983	-	-	1,267,482
Derivatives	-	-	-	2,779	2,779
Total	1,886,693	1,957,249	184,701	98,836	4,127,479

(LTL thousand)

Internal credit rating system is grouped as follows:

	Standard & Poor's
High grade	From AAA till BBB-
Standard grade	From B+ till B-
Sub-standard grade	Less B-

All loans, which are neither past due nor impaired, are classified as standard grade.

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

<i>Group</i>	Past due but not impaired loans 2007				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	96,817	9,128	20,425	8,347	134,717
Corporate clients	167,312	3,276	16,572	33,237	220,397
Total	264,129	12,404	36,997	41,584	355,114

<i>Group</i>	Past due but not impaired loans 2006				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	54,353	12,516	6,005	10,176	83,050
Corporate clients	71,689	9,013	1,110	27,283	109,095
Total	126,042	21,529	7,115	37,459	192,145

<i>Bank</i>	Past due but not impaired loans 2007				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	30,621	5,198	879	-	36,698
Corporate clients	48,036	3,127	14,155	27,355	92,673
Total	78,657	8,325	15,034	27,355	129,371

<i>Bank</i>	Past due but not impaired loans 2006				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Private individuals	9,729	939	205	-	10,873
Corporate clients	41,370	5,509	-	17,553	64,432
Total	51,099	6,448	205	17,553	75,305

Carrying amount of financial assets whose terms have been renegotiated

The carrying amount of financial assets whose terms have been renegotiated was LTL 80,762 thousand in the Group and LTL 42,336 thousand in the Bank (Group – LTL 26,463 thousand, Bank – LTL 2,226 thousand in 2006).

Market risk

Market risk is the risk to experience losses or probability that the future cash flows of a financial instrument will decrease due to moves in market factors, such as interest rates, foreign exchange rates and equity prices.

The Group and the Bank separate exposure to market risk into trading related and non-trading related, where risk arises from the currency mismatch between assets and liabilities. Risk management department sets limits to the position value, structure and performs control of the limits by repricing positions by market value. For the trading portfolio of debt securities limits are set according to their credit ratings.

The investment by the Group and the Bank into equity securities is done based on evaluation of equity risks and setting limits to the volatility of a security's price.

(LTL thousand)

Interest rate risk

The Group and Bank take 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 repricing that may be undertaken, which is monitored daily.

General interest rate risk is a risk of decrease of Group's and Bank's interest rate margin due to the mismatch of cash flow terms. The Group and the Bank control exposure to interest rate risk by analyzing and forecasting the market interest rates and setting limits on the level of mismatch of cash flow terms due to different timing of their repricing.

The main tool of general interest rate risk management is interest rate gap report, which is used to measure the Group's and the Bank's earnings exposure to potential interest rate movements.

In 2007 the Bank has implemented new funds transfer pricing system based on the good practice standard such as maturity matched pricing in order to better manage interest rate risk.

Interest rate sensitivity analysis

Influence on Group's and Bank's Statement of Income can be calculated based on changes in term structure of individual currency and applying such changes to all term structures.

Influence on Group's and Bank's Equity is calculated as influence on available for sale financial assets adjusting by changes in interest rates on balance sheet date.

The table represents Group's and Bank's sensitivity to a reasonable possible change in interest rates, with all other variables held constant:

Group	2007			2006		
	Interest rate increase / reduce in basis points	Impact on profit before taxes	Impact on Equity	Interest rate increase / reduce in basis points	Impact on profit before taxes	Impact on Equity
LTL	+200	(1,612)	-	+150	755	-
EUR	+50	511	-	+50	1,518	(5,522)
USD	+50	678	(7)	+50	(133)	(511)
LTL	-200	1,612	-	-150	(755)	-
EUR	-50	(511)	-	-50	(1,518)	5,658
USD	-50	(678)	7	-50	133	532
Bank	2007			2006		
Currency	Interest rate increase / reduce in basis points	Impact on profit before taxes	Impact on Equity	Interest rate increase / reduce in basis points	Impact on profit before taxes	Impact on Equity
LTL	+200	883	-	+150	1,380	-
EUR	+50	293	-	+50	(602)	(5,522)
USD	+50	453	(7)	+50	(684)	(511)
LTL	-200	(883)	-	-150	(1,380)	-
EUR	-50	(293)	-	-50	602	5,658
USD	-50	(453)	7	-50	684	532

