Bankas Snoras AB
Consolidated Financial Statements

Years ended 31 December 2005 and 2004
Together with Report of Independent Auditors

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BANKAS SNORAS AB

We have audited the accompanying consolidated balance sheet of Bankas Snoras AB ("the Bank") together with its subsidiaries ("the Group") as of 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and the results of the operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

Furthermore, we have read the Management Report for the year ended 31 December 2005 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2005.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

Ramūnas Bartašius
Auditor's licence
No. 000362

The audit was completed on 3 March 2006.

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CONSOLIDATED BALANCE SHEETS

(LTL thousand)

	Notes	2005	2004
		Years ended 31 December,	
Assets			
Cash and cash equivalents	4	1,092,060	428,291
Financial assets at fair value through profit or loss	5	928,464	588,285
Amounts due from credit institutions	6	239,294	168,265
Available-for-sale financial assets	9	-	5,275
Derivative financial instruments	7	3,367	7,015
Held-to-maturity financial assets	9	156,196	-
Loans to customers, net	8	1,865,862	671,294
Investments to associates	10	600	-
Investment property	11	17,056	-
Property, plant and equipment	12	124,937	76,212
Intangible assets	13	15,361	999
Other assets	16	60,389	36,320
Total assets		**4,503,586**	**1,981,956**
Liabilities			
Amounts due to credit institutions	18	566,019	287,509
Derivative financial liabilities	7	556	34
Debt securities issued	20	16,713	-
Amounts due to customers	19	3,484,041	1,444,541
Subordinated loans	17	89,018	-
Current income tax liabilities	14	7,803	-
Deferred income tax liabilities	14	8,465	4,737
Provisions	15	114	552
Other liabilities	16	70,647	34,263
Total liabilities		**4,243,376**	**1,771,636**
Equity	21		
Share capital		137,267	137,267
Reserves		62,195	60,970
Retained earnings		46,152	12,083
Total equity attributable to shareholders of the Group		**245,614**	**210,320**
Minority interest		14,596	-
Total equity		**260,210**	**210,320**
Total equity and liabilities		**4,503,586**	**1,981,956**

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

President	Raimondas Baranauskas		3 March 2006
Chief Accountant	Zita Selenkovienė		3 March 2006

The accompanying notes on pages 8 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(LTL thousand)

	Notes	Years ended 31 December, 2005	2004
Interest income			
On loans to customers		108,380	76,370
On debt securities		31,366	20,649
On loans and placements with credit institutions		10,081	4,491
		149,827	**101,510**
Interest expense			
On deposits		42,388	27,291
Placements from credit institutions		7,340	1,342
On debt securities issued		153	591
On subordinated loans		1,088	-
		50,969	**29,224**
Net interest income		**98,858**	**72,286**
(Impairment) of interest earning assets	15	(5,665)	(25,843)
Net interest income after impairment of interest earning assets		**93,193**	**46,443**
Fee and commission income		55,261	38,595
Fee and commission expenses		(11,678)	(5,137)
Net fee and commission income	25	**43,583**	**33,458**
Gains less losses from securities at fair value through profit or loss	26	(11,375)	(1,764)
Gains less losses from derivative instruments	27	(2,567)	1,688
Gains less losses from foreign currencies	28	18,475	6,271
Dividend income		35	17
Other income	29	8,008	1,518
Other non interest income		**12,576**	**7,730**
Salaries and benefits	30	44,129	32,696
Depreciation and amortisation	12, 13	10,111	9,003
Other operating expenses	30	43,952	31,165
Other impairment and provisions (releases)	15	(394)	625
Operating expenses		**97,798**	**73,489**
Profit before income tax		**51,554**	**14,142**
Income tax expense	14	(5,943)	(2,737)
Profit for the year		**45,611**	**11,405**
Attributable to:			
Minority interest		(688)	-
Equity holders of the parent		**44,923**	**11,405**
Earnings per share	22	3.27	0.83

The accompanying notes on pages 8 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended 31 December, 2005 and 2004

(LTL thousand)

	Attributable to the shareholders of the Group								
	Share Capital	***Share surplus***	***Reserve capital***	***Revaluation reserve of property, plant and equipment***	***Reserve of foreign currency translation***	***Other general reserves***	***Retained earnings (loss)***	***Minority interest***	***Total equity***
As of 1 January 2004	137,267	305	2,428	18,312	-	39,563	1,040	-	198,915
Transfer to reserve capital	-	-	362	-	-	-	(362)	-	-
Net profit for the year	-	-	-	-	-	-	11,405	-	11,405
As of 31 December 2004	137,267	305	2,790	18,312	-	39,563	12,083	-	210,320
Transfer to other general reserves	-	-	-	-	-	1,245	(1,245)	-	-
Dividends	-	-	-	-	-	-	(9,609)	-	(9,609)
Minority interest emerged with the acquisition of Latvijas Krājbanka A/S (Note 31)	-	-	-	-	-	-		13,908	13,908
Reserve of foreign currency translation	-	-	-	-	(20)	-		-	(20)
Net profit for the year	-	-	-	-	-	-	44,923	688	45,611
As of 31 December 2005	**137,267**	**305**	**2,790**	**18,312**	**(20)**	**40,808**	**46,152**	**14,596**	**260,210**

The accompanying notes on pages 8 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(LTL thousand)

	Notes	Years ended 31 December, 2005	2004
Cash flows from banking activities			
Income (expenses)			
Interest income		134,922	87,123
Interest (expenses)		(45,332)	(26,987)
Recovery of loans previously written-off		2,920	2,554
Income from foreign exchange operations, net		12,478	1,732
(Expenses) income from operations with securities, net		(1,959)	300
Service fees and commission income, net		54,276	45,053
Remuneration-related (expenses)		(43,809)	(32,196)
Other (expenses)		(43,332)	(28,923)
Operating result		**70,164**	**48,656**
(Increase) decrease in current assets			
(Increase) in loans to credit and financial institutions		(36,967)	(48,543)
(Increase) in loans		(493,295)	(108,856)
(Increase) in securities		(252,793)	(344,579)
(Increase) decrease in other current assets		(16,719)	6,874
(Increase) in current assets		(799,774)	(495,104)
Increase (decrease) in liabilities			
Increase in liabilities to credit and financial institutions		216,671	260,445
Increase in public deposits and letters of credit		1,098,604	336,316
Increase (decrease) in debt securities issued		16,713	(19,611)
Increase (decrease) in other liabilities		25,792	(9,152)
Increase in liabilities		1,357,780	567,998
Net cash flows from banking activities before taxes		628,170	121,550
Income tax		(1,598)	(3,950)
Net cash flows from banking activities after taxes		**626,572**	**117,600**
Cash flows (to) from investing activities			
(Acquisitions) of tangible and intangible fixed assets		(20,705)	(3,160)
Cash inflow due to acquisitions of subsidiaries, net of cash paid	31	60,755	-
Disposals of tangible assets		788	-
(Investments into) and sale of securities		(65,413)	21,140
Dividends received		35	4,670
Net cash flows (to) from investing activities		**(24,540)**	**22,650**
Cash flows (to) from financing activities			
Subordinated loans received		71,346	-
Dividends (paid)	23	(9,609)	-
Net cash flows from financing activities		**61,737**	**-**
Increase in cash		**663,769**	**140,250**
Cash and cash equivalents at the beginning of the financial year		428,291	288,041
Cash and cash equivalents at the end of the financial year	4	1,092,060	428,291

The accompanying notes on pages 8 to 55 are an integral part of these consolidated 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 Banks 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 218 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 Bank is the member of Conversbank Group and its financial statements are consolidated into the financial statements of Conversbank Group consolidated financial statements.

Shareholders of Bankas Snoras AB	**2005** %	**2004** %
Conversgroup (Luxemburg) holding company	49.89	49.89
Mr. Raimondas Baranauskas, chairman of the Bank's Board	9.99	0.19
Nuntel holding LLC	9.89	9.89
Hoffman development LLC	8.76	9.89
Skepi shiping Co limited	8.31	8.31
CTPS limited	5.21	5.21
Sunnigan Inc.	-	8.67
Other number of shareholders/owned %	1178/7.95	869/7.95
Total	**100.0**	**100.0**

As of 31 December 2005 the members of the Board of Directors and Management Board controlled 1,372,960 shares (10.00%) (2004 – 25,724 or 0.19%) of the Bank.

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

	Ownership %			
Subsidiary	***2005***	***2004***	***Country***	***Industry***
Snoro lizingas UAB	100%	100%	Lithuania	Consumer financing
Vilniaus kapitalo vystymo projektai UAB	100%	100%	Lithuania	Real estate
Snoro turto valdymas UAB	100%	100%	Lithuania	Projects financing
Interfa UAB	100%	100%	Lithuania	Real estate
Snoro investicijų valdymas UAB	100%	100%	Lithuania	Real estate
Latvijas Krājbanka A/S	83%	-	Latvia	Banking
Krājinvestīcijas SIA	83%	-	Latvia	Real estate

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.

