# AB ŪKIO BANKAS

**Independent Auditor's Report and Financial Statements for the year ended 31 December 2005**

# AB ŪKIO BANKAS

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# INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB Ūkio Bankas:

We have audited the accompanying financial statements of AB Ūkio Bankas ("the Bank") and consolidated financial statements of the Bank and subsidiaries ("the Group"), which comprise the balance sheet and the consolidated balance sheet as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Bank's and the Group's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards and International Financial Reporting Standards as adopted by the EU.

We also audited the adjustments described in the Accounting Policies item (t) (page 19-21) that were applied to restate the 2004 financial statements to give retroactive effect to the change in accounting policies. In our opinion, such adjustments are appropriate and have been properly applied.

Deloitte Lietuva UAB
Gavin Hill
Partner

Certified auditor Juozas Kabašinskas
Auditor's Certificate No. 000106

Vilnius, Lithuania
1 March 2006

# AB ŪKIO BANKAS

## BALANCE SHEETS
## AS OF 31 DECEMBER 2005
(All amounts in LTL thousands unless otherwise stated)

| | Notes | The Group 2005 | (as restated) The Group 2004 | The Bank 2005 | (as restated) The Bank 2004 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central bank | 2 | 113,621 | 82,360 | 113,621 | 82,360 |
| Loans and advances to banks and other financial institutions | 3 | 842,956 | 720,677 | 1,198,377 | 993,224 |
| Securities at fair value through profit or loss | 4 | 159,412 | 79,802 | 159,412 | 79,802 |
| Loans and advances to customers | 5, 6 | 553,923 | 280,299 | 503,426 | 265,780 |
| Finance lease receivables | 7 | 121,426 | 111,490 | - | - |
| Investment securities: | | | | | |
| *available-for-sale* | 8 | 16,261 | 23,010 | 16,261 | 18,954 |
| *held-to-maturity* | 8 | 98,475 | - | 96,805 | - |
| Investment in subsidiaries | 9 | - | - | 4,000 | 4,100 |
| Intangible fixed assets | 10 | 6,044 | 1,808 | 1,306 | 1,764 |
| Plant, property and equipment | 11 | 358,559 | 227,608 | 27,371 | 21,230 |
| Deferred tax asset | 28 | 6,021 | - | 6,021 | - |
| Other assets | 12 | 82,050 | 30,273 | 57,268 | 36,296 |
| **Total assets** | | **2,358,748** | **1,557,327** | **2,183,868** | **1,503,510** |
| **LIABILITIES AND EQUITY** | | | | | |
| **LIABILITIES** | | | | | |
| Due to central bank | | - | 4,185 | - | 4,185 |
| Deposits from banks and other financial institutions | 13 | 550,712 | 531,318 | 518,609 | 509,964 |
| Due to customers | 14 | 1,469,491 | 872,430 | 1,469,491 | 857,113 |
| Debt securities in issue | 15 | 4,860 | 786 | 4,860 | 786 |
| Subordinated loans | 16 | 9,057 | 7,650 | 9,057 | 7,650 |
| Deferred tax liabilities | 28 | 35,907 | 215 | 336 | 215 |
| Other liabilities | 17 | 54,183 | 25,813 | 32,130 | 13,494 |
| **Total liabilities** | | **2,124,210** | **1,442,397** | **2,034,483** | **1,393,407** |
| **EQUITY** | | | | | |
| Share capital | 18 | 126,708 | 106,708 | 126,708 | 106,708 |
| Restricted (distributable) profit | | 2,000 | 2,000 | 2,000 | 2,000 |
| Revaluation reserve – available-for-sale investment securities | | 1,903 | 1,217 | 1,903 | 1,217 |
| Fixed assets revaluation reserve | | 49,875 | - | - | - |
| Currency translation reserve | | 3,037 | - | - | - |
| Legal reserve | | 339 | - | 339 | - |
| Retained earnings | | 23,848 | 5,005 | 18,435 | 178 |
| **Equity attributable to equity holders of the parent** | | **207,710** | **114,930** | **149,385** | **110,103** |
| Minority interest | | 26,828 | - | - | - |
| **Total equity** | | **234,538** | **114,930** | **149,385** | **110,103** |
| **Total liabilities and equity** | | **2,358,748** | **1,557,327** | **2,183,868** | **1,503,510** |

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

The financial statements were approved by the Board of the Bank on 1 March 2006 and signed on its behalf by:

E. Karpavičienė
Chairwomen of the Board

V. Petraitienė
Chief Accountant

## AB ŪKIO BANKAS

### STATEMENTS OF INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in LTL thousands unless otherwise stated)

| | Notes | The Group 2005 | (as restated) The Group 2004 | The Bank 2005 | (as restated) The Bank 2004 |
|---|---|---|---|---|---|
| Interest income | 19 | 74,851 | 41,870 | 59,298 | 27,948 |
| Interest expense | 19 | (35,203) | (18,559) | (33,614) | (17,405) |
| **Net interest income** | | **39,648** | **23,311** | **25,684** | **10,543** |
| Fees and commission income | 20 | 56,507 | 23,878 | 55,633 | 26,970 |
| Fees and commission expense | 20 | (16,632) | (8,377) | (16,211) | (7,978) |
| **Net fee and commission income** | | **39,875** | **15,501** | **39,422** | **18,992** |
| Gains less losses arising from dealing in foreign currencies | 21 | 11,309 | 9,726 | 11,393 | 9,308 |
| Gains less losses arising from dealing trading securities | 21 | 3,589 | 1,245 | 3,589 | 1,245 |
| Gains less losses arising from investment securities | 21 | 236 | 4,896 | 4,224 | 4,896 |
| Gains less losses arising from dealing in derivatives and other financial instruments | 21 | (1,400) | (3,242) | (1,400) | (2,367) |
| Impairment losses on loans and advances | 22 | (18,105) | (3,362) | (13,781) | (2,815) |
| Reversal of written off loans | | 499 | 517 | 499 | 517 |
| Other operating income | 23 | 11,734 | 6,929 | 5,198 | 3,328 |
| **OPERATING INCOME** | | **87,385** | **55,521** | **74,828** | **43,647** |
| **OPERATING EXPENSES** | 24 | (63,887) | (44,108) | (52,519) | (35,537) |
| **PROFIT BEFORE INCOME TAX** | | **23,498** | **11,413** | **22,309** | **8,110** |
| Income tax | 27 | (3,866) | (695) | (2,647) | (497) |
| **PROFIT FOR THE YEAR** | | **19,632** | **10,718** | **19,662** | **7,613** |
| Attributable to: | | | | | |
| Equity holders of the parent | | 20,248 | 10,718 | 19,662 | 7,613 |
| Minority interest | | (616) | - | - | - |
| | | **19,632** | **10,718** | **19,662** | **7,613** |
| **Basic Earnings Per Share (in LTL)** | 29 | **2.24** | **1.22** | **2.17** | **0.87** |
| **Diluted Earnings Per Share (in LTL)** | 29 | **2.16** | **1.20** | **2.10** | **0.86** |

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

The financial statements were approved by the Board of the Bank on 1 March 2006 and signed on its behalf by:

E. Karpavičienė
Chairwomen of the Board

V. Petraitienė
Chief Accountant

## AB ŪKIO BANKAS

### STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in LTL thousands unless otherwise stated)

| THE BANK | Share Capital | Restricted (distributable) profit | Revaluation reserve for available-for-sales investment securities | Fixed assets revaluation reserve | Currency translation reserve | Compulsory reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| **31 December 2003** | **106,708** | **2,000** | **-** | **-** | **(591)** | **-** | **814** | **108,931** |
| Restatement of investment securities available-for-sale, net of tax | - | - | 6,053 | - | - | - | (6,053) | - |
| Restatement of investments in subsidiaries | - | - | - | - | - | - | (1,722) | (1,722) |
| Correction of currency translation reserve | - | - | - | - | 591 | - | (591) | - |
| **Adjusted balance at 1 January 2004** | **106,708** | **2,000** | **6,053** | **-** | **-** | **-** | **(7,552)** | **107,209** |
| Changes in fair value of investment securities available-for-sale, net of tax | - | - | (4,836) | - | - | - | - | (4,836) |
| Restatement of provisions in accordance with IAS 39 | - | - | - | - | - | - | 117 | 117 |
| Net income (as restated) | - | - | - | - | - | - | 7,613 | 7,613 |
| **31 December 2004 (as restated)** | **106,708** | **2,000** | **1,217** | **-** | **-** | **-** | **178** | **110,103** |
| Dividends paid | - | - | - | - | - | - | (1,066) | (1,066) |
| Changes in fair value of investment securities available-for-sale, net of tax | - | - | 686 | - | - | - | - | 686 |
| Increase in share capital | 20,000 | - | - | - | - | - | - | 20,000 |
| Transfer to legal | - | - | - | - | - | 339 | (339) | - |
| Net income | - | - | - | - | - | - | 19,662 | 19,662 |
| **31 December 2005** | **126,708** | **2,000** | **1,903** | **-** | **-** | **339** | **18,435** | **149,385** |

*(Continued)*

# AB ŪKIO BANKAS

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

(All amounts in LTL thousands unless otherwise stated)

| THE GROUP | Share Capital | Restricted (distributable) profit | Revaluation reserve for available-for-sales investment securities | Fixed assets revaluation reserve | Currency translation reserve | Legal reserve | Retained earnings | Equity attributable to equity holders of the parent | Minority interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2003** | **106,708** | **2,000** | - | - | **(591)** | - | **814** | **108,931** | - | **108,931** |
| Restatement of investment securities available-for-sale, net of tax | - | - | 6,053 | - | - | - | (6,053) | - | - | - |
| Correction of currency translation reserve | - | - | - | - | 591 | - | (591) | - | - | - |
| **Adjusted balance at 1 January 2004** | **106,708** | **2,000** | **6,053** | - | - | - | **(5,830)** | **108,931** | - | **108,931** |
| Changes in fair value of investment securities available-for-sale, net of tax | | | (4,836) | | | | | (4,836) | | (4,836) |
| Restatement of provisions in accordance with IAS 39 | - | - | - | - | - | - | 117 | 117 | - | 117 |
| Net income (as restated) | - | - | - | - | - | - | 10,718 | 10,718 | - | 10,718 |
| **31 December 2004 (as restated)** | **106,708** | **2,000** | **1,217** | - | - | - | **5,005** | **114,930** | - | **114,930** |
| Dividends paid | - | - | - | - | - | - | (1,066) | (1,066) | - | (1,066) |
| Changes in fair value of investment securities available-for-sale, net of tax | - | - | 686 | - | - | - | - | 686 | - | 686 |
| Increase in share capital | 20,000 | - | - | - | - | - | - | 20,000 | - | 20,000 |
| Transfer to legal reserve | - | - | - | - | | 339 | (339) | - | - | - |
| Minority share in acquired subsidiary | - | - | - | - | - | - | - | - | 10,161 | 10,161 |
| Currency translation adjustment | - | - | - | - | 3,037 | - | - | 3,037 | 908 | 3,945 |
| Increase in fixed assets revaluation reserve net of tax | - | - | - | 49,875 | - | - | - | 49,875 | 16,375 | 66,250 |
| Net income (loss) | - | - | - | - | | | 20,248 | 20,248 | (616) | 19,632 |
| **31 December 2005** | **126,708** | **2,000** | **1,903** | **49,875** | **3,037** | **339** | **23,848** | **207,710** | **26,828** | **234,538** |

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

*(Concluded)*

The financial statements were approved by the Board of the Bank on 1 March 2006 and signed on its behalf by:

E. Karpavičienė
Chairwomen of the Board

V. Petraitienė
Chief Accountant

## STATEMENTS OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in LTL thousands unless otherwise stated)

| | Notes | The Group 2005 | (as restated) The Group 2004 | The Bank 2005 | (as restated) The Bank 2004 |
|---|---|---|---|---|---|
| **CASH FLOW FROM (TO) OPERATING ACTIVITIES** | | | | | |
| Interest received | | 72,372 | 39,978 | 56,819 | 25,805 |
| Interest paid | | (34,899) | (16,231) | (33,310) | (15,291) |
| Repayment of loans previously written off | | 594 | 638 | 594 | 638 |
| Net receipts from operations with foreign currency | | 6,350 | 4,926 | 6,360 | 5,047 |
| Net receipts from operations with securities held for trading | | 10,634 | 6,372 | 10,634 | 6,289 |
| Net receipts for services and commission | | 39,841 | 15,479 | 39,388 | 18,970 |
| Payments of salaries and associated payments | | (19,042) | (14,965) | (16,846) | (13,090) |
| Income taxes paid | | (240) | (695) | (182) | (497) |
| Other payments | | (30,810) | (19,463) | (27,777) | (17,049) |
| **Net cash provided by operating activities before change in operating assets and liabilities** | | **44,800** | **16,039** | **35,680** | **10,822** |
| Changes in operating assets and liabilities: | | | | | |
| Compulsory reserves held in central bank | | 46,626 | (12,683) | 46,626 | (12,683) |
| Loans and advances to banks and other financial institutions | | (236,113) | (82,613) | (319,682) | (93,780) |
| Securities at fair value through profit or loss | | (86,083) | (48,575) | (86,083) | (48,575) |
| Loans and advances to customers | | (274,495) | (108,035) | (238,517) | (95,445) |
| Other assets | | (66,062) | (36,574) | (29,492) | (9,162) |
| Due to central banks | | (4,185) | - | (4,185) | - |
| Due from banks and other financial institutions | | 19,394 | 213,445 | 8,645 | 211,334 |
| Due to customers | | 597,061 | 345,608 | 612,378 | 330,291 |
| Other liabilities | | 21,637 | (1,343) | 2,184 | (2,468) |
| **Net cash provided by operating activities** | | **62,580** | **285,269** | **27,554** | **290,334** |
| **CASH FLOW FROM (TO) INVESTING ACTIVITIES** | | | | | |
| Acquisition of subsidiaries | 30 | (33,945) | - | - | (3,000) |
| Disposal of subsidiaries | 30 | 4,200 | - | 4,200 | - |
| Purchase of fixed assets, net of disposals | | (8,464) | (3,361) | (5,921) | (8,563) |
| Acquisition of investment securities available-for-sale, net of disposals | | (89,743) | - | (91,900) | - |
| Cash flows from other investing activity | | - | - | - | 2,974 |
| **Net cash used in investing activities** | | **(127,952)** | **(3,361)** | **(93,621)** | **(8,589)** |

*(Continued)*

# AB ŪKIO BANKAS

## STATEMENTS OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in LTL thousands unless otherwise stated)

| | Notes | The Group 2005 | (as restated) The Group 2004 | The Bank 2005 | (as restated) The Bank 2004 |
|---|---|---|---|---|---|
| **CASH FLOW FROM (TO) FINANCING ACTIVITIES** | | | | | |
| Increase in share capital | | 20,000 | - | 20,000 | - |
| Interest paid for subordinated loans | | (263) | (49) | (263) | (49) |
| Received subordinated loans | | - | 7,604 | - | 7,604 |
| Issued debt securities | | 4,074 | - | 4,074 | - |
| Dividends paid | | (1,066) | - | (1,066) | - |
| **Net cash from financing activities** | | **22,745** | **7,555** | **22,745** | **7,555** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(42,627)** | **289,463** | **(43,322)** | **289,300** |
| **Cash and cash equivalents at the beginning of period** | **31** | **537,648** | **248,185** | **537,483** | **248,183** |
| **Cash and cash equivalents at the end of period** | **31** | **495,021** | **537,648** | **494,161** | **537,483** |

*(Concluded)*

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

The financial statements were approved by the Board of the Bank on 1 March 2006 and signed on its behalf by:

E. Karpavičienė
Chairwomen of the Board

V. Petraitienė
Chief Accountant

## NOTE 1 GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

### General information

AB Ūkio Bankas ("the Bank") was established in June 1989 as Commercial Industry Bank. The Bank's main office is located in Kaunas, Maironio str. 25, Kaunas.