(LTL thousand)

Equity and commodity price risk

Equity and commodity price risk is the risk that the call options' or equities' fair value decrease as the result of changes in the levels of market value of equities and equity and commodity indices. The effect on profit (loss) due to a reasonably possible change in indices, with all other variables held constant, is as follows:

<i>Group/Bank</i>	2007		2006	
	Change in price, %	Impact on profit before taxes	Change in price, %	Impact on profit before taxes
Market indices				
Equity Indexes	-/+1.35	-/+562	-/+2.85	-/+844
Commodity indexes	-/+2.37	-/+331	-	-
Equities	-/+15.00	-/+4,960	-	-

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.

Sensitivity analysis of foreign exchange deals

The table represents Group's and Bank's sensitivity analysis of USD and RUB currencies. The Group and the Bank have significant open position in these currencies so there is a possible future impact on the Statement of Income and Group's and Bank's Equity.

<i>Group</i>	2007			2006		
	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity	FX rate change %	Impact on P/L before taxes
RUB	+5	182	-	+5	20	-
RUB	-5	(182)	-	-5	(20)	-
USD	+12	157	-	+12	52	-
USD	-12	(157)	-	-12	(52)	-

<i>Bank</i>	2007			2006		
	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity	FX rate change %	Impact on P/L before taxes
RUB	+5	147	-	+5	27	-
RUB	-5	(147)	-	-5	(27)	-
USD	+12	(28)	-	+12	(181)	-
USD	-12	28	-	-12	181	-

(LTL thousand)

Liquidity Risk

Liquidity risk is the risk that the Group and Bank will be unable to meet its payment obligations associated with its financial liabilities and trade its asset for the relevant price to get funding. Liquidity risk also arises when the Group and Bank are not able to liquidate its market position without significant by lowering market prices. 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 and the Bank perform 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 Bank follows requirements for the liquidity ratio set by the Board of the Bank of Lithuania. The Bank's liquidity ratio (the ratio between certain liquid assets and liabilities) cannot be lower than 30 percent. In 2007 the Bank has outperformed this ratio almost twice. The Bank also follows requirements of the required reserves at the Bank of Lithuania.

The liquidity ratio of the Bank during the year was as follows:

	2007, %	2006, %
Average during the period	58.85	58.16
Highest	67.04	70.15
Lowest	44.57	39.68

Along with regulatory compliance the Group and the Bank apply internal liquidity management tools. The Group and the Bank sets set of ratios between certain type of liquid assets and liabilities to certain types of customers.

The liquidity risk management instruments include monitoring and evaluation of the current and future cash flows. The Bank gets the main funding from customers deposits (around 80 percent of all funding resources). This is the reason the Group and the Bank monitor deposit fluctuation trends, which are used as indicator of depositors' behaviour.

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2007 and 2006 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group and the Bank. The Group's and the Bank's ability to avoid adverse changes in their liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

(LTL thousand)

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.