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

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

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

Interfa UAB was formed as a closed joint stock company under the laws of the Republic of Lithuania on 4 March 1992. The company's principal activity is real estate rent.

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.

(LTL thousand)

1. Principal Activities (cont'd)

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 a/s Latvijas Krājbanka. A/S Latvijas Krājbanka 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.

In 2004 Latvijas Krājbanka A/S established 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.

As of 31 December 2005 number of employees of the Group was 1,815 (907 as of 31 December 2004).

The authorized and issued share capital of the Bank consists of 13,727 thousand ordinary shares with a par value of LTL 10 each. As of 31 December 2005 and 2004 all shares were fully paid.

2. Basis of Preparation

In the year 2004 and previous years the Group maintained its financial accounting and prepared financial statements in accordance with resolution of the Bank of Lithuania No. 294 "On publication of financial statements of banks", dated 24 October 1996 (including its subsequent amendments) and International Financial Reporting Standards to the extent they are in compliance with the laws and other legal acts of the Republic of Lithuania.

Starting from 2005 the International Financial Reporting Standards as adopted by European Union become the only framework regulating bank's financial accounting and reporting.

Therefore, these financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee (SIC) interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect as of 31 December 2005 and that have been adopted by European Union. The comparative numbers (having transition date as of 1 January 2004) were adjusted retrospectively, in order to comply the presentation of current year, following principles outlined in the IFRS 1.

The accompanying consolidated financial statements are presented in thousands of Lithuanian Litas ("LTL"), the local currency of the Republic of Lithuania (which is also Group's functional currency), except per share amounts and unless otherwise stated. Subsidiaries in Latvia maintain their records in Latvian Lat (LVL).

(LTL thousand)

2. Basis of preparation (cont'd)

The effect of changes in comparative numbers is mainly caused by the change in loan impairment evaluation, effective interest rate application and accrued interest, deferred income and other items, related to specific financial instruments reclassification into the value of particular instrument (previously reported separately as other assets/ liabilities).

	2004 (comparative) figures, the Group		
	As reported before	Effect of changes	Presented in these financial statements
Balance sheet			
Assets			
Cash, precious metals and other valuables and placements with central bank	217,015	(217,015)	-
Amounts due from credit institutions	372,324	(204,059)	168,265
Cash and cash equivalents	-	428,291	428,291
Short-term treasury bills and debt securities	583,381	(583,381)	-
Equity securities	1,274	(1,274)	-
Financial assets at fair value through profit or loss	-	588,285	588,285
Derivative financial instruments	7,015	-	7,015
Available-for-sale financial assets	-	5,275	5,275
Borrowings to customers, net	684,167	(12,873)	671,294
Intangible assets	999	-	999
Property, plant and equipment	72,364	3,848	76,212
Accrued interest and deferred expenses	14,214	(14,214)	-
Other assets, net	46,700	(10,380)	36,320
Total assets	**1,999,453**	**(17,497)**	**1,981,956**
Liabilities			
Amounts due to credit institutions	290,090	(2,581)	287,509
Special and lending funds	11,689	(11,689)	-
Deposits from public	1,418,627	25,914	1,444,541
Derivative financial instruments	34	-	34
Accrued expenses and deferred income	16,213	(16,213)	-
Deferred tax liabilities	-	4,737	4,737
Provisions	-	552	552
Other liabilities	43,144	(8,881)	34,263
Total liabilities	**1,779,797**	**(8,161)**	**1,771,636**
Shareholder's equity	**219,656**	**(9,336)**	**210,320**
Total liabilities and shareholders equity	**1,999,453**	**(17,497)**	**1,981,956**

	2004 (comparative) figures, the Group		
	As reported before	Effect of changes	Presented in these financial statements
Statement of Income			
Net interest income	62,759	9,527	72,286
(Impairment) on interest earning assets	(22,023)	(3,820)	(25,843)
Net commissions income	45,289	(11,831)	33,458
Other non-interest income	14,505	(6,775)	7,730
Operating expenses	(73,418)	(71)	(73,489)
Income tax expenses	(2,957)	220	(2,737)
Net result for the period	**24,155**	**(12,750)**	**11,405**

(LTL thousand)

2. Basis of preparation (cont'd)

Effect of changes in shareholder's equity as of 31 December 2004 and for the net result of the year 2004 is presented in the table below:

	The Group
Net assets as of 1 January 2004, as reported before	**200,158**
Effect of change in loan impairment estimation principles and effective interest rate application	(1,243)
Net assets as of 1 January 2004	**198,915**
Net assets as of 31 December 2004, as reported before	**219,656**
Effect of change in loan impairment estimation principles and effective interest rate application, related to the period before 1 January 2004	(1,243)
Effect of change in loan impairment estimation principles and effective interest rate application	(8,093)
Net assets as of 31 December 2004	**210,320**
Net income for 2004, as reported before	**24,155**
Effect of change in loan impairment estimation principles and effective interest rate application	(8,093)
Elimination of intercompany dividends, previously eliminated through equity	(4,657)
Net income for 2004	**11,405**

IFRSs and IFRIC Interpretations not yet effective

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

IAS 1 (amended 2005) "Presentation of Financial Statements" (Capital Disclosures);
IAS 19 (amended 2004) "Employee Benefits" (Actuarial Gains and Losses, Group Plans and Disclosures);
IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement" (Cash Flow Hedge Accounting of Forecast Intragroup Transactions, Fair Value Option, Insurance Contracts regarding Financial Guarantee Contracts);
IFRS 6 "Exploration for and Evaluation of Mineral Resources";
IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";
IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment".

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

IFRS 7 "Financial instruments: Disclosures" and IAS 1 amendment "Capital Disclosures"

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

(LTL thousand)

3. Summary of Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

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

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

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

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

Investments in Associates

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

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

Financial Assets

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

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

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Financial Assets (cont'd)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading. Gains or losses on investments held for trading are recognised in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. 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 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 at their settlement date. From the date of signing a contractual agreement till the settlement date they are accounted for as off balance sheet items.

Loan agreements foresee the possibility of repayment before the maturity date. The management of the Group cannot estimate how often or when clients would use such an option and therefore impact of such repayment, if any, was not reflected in the financial statements of the Group.

Non-performing loans

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

Write-offs

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

Factoring

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

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

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Financial Assets (cont'd)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value 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.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Offsetting

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

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Hedge accounting (cont'd)

In relation to hedges (fair value and cash flow hedges), which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the income statement and the part of effective cash flow hedge is accounted for in equity. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement. Where the adjustment relates to a hedged interest-bearing financial instrument, the adjustment is amortised to the income statement on a systematic basis so that it is fully amortised by its maturity date.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amount due from the Central Banks, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Sale and repurchase agreements and lending securities

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

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

Derivative Financial Instruments

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

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

Off-balance sheet items

Off-balance sheet transactions are normally marked to market at the reporting date and any arising profit or loss is recognised in the income statement for the period and treated as an asset or liability in the balance sheet respectively.

All liabilities that give rise to balance sheet exposures are accounted for as off balance sheet liabilities. This allows the bank to assess capital requirement and to allocate funds required to cover those obligations.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Related parties

For the purposes of these financial statements, parties are considered as 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.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Group has significant shareholders in common.

Borrowings

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

In the balance sheet borrowings are recognised initially at cost amounting to their issue proceeds net of transaction costs. Subsequently borrowings stated at amortised cost and any difference between net proceeds and value at redemption is recognised in the income statement over the period of borrowings using the effective interest rate.

Leases

i. Finance - Group as lessee

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

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance - Group as lessor

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

iii. Operating - Group as lessee

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

iv. Operating -Group as lessor

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

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

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Allowances for impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (the significance level of the Group is LTL 345 thousand or EUR 100 thousand). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Estimated losses from guarantees issued and loan commitments as of the balance sheet date are calculated using similar methods. Estimated losses from guarantees issued, and loan commitments are reported under "Provisions".

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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.

In 2005 and 2004 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 the corporate income tax, for one financial year beginning on 1 January 2006 companies will 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 applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

In 2005 and 2004 the standard income tax rate in Latvia was 15% and is based on the taxable profit reported for the taxation period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Taxation (cont'd)

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 apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

Property, Plant and Equipment

Property, plant and equipment 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, plant and equipment when that cost is incurred if the recognition criteria are met. Buildings are recorded at revaluated amounts, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which is determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful economic lives of assets.

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

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

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

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

	Years
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 capitalization.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Investment properties

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

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

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

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

Projects under development

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

Goodwill

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

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

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

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

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Other Intangible Assets

Other intangible assets include computer software and licences.

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. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

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

Impairment of other assets

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

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

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Provisions

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

Provisions made to guarantees and stand-by facilities.