The Bank has a business license issued from Bank of Lithuania for conducting all financial services specified by Lithuanian Banks Law and providing other services allowed under Lithuanian Financial Institutions Law.

The Bank has 12 branches and 29 divisions in Lithuania and 2 representative offices in foreign countries, in addition, the Bank has 5 subsidiaries, UAB Ūkio Banko Lizingas, set up in 1997, UAB Turto Valdymo Strategija, UAB Turto Valdymo Sprendimai and UAB Turto Valdymo Sistemos, set up in 2004 and OAO Russkij Karavaj, acquired in 2005 which 75 % of shares owned by UAB Turto Valdymo Strategija.

At 31 December 2005 the Bank and the Group employed 421 and 508 employees, respectively (2004: 363 and 429).

The Bank's shareholders owning more than 5% of share capital as of 31 December 2005 are as follows:

| | |
|---|---|
| Mr. Vladimir Romonov | 19.43% |
| Mrs. Zinaida Romanova | 9.99% |
| UAB Universal Business Investment Group Management | 9.99% |
| UAB FMĮ Finbaltus | 8.51% |
| UAB Asocijuoto Turto Valdymas | 8.37% |
| Skandinaviska Enskila Banken clients | 7.36% |

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB), except for portfolio hedge accounting under IAS 39, which has not been adopted by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not impact the consolidated financial statements had it been adopted by the EU at the balance sheet date.

The accompanying financial statements are presented in the national currency of Lithuania, the Litas ("LTL").

### Principles of consolidation

At 31 December 2005 the Group financial statements include the accounts of the Bank and its owned subsidiaries:

| Name | Activity | Country | Ownership share |
|---|---|---|---|
| UAB Ūkio Banko lizingas | Finance lease | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo strategija | Financial intermediation | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo sprendimai | Financial intermediation | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo sistemos | Financial intermediation | Kaunas, Lithuania | 100 % |
| OAO Russkij Karavaj* | Real estate and financial intermediation | Moscow, Russia | 75 % |

* - UAB Turto Valdymo Strategija owns 75 % of shares of OAO Russkij Karavaj.

At 31 December 2004 the Group financial statements include the accounts of the Bank and its wholly owned subsidiaries:

| Name | Activity | Country | Ownership share |
|---|---|---|---|
| UAB Ūkio Banko lizingas | Finance lease | Kaunas, Lithuania | 100 % |
| UAB Optimalus turto valdymas | Financial intermediation | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo strategija | Financial intermediation | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo sprendimai | Financial intermediation | Kaunas, Lithuania | 100 % |
| UAB Turto valdymo sistemos | Financial intermediation | Kaunas, Lithuania | 100 % |

Subsidiaries, which are companies over which the parent company has control, are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, 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 the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of income.

All significant inter-company transactions, balances and unrealized surpluses and deficits on transactions between the Group companies have been eliminated. The accounting policies used by the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interests in the equity and results of companies that are controlled by the Bank are shown as a separate item of the shareholders equity in the consolidated financial statements.

## Significant accounting policies

The financial statements are prepared on the historical cost basis as adjusted for revaluation of certain fixed assets and for the measurement of certain financial assets and liabilities at fair value.

The principal accounting policies adopted are set out below:

### a) Accounting for transactions in foreign currencies

Transactions denominated in foreign currencies are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including unmatured commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the rate of exchange on the balance sheet date.

The applicable rates used for the principal currencies at the year-end were the following:

| | 2005 | 2004 |
|---|---|---|
| USD | 2.9102 | 2.5345 |
| EUR | 3.4528 | 3.4528 |

Differences resulting from translation of balances denominated in foreign currencies are recognized in the statement of income as unrealized gain (loss) from foreign exchange operations in the period when such translation was carried out.

### b) Recognition of income and expenses

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Commissions, fees and other revenues are recognized as income when earned.

Commissions, fees and other expenses are recognized as expenses when incurred.

### c) Loans, advances and guarantees issued to customers

Loans and advances and placements with banks and other financial institutions are stated at amortised cost, net of allowance for possible loan, advance or placements losses, respectively. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Interest is accrued and credited to income based on the principal amount outstanding using the effective interest rate method. All loans and advances are recognised when cash is advanced to borrowers.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

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. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

**d) Lease**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee. All other leases are classified as operating leases.

Group as lessee:
Assets held under finance lease are recognized as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Interest expense, i.e. the difference between the total lease payment and the fair value of the acquired assets, is charged to expenses in the statement of income over the entire life of the lease by applying a constant interest rate.

Rentals payable under the operating leases are charged to the statement of income on a straight-line basis over the term of the relevant lease.

Group as lessor:
When assets are held subject to a finance lease, the present value of the lease payments is recognized as a receivable.

The difference between the gross receivable and the present value of the receivable is recognized as unearned financial income.

Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

**e) Debt and Equity Securities**

Securities are classified into the following groups:

Securities at fair value through profit or loss (securities held for trading);
Investment securities available-for-sale;
Investment securities held-to-maturity;
Investments into subsidiaries.

All securities are accounted for at settlement date.

Securities at fair value through profit or loss
Securities held for trade purpose are short-term investments in debt securities, fund's units and shares that are acquired in order to earn profit from fluctuation of securities prices or from dealer's operations margins. They are intended to be kept for a short period of time only.

Securities recorded at fair value are reflected in this portfolio, whose revaluation result is accounted for in the statement of income, with an exception of investments into shares not quoted in the domestic securities market or whose fair value cannot be identified in a reliable (credible) way.

All securities evaluated at fair value through profit or loss following their original recognition at cost are subsequently re-measured at fair value, which stands for their market value. Total realized and unrealized profit or loss resulting from operations with these securities and their revaluation is recorded as profit (loss) generated by trade of securities. Interest earned on such securities is reflected as interest income.

The fair values of those securities not traded are estimated by the management of the Group as the best estimation of the cash flow projection reflecting the set of economic conditions that will exist over the remaining useful life of the securities.

Those financial assets at fair value through profit or loss that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less allowance for permanent diminution in value, when appropriate.

Investment securities available-for-sale
Investment securities available-for-sale are securities held by the Group for an indefinite period of time that are available for sale as liquidity requirements arise or market conditions change.

Investment securities available-for-sale are initially recorded at acquisition cost and subsequently re-measured to fair value. Changes in the fair values of available-for-sale securities are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is charged to statement of income. However, interest calculated using the effective interest method is recognised in the statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the Group's right to receive payment is established.

Investment securities held-to-maturity
Investment securities held-to-maturity are those securities that the Group has the intent and the ability to hold at its disposition until their maturity. These securities are carried at amortized cost using the effective interest rate method. A decrease in their market value is not taken into account unless it is considered as a long-term decline.

A financial asset (as defined in IAS 39) is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the financial instrument's original effective interest rate. When an impairment of assets is identified, the Group recognizes provisions through the statement of income account line "Operating expenses".

Securities sold under repurchase agreements ('repos') are recognized in the financial statements as trading or investment securities, and the resulting liabilities are included in amounts due to banks and other financial institutions, deposits due to customers or other liabilities, as appropriate. Securities purchased under reverse repurchase agreements are included into loans and advances to banks and other financial institutions or customers (as appropriate). The difference between sale and repurchase price is recognized as interest income and is accrued over the life of repurchase agreements using the effective interest rate for the period in question.

Investments in subsidiaries
Investments into equity securities that were acquired with an intention of keeping them for an indefinite period of time and generating capital gain resulting from increase of their value are accounted at cost.

Investments in subsidiaries in the Bank's stand alone financial statements are shown at cost less impairment. At least once each year an impairment test is performed.

If there is objective evidence that an impairment loss on securities carried cost or 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income.

**f) Goodwill**

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the acquisition cost over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is presented in intangible fixed assets line in the balance sheet. Goodwill is not amortised and is tested for impairment at least on an annual basis.

Goodwill is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is defined as the estimated future economic benefits arising from the acquisition of an equity investment. When an impairment of assets is identified, the Group recognises the impairment through the statement of income account line "Operating expenses".

**g) Tangible and intangible assets (except for goodwill)**

Assets falling under the category of tangible and intangible fixed assets are those assets that have been acquired for at least LTL 1,000 and with a useful life in excess of one year. Initially tangible and intangible fixed assets are recorded at cost. Subsequent to initial recognition an item of construction in progress is carried at a revalued amount, being its fair value at the date of the revaluation and subsequent accumulated impairment losses or gains. Subsequent to initial recognition an item of tangible fixed assets other than construction in progress is carried at cost less any accumulated depreciation and accumulated impairment losses. Subsequent to initial recognition an item of intangible fixed assets is carried at cost less any accumulated amortization and accumulated impairment losses.

Depreciable amount is calculated net of residual value. Depreciation/amortization is charged on a straight-line basis over the established useful lives of assets and is charged from the month following the month the assets are brought into use. Useful lives of fixed assets are disclosed below:

| | Years |
|---|---|
| Buildings | 60 |
| Vehicles | 4 - 10 |
| Office equipment and other | 2 - 30 |
| Software | 3 |

Revaluation of construction in progress is made with a sufficient regularity such that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of fixed assets are recognized as income or expense in the statement of income.

Subsequent expenditure on repairs of an item of fixed tangible assets is added to the carrying amount of the item in accordance with the accounting procedures established by the Group when subsequent expenditure increases the useful life of the item. All other expenditure on repairs of fixed tangible fixed assets is recognized as expense in the period when incurred.

### h) Investment property

Investment property is the property, which is held to earn rent and for capital appreciation. Investment property is initially measured at cost. After initial recognition, the Bank and the Group measures all of its investment property at its fair value. The fair value of the investment property is determined annually by certified independent asset appraisers.

Gains or losses arising from a change in the fair value of investment property are recognized as income or expense in the statement of income.

Investment property is included within buildings and real estate in tangible fixed assets line in the balance sheet.

### i) Foreclosed asset for bad debts and assets held for sale

The assets acquired as a result of foreclosures and unused assets held for disposal are disclosed at fair value net of disposal costs. The reduction of the value - from the carrying amount to the established fair value - during the foreclosure of assets is recorded in the statement of income. Subsequent value changes are recognized in the statement of income. Gains or losses recognized on the sale of such assets are recorded in the statement of income. Determinations of fair value are based on periodic appraisals, which may be subject to significant fluctuations as economic conditions change.

### j) Issued debt securities

Issued debt securities are classified as financial liabilities, which are repurchased as one amount or in installments under a certain repayment schedule. Issued debt securities are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. They are measured at amortized cost using the effective interest rate approach. Debt securities placed prior to specified issue date are accounted for as other liabilities. If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

### k) Income tax

For 2005 income tax rate in Lithuania is 15%. From 2006 social tax comes into effect. The social tax will be effective for 2006 and 2007 only and the rates will be 4% and 3%, respectively. The basis for social tax calculation is the same as for income tax. The Group charges the corporate income tax in accordance with Lithuanian tax regulations.

Deferred income tax is accounted for using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases and for tax loss carried forward. Deferred tax assets and liabilities are measured using tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Tax losses can be carried forward for a maximum of five years with the exception of the losses incurred because of the sale of securities and derivatives that can be carried forward for three years.

### l) Cash and cash equivalents

Cash and cash equivalents consist of cash, precious metals and other valuables, funds with Bank of Lithuania (except the mandatory reserves in foreign currency), funds in bank correspondent accounts and overnight deposits in other banks.

### m) Derivative financial instruments

The Group performs operations with derivative financial instruments. The Group uses derivative financial instruments for the purpose of currency exchange and interest rate risk management. Derivative financial instruments including foreign exchange contracts, forward rate agreements and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. These transactions are accounted for at notional value under off balance sheet items.

The Group evaluates the position of every financial instrument daily by comparing current exchange rates and exchange rates on the maturity (contractual) date and recognizes the unrealized gain or loss in the statement of income of the related period. Realized gain or loss is recognized at the maturity (contractual) date.

The premium and discount accrued from interest rates and foreign currency swaps agreements are recognized daily in the statement of income.

### n) Financial instruments with off-balance sheet risk

In the normal course of business, the Group enters into financial instruments with off balance sheet risk, which include foreign exchange and interest rate contracts and issued guarantees. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provision is made for estimated losses, if any, on such off balance sheet items by a charge to the statement of income.