Group	2007							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde- fined maturity	
Assets:								
Cash and cash equivalents	1,394,387	1,656,117	48,932	-	-	-	-	3,099,436
Financial assets at fair value through profit or loss	-	66,626	61,707	69,336	519,923	87,373	43,088	848,053
Amounts due from credit institutions	-	50,433	172,838	215,089	-	-	-	438,360
Available-for-sale financial assets	-	33,835	-	-	-	-	-	33,835
Held-to-maturity financial assets	-	2,982	10,783	16,206	113,721	6,307	-	149,999
Loans to customers	-	198,939	180,657	995,118	2,051,098	613,425	47,579	4,086,816
Other assets	-	8,200	1,862	621	234	558	329,010	340,485
	1,394,387	2,017,132	476,779	1,296,370	2,684,976	707,663	419,677	8,996,984
Liabilities:								
Due to credit institutions	41,333	379,460	48,042	23,673	26,783	-	21	519,312
Derivative financial liabilities	-	2,677	-	-	-	-	-	2,677
Debt securities issued	-	-	-	-	639,920	-	-	639,920
Amounts due to customers	3,076,194	1,412,174	584,497	1,667,233	275,037	2,186	-	7,017,321
Subordinated loans	-	1,142	71	-	19,158	94,008	-	114,379
Deferred income tax liabilities	-	-	-	-	-	-	11,718	11,718
Provisions	-	-	-	-	-	-	-	-
Other liabilities	12,885	44,126	4,189	3,336	-	-	31,626	96,162
	3,130,412	1,839,579	636,799	1,694,242	960,898	96,194	43,365	8,401,489
Net position	(1,736,025)	177,553	(160,020)	(397,872)	1,724,078	611,469	376,312	595,495
Accumulated gap	(1,736,025)	(1,558,472)	(1,718,492)	(2,116,364)	(392,286)	219,183	595,495	

As of 31 December 2007 the Group had deposits from one customer amounting to USD 500 million (LTL 1,179 million). As of 31 December 2006 the Group had a deposit from one customer in amount of USD 50 million (LTL 132 million).

(LTL thousand)

Group	2006							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde-fined maturity	
Assets:								
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
	1,230,593	634,488	698,122	996,459	2,223,747	482,284	273,787	6,539,480
Liabilities:								
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
	1,955,152	1,594,993	790,375	1,377,165	340,525	110,509	22,501	6,191,220
Net position	(724,559)	(960,505)	(92,253)	(380,706)	1,883,222	371,775	251,286	348,260
Accumulated gap	(724,559)	(1,685,064)	(1,777,317)	(2,158,023)	(274,801)	96,974	348,260	

Long-term loans and overdraft facilities are generally not available in Lithuania and Latvia except for programs set up by international financial institutions. However, in both marketplaces, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. These balances are included in amounts due "on demand" in the tables above. The Group and the Bank have reviewed the historical stability of their current accounts and concluded that half of the balances have the ultimate maturity of more than one year.

The maturity profile of assets and liabilities is determined on the basis of the following criteria:

- Assets are stated according to their remaining period to repayment.
- Assets for which, according to the substance of the transactions, maturity is not defined, or assets whose maturity cannot be precisely determined, are considered to be undated.
- All debt securities within the liquidity portfolio are stated according to their redemption date.
- Liabilities without any defined maturity or with commitments to exercise them on demand are presented under the caption "On demand".

The assets, which have been impaired, are stated net of provisions.

(LTL thousand)