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

Retirement and Other Employee Benefit Obligations

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

Share Capital

Share Capital

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

Dividends

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

Earnings per share

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

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

Contingencies

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

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation and evaluation of impairment (including goodwill), provisions for loan commitments and stand-by facilities.

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

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

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

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

Income and Expense Recognition

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

Income from penalty payments is recognised on a cash basis.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling 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 - translation differences. 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.

(LTL thousand)

3. Summary of Accounting Policies (cont'd)

Foreign currency translation (cont'd)

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 2005	*31 December 2004*
1 EUR*	3.4528	3.4528
1 USD	2.9102	2.5345
10 RUB	1.0131	0.9106
1 LVL**	4.9565	4.9527

**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 business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Fair values of financial assets and liabilities

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

Error corrections

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

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

Subsequent events

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

(LTL thousand)

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	2005	2004
Cash on hand	161,855	67,814
Current accounts with the Central Banks	113,705	62,243
Current accounts with other credit institutions	622,969	239,050
Time deposits with credit institutions up to 90 days	193,531	59,184
Cash and cash equivalents	**1,092,060**	**428,291**

5. Financial assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	2005	2004
Treasury bills and bonds of the Republic of Lithuania	171,854	136,055
Other governments' debt securities	582,194	346,185
Corporate bonds	172,578	104,882
Corporate shares	1,838	1,163
Financial assets at fair value through profit or loss	**928,464**	**588,285**

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

	2005		2004	
	%	Maturity	%	Maturity
Treasury bills and bonds of the Republic of Lithuania	2.5 - 11	2006 - 2015	3.3 - 8.6	2005 -2013
Other governments' debt securities	2.5 - 10	2006 - 2013	2.75 -8.75	2005 -2009
Corporate bonds	2.875 - 11	2006 - 2015	2.66 -10.45	2005 -2014

6. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	2005	2004
Obligatory reserves with the Central Banks	202,099	86,958
Time deposits for more than 90 days	37,195	81,307
Amounts due from credit institutions	**239,294**	**168,265**

Credit institutions in Lithuania and Latvia are required to maintain an average amount of cash deposit (obligatory reserve) with the Central Bank, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is restricted by the statutory legislation, as average level of cash deposit should amount to the obligatory reserves, calculated under the rules of Bank of Lithuania and Bank of Latvia representively.

Compulsory reserves ratio in Lithuania is 6%. Obligatory reserves were held as non-interest bearing deposits at the Bank of Lithuania until 24 September 2005. Starting from the above-mentioned date the portion of obligatory reserve calculated in accordance with requirements of European Central Bank is held as interest bearing deposits and the remaining portion of obligatory reserve is held as non-interest bearing deposit. Interest bearing part as of 31 December 2005 amounted to 1/3 of all obligatory reserves. Interest rate for interest bearing part equals to ECB refinance rate, valid on the day of transaction.

The compulsory reserves ratio in Latvia is 8%.

(LTL thousand)

6. Amounts Due from Credit Institutions (cont'd)

	OECD		Lithuania		Latvia		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Obligatory reserve with the Central Banks	-	-	129,843	86,958	72,256	-	202,099	86,958
Time deposits for more than 90 days	37,177	81,289	18	18	-	-	37,195	81,307
Amounts due from credit institutions	**37,177**	**81,289**	**129,861**	**86,976**	**72,256**	**-**	**239,294**	**168,265**

7. Derivative Financial Instruments

The Group enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments and trading liabilities are as follows:

	2005			2004		
	Notional principal	Fair values		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Forwards and Swaps – foreign	214,231	109	546	86,296	34	34
Forwards and Swaps – domestic	30,385	10	10	63,363	6,98	-
Call options	-	3,248	-	-	-	-
Total	**244,616**	**3,367**	**556**	**149,659**	**7,015**	**34**

Call options represent embedded derivative instruments, separated from structured bonds (see Note 9). As no market exists for those derivative instruments, they are valued using theoretical option pricing models.

8. Loans to Customers, net

Loans to customers comprise:

	2005	2004
Loans to customers	1,593,343	685,583
Overdrafts	174,643	15,650
Bills of exchange	126,265	1,343
Repurchase agreements	16,466	8,238
Factoring	1,236	-
	1,911,953	**710,814**
Less – Allowance for loan impairment (Note 15)	(46,091)	(39,520)
Loans to customers, net	**1,865,862**	**671,294**

During 2005 the management of the Group has made certain assumptions to arrive to the current estimates of impairment. The management of the Group constantly monitors 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 underlying impairment assessment, which would result in change of impairment allowance.

Securities acquired under reverse repurchase agreements can be sold in absence of default of the customer. Fair value of securities acquired under reverse repurchase agreements as of 31 December 2005 was LTL 27,013 thousand (LTL 14,102 thousand as of 31 December 2004).

(LTL thousand)

8. Loans to customers, net (cont'd)

Loans have been extended to the following types of customers:

	2005	2004
Private companies	978,455	293,451
Individuals	877,601	372,267
State budget or local authorities	9,545	4,000
State companies	246	112
Other	15	1,464
Loans to customers, net	**1,865,862**	**671,294**

Loans are made principally within Lithuania in the following industry sectors:

	2005	2004
Individuals	877,601	372,267
Financial intermediary services	443,822	34,568
Trading enterprises	141,130	90,662
Manufacturing	99,169	11,256
Agriculture and food processing	91,079	31,330
Real estate construction	84,160	55,227
Services	50,178	8,039
Transport	18,242	13,523
Energy	17,115	-
Fuel, gas and chemical	5,428	16,494
Government and municipal bodies	4,717	4,000
Telecommunication	436	580
Metallurgy	221	6
Other	32,564	33,342
Loans to customers, net	**1,865,862**	**671,294**

The Group accepted listed and unlisted securities and other property - summarized in the table below - as collateral for commercial loans.

	2005	2004
Real estate	1,668,732	425,508
Cash and deposits	165,178	40,471
Guarantees received	111,195	30,576
Equipment	60,844	66,775
Securities	49,682	96,167
Vehicles	11,842	7,761
Credit insurance	55	104
Other property	402,442	37,641
Collateral received	**2,469,970**	**705,003**
Loans to customers, net	1,865,862	671,294
Off-balance sheet exposure	11,644	19,149
Exposure to collateral ratio	0.76	0.98

(LTL thousand)

8. Loans to customers, net (cont'd)

Below table represents breakdown of loans to actual payable of the customer and accrued and/ or impaired amounts:

	2005	2004
Unpaid principal	1,909,716	713,080
Accrued and unpaid interest	9,060	2,593
Deferred income	(6,823)	(4,859)
Impairment loss allowance	(46,091)	(39,520)
Loans to customers, net	**1,865,862**	**671,294**

Interest income earned on impaired loans during 2005 was LTL 2,419 thousand (LTL 1,549 thousand in 2004).

9. Available-for-sale and held-to-maturity financial assets

In 2004 available-for-sale investments comprised securities issued by General Motors Acceptance Corporation. In 2005 these investments were transferred to held-to-maturity financial assets due to the changed intentions of the management. Interest income earned in 2005 on available-for-sale securities (till reclassification date) amounted to LTL 134 thousand (LTL 133 thousand in 2004)

Held-to-maturity financial assets comprise:

	2005		2004	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Corporate bonds	75,201	77,764	-	-
Other governments' bond	80,995	77,695	-	-
Held-to-maturity securities	**156,196**	**155,459**	**-**	**-**

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

	2005		2004	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	2.5-6.15	2007	-	-
Other governments' bond	5.625-8.125	2006 - 2007	-	-

Held-to-maturity securities include structured bonds, purchased by the Group in 2005. Derivative instruments, embedded in those bonds, were separated and reported under derivative instruments caption (see Note 7). 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 2005 was LTL 66,148 thousand.

The carrying value of held to maturity securities as of 31 December 2005 approximates their fair value.

Interest income earned on held-to-maturity securities in 2005 amounted to LTL 643 thousand.

10. Investments in Associates

In 2004, the subsidiary of the Bank - Latvijas Krājbanka A/S - purchased 120,000 newly issued shares (LVL 121 thousand) of A/S Ieguldijumu sabiedrība Astra fondi representing 50% of the share capital. The investment in associate is carried at cost and has not been accounted for using equity method as the effect on the Group's financial statements is immaterial. Astra fondi manages 2nd level pension funds "Klasika" and "Ekstra".

(LTL thousand)

11. Investment Properties

Investment properties are stated at fair value, which has been determined based on valuation performed by independent appraisers as at 31 December 2005. 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.