### o) Fair value of financial instruments

Fair value represents the amount at which an asset could be exchanged or liability settled on an arms length basis. Where, in the opinion of management, the fair value of financial assets and liabilities differ materially from their carrying amount, such fair values are separately disclosed in the explanatory notes to the financial statements.

### p) Segment reporting

Segment information is based on three business segments – banking, finance lease and other operations.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of revenue and expenses that can be allocated to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy. Segment results are determined before any adjustments for minority interest.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related adjustments that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

**q) Related parties**

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 and operating decisions. Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting party.

**r) Key sources of estimation uncertainty**

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

Estimated impairment of goodwill
The Group tests annually whether there is any indication that goodwill has suffered any impairment. If that is the case impairment test will be performed in accordance with the accounting policy stated below. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. As of 31 December 2005 the carrying amount of goodwill was LTL'000 4,700 and there were no indications that goodwill might be impaired.

Impairment losses on loans and advances
The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### s) Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

At the date of authorisation of these financial statements, the following Standards and Interpretations were issued but not yet effective:

| New standard, interpretation, amendment | Issued | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IAS 39<br>- Cash flow hedge of forecast intragroup transactions<br>- Guarantee contracts (IFRS 4 amended accordingly)<br>- Fair value option | 2004 | 1 January 2006 |
| Amendment to IAS 1 to add capital disclosures | 2005 | 1 January 2007 |
| IFRS 6 Exploration for and evaluation of mineral resources (IFRS 1 amended accordingly) | 2004 | 1 January 2006 |
| IFRS 7 Financial Instruments: Disclosure (supersedes IAS 30) | 2005 | 1 January 2007 |
| IFRIC 4 – Determining whether an Agreement contains a Lease | 2004 | 1 January 2006 |
| IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds | 2004 | 1 January 2006 |
| IFRIC 6 Liabilities arising from Participation in a specific market – Waste electrical and electronic references | 2005 | 1 December 2005 |
| IFRIC 7 Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies | 2005 | 1 March 2006 |
| IFRIC 8 Scope of IFRS 2 | 2006 | 1 May 2006 |
| IFRIC 9 Reassessment of embedded derivatives | 2006 | 1 June 2006 |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

### t) Reclassifications and restatements

Starting from 2005 due to the revised IAS 27 the Bank participation in subsidiaries is recognised at cost. In 2004 the Bank participation in subsidiaries was accounted for in accordance with the equity method. Changes in accounting policy have been applied retrospectively and prior period financial statements have been restated.

Starting from 2005 due to revised IAS 39 the Bank and the Group has recognized changes in fair value of securities available-for-sales directly to equity. In 2004 the Bank and the Group recognized changes in fair value of securities available-for-sales through statement of income. Changes in accounting policy have been applied retrospectively and prior period financial statements have been restated.

Starting from 2005 due to revised IAS 39, the Bank and the Group have changed their accounting policy for loan impairment and have restated provisions for impairment losses on loans and advances as of 31 December 2004. Since it is impracticable to determine the period-specific effect of change in accounting policy on comparative information from prior periods presented, the Bank and the Group applies the new accounting policy as at 31 December 2004. As a result the provisioning for impairment losses on loans included in the statement of income for the year ended 31 December 2004 is based on the previous accounting policy and, accordingly, the statement of income for the year ended 31 December 2004 is not comparable with the statement of income for the year ended 31 December 2005.

The Bank and The Group has restated and reclassified its assets and liabilities to comply with the revised IAS 39 classifications. In 2005, the following opening balances have been restated and reclassified:

| THE BANK | 31.12.2004 before restatement | Restatement | Reclassifications | 31.12.2004 after restatement |
|---|---|---|---|---|
| **Assets** | | | | |
| Due from banks and other credit and financial institutions | 991,497 | 1,727 | - | 993,224 |
| Financial assets at fair value through profit or loss | - | - | 79,802 | 79,802 |
| Loans issued to customers | 266,840 | (1,060) | - | 265,780 |
| Debt securities | 78,281 | | (78,281) | - |
| Securities available-for-sale | - | - | 18,954 | 18,954 |
| Investments to equity securities | 29,271 | (4,696) | (24,575) | - |
| Investments into subsidiaries | - | - | 4,100 | 4,100 |
| Other assets | 38,206 | (1,910) | - | 36,296 |
| **Liabilities** | | | | |
| Due to central bank | 4,171 | 14 | - | 4,185 |
| Due to banks and other credit and financial institutions | 509,797 | 167 | - | 509,964 |
| Deposits and letters of credit | 852,801 | 4,312 | - | 857,113 |
| Subordinated loans | 7,604 | 46 | - | 7,650 |
| Deferred tax liability | - | 215 | - | 215 |
| Other liabilities | 19,393 | (5,899) | - | 13,494 |
| | | | | |
| Retained earnings of which: | | | | |
| *Retained earnings increase as a result of the adjustment of provisions* | - | *117* | - | 117 |
| *Retained earnings decrease as a result of investments into subsidiaries* | - | *(4,696)* | - | *(4,696)* |
| *Retained earnings decrease as result of securities available-for-sales* | - | *(215)* | - | - |
| | | | | |
| **Total assets** | 1,509,449 | (5,939) | - | 1,503,510 |
| **Total liabilities** | 1,394,552 | (1,145) | - | 1,393,407 |
| **Total equity** | 114,897 | (4,794) | - | 110,103 |

| | 31.12.2004 before restatement | Restatement of equity method | Restatements of results of revaluation of investment securities available-for-sale | 31.12.2004 after restatement |
|---|---|---|---|---|
| | | - | - | |
| Restatement of the profit for the year 2004 | 5,966 | (2,974) | 4,621 | **7,613** |

| THE GROUP | 31.12.2004 before restatement | Restatement | Reclassifications | 31.12.2004 after restatement |
|---|---|---|---|---|
| **Assets** | | | | |
| Due from banks and other credit and financial institutions | 719,329 | 1,348 | - | 720,677 |
| Short-term treasury bills | - | - | - | - |
| Financial assets at fair value through profit or loss | - | - | 79,802 | 79,802 |
| Loans issued to customers | 281,161 | (862) | - | 280,299 |
| Financial lease | 110,674 | 816 | - | 111,490 |
| Debt securities | 78,281 | - | (78,281) | - |
| Equity securities | 24,531 | - | (24,531) | - |
| Securities available-for-sale | - | - | 23,010 | 23,010 |
| Other assets | 32,688 | (2,415) | - | 30,273 |
| **Liabilities** | | | | |
| Due to central bank | 4,171 | 14 | - | 4,185 |
| Due to banks and other credit and financial institutions | 509,797 | 167 | - | 509,964 |
| Deposits and letters of credit | 868,118 | 4,312 | - | 872,430 |
| Subordinated loans | 7,604 | 46 | - | 7,650 |
| Deferred tax liability | - | 215 | - | 215 |
| Other liabilities | 31,712 | (5,899) | - | 25,813 |
| Retained earnings | | | | |
| *of which:* | | | | |
| *Retained earnings increase as a result of the adjustment of provisions* | - | *248* | - | - |
| *Retained earnings decrease as result of securities available-for-sales* | - | *(215)* | - | - |
| **Total assets** | 1,558,439 | (1,112) | - | 1,557,327 |
| **Total liabilities** | 1,443,542 | (1,145) | - | 1,442,397 |
| **Total equity** | 114,897 | 33 | - | 114,930 |

| | 31.12.2004 before restatement | Restatement of provisions | Restatements of results of revaluation of investment securities available-for-sale | 31.12.2004 after restatement |
|---|---|---|---|---|
| Restatement of the profit for the year 2004 | 5,966 | 131 | 4,621 | **10,718** |

### NOTE 2 CASH AND BALANCES WITH CENTRAL BANK

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 14,500 | 11,108 | Cash in hand | 14,500 | 11,108 |
| 8 | 5 | Other placement | 8 | 5 |
| 99,113 | 71,247 | Compulsory reserves | 99,113 | 71,247 |
| **113,621** | **82,360** | **Total cash and balance with central bank** | **113,621** | **82,360** |

The compulsory reserves are held with Bank of Lithuania in the form of non-interest bearing deposits under the Bank of Lithuania's regulations. The compulsory reserves held with Bank of Lithuania comprise the funds calculated on a monthly basis as a 6% share of the average balance of deposits of the month.

### NOTE 3 LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Loans and advances to banks and other financial institutions** | | |
| 154,111 | 342,948 | Funds in correspondent accounts | 153,281 | 342,948 |
| 631,225 | 328,742 | Deposits: | 613,762 | 328,577 |
| *226,090* | *151,206* | *Overnight deposits* | *226,090* | *151,206* |
| *405,105* | *177,371* | *Term deposits* | *387,672* | *177,371* |
| *30* | *165* | *Demand deposits* | - | - |
| 60,762 | 49,243 | Loans: | 434,476 | 321,955 |
| *60,762* | *49,243* | *Falling due within one year* | *105,118* | *49,519* |
| - | - | *Falling due after one year* | *329,358* | *272,436* |
| **846,098** | **720,933** | **Total** | **1,201,519** | **993,480** |
| (3,142) | (256) | Provisions for impairment loss of loans and advance to banks and other financial institutions (Note 22) | (3,142) | (256) |
| **842,956** | **720,677** | **Total loans and advances to banks and other financial institutions, net** | **1,198,377** | **993,224** |

As of 31 December 2005 the Bank's and the Group's "Loans and advances to banks and other financial institutions" balances include accrued interest in the amount of LTL'000 1,358 and LTL'000 928, respectively (2004: LTL'000 786 and LTL'000 484, respectively).

## NOTE 4 SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Debt securities held for trading:** | | |
| 26,005 | 28,782 | Lithuanian government | 26,005 | 28,782 |
| 22,985 | 37,265 | Other countries' governments | 22,985 | 37,265 |
| 60,948 | 6,963 | Private companies | 60,948 | 6,963 |
| 37,980 | 5,271 | Banks | 37,980 | 5,271 |
| **147,918** | **78,281** | **Total** | **147,918** | **78,281** |
| | | **Equity securities held for trading:** | | |
| 9,122 | - | Russian companies | 9,122 | - |
| 2,372 | 1,521 | Lithuanian companies | 2,372 | 1,521 |
| **11,494** | **1,521** | **Total** | **11,494** | **1,521** |
| **159,412** | **79,802** | **Total securities at fair value through profit or loss** | **159,412** | **79,802** |

## NOTE 5 LOANS AND ADVANCES TO CUSTOMERS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Loans to customers:** | | |
| 105,859 | 96,584 | Falling due within one year | 77,752 | 85,245 |
| 319,729 | 140,439 | Falling due after one year | 319,729 | 140,439 |
| 46,202 | 14,210 | Reverse repos | 23,193 | 11,585 |
| 93,993 | 33,727 | Factoring | 93,467 | 33,172 |
| **565,783** | **284,960** | **Total loans to customers** | **514,141** | **270,441** |
| (11,860) | (4,661) | Provisions for impairment loss of loans and advances to customers (Note 22) | (10,715) | (4,661) |
| **553,923** | **280,299** | **Total loans to customers** | **503,426** | **265,780** |

As of 31 December 2005 the Bank's and the Group's "Loans and advances to customers" balances includes accrued interest in amount of LTL'000 1,322 and LTL'000 1,675, respectively (2004: LTL'000 331 and LTL'000 460, respectively).

## NOTE 6 LOANS AND ADVANCES BY INDUSTRIES AND SECTORS

| The Group 2005 | The Group (as restated) 2004 | Loans and advances by industries and sectors | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 11,096 | 6,362 | to agriculture, hunting, forestry | 11,096 | 6,362 |
| 2,959 | 150 | to fishery and pisciculture | 2,959 | 150 |
| 66,625 | 62,474 | to manufacturing | 66,099 | 61,923 |
| 5,193 | 4,009 | to utilities | 5,193 | 4,009 |
| 20,460 | 36,701 | to construction | 20,460 | 36,701 |
| 200,333 | 79,645 | to wholesale and retail trade | 200,461 | 79,645 |
| 4,180 | 20 | to other financial intermediaries | 4,180 | 20 |
| 17,123 | 12,237 | to transportation, storage and telecommunication | 17,123 | 12,237 |
| 90,475 | 22,715 | to real estate, rent and commercial companies | 90,475 | 20,215 |
| 42,212 | 10,410 | to other utilities, social and personal services | 42,212 | 10,410 |
| 6,299 | 2,682 | to hotels and restaurants | 6,299 | 2,682 |
| - | 80 | to education | - | 80 |
| 896 | 848 | to health care and social works | 896 | 848 |
| 32,016 | 7,844 | to other types of economic activity | 9,007 | 7,844 |
| **499,867** | **246,177** | **Total loans and advances by industries and sectors** | **476,460** | **243,126** |
| 64,241 | 38,323 | to natural persons | 36,359 | 26,984 |
| **564,108** | **284,500** | **Total loans and advances** | **512,819** | **270,110** |
| 1,675 | 460 | Accrued interest | 1,322 | 331 |
| (11,860) | (4,661) | Provisions for impairment loss of loans and advances to customers (Note 22) | (10,715) | (4,661) |
| **553,923** | **280,299** | **Total loans and advances, net** | **503,426** | **265,780** |

As of 31 December 2005 the Bank complied with the maximum loan to one customer requirement established by Bank of Lithuania, according to which the total amount of loans granted to one customer and the customer's related parties may not exceed 25% of the Bank's capital.