<i>Bank</i>	<i>2007</i>							<i>Total</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>Unde-fined maturity</i>	
Assets								
Cash and cash equivalents	1,110,697	477,124	-	-	-	-	-	1,587,821
Financial assets at fair value through profit or loss	-	53,502	55,468	38,437	481,456	76,852	2,313	708,028
Amounts due from credit institutions	-	-	172,838	214,990	-	-	-	387,828
Available-for-sale financial assets	-	32,865	-	-	-	-	-	32,865
Held-to-maturity financial assets	-	-	-	16,206	110,103	-	-	126,309
Loans to customers, net	-	104,939	108,897	854,317	1,313,324	261,912	5,337	2,648,726
Investments in subsidiaries	-	-	-	-	-	-	136,912	136,912
Other assets	-	909	1,807	159	234	558	121,618	125,285
	1,110,697	669,339	339,010	1,124,109	1,905,117	339,322	266,180	5,753,774
Liabilities:								
Due to credit institutions	41,043	269,817	48,042	23,673	-	-	21	382,596
Derivative financial liabilities	-	418	-	-	-	-	-	418
Debt securities issued	-	-	-	-	625,378	-	-	625,378
Amounts due to customers	1,326,094	1,061,669	440,454	1,100,087	186,550	2,186	-	4,117,040
Subordinated loans	-	1,142	-	-	-	69,056	-	70,198
Deferred income tax liabilities	-	-	-	-	-	-	5,160	5,160
Provisions	-	-	-	-	-	-	-	-
Other liabilities	12,373	21,427	4,189	3,336	-	-	7,175	48,500
	1,379,510	1,354,473	492,685	1,127,096	811,928	71,242	12,356	5,249,290
Net position	(268,813)	(685,134)	(153,675)	(2,987)	1,093,189	268,080	253,824	504,484
Accumulated gap	(268,813)	(953,947)	(1,107,622)	(1,110,609)	(17,420)	250,660	504,484	

As of 31 December 2007 the Bank had a deposit from one customer in amount of USD 150 million (LTL 354 million). As of 31 December 2006 the Bank had a deposit from one customer in amount of USD 50 million (LTL 132 million).

(LTL thousand)

<i>Bank</i>	<i>2006</i>							<i>Total</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>Un- defined maturity</i>	
Assets								
Cash and cash equivalents	830,217	107,902	-	26,456	-	-	-	964,575
Financial assets at fair value through profit or loss	-	4,245	3,663	32,972	256,643	34,122	47,796	379,441
Amounts due from credit institutions	-	2,182	133,200	22,964	-	-	18	158,364
Available-for-sale financial assets	-	3,737	321	29,957	755,716	75,771	-	865,502
Assets of subsidiary classified as held for sale	-	-	36,720	-	-	-	-	36,720
Held-to-maturity financial assets	-	-	-	73,114	-	-	-	73,114
Loans to customers, net	-	58,682	97,716	447,110	817,498	130,969	198	1,552,173
Investments in subsidiaries	-	-	-	-	-	-	85,707	85,707
Other assets	5,502	877	754	42	23	19	88,594	95,811
	835,719	177,625	272,374	632,615	1,829,880	240,881	222,313	4,211,407
Liabilities:								
Due to credit institutions	11,427	554,540	26,837	53,662	-	-	-	646,466
Derivative financial liabilities	-	411	-	-	-	-	-	411
Liabilities of subsidiary classified as held for sale	-	-	-	-	-	26,941	-	26,941
Debt securities issued	-	-	-	8,324	-	-	-	8,324
Amounts due to customers	1,164,783	599,365	293,461	867,691	181,468	537	3	3,107,308
Subordinated loans	-	-	946	-	-	69,056	-	70,002
Deferred income tax liabilities	-	-	-	-	-	-	3,171	3,171
Provisions	-	76	-	14	50	-	-	140
Other liabilities	19,166	22,060	467	5,383	-	-	624	47,700
	1,195,376	1,176,452	321,711	935,074	181,518	96,534	3,798	3,910,463
Net position	(359,657)	(998,827)	(49,337)	(302,459)	1,648,362	144,347	218,515	300,944
Accumulated gap	(359,657)	(1,358,484)	(1,407,821)	(1,710,280)	(61,918)	82,429	300,944	

(LTL thousand)

Analysis of financial liabilities by remaining contractual maturities

The table below presents the maturity profile of the Group and Bank financial liabilities by the remaining maturities under agreements. The amounts of the liabilities disclosed in the table are the contractual undiscounted cash flows.