	2005	*2004*
Opening balance as at 1 January	-	-
Additions	12,255	-
Net gain from a fair value adjustment	4,801	-
Closing balance as at 31 December	**17,056**	**-**

12. Property, Plant and Equipment

The movements in property, plant and equipment were as follows:

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

**In 2005 the group reclassified ATM to the property, plant and equipment.*

(LTL thousand)

12. Property, Plant and Equipment (cont'd)

	Buildings	*Furniture and fixtures*	*Computers, office and other equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost						
31 December 2003	**28,237**	**2,629**	**66,782**	**6,268**	**61**	**103,977**
Additions	645	22	2,367	1,547	-	4,581
Disposals	-	(215)	(2,954)	(129)	-	(3,298)
Transfers	-	-	2,640*	-	1,208**	3,848
31 December 2004	**28,882**	**2,436**	**68,835**	**7,686**	**1,269**	**109,108**
Accumulated depreciation and impairment						
31 December 2003	**-**	**2,187**	**21,431**	**4,594**	**-**	**28,212**
Depreciation charge	569	210	6,292	793	-	7,864
Disposals	-	(210)	(2,885)	(85)	-	(3,180)
31 December 2004	**569**	**2,187**	**24,838**	**5,302**	**-**	**32,896**
Net book value:						
31 December 2003	**28,237**	**442**	**45,351**	**1,674**	**61**	**75,765**
31 December 2004	**28,313**	**249**	**43,997**	**2,384**	**1,269**	**76,212**

**In 2004 the Bank has moved service outlets in amount of LTL 2,640 thousand from inventories to other equipment caption.*
***In 2004 the Group reclassified those amounts from work in progress to construction in progress.*

Depreciation expenses were included in the income statement as operating expenses.

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

If buildings and service outlets of the Group would have been carried at cost, carrying value of those assets would be LTL 40,891 thousand as of 31 December 2005 (LTL 45,329 thousand as of 31 December 2004).

(LTL thousand)

13. Intangible Assets

The movements in intangible assets were as follows:

	Goodwill	*Licenses and computer software*	*Total*
Cost			
31 December 2004	**-**	**4,833**	**4,833**
Additions	-	1,225	1,225
Additions emerged with the acquisition of Latvijas Krājbanka A/S (Note 31)	10,088	3,910	13,998
Disposals	-	(445)	(445)
31 December 2005	**10,088**	**9,523**	**19,611**
Accumulated amortization and impairment			
31 December 2004	**-**	**3,834**	**3,834**
Charge for the year	-	844	844
Disposals	-	(428)	(428)
31 December 2005	**-**	**4,250**	**4,250**
Net book value:			
31 December 2004	**-**	**999**	**999**
31 December 2005	**10,088**	**5,273**	**15,361**

	Goodwill	*Licenses and computer software*	*Total*
Cost			
31 December 2003	**-**	**7,689**	**7,689**
Additions	-	477	477
Disposals	-	(3,333)	(3,333)
31 December 2004	**-**	**4,833**	**4,833**
Accumulated amortization and impairment			
31 December 2003	**-**	**5,931**	**5,931**
Charge for the year	**-**	1,139	1,139
Disposals	-	(3,236)	(3,236)
31 December 2004	**-**	**3,834**	**3,834**
Net book value:			
31 December 2003	**-**	**1,758**	**1,758**
31 December 2004	**-**	**999**	**999**

Amortisation expenses were included in the income statement as operating expenses.

(LTL thousand)

14. Taxation

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

	2005	*2004*
Net profit before income tax	51,554	14,142
Changes in temporary differences	25,406	10,501
Permanent differences	(17,013)	(2,663)
Taxable result for the year	**59,947**	**21,980**
Current income tax	8,992	3,297
Correction of prior year income tax	(1,291)	653
Change in deferred income tax	(1,758)	(1,213)
Income tax expenses	**5,943**	**2,737**
Components of deferred income tax		
Deferred income tax assets		
Revaluation of securities	1,796	310
Revaluation of derivative instruments	1,049	-
Vacation pay and bonus accrual	505	163
Non-tax deductible impairment of financial assets	1,529	554
Deferred administration fee	571	367
Loss carry forward from 2000-2005	546	425
Other deferred tax asset items	141	36
Total deferred income tax assets	**6,137**	**1,855**
Less: valuation allowance	(3,743)	(1,382)
Deferred income tax assets, net	**2,394**	**473**
Deferred income tax liabilities		
Revaluation of property, plant and equipment and investment properties	(8,951)	(3,000)
Investment incentive	(1,908)	(2,184)
Other deferred tax liabilities	-	(26)
Total deferred income tax liabilities	**(10,859)**	**(5,210)**
Deferred income tax, net	**(8,465)**	**(4,737)**

The Group has incurred taxable loss in previous periods, which can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years and offset against future taxable income.

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

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

	2005	*2004*
Income tax calculated at statutory 15% tax rate	7,733	2,121
Permanent differences	(2,552)	(399)
Prior year income tax correction	(1,291)	653
Change in valuation allowance	2,361	362
Effect of changes in tax rate	(308)	-
Total income tax	**5,943**	**2,737**

(LTL thousand)

15. Allowances for Impairment and Provisions

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

	Loans to customers
31 December 2003	**13,394**
Charge (reversal)	28,397
Write-offs	(1,894)
Effect of changes in currency rates	(377)
31 December 2004	**39,520**
Charge (reversal)	8,585
Write-offs	(2,155)
Effect of changes in currency rates	141
31 December 2005	**46,091**

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

	2005	2004
Charge (reversal)	8,585	28,397
Recoveries of previously written-off loans	(2,920)	(2,554)
As reported in income statement	**5,665**	**25,843**

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

	Other assets	Issued guarantees and credit commitments	Total
31 December 2003	**143**	**-**	**143**
Charge (reversal)	51	574	625
Effect of changes in currency rates	-	(22)	(22)
31 December 2004	**194**	**552**	**746**
Charge (reversal)	50	(444)	(394)
Effect of changes in currency rates	-	6	6
Write-off	(211)	-	(211)
31 December 2005	**33**	**114**	**147**

(LTL thousand)

16. Other Assets and Liabilities

Other assets comprise:

	2005	2004
Other assets		
Projects under development	24,495	25,326
Letters of credit	9,480	-
Accounts receivable for credit cards	5,183	509
Transit accounts	4,653	1,532
Prepayments to suppliers	4,454	1,057
Inventories	2,994	1,938
Accounts receivable	2,325	1,474
VAT receivable	2,275	2,431
Deferred expenses	2,080	612
Accrued income for other assets	254	118
Other asset	2,229	1,517
Total other assets	**60,422**	**36,514**
Impairment of other assets	(33)	(194)
Total other assets, net	**60,389**	**36,320**

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

Other liabilities comprise:

	2005	2004
Other liabilities		
Accounts payable to suppliers	29,101	14,734
Transit accounts	18,426	5,646
Payments collected	8,590	4,881
Accrued expenses	7,904	3,943
Advances received	1,833	3,059
Deferred income	578	310
Accrued bonuses	-	230
Other	4,215	1,460
Total other liabilities	**70,647**	**34,263**

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

17. Subordinated loans

As of 14 September 2005 the Bank received a subordinated loan from its ultimate 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 2005 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 69,856 thousand. The loan agreement foresees the possibility of conversion to the shares of the Bank, but conditions for conversion are not outlined.

As at 31 December 2005, the Bank's subsidiary's Latvijas Krājbanka A/S outstanding subordinated debt due to the "Convers Group Management Company" amounted to LTL 19,162 thousand (including accrued interest). 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 capital into shares according to the Agreement and legislation. The share purchase price of 1.15 LVL is set in the Agreement for the conversion of the subordinated capital into shares.

(LTL thousand)

18. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2005	2004
Time deposits and loans	452,447	207,162
Repurchase agreements	90,271	74,793
Current accounts	23,301	5,554
Amounts due to credit institutions	**566,019**	**287,509**

19. Amounts Due to Customers

The amounts due to customers include the following:

	2005	2004
Time deposits	1,964,221	810,344
Current accounts	1,519,820	634,197
Amounts due to customers	**3,484,041**	**1,444,541**

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

	2005	2004
Individuals	2,092,152	959,828
Private enterprises	1,250,186	426,600
State and budgetary organisations	116,847	48,199
Employees	13,658	4,992
Other	11,198	4,922
Amounts due to customers	**3,484,041**	**1,444,541**

An analysis of customer accounts by sector follows:

	2005	2004
Individuals	2,105,810	964,820
Trade	341,122	97,276
Manufacturing	103,477	10,017
Transport and communication	100,642	17,308
Real estate transactions	70,071	19,833
Fuel	32,122	21,160
Real estate constructions	24,967	13,212
Facilities	20,521	14,514
Energy	10,739	17,222
Machine building	10,720	6,592
Insurance	7,147	2,210
Intermediation activity	2,529	43,832
Chemical	1,913	25
Agriculture	1,190	1,040
Metallurgy	1,035	293
Other	650,036	215,187
Amounts due to customers	**3,484,041**	**1,444,541**

20. Debt Securities Issued

As of 31 December 2005 the Group accounted for the discount debt securities issued having aggregate par value of LTL 20,000 thousand with discount rate of 4 % and maturing on 18 September 2006.