## NOTE 7 FINANCE LEASE RECEIVABLES

At 31 December the Group's minimum lease receivables and the present value of minimum lease receivables are composed as follows:

| Minimum lease receivables 2005 | Minimum lease receivables (as restated) 2004 | | Present value of minimum lease receivables 2005 | Present value of minimum lease receivables (as restated) 2004 |
|---|---|---|---|---|
| | | **Amounts receivable under finance leases** | | |
| 111,343 | 96,524 | Due within one year | 102,111 | 87,396 |
| 22,954 | 27,330 | Due within the second to fifth years inclusive | 20,921 | 25,398 |
| **134,297** | **123,854** | **Total** | **123,032** | **112,794** |
| (11,265) | (11,060) | Less: unearned finance income | - | - |
| **123,032** | **112,794** | **Minimum lease receivables** | **123,032** | **112,794** |
| (1,606) | (1,304) | Provisions for impairment loss of finance lease receivables (Note 22) | (1,606) | (1,304) |
| **121,426** | **111,490** | **Finance lease receivables, net** | **121,426** | **111,490** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Finance lease by type of assets leased:** | | |
| 166 | 1,934 | Real estate | - | - |
| 332 | 650 | Manufacturing equipment | - | - |
| 1,575 | 3,796 | Vehicles | - | - |
| 43,738 | 35,459 | Computer equipment | - | - |
| 21,381 | 15,408 | Audio and video equipment | - | - |
| 26,080 | 21,254 | Household equipment | - | - |
| 12,249 | 10,312 | Furniture | - | - |
| 17,511 | 23,981 | Other assets | - | - |
| **123,032** | **112,794** | **Total finance lease receivables by type of assets leased** | **-** | **-** |
| (1,606) | (1,304) | Provisions for impairment of finance lease receivables (Note 22) | - | - |
| **121,426** | **111,490** | **Total finance lease receivables by type of assets leased, net** | **-** | **-** |

The Bank's subsidiary UAB Ūkio Banko Lizingas is engaged in leasing business.

The average maturity term of a lease contract is 20 months.

Finance lease receivables portfolio of UAB Ūkio Banko Lizingas in the amount of LTL'000 25,000 is pledged to AB Bankas Nord/LB Lietuva for the securization of LTL'000 15,000 loan payable to AB Bankas Nord/LB Lietuva.

## NOTE 8 INVESTMENT SECURITIES

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Equity investment securities available-for-sale:** | | |
| - | 2,801 | AB Šiaulių bankas | - | 2,801 |
| 3,323 | 3,296 | Balkan Investment Bank A.D. | 3,323 | 3,296 |
| 1,928 | 771 | GD UAB Bonum Publicum | 1,928 | 771 |
| 81 | 81 | SWIFT SCRL | 81 | 81 |
| - | 1,866 | UAB Domus Altera | - | 1,866 |
| 9,362 | 13,418 | UAB Ūkio Banko Investicinė Grupė | 9,362 | 9,362 |
| 1,567 | 777 | UAB FMĮ Finbaltus | 1,567 | 777 |
| **16,261** | **23,010** | **Total equity investment securities available-for-sale** | **16,261** | **18,954** |
| | | **Investment securities held-to-maturity:** | | |
| 316 | - | Other countries' government debt securities | 316 | - |
| 86,406 | - | Companies debt securities | 86,406 | - |
| 10,083 | - | Other bank's debt securities | 10,083 | - |
| 1,670 | - | Companies securities | - | - |
| **98,475** | **-** | **Total investment securities held-to-maturity** | **96,805** | **-** |

### NOTE 9 INVESTMENT IN SUBSIDIARIES

| The Group | | | The Bank | |
|---|---|---|---|---|
| 2005 | (as restated) 2004 | | 2005 | (as restated) 2004 |
| | | **Investments in subsidiaries:** | | |
| - | - | UAB Ūkio banko lizingas | 1,000 | 1,000 |
| - | - | UAB Optimalus turto valdymas | - | 100 |
| - | - | UAB Turto valdymo sistemos | 1,000 | 1,000 |
| - | - | UAB Turto valdymo sprendimai | 1,000 | 1,000 |
| - | - | UAB Turto valdymo strategija | 1,000 | 1,000 |
| **-** | **-** | **Total investments in subsidiaries** | **4,000** | **4,100** |

On March 2005, the Bank disposed 100% of the share capital of its subsidiary UAB Optimalus Turto Valdymas, registered in Kaunas, Lithuania (see Note 30).

On April 2005 the Group acquired a 75% shareholding in OAO Russkij Karavaj, registered in Moscow, Russia (see Note 30).

### NOTE 10 INTANGIBLE FIXED ASSETS

| The Group | | | | The Bank |
|---|---|---|---|---|
| **Software** | **Goodwill** | **Total** | | **Software** |
| | | | Acquisition cost | |
| **3,515** | **-** | **3,515** | **As of 31 December 2003** | **3,338** |
| 323 | - | 323 | additions | 303 |
| (265) | - | (265) | disposals | (228) |
| **3,573** | **-** | **3,573** | **As of 31 December 2004** | **3,413** |
| 561 | 4,315 | 4,876 | additions | 531 |
| (111) | - | (111) | disposals | (111) |
| - | 385 | 385 | currency exchange differences | - |
| **4,023** | **4,700** | **8,723** | **As of 31 December 2005** | **3,833** |
| | | | Accumulated amortisation | |
| **1,153** | **-** | **1,153** | **As of 31 December 2003** | **1,034** |
| 700 | - | 700 | charges for the year | 667 |
| (88) | - | (88) | disposals, write-offs | (52) |
| **1,765** | **-** | **1,765** | **As of 31 December 2004** | **1,649** |
| 1,025 | - | 1,025 | charges for the year | 989 |
| (111) | - | (111) | disposals, write-offs | (111) |
| **2,679** | **-** | **2,679** | **As of 31 December 2005** | **2,527** |
| | | | Carrying amount | |
| **1,808** | **-** | **1,808** | **As of 31 December 2004** | **1,764** |
| **1,344** | **4,700** | **6,044** | **As of 31 December 2005** | **1,306** |

The carrying value of the computer software acquired by the Bank under finance lease agreements as of 31 December 2005 were LTL'000 691 (2004: LTL'000 1,291).

## NOTE 11 TANGIBLE FIXED ASSETS

| The Bank | Buildings and other real estate | Vehicles | Office equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| **Historical cost \ revalued amount** | | | | | |
| **31 December 2003** | **24,080** | **1,690** | **9,933** | **184,539** | **220,242** |
| additions | - | 944 | 2,316 | 8,456 | 11,716 |
| changes in fair value | 739 | - | - | 5,461 | 6,200 |
| disposals | (7,976) | (101) | (1,579) | (198,456) | (208,112) |
| elimination of accumulated depreciation of investment property at fair value | (1,098) | - | - | - | (1,098) |
| **31 December 2004** | **15,745** | **2,533** | **10,670** | **-** | **28,948** |
| additions | 1,767 | 1,326 | 3,423 | - | 6,516 |
| changes in fair value | 1,800 | - | - | - | 1,800 |
| disposals | - | (305) | (945) | - | (1,250) |
| **31 December 2005** | **19,312** | **3,554** | **13,148** | **-** | **36,014** |
| **Accumulated depreciation** | | | | | |
| **31 December 2003** | **2,468** | **901** | **5,641** | **-** | **9,010** |
| charge for the year | 344 | 228 | 831 | - | 1,403 |
| disposals | (534) | (76) | (987) | - | (1,597) |
| elimination of accumulated depreciation of investment property at fair value | (1,098) | - | - | - | (1,098) |
| **31 December 2004** | **1,180** | **1,053** | **5,485** | **-** | **7,718** |
| charge for the year | 139 | 390 | 1,563 | - | 2,092 |
| disposals | - | (276) | (891) | - | (1,167) |
| **31 December 2005** | **1,319** | **1,167** | **6,157** | **-** | **8,643** |
| **Carrying amount** | | | | | |
| **31 December 2004** | **14,565** | **1,480** | **5,185** | **-** | **21,230** |
| **31 December 2005** | **17,993** | **2,387** | **6,991** | **-** | **27,371** |

The depreciation charge for the year is included in depreciation and amortization expenses in the statement of income.

The carrying value of the vehicles and office equipment acquired by the Bank under finance lease agreements as of 31 December 2005 were LTL'000 320 (2004: LTL'000 170) and LTL'000 805 (2004: LTL'000 1,535), respectively.

As of 31 December 2005 tangible fixed assets of the Bank include investment property with the carrying amount of LTL'000 11,483 (2004: LTL'000 7,916), which is classified under buildings and other real estate category. The investment property fair values were revalued as of 31 December 2005 by independent assets appraisers V. Černius appraisers company. The fair value of buildings was determined under the market value basis.

| **The Group** | **Buildings and other real estate** | **Vehicles** | **Office equipment** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|
| **Historical cost \ revalued amount** | | | | | |
| **31 December 2003** | **33,480** | **3,116** | **10,917** | **184,539** | **232,052** |
| additions | 10,409 | 1,002 | 2,444 | 8,456 | 22,311 |
| changes in fair value | 2,929 | - | - | (15,836) | (12,907) |
| disposals | (532) | (101) | (1,599) | - | (2,232) |
| elimination of accumulated depreciation of investment property at fair value | (1,098) | - | - | - | (1,098) |
| **31 December 2004** | **45,188** | **4,017** | **11,762** | **177,159** | **238,126** |
| additions | 1,767 | 1,656 | 3,876 | 8,651 | 15,950 |
| taken over from Russkij Karavaj subsidiary | - | - | - | 53,807 | 53,807 |
| changes in fair value | 7,512 | - | - | 86,192 | 93,704 |
| disposals | (27,113) | (527) | (966) | (36,361) | (64,967) |
| net translation differences | - | - | - | 33,584 | 33,584 |
| elimination of accumulated depreciation of investment property at fair value | (712) | - | - | - | (712) |
| **31 December 2005** | **26,642** | **5,146** | **14,672** | **323,032** | **369,492** |
| **Accumulated depreciation** | | | | | |
| **31 December 2003** | **2,983** | **1,830** | **6,174** | **-** | **10,987** |
| charge for the year | 720 | 516 | 1,009 | - | 2,245 |
| disposals | (533) | (76) | (1,007) | - | (1,616) |
| elimination of accumulated depreciation of investment property at fair value | (1,098) | - | - | - | (1,098) |
| **31 December 2004** | **2,072** | **2,270** | **6,176** | **-** | **10,518** |
| charge for the year | 140 | 561 | 1,771 | - | 2,472 |
| disposals | (177) | (278) | (890) | - | (1,345) |
| elimination of accumulated depreciation of investment property at fair value | (712) | - | - | - | (712) |
| **31 December 2005** | **1,323** | **2,553** | **7,057** | **-** | **10,933** |
| **Carrying amount** | | | | | |
| **31 December 2004** | **43,116** | **1,747** | **5,586** | **177,159** | **227,608** |
| **31 December 2005** | **25,319** | **2,593** | **7,615** | **323,032** | **358,559** |

As of 31 December 2005 construction in progress in the amount of LTL'000 323,032 (2004: 177,159) represents building under construction located in Moscow, Russia (see Note 40).

Building, owned by UAB Ūkio Banko Lizingas (100% owned subsidiary of the Bank), with carrying amount of LTL'000 7,330 as of 31 December 2005 is pledged to UAB Bonum Publicum for the securization of LTL'000 2,640 the loan payable to UAB Bonum Publicum.

As of 31 December 2005 tangible fixed assets of the Group include investment property with the carrying amount of LTL'000 18,813 (2004: LTL'000 20,520), which are classified under buildings and other real estate category. The investment property fair value was revalued as of 31 December 2005 by independent assets appraisers V. Černius company. The fair value of buildings was determined under the market value basis.

Investment property movement table.

| **The Group** | | **The Bank** |
|---|---|---|
| **1,814** | **Fair value as of 31 December 2003** | - |
| 10,410 | Investment property additions | - |
| 7,228 | Reclasses from fixed assets | 7,177 |
| 1,068 | Gain arising from a change in the fair value | 739 |
| **20,520** | **Fair value as of 31 December 2004** | **7,916** |
| 1,767 | Investment property additions | 1,767 |
| (10,986) | Investment property disposals | - |
| 7,512 | Gain arising from a change in the fair value | 1,800 |
| **18,813** | **Fair value as of 31 December 2005** | **11,483** |

## NOTE 12 OTHER ASSETS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Other assets:** | | |
| 86 | 181 | foreclosed assets | 86 | 181 |
| 6,439 | 9,154 | accounts receivable | 6,439 | 16,599 |
| 25,004 | 12,252 | prepayments | 25,113 | 12,252 |
| 7,869 | 6,755 | deferred expenses | 6,102 | 5,596 |
| 4,277 | 442 | claims due derivative financial instruments | 4,277 | 1,322 |
| 3,814 | 666 | receivables from Spot transactions | 3,814 | 666 |
| 14,551 | - | advance payment to investment fund | 14,551 | - |
| 27,215 | 1,419 | other receivables | 1,818 | 276 |
| **89,255** | **30,869** | **Total other assets** | **62,200** | **36,892** |
| (7,205) | (596) | Provisions for impairment loss of other assets (Note 22) | (4,932) | (596) |
| **82,050** | **30,273** | **Total other assets, net** | **57,268** | **36,296** |

## NOTE 13 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Due to banks and other financial institutions** | | |
| 19,961 | 55,335 | Due to correspondent banks | 19,977 | 55,335 |
| 390,673 | 452,440 | Deposits | 390,733 | 453,726 |
| *109,982* | *61,818* | *including collaterized deposits for the loans granted* | *109,982* | *61,818* |
| 138,859 | 23,376 | Loans: | 106,761 | 736 |
| - | - | *Falling due within one year* | - | - |
| *138,859* | *23,376* | *Falling due after one year* | *106,761* | *736* |
| **549,493** | **531,151** | **Total due to banks and other financial institutions** | **517,471** | **509,797** |
| 1,219 | 167 | Accrued interest | 1,138 | 167 |
| **550,712** | **531,318** | **Total due to banks and other financial institutions, net** | **518,609** | **509,964** |

Finance lease receivables portfolio of UAB Ūkio Banko Lizingas in the amount of LTL'000 25,000 is pledged to AB Bankas Nord/LB Lietuva for the securization of LTL'000 15,000 loan payable to AB Bankas Nord/LB Lietuva.

Building, owned by UAB Ūkio Banko Lizingas (100% owned subsidiary of the Bank), with carrying amount of LTL'000 7,330 as of 31 December 2005 is pledged to UAB Bonum Publicum for the securization of LTL'000 2,640 loan payable to UAB Bonum Publicum.