Group

	2007					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Financial liabilities						
Due to central bank and other banks	443,251	24,946	49,704	-	-	517,901
Derivative financial instruments	347,619	86,574	-	-	-	434,193
Customer deposits	4,493,707	598,284	1,721,158	293,494	2,342	7,108,985
Subordinated debt	1,375	649	6,056	51,342	137,504	196,926
Debt securities in issue	-	466	42,763	707,660	-	750,889
Total undiscounted financial liabilities	5,285,952	710,919	1,819,681	1,052,496	139,846	9,008,894

Group

	2006					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Financial liabilities						
Due to central bank and other banks	798,803	662	64,408	-	-	863,873
Derivative financial instruments	205,590	877	22,286	-	-	228,753
Customer deposits	2,744,221	411,060	1,346,329	308,778	3,965	4,814,353
Subordinated debt	1,194	495	5,035	30,617	145,000	182,341
Debt securities in issue	-	-	9,134	-	-	9,134
Total undiscounted financial liabilities	3,749,808	413,094	1,447,192	339,395	148,965	6,098,454

Bank

	2007					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Financial liabilities						
Due to central bank and other banks	310,928	24,531	48,020	-	-	383,479
Derivative financial instruments	21,473	23,827	-	-	-	45,300
Customer deposits	2,386,817	451,011	1,132,377	197,190	865	4,168,260
Subordinated debt	1,142	-	3,399	18,127	110,535	133,203
Debt securities in issue	-	-	42,297	688,834	-	731,131
Total undiscounted financial liabilities	2,720,360	499,369	1,226,093	904,151	111,400	5,461,373

Bank

	2006					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Financial liabilities						
Due to central bank and other banks	568,856	301	61,478	-	-	630,635
Derivative financial instruments	48,419	-	-	-	-	48,419
Customer deposits	1,781,370	302,539	891,084	195,650	720	3,171,363
Subordinated debt	946	-	2,816	18,773	102,527	125,062
Debt securities in issue	-	-	9,134	-	-	9,134
Total undiscounted financial liabilities	2,399,591	302,840	964,512	214,423	103,247	3,984,613

(LTL thousand)

The tables below shows the contractual expiry by maturity of the Group's and the Bank's contingent liabilities and commitments.

<i>Group</i>	<i>2007</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>	
Credit commitments	61,372	9,425	73,523	327,809	39,093	511,222
Issued guarantees	9,117	273	28,390	5,825	4,089	47,694
Total	70,489	9,698	101,913	333,634	43,182	558,916

<i>Group</i>	<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>	
Credit commitments	52,394	2,045	44,424	297,915	16,716	413,494
Issued guarantees	13,067	138	1,027	8,027	4,025	26,284
Total	65,461	2,183	45,451	305,942	20,741	439,778

<i>Bank</i>	<i>2007</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>	
Credit commitments	1,073	9,425	73,523	327,809	39,093	450,923
Issued guarantees	97	273	28,390	5,825	4,089	38,674
Total	1,170	9,698	101,913	333,634	43,182	489,597

<i>Bank</i>	<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>	
Credit commitments	7,186	2,045	44,424	297,915	16,716	368,286
Issued guarantees	4,581	138	1,027	8,027	4,025	17,798
Total	11,767	2,183	45,451	305,942	20,741	386,084

Operational risk

Operational risk is the risk of loss resulting from external events (natural disasters, third-party theft and forgery, etc.) and inadequate internal processes (IT system's breakdown, mistakes, non-compliance with internal procedures).

The Group and the Bank have implemented and are running an operational risk management system, which was improved and renewed in 2007 based on Basel II recommendations and the good practice standards.

In order to ensure the efficiency, control and integrity of the information on the operational risk events the Group and the Bank have created the register of risk-related issues, which was improved by adding electronic risk events reporting mailbox.

One of the most significant means of mitigating exposure on operational risk is insurance. The Group and the Bank insures most aspects of its activities, thus, in general, it does not experience tangible assets losses.

(LTL thousand)

32. Fair value of financial instruments

Table represents breakdown of difference between financial instruments accounting value and fair value by asset groups. Table does not include non-financial position fair value revaluation.