(LTL thousand)

21. Shareholders' Equity

Movements in shares outstanding, issued and fully paid were as follows:

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

Calculation of weighted average for 2004	Number of shares	Par value	Issued/ 366 (days)	Weighted average
Shares issued as of 31 December 2003	13,726,720	10	366/366	13,726,720
Shares issued as of 31 December 2004	13,726,720	10	366/366	13,726,720

Nature and purpose of other reserves

Revaluation reserve for property, plant 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.

Reserve of foreign currency translation

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

Legal reserve

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

Reserve capital

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

Other general reserves

Other general reserves represent funds which can be freely distributed by the shareholders of the Group and does not have any special designation.

(LTL thousand)

22. Earnings per share

	Note	2005	2004
Net profit attributable to equity holders		44,923	11,405
Number of shares (thousand)		13,727	13,727
Weighted number of shares (thousand)	21	13,727	13,727
Basic earnings per share (LTL)		**3.27**	**0.83**
Diluted earnings per share (LTL)		**3.27**	**0.83**

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

23. Dividends per share

	2005	2004
Dividends paid	9,609	-
Number of shares (thousand)	13,727	13,727
Dividends per share (LTL)	**0.7**	**-**

24. Commitments and Contingencies

Legal

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

In May 2005, the subsidiary Latvijas Krājbanka A/S entered into an agreement with a real estate development company, whereby it undertakes to conclude a separate lease agreement in respect to the property currently under development, once it has been finished and handed over to the developer. The draft of the lease agreement has been approved by the Management of Latvijas Krājbanka A/S and there is no intention to change the provisions thereof. The lease agreement draft provides that the minimum lease term is 20 years. Further, should Latvijas Krājbanka A/S unilaterally terminate the agreement within first 5 years of its validity, a penalty of LVL 1.5 million (LTL 7.4 million) had to be paid to the lessor. For each subsequent year after the 5 year period, the termination penalty is decreased by 5% from the above mentioned amount.

Financial commitments and contingencies

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

	2005	2004
Credit related commitments		
Credit commitments	357,193	170,211
Issued guarantees	11,644	19,149
	368,837	**189,360**
Less - Provisions	(114)	(552)
Financial commitments and contingencies	**368,723**	**188,808**

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

	2005	2004
Within one year	950	870
After five years	2,138	1,938
Total	**3,088**	**2,808**

(LTL thousand)

25. Net Fee and Commission Income

Net fee and commission income comprises:

	2005	2004
Settlements operations	15,883	7,840
Payment card servicing	15,608	10,557
Commissions for other payments	7,912	7,617
Cash collection	4,844	3,817
Collection of payments for utilities	4,513	5,423
Currency conversion operations	2,279	1,869
Securities operations	1,209	166
Guarantees and letters of credit	794	904
Other	2,219	402
Fee and commission income	**55,261**	**38,595**
Settlements operations	3,401	1,795
Payment card servicing	3,199	1,586
Recovery fee	1,279	-
Commissions to suppliers	1,017	236
Cash operations	819	565
Securities operations	662	487
Intermediary services	300	256
Currency conversion operations	55	43
Guarantees	5	75
Other	941	94
Fee and commission expense	**11,678**	**5,137**
Net fee and commission income	**43,583**	**33,458**

26. Gains less Losses from Financial Assets at Fair Value through Profit or Loss

	2005	2004
Trading result	(2,905)	300
Revaluation effect	(8,470)	(2,064)
Gains less losses from securities at fair value through profit or loss	**(11,375)**	**(1,764)**

27. Gains less Losses from Derivative Instruments

Gains less losses from derivative instruments comprise:

	2005	2004
Realized gain (loss) from derivative instruments	2,842	(5,673)
Unrealized (loss) gain from derivative instruments	(5,409)	7,361
Gains less losses from derivative instruments	**(2,567)**	**1,688**

(LTL thousand)

28. Gains less losses from foreign currencies

	2005	2004
Realised gain (loss)	10,077	7,405
Unrealised gain (loss)	8,398	(1,134)
Net foreign exchange gain	**18,475**	**6,271**

29. Other income

	2005	2004
Change in fair value of investment property	4,801	-
Income from assets disposal	2,007	1,072
Other income	1,200	446
Other income	**8,008**	**1,518**

30. Salaries, Benefits and Other Operating Expenses

Salaries and benefits, and other operating expenses comprise:

	2005	2004
Salaries and benefits	34,174	25,102
Social security costs	9,955	7,594
Salaries and benefits	**44,129**	**32,696**
Deposit insurance	8,517	6,579
Marketing, advertising and representation	6,334	4,004
Repair and maintenance of property, plant and equipment	5,794	4,895
Communications	5,308	5,009
Operating taxes	4,861	3,353
Occupancy and rent	2,362	1,136
Data processing	1,699	1,151
Legal and consultancy	1,604	476
Security	1,581	1,164
Office supplies	538	309
Business travel and related	491	167
Charity	402	97
Personnel training	267	109
Loss on property, plant and equipment disposals	178	61
Penalties incurred	66	54
Other	3,950	2,601
Other operating expenses	**43,952**	**31,165**

(LTL thousand)

31. Business Combination

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

	Recognised on acquisition	Carrying value
Cash and demand deposits with the Bank of Latvia	76,875	76,875
Net balances due from credit institutions	81,981	81,966
Loans to non-banking clients	713,141	731,257
Financial assets (Held-to-maturity, Financial assets at fair value through profit or loss)	172,268	167,232
Property, plant and equipment	46,016	32,237
Intangible assets	4,396	4,396
Other assets	27,921	36,862
	1,122,598	**1,130,825**
Amounts due to credit institutions	(75,299)	(75,274)
Amounts due to customers	(921,230)	(911,788)
Subordinated loan	(16,872)	(16,867)
Other liabilities	(27,335)	(52,489)
	(1,040,736)	**(1,056,418)**
Fair value of net assets	81,862	
Less: minority interests	(13,908)	
Group's share of the fair value of net assets	67,954	
Goodwill arising on acquisition	10,088	
Consideration paid	**78,042**	

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

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

From the date of the combination, Latvijas Krājbanka A/S contributed LTL 3,360 thousand to the net profit of the Group. If the combination had taken place at the beginning of the year, the profit of the Group would have been LTL 52,593 thousand, net interest income – LTL 122,434 thousand.

The amount of goodwill is provisional and purchase price allocation as required by IFRS 3 "Business combinations" will be performed by the management of the Group during year 2006.

(LTL thousand)

32. Segment reporting

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

	Lithuania		*Latvia*		*Eliminations*		*Group*	
	2005	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*
Total income from external customers	188,985	147,835	28,695	-	(269)	-	217,411	147,835
Total income from internal customers	140	-	129	-	(269)	-	-	-
Profit before tax	47,395	14,142	4,159	-	-	-	51,554	14,142
Income tax	(5,741)	(2,737)	(202)	-	-	-	(5,943)	(2,737)
Minority interest	-	-	(688)	-	-	-	(688)	-
Net profit	**41,654**	**11,405**	**3,269**	**-**	**-**	**-**	**44,923**	**11,405**
Segment assets*	3,311,704	1,981,956	1,200,585	-	(8,703)	-	4,503,586	1,981,956
Segment liabilities*	3,128,730	1,771,636	1,114,675	-	(29)	-	4,243,376	1,771,636
Capital expenditure (including intangibles, excluding goodwill)	18,970	3,160	1,735	-	-	-	20,705	3,160
Depreciation and amortisation	7,954	9,003	2,157	-	-	-	10,111	9,003
Allowance for losses	5,728	25,843	(63)	-	-	-	5,665	25,843
No of employees, end of periods	941	907	874	-	-	-	1,815	907

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

Business segments are not identified by the management of the Group. Separation of business segments would require undue cost and effort.

(LTL thousand)

33. Financial Risk Management

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

Credit risk

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

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

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

Financial assets, bearing credit risk, comprise deposits and funds at banks and other credit and financial institutions, loans to customers, overdraft facilities, bills discounted, factoring, debt securities (except for the issued by the central banks or governments of the A group countries), prepayments and income, accrued for these financial assets. Total amount of such assets as of 31 December 2005 was 2,270,953 thousand of the Group (as of 31 December 2004 – LTL 1,286,281 thousand).