## NOTE 14 DUE TO CUSTOMERS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Due to customers** | | |
| 536,196 | 315,494 | Current and demand deposits | 536,196 | 315,494 |
| 933,295 | 556,936 | Term deposits, letters of credit | 933,295 | 541,619 |
| **1,469,491** | **872,430** | **Total due to customers** | **1,469,491** | **857,113** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Current and demand deposits** | | |
| 454,107 | 264,034 | Companies | 454,107 | 264,034 |
| 82,089 | 51,460 | Individuals | 82,089 | 51,460 |
| **536,196** | **315,494** | | **536,196** | **315,494** |
| | | **Term deposits** | | |
| 271,493 | 84,843 | Companies | 271,493 | 84,843 |
| 654,599 | 467,781 | Individuals | 654,599 | 452,464 |
| **926,092** | **552,624** | | **926,092** | **537,307** |
| 7,203 | 4,312 | Accrued interest | 7,203 | 4,312 |
| **1,469,491** | **872,430** | **Total due to customers** | **1,469,491** | **857,113** |

## NOTE 15 DEBT SECURITIES IN ISSUE

In November 2005 the Bank issued bonds at a nominal value of LTL'000 15,000 with a 4.1% discount. The bonds maturity period is 366 days until the 8th November 2006.

## NOTE 16 SUBORDINATED LOANS

At 31 December 2005 the Bank had two subordinated loans amounting to USD'000 3,000 (LTL'000 8,730) with subordinated loans accrued interest of USD'000 112 (LTL'000 327).

On 30 May 2004 the Bank signed two subordinated loans agreements for USD'000 3,000 with Great Britain company SAMSUNG U.K. Limited.

On 1 July 2004 the Bank received its first subordinated loan in the amount of USD'000 1,500. The annual interest rate was 12 month USD LIBOR, which as of 31 December 2004 was 2.385%. The loan and accrued interest should be repaid till 1 July 2009 or be converted to newly issued shares.

At 30 December 2004 the Bank received the second subordinated loan in the amount of USD'000 1,500. The annual interest rate is 12 month USD LIBOR, which according to the agreement is calculated from 7 January 2005. The loan and accrued interest should be repaid till 7 January 2010 or be converted to newly issued shares.

Bank of Lithuania by order No 121 dated 21 June 2004 and order No 18 dated 3 February 2005 gave permission to include the subordinated loans to the Bank's tier 2 capital.

## NOTE 17 OTHER LIABILITIES

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Other liabilities:** | | |
| 2,861 | 1,875 | Prepayments from customers for finance leases | - | - |
| 12,530 | 10,178 | Trade payables for finance lease goods suppliers | - | - |
| 2,805 | 3,678 | Suspense accounts | 2,805 | 3,678 |
| 647 | 300 | Deposit insurance accrued expenses | 647 | 300 |
| 98 | 182 | Finance lease payable | 1,727 | 2,504 |
| 4,750 | 3,282 | Compulsory social and health insurance funds | 4,750 | 3,282 |
| 2,006 | 1,749 | Accrued income and deferred expenses | 93 | 71 |
| 3,570 | 292 | Liabilities due derivative financial instruments | 3,570 | 292 |
| 24,916 | 4,277 | Other liabilities | 18,538 | 3,367 |
| **54,183** | **25,813** | **Total other liabilities** | **32,130** | **13,494** |

## NOTE 18 SHARE CAPITAL

Issued share capital as of 31 December 2005 consisted of 10,559,000 (31 December 2003: 8,892,333) ordinary shares with par value of LTL 12 each. All shares are fully paid.

On 22 November 2005 the share capital of the Bank was increased by LTL'000 20,000. New 1,666,666 ordinary shares with par value of LTL 12 each were issued and paid in cash.

At the shareholders meeting on 24 March 2005, dividends in respect of 2004 of LTL 0.12 per share amounting to total of LTL'000 1,066 were proposed. The financial statements for the year 31 December 2004 do not reflect this resolution, which was accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2005.

No dividends were paid or proposed during 2004.

On 23 December 2005 the shareholders of the Bank decided to change the par value of Bank's ordinary shares from LTL 12 to LTL 1 for each share. New bylaws of the Bank was registered in Legal person's register on 6 February 2006. The authorized capital of the Bank is LTL'000 126,708 and consist of 126,708,000 ordinary shares with par value of LTL 1 each.

Considering the changes of share par value and corresponding change in number of shares the Bank's and the Group's 2005 basic earnings per share would be LTL 0.18 and LTL 0.19 (2004: LTL 0.07 and LTL 0.10) respectively and diluted earnings per share would be LTL 0.17 and LTL 0.18 (2004: LTL 0.07 and LTL 0.10) respectively (Note 29).

## NOTE 19 INTEREST INCOME AND EXPENSE

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Interest income:** | | |
| 198 | - | on loans to central bank | 198 | - |
| 24,988 | 7,403 | on loans to banks and other financial institutions | 29,690 | 11,564 |
| 26,984 | 15,128 | on other loans | 26,938 | 14,975 |
| 2,460 | 1,140 | on debt securities acquired | 2,460 | 1,140 |
| 20,209 | 17,930 | on finance lease | - | - |
| 12 | 269 | other interest income | 12 | 269 |
| **74,851** | **41,870** | **Total interest income** | **59,298** | **27,948** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Interest expense** | | |
| 76 | 167 | on loans to central bank | 76 | 167 |
| 11,865 | 2,035 | on liabilities to banks and other financial institutions | 10,276 | 881 |
| 22,958 | 16,225 | on deposits due to customers | 22,958 | 16,225 |
| 263 | 49 | on subordinated loans | 263 | 49 |
| 41 | 83 | on debt securities issued | 41 | 83 |
| **35,203** | **18,559** | **Total interest expense** | **33,614** | **17,405** |

## NOTE 20 FEES AND COMMISSION INCOME AND EXPENSE

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Fees and commission income** | | |
| 37,247 | 12,045 | for money transfer operations | 37,378 | 12,046 |
| 4,071 | 1,542 | for payment card services | 1,607 | 1,022 |
| 951 | 796 | for EUR currency exchange | 951 | 796 |
| 1,157 | 288 | for account services | 1,157 | 288 |
| 1,619 | 1,420 | for collection of taxes | 1,619 | 1,466 |
| 4,615 | 2,902 | for credit services | 4,615 | 2,932 |
| 2,023 | 3,190 | for intermediation services | 3,610 | 4,523 |
| 4,824 | 1,695 | other | 4,696 | 3,897 |
| **56,507** | **23,878** | **Total** | **55,633** | **26,970** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Fees and commission expenses** | | |
| 13,446 | 5,391 | for money transfer operations | 13,078 | 5,121 |
| 1,667 | 1,392 | for payment card services | 1,610 | 1,356 |
| 1,101 | 1,127 | for intermediation services | 1,105 | 1,034 |
| 418 | 467 | other | 418 | 467 |
| **16,632** | **8,377** | **Total** | **16,211** | **7,978** |

## NOTE 21 NET TRADING INCOME

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Net profit from operations with foreign currency** | | |
| 6,236 | 6,636 | realized profit (loss) | 6,246 | 6,735 |
| 5,073 | 3,090 | unrealized profit (loss) | 5,147 | 2,573 |
| **11,309** | **9,726** | | **11,393** | **9,308** |
| | | **Net profit from operations with trading securities** | | |
| 3,957 | 314 | realized profit (loss) | 3,957 | 314 |
| (368) | 931 | unrealized profit (loss) | (368) | 931 |
| **3,589** | **1,245** | | **3,589** | **1,245** |
| | | **Net profit from operations with investment securities** | | |
| 236 | 4,896 | realized profit (loss) | 4,224 | 4,896 |
| **236** | **4,896** | | **4,224** | **4,896** |
| | | **Net loss from operations with derivatives and other financial instruments** | | |
| 114 | (1,710) | realized profit (loss) | 114 | (1,688) |
| (1,514) | (1,532) | unrealized profit (loss) | (1,514) | (679) |
| **(1,400)** | **(3,242)** | | **(1,400)** | **(2,367)** |

## NOTE 22 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Movements in the provision for impairment losses on loans and advances to banks and other financial institutions, for loans and advances to customers and other assets for the years ended 31 December is as follows:

| The Bank | Loans and advances to banks and other financial institutions | Loans and advances to customers | Finance lease receivable | Other assets | Total |
|---|---|---|---|---|---|
| **31 December 2003** | - | **1,458** | - | **1,849** | **3,307** |
| Reversal of provisions | (244) | (3,719) | - | (3,631) | (7,594) |
| Provisions written off (net) | - | (175) | - | (75) | (250) |
| Currency exchange rate effect | (24) | (56) | - | (162) | (242) |
| Provision charged | 524 | 7,270 | - | 2,615 | 10,409 |
| **31 December 2004** | **256** | **4,778** | - | **596** | **5,630** |
| Restatement of provisions according to IAS 39 | - | (117) | - | - | (117) |
| **31 December 2004 (as restated)** | **256** | **4,661** | - | **596** | **5,513** |
| Reversal of provisions | (3,806) | (15,599) | - | (1,501) | (20,906) |
| Provisions written off (net) | (2) | (890) | - | - | (892) |
| Currency exchange rate effect | 5 | 350 | - | 32 | 387 |
| Provision charged | 6,689 | 22,193 | - | 5,805 | 34,687 |
| **31 December 2005** | **3,142** | **10,715** | - | **4,932** | **18,789** |

| The Group | Loans and advances to banks and other financial institutions | Loans and advances to customers | Finance lease receivable | Other assets | Total |
|---|---|---|---|---|---|
| **31 December 2003** | **-** | **1,458** | **1,056** | **1,849** | **4,363** |
| Reversal of provisions | (244) | (3,719) | - | (3,631) | (7,594) |
| Provisions written off (net) | - | (175) | (299) | (75) | (549) |
| Currency exchange rate effect | (24) | (56) | - | (162) | (242) |
| Provision charged | 524 | 7,270 | 547 | 2,615 | 10,956 |
| **31 December 2004** | **256** | **4,778** | **1,304** | **596** | **6,934** |
| Restatement of provisions according to IAS 39 | - | (117) | - | - | (117) |
| **31 December 2004 (as restated)** | **256** | **4,661** | **1,304** | **596** | **6,817** |
| Reversal of provisions | (3,806) | (15,599) | - | (1,501) | (20,906) |
| Provisions written off (net) | (2) | (890) | (589) | | (1,481) |
| Currency exchange rate effect | 5 | 350 | - | 17 | 372 |
| Provision charged | 6,689 | 23,338 | 891 | 8,093 | 39,011 |
| **31 December 2005** | **3,142** | **11,860** | **1,606** | **7,205** | **23,813** |

## NOTE 23 OTHER OPERATING INCOME

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 1,081 | 1,171 | Fines and penalties received | 25 | 19 |
| 823 | 1,005 | Rent income | 402 | 567 |
| 203 | 35 | Gain on sale of fixed assets | 160 | 1,028 |
| 7,512 | 1,068 | Result of changes in fair value of investment property | 1,800 | 739 |
| 2,115 | 3,650 | Other income | 2,811 | 975 |
| **11,734** | **6,929** | **Total other operating income** | **5,198** | **3,328** |

## NOTE 24 OPERATING EXPENSES

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Operating expenses** | | |
| 19,042 | 14,965 | Staff expenses (note 25) | 16,846 | 13,090 |
| 1,236 | 1,101 | Trainings and business trip expenses | 942 | 673 |
| 7,234 | 4,332 | Rent of premises and household expenses | 6,719 | 5,127 |
| 2,195 | 2,153 | Transport, post and communication services expenses | 1,628 | 1,609 |
| 4,206 | 2,565 | Advertising and marketing expenses | 1,808 | 1,275 |
| 3,497 | 2,947 | Depreciation and amortization (notes 10, 11) | 3,081 | 2,070 |
| 26,477 | 16,045 | Other expenses (note 26) | 21,495 | 11,693 |
| **63,887** | **44,108** | **Total** | **52,519** | **35,537** |

## NOTE 25 STAFF EXPENSES

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Staff expenses** | | |
| 12,981 | 10,823 | Salaries | 11,396 | 9,399 |
| 4,501 | 3,540 | Social insurance | 3,962 | 3,089 |
| 1,560 | 602 | Other expenses related with salaries | 1,488 | 602 |
| **19,042** | **14,965** | **Total** | **16,846** | **13,090** |

## NOTE 26 OTHER EXPENSES

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Other expenses** | | |
| 1,570 | 1,671 | Taxes | 1,483 | 1,473 |
| 1,280 | 978 | Maintenance of office equipment | 935 | 667 |
| 488 | 676 | Other services | 488 | 669 |
| 517 | 463 | Custodial expenses | 483 | 438 |
| 5,054 | 2,986 | Deposit insurance expenses | 5,054 | 2,986 |
| 5,765 | 2,526 | Charity | 5,029 | 1,961 |
| 402 | 383 | Rent | 231 | 258 |
| 96 | 649 | Maintenance of foreclosed and leased assets | 3 | 649 |
| 1,427 | - | Fines and penalties paid | 1,428 | - |
| 9,878 | 5,713 | Other expenses | 6,361 | 2,592 |
| **26,477** | **16,045** | **Total** | **21,495** | **11,693** |

## NOTE 27 INCOME TAX

At 31 December income tax expenses composed as follows:

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 3,486 | 695 | Current tax | 3,124 | 497 |
| 5,544 | | Income tax correction | 5,544 | - |
| (5,164) | - | Deferred tax (note 28) | (6,021) | - |
| **3,866** | **695** | **Total** | **2,647** | **497** |

The charge for the year can be reconciled to the profit per the statement of income as follows:

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| **23,498** | **11,413** | Profit before tax | **22,309** | **8,110** |
| 3,525 | 1,712 | Tax calculated at a tax rate of 15 % | 3,346 | 1,217 |
| (4,251) | (1,220) | Tax effect of income not subject to tax | (2,765) | (865) |
| 5,629 | 1,176 | Tax effect of expenses not deductible in determining taxable profit | 2,543 | 652 |
| 5,544 | - | Correction of previous years income tax | 5,544 | - |
| (1,539) | - | Increase in deferred tax assets resulting from increase in tax rate (2006 - 19%) | (1,378) | - |
| (5,772) | (807) | Tax effect of changes in deferred tax asset | (5,168) | 91 |
| **3,136** | **861** | | **2,122** | **1,095** |
| 730 | (166) | Valuation allowance | 525 | (598) |
| **3,866** | **695** | **Income tax expense** | **2,647** | **497** |
| 16.45% | 6.09% | Effective tax rate | 11.87% | 6.13% |