<i>Group</i>	<i>2007</i>			<i>2006</i>		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Difference</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Difference</i>
Financial Assets						
Cash and cash equivalents	3,099,436	3,099,436	-	1,754,600	1,754,600	-
Financial assets at fair value through profit or loss	848,053	848,053	-	467,010	467,010	-
Amounts due from credit institutions	438,360	438,359	(1)	173,002	173,000	-
Available-for-sale financial assets	33,835	33,835	-	866,486	866,486	-
Assets of subsidiary classified as held for sale	-	-	-	371,479	371,479	-
Held-to-maturity financial assets	149,999	149,935	(64)	145,287	143,870	(1,410)
Loans to customers, net	4,086,808	4,085,122	(1,686)	2,537,860	2,537,860	-
Financial liabilities						
Amounts due to credit institutions	519,312	519,312	-	897,580	897,580	-
Derivative financial liabilities	2,677	2,677	-	1,667	1,667	-
Liabilities of subsidiary classified as held for sale	-	-	-	361,344	361,344	-
Debt securities issued	639,920	565,911	74,009	8,324	8,324	-
Amounts due to customers	7,017,321	7,016,043	1,278	4,721,612	4,721,612	-
Subordinated loans	114,379	110,840	3,539	108,024	107,750	273
Total difference to fair value			<u>77,0</u>			<u>(1,137)</u>

(LTL thousand)

<i>Bank</i>	<i>2007</i>			<i>2006</i>		
	<i>Carrying value</i>	<i>Fair value</i>	<i>Difference</i>	<i>Carrying value</i>	<i>Fair value</i>	<i>Difference</i>
Financial Assets						
Cash and cash equivalents	1,587,821	1,587,82	-	964,575	964,575	-
Financial assets at fair value through profit or loss	708,028	708,02	-	379,441	379,441	-
Amounts due from credit institutions	387,828	387,82	(1)	158,364	158,364	-
Available-for-sale financial assets	32,865	32,86	-	902,222	902,222	-
Held-to-maturity financial assets	126,309	126,30	-	73,114	71,825	(1,289)
Loans to customers, net	2,648,726	2,648,70	(26)	1,552,173	1,552,173	-
Financial liabilities						
Amounts due to credit institutions	382,596	382,59	-	646,466	646,466	-
Derivative financial liabilities	418	41	-	411	411	-
Liabilities of subsidiary classified as held for sale	-	-	-	26,941	26,941	-
Debt securities issued	625,378	551,36	74,009	8,324	8,324	-
Amounts due to customers	4,117,040	4,116,92	114	3,107,308	3,107,308	-
Subordinated loans	70,198	70,19	-	70,002	70,002	-
Total difference to fair value			<u>74,0</u>			<u>(1,289)</u>

The estimated fair value of financial instruments is made in accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's and Bank'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 describes the methodologies and assumptions used to determine the fair value for those financial instruments:

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

Balances with the Central Banks. The carrying amount is 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 is the fair value of such investments.

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.

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.

Debt securities issued. The fair value is calculated using market rates.

(LTL thousand)

Table represents Group's and Bank's financial assets and financial liabilities according to different methods of assessment:

<i>Group</i>	<i>Quoted market price</i>		<i>Valuation techniques – market observable inputs</i>		<i>Valuation techniques – non-market observable inputs</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>Financial assets</i>							
Derivative financial instruments	-	-	3,496	418	16,596	2,571	20,092	2,989
Financial assets at fair value through profit and loss	827,961	464,021	-	-	-	-	827,961	464,021
Available-for-sale financial assets	33,835	866,486	-	-	-	-	33,835	866,486
Total financial assets	861,796	1,330,507	3,496	418	16,596	2,571	881,888	1,333,496
<i>Financial liabilities</i>								
Derivative financial instruments	-	-	2,677	1,667	-	-	2,677	1,667
Total financial liabilities	-	-	2,677	1,667	-	-	2,677	1,667
<i>Bank</i>	<i>Quoted market price</i>		<i>Valuation techniques – market observable inputs</i>		<i>Valuation techniques – non-market observable inputs</i>		<i>Total</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>Financial assets</i>							
Derivative financial instruments	-	-	2,053	208	16,596	2,571	18,649	2,779
Financial assets at fair value through profit and loss	689,379	376,662	-	-	-	-	689,379	376,662
Available-for-sale financial assets	32,865	865,502	-	-	-	-	32,865	865,502
Total financial assets	722,244	1,242,164	2,053	208	16,596	2,571	740,893	1,244,943
<i>Financial liabilities</i>								
Derivative financial instruments	-	-	418	411	-	-	418	411
Total financial liabilities	-	-	418	411	-	-	418	411