(LTL thousand)

33. Financial Risk Management (cont'd)

Geographical concentration

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

	2005					2004				
	Lithu-ania	*Latvia*	*OECD*	*Other coun-tries*	*Total*	*Lithu-ania*	*Latvia*	*OECD*	*Other coun-tries*	*Total*
Assets:										
Cash and cash equivalents	242,521	113,592	569,689	166,258	1,092,060	134,486	48	170,235	123,522	428,291
Financial assets at fair value through profit or loss	173,692	64,490	631,263	59,019	928,464	142,782	11,262	415,748	18,493	588,285
Amounts due from credit institutions	129,861	72,256	37,177	-	239,294	86,976	-	81,289	-	168,265
Derivative financial assets	119	-	3,248	-	3,367	7,015	-	-	-	7,015
Financial assets available-for-sale	-	-	-	-	-	-	-	5,275	-	5,275
Financial assets held-to-maturity	-	81,275	71,918	3,003	156,196	-	-	-	-	-
Loans to customers	765,050	743,077	116,536	241,199	1,865,862	643,555	-	23,147	4,592	671,294
Investment property	9,763	-	-	7,293	17,056	-	-	-	-	-
Property, plant and equipment	79,516	45,421	-	-	124,937	76,212	-	-	-	76,212
Intangible assets	11,287	4,074	-	-	15,361	999	-	-	-	999
Other assets	40,648	8,439	10,741	1,161	60,989	36,040		222	58	36,320
	1,452,457	**1,132,624**	**1,440,572**	**477,933**	**4,503,586**	**1,128,065**	**11,310**	**695,916**	**146,665**	**1,981,956**
Liabilities:										
Due to credit institutions	91,712	80,793	296,514	97,000	566,019	84,794	106	133,722	68,887	287,509
Due to customers	1,482,003	954,133	184,485	863,420	3,484,041	1,097,181	60	73,045	274,255	1,444,541
Derivative financial liabilities	34	422	-	-	556	34	-	-	-	34
Debt securities issued	16,713	-	-	-	16,713	-	-	-	-	-
Deferred income tax liabilities	3,712	4,753	-	-	8,465	4,737	-	-	-	4,737
Provisions	114	-	-	-	114	552	-	-	-	552
Other liabilities	69,816	7,704	772	89,176	167,468	33,987	-	175	101	34,263
	1,664,104	**1,047,805**	**481,771**	**1,049,596**	**4,243,376**	**1,221,285**	**166**	**206,942**	**343,243**	**1,771,636**
Net balance sheet position	**(211,647)**	**84,819**	**958,801**	**(571,663)**	**260,210**	**(93,220)**	**11,144**	**488,974**	**(196,578)**	**210,320**
Net off-balance sheet position	**-**	**19,132**	**316,321**	**204,459**	**539,912**	**63,363**	**-**	**22,892**	**82,838**	**169,093**
Net off balance sheet position – financial commitments and contingencies	**379,088**	**91,859**	**20,788**	**29,007**	**520,742**	**213,706**	**-**	**11,127**	**9,280**	**234,113**

Market risk

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

(LTL thousand)

33. Financial Risk Management (cont'd)

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The assets and liabilities of the Group in foreign currencies denominated in Litas according to the official exchange rate of 31 December 2005 are presented below:

	2005						*2004*					
	LTL	*LVL*	*USD*	*EUR*	*Other*	*Total*	*LTL*	*LVL*	*USD*	*EUR*	*Other*	*Total*
Assets:												
Cash and cash equivalents	170,572	85,926	630,036	137,632	67,894	1,092,060	105,420	188	270,373	32,200	20,110	428,291
Financial assets at fair value through profit or loss	173,692	52,371	216,781	485,620	-	928,464	144,782	-	164,841	278,662	-	588,285
Amounts due from credit institutions	129,861	72,256	14,627	22,550	-	239,294	41,962	-	70,282	56,021	-	168,265
Derivative financial assets	119	-	-	3,248	-	3,367	7,015	-	-	-	-	7,015
Financial assets available-for-sale	-	-	-	-	-	-	-	-	5,275	-	-	5,275
Financial assets held-to-maturity	-	3,233	7,011	145,952	-	156,196	-	-	-	-	-	-
Loans to customers	647,298	370,096	485,473	362,995	-	1,865,862	518,139	-	115,924	37,231	-	671,294
Investment property	9,763	-	-	-	7,293	17,056	-	-	-	-	-	-
Property, plant and equipment	79,516	45,421	-	-	-	124,937	76,212	-	-	-	-	76,212
Intangible assets	11,287	4,074	-	-	-	15,361	999	-	-	-	-	999
Other assets	37,021	8,440	1,716	13,722	90	60,989	36,221	-	-	41	58	36,320
	1,259,129	**641,817**	**1,355,644**	**1,171,719**	**75,277**	**4,503,586**	**930,750**	**188**	**626,695**	**404,155**	**20,168**	**1,981,956**
Liabilities:												
Due to credit institutions	90,357	17,790	65,579	388,908	3,385	566,019	84,813	-	120,910	79,848	1,938	287,509
Amounts due to customers	1,092,750	751,426	1,142,440	438,257	59,168	3,484,041	796,164	26	428,292	205,965	14,094	1,444,541
Derivative financial liabilities	134	411	-	11	-	556	34	-	-	-	-	34
Debt securities issued	16,713	-	-	-	-	16,713	-	-	-	-	-	-
Deferred income tax liabilities	3,712	4,753	-	-	-	8,465	-	-	-	-	-	-
Provisions	114	-	-	-	-	114	552	-	-	-	-	552
Other liabilities	61,399	5,980	8,178	91,816	95	167,468	30,738	-	2,470	937	118	34,263
	1,265,179	**780,360**	**1,216,197**	**918,992**	**62,648**	**4,243,376**	**912,301**	**26**	**551,672**	**286,750**	**16,150**	**1,766,899**
Net balance sheet position	**(6,050)**	**(138,543)**	**139,447**	**252,727**	**12,629**	**260,210**	**18,449**	**162**	**75,023**	**117,405**	**4,018**	**215,057**
Net off balance sheet position - derivatives	**-**	**38,552**	**257,205**	**244,155**	**-**	**539,912**	**-**	**-**	**104,600**	**64,493**	**-**	**169,093**
Net off balance sheet position – financial commitments and contingencies	**373,302**	**48,771**	**47,384**	**50,309**	**976**	**520,742**	**183,742**	**-**	**24,336**	**24,522**	**1,513**	**234,113**

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

(LTL thousand)

33. Financial Risk Management (cont'd)

Interest rate risk

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

The tables below summarize the Group's exposure to the interest rate risk. Assets and liabilities of the Group are presented at carrying amounts and categorized by the contractual reprising or maturity dates as of 31 December 2005.

	2005						
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Unde-fined maturity***	***Total***
Assets:							
Cash and cash equivalents	176,066	17,465	-	-	-	898,529	1,092,060
Financial assets at fair value through profit or loss	155,584	68,943	80,022	544,598	76,585	2,732	928,464
Amounts due from credit institutions	-	-	22,550	-	-	216,744	239,294
Derivative financial assets	-	-	-	-	-	3,367	3,367
Loans to customers	88,266	698,432	715,398	312,680	23,146	27,940	1,865,862
Financial assets available-for-sale	-	-	-	-	-	-	-
Financial assets held-to-maturity	39,211	-	86	115,125	-	1,774	156,196
Other assets	-	-	-	-	-	218,343	218,343
	459,127	**784,840**	**818,056**	**972,403**	**99,731**	**1,369,429**	**4,503,586**
Liabilities:							
Due to credit institutions	435,483	58,335	48,866	-	-	23,335	566,019
Derivative financial liabilities	-	-	-	-	-	556	556
Due to customers	639,784	273,709	856,217	171,033	21,439	1,521,859	3,484,041
Debt securities issued	-	-	16,713	-	-	-	16,713
Other borrowed funds	-	800	-	19,162	69,056	-	89,018
Other liabilities	-	-	-	-	-	87,029	87,029
Shareholders' equity	-	-	-	-	-	260,210	260,210
	1,075,267	**332,844**	**921,796**	**190,195**	**90,495**	**1,892,989**	**4,503,586**
Total interest sensitivity gap	**(616,140)**	**451,996**	**(103,740)**	**782,208**	**9,236**	**(523,560)**	**-**

(LTL thousand)

33. Financial Risk Management (cont'd)

	2004						
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Undefined maturity***	***Total***
Assets:							
Cash and cash equivalents	46,511	12,673	-	-	-	369,107	428,291
Financial assets at fair value through profit or loss	8,700	34,174	136,052	400,253	7,943	1,163	588,285
Amounts due from credit institutions	-	-	81,289	-	-	86,976	168,265
Derivative financial assets	-	-	-	-	-	7,015	7,015
Loans to customers	53,169	72,388	194,141	294,079	53,406	4,111	671,294
Financial assets available-for-sale	-	-	75	5,200	-	-	5,275
Financial assets held-to-maturity	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	113,531	113,531
	108,380	**119,235**	**411,557**	**699,532**	**61,349**	**581,903**	**1,981,956**
Liabilities:							
Due to credit institutions	240,413	-	-	41,542	-	5,554	287,509
Derivative financial liabilities	-	-	-	-	-	34	34
Due to customers	185,070	146,018	412,665	63,927	312	636,549	1,444,541
Debt securities issued	-	-	-	-	-	-	-
Other borrowed funds	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	39,552	39,552
Shareholders' equity	-	-	-	-	-	210,320	210,320
	425,483	**146,018**	**412,665**	**105,469**	**312**	**892,009**	**1,981,956**
Total interest sensitivity gap	**(317,103)**	**(26,783)**	**(1,108)**	**(594,063)**	**(61,037)**	**(310,106)**	**-**