## NOTE 28 DEFERRED INCOME TAX

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 215 | - | At the beginning of the year | 215 | - |
| 36,252 | 31 | Current year changes in deferred tax liabilities | 731 | 219 |
| (7,311) | 350 | Current year changes in deferred tax assets | (7,156) | 594 |
| 730 | (166) | Changes in valuation allowance | 525 | (598) |
| **29,886** | **215** | **Total (assets) / liability** | **(5,685)** | **215** |

Deferred income tax assets and liabilities are attributable to the following items:

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | **Deferred income tax liabilities** | | |
| 1,339 | - | Revaluation of investment property | 482 | - |
| 165 | 4 | Other liabilities | 132 | 4 |
| 34,631 | - | Revaluation of fixed assets | - | - |
| 336 | 215 | Revaluation of securities available-for-sale | 336 | 215 |
| **36,471** | **219** | | **950** | **219** |
| | | **Deferred income tax assets** | | |
| (105) | (36) | Accrued expense | (105) | (7) |
| (399) | (232) | Provisions | - | (17) |
| (7,075) | - | Tax loss carried forward | (7,075) | - |
| **(7,579)** | **(268)** | | **(7,180)** | **(24)** |
| 994 | 264 | Valuation allowances | 545 | 20 |
| **35,907** | **215** | **Total liabilities** | **336** | **215** |
| **(6,021)** | **-** | **Total assets** | **(6,021)** | **-** |

The movement for the year ended 31 December 2005 in the Bank and the Group's net deferred tax (assets) / liability position was as follows:

| | The Group 2005 | The Bank 2005 |
|---|---|---|
| **At 1 January 2005** | **215** | **215** |
| Charge to income for year (note 27) | (5,164) | (6,021) |
| Revaluation of construction in progress charged directly to equity | 34,835 | 121 |
| **At 31 December 2005** | **29,886** | **(5,685)** |

## NOTE 29 EARNINGS PER SHARE

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | *Basic earnings per share calculation* | | |
| 20,248 | 10,718 | Profit attributable to equity holders of the Parent | 19,662 | 7,613 |
| 9,057 | 8,892 | Weighted average number of ordinary shares in issue (thousands units) | 9,057 | 8,892 |
| **2.24** | **1.22** | **Basic earnings per share** | **2.17** | **0.87** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | *Diluted earnings per share calculation* | | |
| 20,248 | 10,718 | Profit attributable to equity holders of the Parent | 19,662 | 7,613 |
| 223 | 42 | Interest expenses of subordinated loans (net of tax) | 223 | 42 |
| 20,471 | 10,760 | Net profit used to determine diluted earning per share | 19,885 | 7,655 |
| 9,057 | 8,892 | Weighted average number of ordinary shares in issue (thousands units) | 9,057 | 8,892 |
| 426 | 159 | Adjustment for assumed conversation of subordinated loans (thousands units) | 426 | 159 |
| 9,483 | 9,051 | | 9,483 | 9,051 |
| **2.16** | **1.20** | **Diluted earnings per share** | **2.10** | **0.86** |

Considering the changes of share par value and corresponding change in number of shares (Note 18) the Bank's and the Group's basic earnings and diluted per share are the following:

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | *Basic earnings per share calculation* | | |
| 20,248 | 10,718 | Profit attributable to equity holders of the Parent | 19,662 | 7,613 |
| 108,681 | 106,708 | Weighted average number of ordinary shares in issue (thousands units) | 108,681 | 106,708 |
| **0.19** | **0.10** | **Basic earnings per share** | **0.18** | **0.07** |

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| | | *Diluted earnings per share calculation* | | |
| 20,248 | 10,718 | Profit attributable to equity holders of the Parent | 19,662 | 7,613 |
| 223 | 42 | Interest expenses of subordinated loans (net of tax) | 223 | 42 |
| 20,471 | 10,760 | Net profit used to determine diluted earning per share | 19,885 | 7,655 |
| 108,681 | 106,708 | Weighted average number of ordinary shares in issue (thousands units) | 108,681 | 106,708 |
| 5,111 | 1,901 | Adjustment for assumed conversation of subordinated loans (thousands units) | 5,111 | 1,901 |
| 113,792 | 108,609 | | 113,792 | 108,609 |
| **0.18** | **0.10** | **Diluted earnings per share** | **0.17** | **0.07** |

## NOTE 30 ACQUISITIONS AND DISPOSALS

*a) Acquisition*

In April 2005 the Group acquired a 75% shareholding in OAO Russkij Karavaj, registered in Moscow, Russia. The main business of the company is construction of office building in Moscow and finance intermediary services. In 2005 since the acquisition date the company incurred LTL'000 2,463 of loss.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

| | |
|---|---|
| Cash and cash equivalents | 852 |
| Receivables and other assets | 9,320 |
| Fixed assets | 53,807 |
| Construction contracts in progress | 57,829 |
| Due to customers | (65,033) |
| Other liabilities | (3,078) |
| Deferred tax liabilities | (12,943) |
| Minority interest | (10,272) |
| | **30,482** |
| Goodwill | 4,315 |
| **Total purchase consideration paid (discharged by cash)** | **34,797** |
| Cost of acquisition | 34,797 |
| Less: cash and cash equivalents in subsidiary acquired | 852 |
| **Cash outflow on acquisition** | **33,945** |

*b) Disposal*

On March 2005, the Group disposed 100% of the share capital of its subsidiary UAB Optimalus Turto Valdymas, registered in Kaunas, Lithuania. The main business of the company is finance intermediary services. In 2005 up to the disposal date the company earned LTL'000 110 of net profit.

The details of assets and liabilities disposed and the disposal consideration are as follows:

| | |
|---|---|
| Cash and cash equivalents | - |
| Investments | 2,400 |
| Receivables and other assets | 13 |
| Fixed assets | 27,816 |
| Due to banks | (26,013) |
| Other liabilities | (19) |
| **Net assets** | **4,197** |
| Proceeds from sale (discharged by cash) | 4,200 |
| Less: cash and cash equivalents in subsidiary sold | - |
| **Cash inflow on sale** | **4,200** |

## NOTE 31 CASH AND CASH EQUIVALENTS

| The Group 2005 | The Group (as restated) 2004 | | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 14,508 | 11,113 | Cash | 14,508 | 11,113 |
| 380,231 | 494,063 | Demand deposits in other banks and financial institutions up to 3 months | 379,371 | 493,898 |
| 99,113 | 24,621 | Placements with Bank of Lithuania | 99,113 | 24,621 |
| 1,169 | 7,851 | Short-term Government securities | 1,169 | 7,851 |
| **495,021** | **537,648** | **Cash and cash equivalents at the end of the period** | **494,161** | **537,483** |

## NOTE 32 CAPITAL ADEQUACY

The capital adequacy ratio set by Bank of Lithuania is to be at least 8 percent of the Group's and the Bank's capital.

The capital adequacy ratio on 31 December 2005 is presented in the tables below:

**The Bank**

| Balance sheet assets items (net value) | Book value | Risk weight, % | Risk weighted assets |
|---|---|---|---|
| | A | B | C=A*B |
| **Group 1** | **218,711** | **0** | |
| Cash and balances with central bank | 111,842 | | |
| Loans secured by pledged deposit | 106,869 | | |
| **Group 2** | **664,470** | **20** | **132,894** |
| Loans to Zone A banks and securities of these banks | 607,297 | | |
| Loans to the banks of the Republic of Lithuania | 55,394 | | |
| Collected, but not recalculated monetary receipts | 1,779 | | |
| **Group 3** | **19,212** | **50** | **9,606** |
| Loans granted to local management institutions | - | | |
| Loans secured by mortgaged living premises | 13,245 | | |
| Accrued income and deferred expenses | 5,967 | | |
| **Group 4** | **1,098,992** | **100** | **1,098,992** |
| Loans to Zone B and C central banks | 95,005 | | |
| Pledged deposits with banks and other credit or financial institutions | 11,900 | | |
| Other loans | 817,788 | | |
| Securities not specified in previous items | 91,510 | | |
| Fixed assets (with the exception of intangible assets) | 27,371 | | |
| Other assets | 55,418 | | |
| **Total** | **2,001,385** | | **1,241,492** |
| Off-balance sheet items | 142,664 | | 51,837 |
| **Total banking book** | | | **1,293,329** |
| **Total trading book** | | | **138,375** |
| | | | |
| **Capital Base** | | | **150,591** |
| Total risk weighted assets and off-balance sheet items | | | 1,431,704 |
| **Capital adequacy ratio, %** | | | **10.52** |

**The Group**

| Balance sheet assets items (net value) | Book value | Risk weight, % | Risk weighted assets |
|---|---|---|---|
| | A | B | C=A*B |
| **Group 1** | **218,711** | **0** | |
| Cash and balances with central bank | 111,842 | | |
| Loans secured by pledged deposit | 106,869 | | |
| **Group 2** | **664,516** | **20** | **132,903** |
| Loans to Zone A banks and securities of these banks | 607,297 | | |
| Loans to the banks of the Republic of Lithuania | 55,440 | | |
| Collected, but not recalculated monetary receipts | 1,779 | | |
| **Group 3** | **20,901** | **50** | **10,451** |
| Loans granted to local management institutions | - | | |
| Loans secured by mortgaged living premises | 13,245 | | |
| Accrued income and deferred expenses | 7,656 | | |
| **Group 4** | **1,270,999** | **100** | **1,270,999** |
| Loans to Zone B and C central banks | 113,252 | | |
| Pledged deposits with banks and other credit or financial institutions | 11,900 | | |
| Other loans | 494,571 | | |
| Securities not specified in previous items | 92,780 | | |
| Fixed assets (with the exception of intangible assets) | 358,559 | | |
| Other assets | 199,937 | | |
| **Total** | **2,175,127** | | **1,414,353** |
| Off-balance sheet items | 138,335 | | 47,574 |
| **Total banking book** | | | **1,461,927** |
| **Total trading book** | | | **150,738** |
| | | | |
| **Capital Base** | | | **207,778** |
| Total risk weighted assets and off-balance sheet items | | | 1,612,665 |
| **Capital adequacy ratio, %** | | | **12.88** |

The capital adequacy ratio on 31 December 2004 (as restated) is presented in the tables below:

**The Bank**

| Balance sheet assets items (net value) | Book value | Risk weight, % | Risk weighted assets |
|---|---|---|---|
| | A | B | C=A*B |
| **Group 1** | **140,417** | **0** | |
| Cash and balances with central bank | 80,805 | | |
| Loans secured by pledged deposit | 59,612 | | |
| **Group 2** | **355,689** | **20** | **71,138** |
| Loans to Zone A banks and securities of these banks | 334,773 | | |
| Loans to the banks of the Republic of Lithuania | 19,361 | | |
| Collected, but not recalculated monetary receipts | 1,555 | | |
| **Group 3** | **9,167** | **50** | **4,584** |
| Loans granted to local management institutions | 140 | | |
| Loans secured by mortgaged living premises | 3,655 | | |
| Accrued income and deferred expenses | 5,372 | | |
| **Group 4** | **893,240** | **100** | **893,240** |
| Loans to Zone B and C central banks | 316,233 | | |
| Pledged deposits with banks and other credit or financial institutions | | | |
| Other loans | 524,563 | | |
| Securities not specified in previous items | 410 | | |
| Fixed assets (with the exception of intangible assets) | 21,230 | | |
| Other assets | 30,804 | | |
| **Total** | **1,398,513** | | **968,962** |
| Off-balance sheet items | 85,281 | | 30,154 |
| **Total banking book** | | | **999,116** |
| **Total trading book** | | | **93,500** |
| | | | |
| **Capital Base** | | | **107,691** |
| Total risk weighted assets and off-balance sheet items | | | 1,092,616 |
| **Capital adequacy ratio, %** | | | **9.86** |

**The Group**

| Balance sheet assets items (net value) | Book value | Risk weight, % | Risk weighted assets |
|---|---|---|---|
| | A | B | C=A*B |
| **Group 1** | **140,417** | **0** | |
| Cash and balances with central bank | 80,805 | | |
| Loans secured by pledged deposit | 59,612 | | |
| **Group 2** | **355,764** | **20** | **71,153** |
| Loans to Zone A banks and securities of these banks | 334,688 | | |
| Loans to the banks of the Republic of Lithuania | 19,521 | | |
| Collected, but not recalculated monetary receipts | 1,555 | | |
| **Group 3** | **10,324** | **50** | **5,162** |
| Loans granted to local management institutions | 140 | | |
| Loans secured by mortgaged living premises | 3,653 | | |
| Accrued income and deferred expenses | 6,531 | | |
| **Group 4** | **949,471** | **100** | **949,471** |
| Loans to Zone B and C central banks | 316,152 | | |
| Pledged deposits with banks and other credit or financial institutions | | | |
| Other loans | 266,724 | | |
| Securities not specified in previous items | 4,056 | | |
| Fixed assets (with the exception of intangible assets) | 227,608 | | |
| Other assets | 134,931 | | |
| **Total** | **1,455,976** | | **1,025,786** |
| Off-balance sheet items | 88,893 | | **29,288** |
| **Total banking book** | | | **1,055,074** |
| **Total trading book** | | | **89,288** |
| | | | |
| **Capital Base** | | | **116,164** |
| Total risk weighted assets and off-balance sheet items | | | 1,144,362 |
| **Capital adequacy ratio, %** | | | **10.15** |