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.

(LTL thousand)

The volumes of related party transactions and their balances in 2007 and 2006 are as follows:

<i>Group</i>	<i>2007</i>			<i>2006</i>		
	<i>Shareholders</i>	<i>Subsidiaries</i>	<i>Key management personnel*</i>	<i>Shareholders</i>	<i>Subsidiaries</i>	<i>Key management personnel*</i>
Loans issued at the beginning of the period, net	-		1,097	-		1,173
Loans issued at the end of the period, net	9,604		210	-		1,097
Due from banks at the beginning of the period	-		-	143,670		-
Due from at banks at the end of the period	-		-	52,311		-
Due to banks at the beginning of the period	-		-	2,131		-
Due to banks at the end of the period	-		-	1,716		-
Deposits at the beginning of the period	87		437	4		1,070
Deposits at the end of the period	69		5,590	87		437

<i>Bank</i>	<i>2007</i>			<i>2006</i>		
	<i>Shareholders</i>	<i>Subsidiaries</i>	<i>Key management personnel*</i>	<i>Shareholders</i>	<i>Subsidiaries</i>	<i>Key management personnel*</i>
Loans issued at the beginning of the period, net	-	204,936	342	-	233,574	375
Loans issued at the end of the period, net	9,604	281,844	200	-	204,936	342
Due from banks at the beginning of the period	-	33,465	-	38,881	29	-
Due from at banks at the end of the period	-	21,871	-	10,487	33,465	-
Due to banks at the beginning of the period	-	755	-	297	59	-
Due to banks at the end of the period	-	138	-	692	755	-
Deposits at the beginning of the period	87	1,307	209	4	5,052	1,069
Deposits at the end of the period	69	4,984	5,469	87	1,307	209

* Key management personnel include presidents and vice-presidents of Bankas Snoras AB and Latvijas Krajbanka A/S

Compensation of key management personnel comprised the following (salaries are shown with the bonuses to the key management):

	<i>Group</i>		<i>Bank</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Salaries and other short-term benefits	4,004	2,675	1,657	833
Social security costs	647	334	513	260
Total key management compensation	4,651	3,009	2,170	1,093

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 2007 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70,198 thousand (LTL 70,002 thousand as of 31 December 2006) (Note 14).

In November 2007 the Bank sold the part of loan portfolio that involved impaired loans to the Group's subsidiary company Snoro rizikos kapitālo valdymas UAB. The amount of transaction was LTL 13,932 thousand.

On 5 February 2007 the Bank transferred the control of Conversbank (UK) Ltd. (Note 35) to the main shareholder of the Group, Mr. V. Antonov. The subsidiary was disposed for its carrying value to Mr. V. Antonov.

(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. Additionally, the Bank has agreed with the Bank of Lithuania to maintain a capital adequacy ratio of 10% (for the Bank only) through December 31, 2008; as of 31 December 2007 and 2006, the Group and the Bank were in compliance with the capital adequacy requirements.