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

	2005 ***%***	***2004*** ***%***
Financial assets at fair value through profit or loss	3,4 - 6,07	4,80 - 4,81
Amounts due from credit institutions	2,3 - 4,426	1,60 - 2,19
Amounts due to credit institutions	2,5 - 4,0	1,22 - 1,63
Loans to customers	4,21 - 8,23	-
Amounts due to customers	2,91 - 4,09	1,25 - 2,21
Financial assets held-to-maturity	2,5 - 9,75	4,31 - 10,63
Other borrowed funds	7,0	-

(LTL thousand)

33. Financial Risk Management (cont'd)

Liquidity Risk

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

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

	2005							
	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*	*Total*
Assets:								
Cash and cash equivalents	898,529	176,066	17,465	-	-	-	-	1,092,060
Financial assets at fair value through profit or loss	-	158,245	16,287	88,679	550,421	111,507	3,325	928,464
Amounts due from credit institutions	202,099	-	-	22,550	-	-	14,645	239,294
Derivative financial assets	-	3,367	-	-	-	-	-	3,367
Loans to customers	14,319	59,448	659,448	562,976	512,200	43,627	13,844	1,865,862
Financial assets available-for-sale	-	-	-	-	-	-	-	-
Financial assets held-to-maturity	-	39,211		86	115,125	-	1,774	156,196
Other assets	3,627	2,373	9,832	2,860	350	387	198,914	218,343
	1,118,574	**438,710**	**703,032**	**677,151**	**1,178,096**	**155,521**	**232,502**	**4,503,586**
Liabilities:								
Due to credit institutions	23,335	435,483	58,335	48,866	-	-	-	566,019
Derivative financial liabilities	-	556	-	-	-	-	-	556
Due to customers	1,521,859	639,784	273,709	856,217	171,033	21,439	-	3,484,041
Debt securities issued	-	-	-	16,713	-	-	-	16,713
Other borrowed funds	-	-	800	-	19,162	69,056	-	89,018
Deferred income tax liabilities	-	-	-	-	-	-	8,465	8,465
Provisions	-	-	-	-	-	-	114	114
Other liabilities	18,520	41,148	491	5,992	478	-	11,821	78,450
	1,563,714	**1,116,971**	**333,335**	**927,788**	**190,673**	**90,495**	**20,400**	**4,243,376**
Net position	**(445,140**	**(678,261**	**369,697**	**(250,637**	**987,423**	**65,026**	**212,102**	**260,210**
Accumulated gap	**(445,140**	**(1,123,401)**	**(753,704)**	**(1,004,341**	**(16,918)**	**48,108**	**260,210**	**-**

(LTL thousand)

33. Financial Risk Management (cont'd)

	2004							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Undefined maturity***	***Total***
Assets:								
Cash and cash equivalents	369,107	46,511	12,673	-	-	-	-	428,291
Financial assets at fair value through profit or loss	-	8,700	6,073	136,052	402,794	33,503	1,163	588,285
Amounts due from credit institutions	86,958	-	-	81,289	-	-	18	168,265
Derivative financial assets		7,015	-	-	-	-	-	7,015
Loans to customers	-	53,169	67,828	194,141	296,011	56,034	4,111	671,294
Financial assets available-for-sale	-	-	-	75	5,200	-	-	5,275
Financial assets held-to-maturity	-	-	-	-	-	-	-	-
Other assets	1,532	4,133	1,553	175	147	-	28,780	36,320
	457,597	**119,528**	**88,127**	**411,732**	**704,152**	**89,537**	**34,072**	**1,904,745**
Liabilities:								
Due to credit institutions	5,554	240,413	-	-	41,542	-	-	287,509
Derivative financial liabilities	-	34	-	-	-	-	-	34
Due to customers	636,549	185,070	146,018	412,665	63,927	312	-	1,444,541
Debt securities issued	-	-	-	-	-	-	-	-
Other borrowed funds	-		-	-	-	-	-	-
Deferred income tax liabilities	-	-	-	-	-	-	4,737	4,737
Provisions	-	-	-	-	-	-	552	552
Other liabilities	5,646	22,064	278	3,405	-	-	2,870	34,263
	647,749	**447,581**	**146,296**	**416,070**	**105,469**	**312**	**8,159**	**1,771,636**
Net position	**(190,152)**	**(328,05**	**(58,169)**	**(4,338)**	**598,683**	**89,225**	**25,913**	**133,109**
Accumulated gap	**(190,152)**	**(518,20**	**(576,374)**	**(580,712)**	**17,971**	**107,196**	**133,109**	**-**

(LTL thousand)

34. Fair Values of Financial Instruments

The estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument.

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

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

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

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

Held to Maturity Financial Assets. Carrying value of held-to-maturity financial instruments approximates their fair value.

Amounts Due from and to Credit Institutions. For assets maturing within three months, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For longer-term deposits, due to the re-pricing of assets to the market interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximate the carrying amounts.

Loans to Customers. The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end. Based on the estimates the fair value approximates the carrying amounts.

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

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

(LTL thousand)

35. Related Party Transactions

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

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2005			2004		
	Share-holders	Asso-ciates	Key manage-ment personnel*	Share-holders	Asso-ciates	Key manage-ment personnel*
Loans outstanding at January 1, gross	83	-	582	-	-	99
Loans issued during the year	-	8,709	59	83	-	710
Loan repayments during the year	(83)	-	(155)	-	-	(227)
Loans outstanding at 31 December, gross	-	8,709	486	83	-	582
Less: allowance for impairment at 31 December	-	-	-	-	-	-
Loans outstanding at 31 December, net	-	8,709	486	83	-	582
Interest income on loans	4	10	16	1	-	10
Deposits at 1 January	-	30	524	19	-	365
Deposits received during the year	4	-	1,013	-	-	174
Deposits repaid during the year	-	-	-	(19)	-	(15)
Deposits at 31 December	4	30	1,537	-	-	524
Interest expense on deposits	-	-	72	-	-	20
Commitments and guarantees issued	-	-	897	-	-	-

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

Compensation of key management personnel was comprised of the following:

	2005	2004
Salaries and other short-term benefits	1,095	1,019
Social security costs	339	315
Total key management compensation	**1,434**	**1,334**

Salaries are shown with the bonuses to the key management.

As of 14 September 2005 the Bank also received a subordinated loan from its ultimate shareholder, who is a private individual. As of 31 December 2005 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 69,856 thousand (please refer to Note 17).

(LTL thousand)

36. 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% of risk-weighted assets, computed based on requirements of respective regulator. Group capital adequacy is calculated based on Bank of Lithuania requirements. As of 31 December 2005 and 2004, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratios of the Group for the year 2005 can be specified as follows (%):

31 December 2004	17.23
31 March 2005	17.71
30 June 2005	14.62
30 September 2005	9.86
31 December 2005	9.6

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

	2005		*2004*	
Capital adequacy calculation, the Group	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Tier 1 equity items	141,571	141,571	141,040	141,040
Tier 2 equity items	123,205	123,205	69,280	69,280
Deductions from capital	(15,361)	(15,361)	(999)	(999)
Eligible capital	249,415	249,415	209,321	209,321
Risk assets				
0% risk assets	743,834	-	222,118	-
20% risk assets	764,375	152,875	256,115	51,223
50% risk assets	129,762	64,881	24,687	12,344
100% risk assets	1,918,542	1,918,542	889,753	889,753
Off balance sheet risk commitments	369,538	185,687	189,202	99,331
Trading book requirement	934,908	276,775	678,060	162,450
Total risk exposure		2,598,760		1,215,101
Capital adequacy ratio		9.6		17.23

37. Compliance with regulatory requirements

As of 31 December 2005 and during 2005 the Group was in compliance with all regulatory requirements set forth by the Bank of Lithuania, Bank of Latvia and internal policies of the Group.

38. Financial information on the Bank and Financial Group

In 2005 financial Group consisted of:
1) Bankas Snoras AB;
2) Snoro lizingas UAB;
3) Snoro turto valdymas UAB, and
4) Latvijas Krājbanka A/S.

In 2004 financial Group consisted of:
1) Bankas Snoras AB;
2) Snoro lizingas UAB;
3) Snoro turto valdymas UAB.