### NOTE 33 LIQUIDITY

As of 31 December 2005 the Bank's assets and liabilities by remaining period of maturity were as follows:

| | Up to 1 month | 1–3 month | 3–12 months | 1–5 years | 5 years and up | Unlimited period | Total |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash | - | - | - | - | - | 14,508 | 14,508 |
| Funds with central banks | 99,113 | - | - | - | - | - | 99,113 |
| Loans and advances to banks and other financial institutions | 737,333 | 240,409 | 92,465 | 128,140 | - | 30 | 1,198,377 |
| Loans and advances to customers | 82,891 | 54,966 | 133,755 | 204,683 | 22,287 | 4,844 | 503,426 |
| Finance lease receivables | - | - | - | - | - | - | - |
| Debt securities | 946 | 2,150 | 3,603 | 185,370 | 52,654 | | 244,723 |
| Equity securities | - | - | - | - | - | 31,755 | 31,755 |
| Fixed assets | - | - | - | - | - | 28,677 | 28,677 |
| Other assets | 9,930 | 17,674 | 893 | 6,623 | 2,250 | 25,919 | 63,289 |
| **Total assets** | **930,213** | **315,199** | **230,716** | **524,816** | **77,191** | **105,733** | **2,183,868** |
| **Liabilities:** | | | | | | | |
| Deposits from banks and other financial institutions | 284,038 | 24,000 | 114,424 | 96,147 | - | - | 518,609 |
| Due to customers | 816,275 | 148,115 | 411,100 | 93,226 | 775 | - | 1,469,491 |
| Other liabilities | 30,765 | 133 | 5,375 | 10,110 | - | - | 46,383 |
| **Total liabilities** | **1,131,078** | **172,248** | **530,899** | **199,483** | **775** | **-** | **2,034,483** |
| **Net position** | **(200,865)** | **142,951** | **(300,183)** | **325,333** | **76,416** | **105,733** | **149,385** |

As of 31 December 2004 (as restated) the Bank's assets and liabilities by remaining period of maturity were as follows:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total assets** | **730,368** | **60,369** | **207,591** | **256,516** | **138,021** | **110,645** | **1,503,510** |
| **Total liabilities** | **858,137** | **128,557** | **335,141** | **67,018** | **4,189** | **365** | **1,393,407** |
| **Net position** | **(127,769)** | **(68,188)** | **(127,550)** | **189,498** | **133,832** | **110,280** | **110,103** |

As of 31 December 2005 the Group's assets and liabilities by remaining period of maturity were as follows:

| | Up to 1 month | 1-3 month | 3-12 months | 1-5 years | 5 years and up | Unlimited period | Total |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash | 14,508 | - | - | - | - | - | 14,508 |
| Funds with central banks | 99,113 | - | - | - | - | - | 99,113 |
| Loans and advances to banks and other financial institutions | 738,193 | 16,124 | 59,276 | 29,333 | - | 30 | 842,956 |
| Loans and advances to customers | 85,164 | 58,524 | 170,674 | 212,654 | 22,287 | 4,620 | 553,923 |
| Finance lease receivables | 16,733 | 21,165 | 62,133 | 20,953 | - | 442 | 121,426 |
| Debt securities | 946 | 2,150 | 3,603 | 185,370 | 52,654 | - | 244,723 |
| Equity securities | - | - | - | - | - | 29,425 | 29,425 |
| Fixed assets | - | - | - | - | - | 364,603 | 364,603 |
| Other assets | 11,567 | 17,964 | 9,928 | 6,914 | 2,250 | 39,448 | 88,071 |
| **Total assets** | **966,224** | **115,927** | **305,614** | **455,224** | **77,191** | **438,568** | **2,358,748** |
| **Liabilities:** | | | | | | | |
| Deposits from banks and other financial institutions | 289,499 | 29,000 | 133,426 | 98,787 | - | - | 550,712 |
| Due to customers | 816,275 | 148,115 | 411,100 | 93,226 | 775 | - | 1,469,491 |
| Other liabilities | 51,807 | 740 | 6,267 | 9,286 | - | 35,907 | 104,007 |
| **Total liabilities** | **1,157,581** | **177,855** | **550,793** | **201,299** | **775** | **35,907** | **2,124,210** |
| **Net position** | **(191,357)** | **(61,928)** | **(245,179)** | **253,925** | **76,416** | **402,661** | **234,538** |

As of 31 December 2004 (as restated) the Group's assets and liabilities by remaining period of maturity were as follows:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total assets** | **742,903** | **71,877** | **209,065** | **156,451** | **60,029** | **317,002** | **1,557,327** |
| **Total liabilities** | **879,223** | **134,084** | **340,908** | **83,628** | **4,189** | **365** | **1,442,397** |
| **Net position** | **(136,320)** | **(62,207)** | **(131,843)** | **72,823** | **55,840** | **316,637** | **114,930** |

### NOTE 34 OPEN FOREIGN CURRENCY POSITION

Starting from 1 December 2004 total open positions of Foreign Exchange (except Euro) are required not to exceed 25 percent of the Group's and the Bank's main capital, and the maximum position of a single foreign currency (except Euro) and precious metal are required not to exceed 15 percent of the Group's and the Bank's capital.

| The Group | | | | The Bank | |
|---|---|---|---|---|---|
| Position | Position as percentage of capital | | Rates | Position | Position as percentage of capital |
| 13,374 | 6.44 | U.S. Dollars (USD) | 2.9102 | 3,604 | 2 |
| (176) | (0.08) | Swiss franc (CHF) | 2.2152 | (176) | (0.12) |
| 134,681 | | Euro (EUR) | 3.4528 | 120,018 | |
| 357 | 0.17 | Pound sterling (GBP) | 5.0141 | 358 | 0.24 |
| (14,011) | (6.74) | Russian ruble (RUB) | 0.101312 | 283 | 0.19 |
| 301 | 0.14 | Other currencies (long position) | various | 301 | 0.20 |
| (27) | (0.01) | Other currencies (short position) | various | (27) | (0.02) |
| 14,032 | 6.75 | Total of long position (+) | | 4,546 | 3.02 |
| (14,214) | (6.84) | Total of short position (-) | | (203) | (0.13) |
| **(14,214)** | **(6.84)** | **Total open position** | | **4,546** | **3.02** |

Total open foreign currency position has fluctuated from 0.36% to 3.02% during 2005. The biggest open foreign currency position was in USD and has fluctuated from 0.24% to 2.39%.

### NOTE 35 RELATED PARTY TRANSACTIONS

| The Bank | Members of the Board | Members of the Council | Shareholders | Other related parties |
|---|---|---|---|---|
| **2005** | | | | |
| Loans, finance lease | 607 | 774 | - | 13,390 |
| Average interest rate, % | 3.7 | 3.89 | - | 4.71 |
| Income | 7 | 12 | 2 | 872 |
| | | | | |
| Deposits | 127 | 141 | 17 | 501 |
| Average interest rate, % | 0.77 | 2.91 | - | 4.19 |
| Expenses | - | - | - | 2 |
| **2004** | | | | |
| Loans, finance lease | 95 | 135 | 14,955 | 261 |
| Average interest rate, % | 4.5 | 6.36 | 7 | 4 |
| Income | 4 | 13 | 2 | 478 |
| | | | | |
| Deposits | 30 | 460 | 623 | 297 |
| Average interest rate, % | - | 0.39 | 0.36 | 4.4 |
| Expenses | - | 1 | 1 | 23 |

For the year ended 31 December 2005 the Bank's management payroll and related taxes expenses amounted to LTL'000 1,487 (2004:LTL'000 1,047).

As of 31 December 2005 and for the year then ended Bank's related party transactions were as follows:

| Related parties | Payables | Receivables | Income received | Expenses |
|---|---|---|---|---|
| UAB Ūkio Banko Lizingas | 619 | 98,811 | 196 | 6,661 |
| UAB Turto Valdymo Sistemos | 24 | 96,581 | 55 | 129 |
| UAB Turto Valdymo Strategija | 23 | 98,680 | 61 | 69 |
| UAB Turto Valdymo Sprendimai | 71 | 79,642 | 107 | 142 |

In April 2005 UAB Turto valdymo strategija acquired a 75% shareholding in OAO Russkij Karavaj, registered in Moscow, Russia. OAO Russkij Karavaj payable amounts to Bank's subsidiaries UAB Turto valdymo strategija, UAB Turto valdymo sistemos and UAB Turto valdymo sprendimai as of 31 December 2005 were LTL'000 189,530.

| The Group | Members of the Board | Members of the Council | Shareholders | Other related parties |
|---|---|---|---|---|
| **2005** | | | | |
| Loans, financial lease | 607 | 774 | - | 13,390 |
| Average interest rate, % | 3.7 | 3.89 | - | 4.71 |
| Income | 7 | 12 | 2 | 872 |
| Deposits | 127 | 141 | 17 | 501 |
| Average interest rate, % | 0.77 | 2.91 | - | 4.19 |
| Expenses | - | - | - | 2 |
| **2004** | | | | |
| Loans, financial lease | 95 | 135 | 14,955 | 261 |
| Average interest rate, % | 4.5 | 6.36 | 7 | 4 |
| Income | 4 | 13 | 2 | 478 |
| Deposits | 30 | 460 | 623 | 297 |
| Average interest rate, % | - | 0.39 | 0.36 | 4.4 |
| Expenses | - | 1 | 1 | 23 |

Other related parties include the Bank's subsidiaries' heads of administration and their close relatives, also companies, which are owned and/or managed by the Bank's shareholders or management.

The transactions with related parties were concluded on an arm's length basis

## NOTE 36 CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

| The Group 2005 | The Group (as restated) 2004 | Claims and liabilities | The Bank 2005 | The Bank (as restated) 2004 |
|---|---|---|---|---|
| 13,903 | 14,578 | Guarantees and warranties | 14,053 | 14,826 |
| 10,417 | 10,673 | Commitments to issue letters of credit | 10,417 | 13,087 |
| 113,922 | 63,356 | Irrevocable lending commitments | 117,731 | 56,624 |
| 1,938,658 | 412,384 | Spot liabilities | 2,026,917 | 412,384 |
| 1,938,945 | 412,380 | Spot claims | 2,027,005 | 412,380 |
| 98 | 286 | Other off balance commitments | 468 | 744 |

As of 31 December 2005 UAB Ūkio Banko Lizingas has finance lease contracts in the amount of LTL'000 2,574 signed, but not yet executed (31 December 2004 –LTL'000 2,440).

Finance lease – as of 31 December 2005 the Bank has outstanding finance lease obligations under finance lease contracts in the amount of LTL'000 2,097 (31 December 2004: LTL'000 2,352). Minimum finance lease payment obligations are recorded on the balance sheet under liabilities. The Bank's obligations under finance leases are secured by the lessor's right to the leased assets. The Bank's finance lease obligations relate to lease contracts signed with the Bank's wholly owned subsidiary UAB Ūkio Banko Lizingas.

Operating leases – The Bank rents offices, other premises and land for banking activities. The Bank has outstanding non-cancelable commitments in connection with the rental agreements as of 31 December 2005 amounting to LTL'000 22,998 (31 December 2004: LTL'000 11,610).

At 31 December 2005 the future annual minimum commitments under leases were following:

| For the year ending 31 December | 2005 Finance lease | 2005 Operating lease | 2004 Finance lease | 2004 Operating lease |
|---|---|---|---|---|
| 2005 | - | - | 881 | 3,119 |
| 2006 | 910 | 4,120 | 745 | 1,207 |
| 2007 | 904 | 3,424 | 739 | 1,171 |
| 2008 | 427 | 3,336 | 291 | 1,089 |
| 2009 | 91 | 3,319 | 30 | 1,470 |
| 2010 | - | 3,179 | - | - |
| Thereafter | - | 5,620 | - | 3,554 |
| **Minimum lease payments** | **2,332** | **22,998** | **2,686** | **11,610** |
| Less: interest | 235 | | 334 | |
| **Present value of minimum lease payments** | **2,097** | | **2,352** | |

It is expected that in the normal course of business, expiring leases will be renewed or replaced by leases on other fixed assets.

**Litigation and claims –** As of 31 December 2005 and 2004 the Group was not involved in any legal proceedings except for those related to loan loss recovery.

## NOTE 37 DERIVATIVE FINANCIAL INSTRUMENTS

| | The Bank 2005 | | | |
|---|---|---|---|---|
| **Derivative financial instruments** | **Foreign exchange purchase/sale agreements** | **Interest rate agreements** | **Related to equity** | **Other** |
| **Claims** | **1,307,195** | **-** | **-** | **-** |
| Forward | 1,240,742 | - | - | - |
| Swaps | 66,453 | - | - | - |
| **Liabilities** | **1,307,101** | **64,296** | **-** | **-** |
| Forward | 1,240,589 | - | - | - |
| Swaps | 66,512 | - | - | - |
| Futures | - | 64,296 | - | - |

| | The Group 2005 | | | |
|---|---|---|---|---|
| **Derivative financial instruments** | **Foreign exchange purchase/sale agreements** | **Interest rate agreements** | **Related to equity** | **Other** |
| **Claims** | **1,269,362** | **-** | **-** | **-** |
| Forward | 1,202,909 | - | - | - |
| Swaps | 66,453 | - | - | - |
| **Liabilities** | **1,269,267** | **64,296** | **-** | **-** |
| Forward | 1,202,755 | - | - | - |
| Swaps | 66,512 | - | - | - |
| Futures | - | 64,296 | - | - |

| | The Bank 2004 | | | |
|---|---|---|---|---|
| **Derivative financial instruments** | **Foreign exchange purchase/sale agreements** | **Interest rate agreements** | **Related to equity** | **Other** |
| **Claims** | **24,384** | **-** | **-** | **-** |
| Forward | 7,214 | - | - | - |
| Swaps | 17,170 | - | - | - |
| | **23,471** | **-** | | |
| **Liabilities** | 7,180 | - | **-** | **-** |
| Forward | 16,291 | - | - | - |
| Swaps | **24,384** | **-** | - | - |
| Futures | 7,214 | - | - | - |

| | The Group 2004 | | | |
|---|---|---|---|---|
| **Derivative financial instruments** | **Foreign exchange purchase/sale agreements** | **Interest rate agreements** | **Related to equity** | **Other** |
| **Claims** | **8,191** | **-** | **-** | **-** |
| Forward | 7,214 | - | - | - |
| Swaps | 977 | - | - | - |
| | **8,154** | **-** | | |
| **Liabilities** | 7,180 | - | **-** | **-** |
| Forward | 974 | - | - | - |
| Swaps | **8,191** | **-** | - | - |
| Futures | 7,214 | - | - | - |

## NOTE 38 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of International Accounting Standard 32, Financial Instruments: Disclosure and Presentation. The estimated fair value amounts have been determined by the Bank using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value estimates presented herein are based on pertinent information available to the Group and the Bank as of 31 December 2005 and 2004. The Group and the Bank are not aware of any factors that could have a material impact on the amounts of these fair values.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities that at 31 December 2005 and 2004 had not been presented in the Group's and the Bank's balance sheet statements at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

| | 2005 The Group | | (as restated) 2004 The Group | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial Assets: | | | | |
| Loans and advances to banks and other financial institutions | 842,956 | 844,475 | 720,677 | 720,369 |
| Loans and advances to customers | 553,923 | 561,954 | 280,299 | 285,873 |
| Finance lease receivables | 121,426 | 123,431 | 111,490 | 113,374 |
| Financial Liabilities: | | | | |
| Deposits from banks other other financial institutions | 550,712 | 554,240 | 531,318 | 532,046 |
| Due to customers | 1,469,491 | 1,473,718 | 872,430 | 925,210 |

The methods and assumptions used in estimating the fair value of financial instruments are as follows:

**Financial Instruments with carrying amount equal to fair value.**
The fair value of financial instruments that are short-term or re-priced frequently and have a history of negligible credit losses is considered to approximate their carrying value. Those instruments include balances recorded in the following captions:

**Loans and advances to banks and other financial institutions**
Loans and advances to banks and other financial institutions includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

**Loans and advances to customers**
Loans and advances to customers are net of specific and other provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Due to customers**
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

## NOTE 39 CREDIT RISK

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits 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.