Capital adequacy ratios of the Group, the Bank, Latvijas Krājbanka Group and Latvijas Krājbanka A/S were as follows (%):

	<i>Group</i>	<i>Bank</i>	<i>Latvijas Krājbanka Group</i>	<i>Latvijas Krājbanka A/S</i>
31 December 2007	10.55	11.72	12.00	12.10
31 December 2006	8.95	10.26	11.90	11.70

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

	<i>2007</i>		<i>2006</i>	
	<i>Nominal</i>	<i>Weighted</i>	<i>Nominal</i>	<i>Weighted</i>
Capital adequacy calculation, the Group				
Tier 1 equity items	410,765	410,765	194,256	194,256
Tier 2 equity items	182,283	182,283	150,934	150,934
Deductions from capital	(20,845)	(20,845)	(34,522)	(34,522)
Eligible capital	572,203	572,203	310,668	310,668
Risk weighted assets				
0% risk assets	1,233,097	-	2,019,640	-
20% risk assets	2,798,427	559,685	1,145,361	229,072
50% risk assets	342,566	171,283	216,183	108,092
100% risk assets	4,338,126	4,338,126	2,656,765	2,656,765
Off balance sheet risk weighted commitments	559,297	267,811	439,818	200,287
Trading book requirement	954,688	86,338	757,989	276,713
Total risk exposure		5,423,243		3,470,929
Capital adequacy ratio		10.55		8.95

	<i>2007</i>		<i>2006</i>	
	<i>Nominal</i>	<i>Weighted</i>	<i>Nominal</i>	<i>Weighted</i>
Capital adequacy calculation, the Bank				
Tier 1 equity items	393,640	393,640	190,835	190,835
Tier 2 equity items	126,513	126,513	135,876	135,876
Deductions from capital	(115,877)	(115,877)	(104,083)	(104,083)
Eligible capital	404,276	404,276	222,628	222,628
Risk weighted assets				
0% risk assets	939,979	-	1,462,913	-
20% risk assets	1,494,188	298,838	512,498	102,500
50% risk assets	150,606	75,303	85,060	42,530
100% risk assets	2,791,872	2,791,872	1,667,413	1,667,413
Off balance sheet risk weighted commitments	489,978	232,491	386,125	194,299
Trading book requirement	412,450	51,690	500,132	163,500
Total risk exposure		3,450,194		2,170,242
Capital adequacy ratio		11.72		10.26

*(LTL thousand)***35. 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 after the main shareholder of the Group Mr. V. Antonov had been 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.

The assets and liabilities of subsidiary classified as held for sale as of 31 December 2006 was as follows:

Assets

Cash and cash equivalents	65,596
Deposits' certificate acquired	576
Held-to-maturity financial assets	236,223
Goodwill	15,331
Property and equipment	51,689
Other assets	2,064
Total assets	371,479

Total assets, directly associated with the subsidiary classified as held for sale	371,479
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Liabilities

Amounts due to customers	322,303
Subordinated loans	9,779
Other liabilities	2,321
Total liabilities	334,403

Liability for the subsidiary acquired for sale	26,941
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Total liabilities, directly associated with subsidiary classified as held for sale	361,344
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In the beginning of 2007 all approvals were received and all rights and responsibilities pertaining to Conversbank (UK) Ltd. were transferred to Mr. V. Antonov on 5 February 2007.

*(LTL thousand)***36. Subsequent events**

In 11 February 2008 the Bank started to distribute six issues of debt securities, related to Russian RDX index.

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

	<u>2007</u>
Unappropriated retained earnings at the beginning of the period	24,959
Transfer of revaluation reserve to the retained earnings	56
Current year result	<u>71,723</u>
Unappropriated retained earnings	96,738
Unappropriated retained earnings to be distributed	37,307
Distribution:	
To reserve capital	4,837
To other general reserves	2,467
To pay dividends	<u>30,003</u>
Undistributed retained earnings carried to next year	<u>59,431</u>

It is planned that the shareholders will approve LTL 700 thousand tantièmes to the members of the supervisory council and the board. The respective amount was accrued in the financial statements of the Bank.