(LTL thousand)

38. Financial information on the Bank and Financial Group (cont'd)

Balance Sheets

The Bank 2005	The Bank 2004		Notes	Financial Group 2005	Financial Group 2004
		Assets			
953,890	428,249	Cash and cash equivalents		1,092,036	428,291
849,650	588,285	Financial assets at fair value through profit or loss		928,464	588,285
152,411	168,265	Amounts due from credit institutions		239,294	168,265
3,367	7,015	Derivative financial instruments		3,367	7,015
-	5,275	Available-for-sale financial assets		-	5,275
71,918	-	Held-to-maturity financial assets		156,196	-
-	-	Investments to associates		600	-
92,281	13,639	Investments to subsidiaries		8,239	7,639
1,079,155	638,237	Loans to customers, net		1,898,694	699,972
-	-	Investment property		17,056	-
73,422	70,434	Property, plant and equipment		119,200	70,512
1,172	975	Intangible assets		15,357	998
20,469	4,790	Other assets		14,878	7,716
3,297,735	**1,925,164**	**Total assets**		**4,493,381**	**1,983,968**
		Liabilities			
436,505	245,967	Amounts due to credit institutions		557,027	287,509
2,487,022	1,446,830	Amounts due to customers		3,486,584	1,445,454
134	34	Derivative financial liabilities		556	34
16,713	-	Debt securities issued		16,713	-
69,856	-	Subordinated loans		89,018	-
3,492	4,737	Current income tax liabilities		7,803	-
-	-	Deferred income tax liabilities		8,245	4,737
51	552	Provisions		51	552
42,615	16,757	Other liabilities		65,398	30,909
3,056,388	**1,714,877**	**Total liabilities**		**4,231,395**	**1,769,195**
		Equity			
137,267	137,267	Share capital		137,267	137,267
61,759	60,720	Reserves		62,195	60,970
42,321	12,300	Retained earnings		47,928	16,536
241,347	**210,287**	**Total equity attributable to shareholders of the Group**		**247,390**	**214,773**
-	-	Minority interest		14,596	-
241,347	**210,287**	**Total equity**		**261,986**	**214,773**
3,297,735	**1,925,164**	**Total equity and liabilities**		**4,493,381**	**1,983,968**

(LTL thousand)

38. Financial information on the Bank and Financial Group (cont'd)

Statements of Income

The Bank 2005	The Bank 2004		Financial Group 2005	Financial Group 2004
		Interest income		
65,395	53,209	On loans to customers	109,931	77,736
29,917	20,649	On debt securities	31,366	20,649
9,366	4,467	On loans and placements with credit institutions	10,081	4,490
104,678	**78,325**		**151,378**	**102,875**
		Interest expense		
37,662	27,294	On deposits	42,391	27,292
3,486	715	Placements from credit institutions	7,162	1,342
153	1	On debt securities issued	153	591
800	-	On subordinated loans	1,088	-
42,101	**28,010**		**50,794**	**29,225**
62,577	**50,315**	**Net interest income**	**100,584**	**73,650**
(1,609)	(22,772)	(Impairment) of interest earning assets	(5,665)	(25,843)
60,968	**27,543**	**Net interest income after impairment of interest earning assets**	**94,919**	**47,807**
59,293	47,759	Fee and commission income	55,723	38,598
7,151	4,963	Fee and commission expenses	11,621	5,137
52,142	**42,796**	**Net fee and commission income**	**44,102**	**33,461**
(11,380)	(1,764)	Gains less losses from securities at fair value through profit or loss	(11,375)	(1,764)
(4,246)	1,688	Gains less losses from derivative instruments	(2,567)	1,688
16,742	6,371	Gains less losses from foreign currencies	18,477	6,271
3,843	4,682	Dividend income	35	17
281	404	Other income	1,246	408
5,240	**11,381**	**Other non interest income**	**5,816**	**6,620**
33,259	30,453	Salaries and benefits	43,515	32,144
7,457	8,757	Depreciation and amortisation	9,813	8,842
32,050	26,525	Other operating expenses	43,309	31,058
(368)	625	Other impairment and provisions	(457)	625
72,398	**66,360**	**Operating expenses**	**96,180**	**72,669**
45,952	**15,360**	**Income before income tax**	**48,657**	**15,219**
(5,283)	(2,015)	Income tax	(5,723)	(2,737)
40,669	**13,345**	**Income before minority interest**	**42,934**	**12,482**
-	-	Minority interest	(688)	-
40,669	**13,345**	**Net result for the year**	**42,246**	**12,482**

(LTL thousand)

38. Financial information on the Bank and Financial Group (cont'd)

Statements of Changes in Shareholders' Equity

The Bank

	Share Capital	*Essential difference*	*Reserve capital*	*Revaluation reserve of property, plant and equipment*	*Financial asset revaluation reserve*	*Other general reserves*	*Retained earnings (loss)*	*Total equity*
As of 1 January 2004	**137,267**	**305**	**2,428**	**18,312**	**-**	**39,313**	**(683)**	**196,942**
Transfer to reserve capital	-	-	362	-	-	-	(362)	-
Net profit for the year	-	-	-	-	-	-	13,345	13,345
As of 31 December 2004	**137,267**	**305**	**2,790**	**18,312**	**-**	**39,313**	**12,300**	**210,287**
Transfer to other general reserves	-	-	-	-	-	1,039	(1,039)	-
Net profit for the year	-	-	-	-	-	-	40,669	40,669
Dividends	-	-	-	-	-	-	(9,609)	(9,609)
As of 31 December 2005	**137,267**	**305**	**2,790**	**18,312**	**-**	**40,352**	**42,321**	**241,347**

Financial Group

	Share Capital	Essen-tial differ-rence	*Reserve capital*	*Revaluation reserve of property, plant and equip-ment*	*Reserve of foreign currency translation*	*Other general reserves*	*Financial asset revaluation reserve*	*Retained earnings (loss)*	*Minority interest*	*Total equity*
As of 1 January 2004	**137,267**	**305**	**2,428**	**18,312**	**-**	**39,563**	**-**	**4,416**	-	**202,291**
Transfer to reserve capital	-	-	362	-	-	-	-	(362)	-	**-**
Net profit for the year	-	-	-	-	-	-	-	12,482	-	12,482
As of 31 December 2004	**137,267**	**305**	**2,790**	**18,312**	**-**	**39,563**	-	**16,536**	**-**	**214,773**
Transfer to other general reserves	-	-	-	-	-	1,245	-	(1,245)	-	-
Minority interest emerged with the acquisition of Latvijas Krājbanka A/S	-	-	-	-	-	-	-	-	13,908	13,908
Reserve of foreign currency translation	-	-	-	-	(20)	-	-	-	-	(20)
Net profit for the year	-	-	-	-	-	-	-	42,246	688	42,934
Dividends	-	-	-	-	-	-	-	(9,609)	-	(9,609)
As of 31 December 2005	**137,267**	**305**	**2,790**	**18,312**	**(20)**	**40,808**	**-**	**47,928**	**14,596**	**261,986**

(LTL thousand)

38. Financial information on the Bank and Financial Group (cont'd)

Cash Flows Statement

	The Bank
	2005
Cash flows from banking activities	
Income (expenses)	
Interest income	96,830
Interest (expenses)	(36,047)
Recovery of loans previously written-off	2,908
Income from foreign exchange operations, net	10,764
(Expenses) from operations with securities, net	(3,639)
Service fees and commission income, net	53,924
Remuneration-related (expenses)	(33,045)
Other (expenses)	(31,583)
Operating result	**60,112**
(Increase) decrease in current assets	
Decrease in loans to credit and financial institutions	15,284
(Increase) in loans	(442,557)
(Increase) in securities	(261,635)
(Increase) in other current assets	(8,985)
(Increase) in current assets	(697,893)
Increase in liabilities	
Increase in liabilities to credit and financial institutions	185,958
Increase in public deposits and letters of credit	1,039,518
Increase in debt securities issued	16,713
Increase in other liabilities	16,318
Increase in liabilities	1,258,507
Net cash flows from banking activities before taxes	620,726
Income tax	(1,030)
Net cash flows from banking activities after taxes	**619,696**
Cash flows (to) from investing activities	
(Acquisitions) of tangible and intangible fixed assets	(10,642)
Cash inflow due to (acquisitions) of subsidiaries, net of cash paid	(78,042)
Disposals of tangible assets	-
(Investments into) and sale of securities	(68,661)
Dividends received	3,843
Net cash flows (to) investing activities	**(153,502)**
Cash flows (to) from financing activities	
Subordinated loans received	69,056
Dividends (paid)	(9,609)
Net cash flows from financing activities	**59,447**
Increase in cash	**525,641**
Cash and cash equivalents at the beginning of the financial year	428,249
Cash and cash equivalents at the end of the financial year	953,890

(LTL thousand)

39. Subsequent events

Following profit distribution project for Bankas Snoras AB was presented by the management of the Bank:

	2005
Unappropriated retained earnings at the beginning of the period, as reported earlier	10,127
Effect of changes in accounting policies	(8,475)
Unappropriated retained earnings at the beginning of the period	1,652
Current year result	40,669
Distributable retained earnings in total	42,321
Distribution:	
To reserve capital	2,034
To reserve for purchase of own shares	207
To other general reserves	6,000
To pay dividends	9,609
Undistributed retained earnings carried to next year	**24,471**