**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 authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

## NOTE 40 COUNTRY RISK

As of 31 December 2005 the Group has an exposure of LTL'000 323,032 (2004: LTL'000 177,159) in Russia, which consists of building under construction, located in Moscow centre. In addition the Bank has regular correspondent nostro accounts held with correspondent banks operating in Russia with the total balance of LTL'000 62,267 (2004: LTL'000 297,807) as of 31 December 2005. As of 31 December 2005 these correspondent nostro accounts are fully secured.

### NOTE 41 CURRENCY RISK

The Bank and the Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's and the Group's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the Bank's and the Group's assets and liabilities at carrying amounts, categorized by currency.

Concentrations of assets, liabilities and off balance sheet items as of 31 December 2005:

**The Bank**

| | EUR | USD | LTL | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 3,720 | 2,614 | 7,441 | 733 | **14,508** |
| Balances with central bank | - | - | 99,113 | - | **99,113** |
| Loans and advances to banks and other financial institutions | 251,496 | 689,560 | 206,961 | 50,360 | **1,198,377** |
| Loans and advances to customers | 44,950 | 163,097 | 292,526 | 2,853 | **503,426** |
| Investments to securities at fair value through profit or loss, available-for-sale and held-to-maturity | 127,812 | 100,109 | 45,234 | 3,323 | **276,478** |
| Fixed assets | - | - | 28,677 | - | **28,677** |
| Deferred tax asset | - | - | 6,021 | - | **6,021** |
| Other assets | 1,523 | 20,381 | 35,364 | - | **57,268** |
| **Total assets** | **429,501** | **975,761** | **721,337** | **57,269** | **2,183,868** |
| **Liabilities** | | | | | |
| Deposits from banks and other financial institutions | 105,160 | 338,699 | 6,938 | 67,812 | **518,609** |
| Due to customers | 206,382 | 594,436 | 660,025 | 8,648 | **1,469,491** |
| Other liabilities | 1,840 | 15,050 | 29,366 | 127 | **46,383** |
| **Total liabilities** | **313,382** | **948,185** | **696,329** | **76,587** | **2,034,483** |
| **Net balance sheet position** | 116,119 | 27,576 | 25,008 | (19,318) | **149,385** |
| **Credit commitments** | 18,407 | 42,709 | 56,615 | - | **117,731** |
| **Issued guarantees** | 6,522 | 2,687 | 3,532 | 1,312 | **14,053** |

Concentrations of assets, liabilities and off balance sheet items as of 31 December 2004 (as restated):

| | | | | | |
|---|---|---|---|---|---|
| **Total assets** | 311,187 | 708,262 | 412,047 | 72,014 | **1,503,510** |
| **Total liabilities** | 165,440 | 678,844 | 481,558 | 67,565 | **1,393,407** |
| Net balance sheet position | 145,747 | 29,418 | (69,511) | 4,449 | **110,103** |
| Credit commitments | 19,823 | 5,603 | 31,198 | - | **56,624** |
| Issued guarantees | 4,545 | 1,544 | 5,177 | 3,560 | **14,826** |

**The Group**

| | EUR | USD | LTL | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | 3,720 | 2,614 | 7,441 | 733 | **14,508** |
| Balances with central bank | - | - | 99,113 | - | **99,113** |
| Loans and advances to banks and other financial institutions | 249,615 | 502,166 | 43,982 | 47,193 | **842,956** |
| Loans and advances to customers | 44,950 | 163,097 | 343,023 | 2,853 | **553,923** |
| Investments to securities at fair value through profit or loss, available-for-sale and held-to-maturity | 127,812 | 100,109 | 42,890 | 3,337 | **274,148** |
| Fixed assets | - | 323,032 | 37,544 | 4,027 | **364,603** |
| Other assets | 1,523 | 20,381 | 173,815 | 13,778 | **209,497** |
| **Total assets** | **427,620** | **1,111,399** | **747,808** | **71,921** | **2,358,748** |
| **Liabilities** | | | | | |
| Deposits from banks and other financial institutions | 126,377 | 338,683 | 17,840 | 67,812 | **550,712** |
| Due to customers | 206,382 | 594,430 | 660,031 | 8,648 | **1,469,491** |
| Other liabilities | 1,914 | 15,049 | 45,931 | 41,113 | **104,007** |
| **Total liabilities** | **334,673** | **948,162** | **723,802** | **117,573** | **2,124,210** |
| **Net balance sheet position** | 92,947 | 163,237 | 24,006 | (45,652) | **234,538** |
| **Credit commitments** | 18,407 | 37,190 | 58,325 | - | **113,922** |
| **Issued guaranties** | 6,522 | 2,687 | 3,382 | 1,312 | **13,903** |

Concentrations of assets, liabilities and off balance sheet items as of 31 December 2004 (as restated):

| | EUR | USD | LTL | Other | Total |
|---|---|---|---|---|---|
| **Total assets** | 315,020 | 710,625 | 459,669 | 72,013 | **1,557,327** |
| **Total liabilities** | 166,802 | 694,163 | 513,868 | 67,564 | **1,442,397** |
| Net balance sheet position | 148,218 | 16,462 | (54,199) | 4,449 | **114,930** |
| Credit commitments | 19,823 | 5,603 | 37,930 | - | **63,356** |
| Issued guaranties | 4,545 | 1,544 | 4,929 | 3,560 | **14,578** |

## NOTE 42 INTEREST RATE RISK

The Bank and 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 table below summarizes the Bank's and the Group's exposure to interest rate risks as of 31 December 2005. Included in the table are the Group's and the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual reprising or maturity dates.

**The Bank**

The table below summarizes the Bank's exposure to interest rate risks as of 31 December 2005:

| | Average interest rate, % | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | - | - | - | - | - | - | 14,508 | **14,508** |
| Balances with central bank | - | - | - | - | - | - | 99,113 | **99,113** |
| Loans and advances to bankas and other financial institutions | *3.15* | 583,860 | 15,880 | 92,154 | 127,975 | - | 378,508 | **1,198 377** |
| Loans and advances to customers | *7.02* | 218,093 | 50,564 | 121,823 | 88,065 | 22,287 | 2,594 | **503,426** |
| Investments to securities at fair value through profit or loss, available-for-sale and held-to-maturity | *1.33* | 144,626 | - | - | 94,437 | - | 37,415 | **276,478** |
| Fixed assets | - | - | - | - | - | - | 28,677 | **28,677** |
| Deferred tax asset | - | - | - | - | - | - | 6,021 | **6,021** |
| Other assets | *5.5* | 35 | 69 | 312 | 4,708 | 1,016 | 51,128 | **57,268** |
| **Total assets** | - | **946,614** | **66,513** | **214,289** | **315,185** | **23,303** | **617,964** | **2,183,868** |
| **Liabilities** | | | | | | | | |
| Deposits from banks and other financial institutions | *1.36* | 110,740 | 70,036 | 114,161 | 49,416 | - | 174,256 | **518,609** |
| Due to customers | *2.43* | 278,660 | 146,036 | 407,844 | 92,752 | 775 | 543,424 | **1,469,491** |
| Other liabilities | *3.58* | - | - | 13,591 | - | - | 32,792 | **46,383** |
| **Total liabilities** | - | **389,400** | **216,072** | **535,596** | **142,168** | **775** | **750,472** | **2,034,483** |
| Off balance liabilities sensitive to interest rate changes | | 64,296 | - | - | - | - | - | 64,296 |
| **Interest sensivity gap** | - | **492,918** | **(149,559)** | **(321,307)** | **173,017** | **22,528** | **(132,508)** | **85,089** |

The table below summarizes the Bank's exposure to interest rate risks as of 31 December 2004 (as restated):

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total assets | 347,947 | 59,953 | 207,481 | 249,070 | 128,821 | 510,238 | **1,503,510** |
| Total liabilities | 108,261 | 126,994 | 340,069 | 61,163 | 361 | 756,559 | **1,393,407** |
| **Interest sensitivity gap** | **239,686** | **(67,041)** | **(132,588)** | **187,907** | **128,460** | **(246,321)** | **-** |

### The Group

The table below summarizes the Group's exposure to interest rate risks as of 31 December 2005.

| | **Average interest rate, %** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | - | - | - | - | - | - | 14,508 | **14,508** |
| Balances with central bank | - | - | - | - | - | - | 99,113 | **99,113** |
| Loans and advances to bankas and other financial institutions | *2.20* | 584,052 | 16,124 | 59,276 | 29,333 | - | 154,171 | **842,956** |
| Finance lease receivables | *7.61* | 220,366 | 54,122 | 158,742 | 96,036 | 22,287 | 2,370 | **553,923** |
| Loans and advances to customers | *14.39* | 16,733 | 21,165 | 62,133 | 20,953 | - | 442 | **121,426** |
| Investments to securities at fair value through profit or loss, available-for-sale and held-to-maturity | *1.33* | 144,626 | - | - | 94,437 | - | 35,085 | **274,148** |
| Fixed assets | - | - | - | - | - | - | 364,603 | **364,603** |
| Other assets | *5.5* | 35 | 69 | 312 | 4,708 | 1,016 | 81,931 | **88,071** |
| **Total assets** | - | **965,812** | **91,480** | **280,463** | **245,467** | **23,303** | **752,223** | **2,358,748** |
| **Liabilities** | | | | | | | | |
| Deposits from banks and other financial institutions | 1.65 | 116,939 | 75,036 | 133,163 | 52,056 | - | 173,518 | **550,712** |
| Due to customers | 2.43 | 278,660 | 146,036 | 407,844 | 92,752 | 775 | 543,424 | **1,469,491** |
| Other liabilities | 3.58 | - | - | 13,591 | - | - | 90,416 | **104,007** |
| **Total liabilities** | - | **395,599** | **221,072** | **554,598** | **144,808** | **775** | **807,358** | **2,124,210** |
| Off balance liabilities sensitive to interest rate changes | | 64,296 | - | - | - | - | - | 64,296 |
| **Interest sensitivity gap** | | **505,917** | **(129,592)** | **(274,135)** | **100,659** | **22,528** | **(55,135)** | **170,242** |

The table below summarizes the Group's exposure to interest rate risks as of 31 December 2004 (as restated):

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total assets | 359,312 | 71,315 | 208,571 | 149,805 | 57,016 | 711,308 | **1,557,327** |
| Total liabilities | 118,468 | 132,103 | 344,709 | 79,163 | 361 | 767,593 | **1,442,397** |
| Interest sensitivity gap | **240,844** | **(60,788)** | **(136,138)** | **70,642** | **56,655** | **(56,285)** | **-** |

## NOTE 43 SEGMENT INFORMATION

| | Banking | Finance lease | Other activities | Elimination | Group |
|---|---|---|---|---|---|
| **Revenues:** | | | | | |
| Internal | 6,694 | 196 | 223 | (7,113) | - |
| External | 131,241 | 29,019 | 554 | (3,988) | 156,826 |
| | **137,935** | **29,215** | **777** | **(11,101)** | **156,826** |
| **Expenses:** | | | | | |
| Internal | 112 | 6,661 | 340 | (7,113) | - |
| External | 99,151 | 12,913 | 161 | - | 112,225 |
| | **99,263** | **19,574** | **501** | **(7,113)** | **112,225** |
| **Segment result** | **38,672** | **9,641** | **276** | **(3,988)** | **44,601** |
| Impairment losses | 13,282 | 1,878 | 2,446 | - | 17,606 |
| Depreciation | 3,081 | 416 | - | - | 3,497 |
| Profit before tax | **22,309** | **7,347** | **(2,170)** | **(3,988)** | **23,498** |
| Income tax expenses | (2,647) | (1,207) | (12) | - | (3,866) |
| **Net result for the year** | **19,662** | **6,140** | **(2,182)** | **(3,988)** | **19,632** |
| Attributable to: | | | | | |
| *Equity holders of the parent* | - | - | - | - | *20,248* |
| *Minority interest* | - | - | - | - | *(616)* |
| Assets | 2,183,868 | 162,590 | 613,560 | (601,270) | 2,358,748 |
| Liabilities | 2,034,483 | 153,623 | 502,789 | (566,685) | 2,124,210 |

The Banking segment includes financial information of AB Ūkio Bankas, Finance lease segment includes financial information of UAB Ūkio Banko Lizingas, Other activities segment includes financial information of OAO Russkij Karavaj, UAB Turto Valdymo Strategija, UAB Turto Valdymo Sprendimai and UAB Turto Valdymo Sistemos.

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