

AB BANKAS FINASTA

FINANCIAL STATEMENTS
FOR THE PERIOD 2 JANUARY 2008 (INCEPTION DATE)
TO 31 DECEMBER 2008 PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Auditojai (externai registruoti)

Ernst & Young Baltic UAB

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Code of legal entity: 110078442
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Register of Legal Entities

Independent auditors' report to the shareholder of AB Bankas Finasta**Report on the Financial Statements**

We have audited the accompanying 2008 financial statements of AB Bankas Finasta, a joint stock company registered in the Republic of Lithuania (hereinafter - the Bank), which comprise the Bank's balance sheet as of 31 December 2008, the statements of income, changes in equity and cash flows for the period from 2 January 2008 (inception date) to 31 December 2008, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and the cash flows for the period from 2 January 2008 (inception date) to 31 December 2008 in accordance with International Financial Reporting Standards as adopted by European Union.

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



Jonas Akelis
Auditor's licence
No. 000003
President



Ramūnas Bartalavius
Auditor's licence
No. 000362

The audit was completed on 25 March 2009.

A member firm of Ernst & Young Global Limited

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AB Bankas FINASTA, company code 301502699
FINANCIAL STATEMENTS
FOR THE PERIOD FROM 2 JANUARY 2008 (INCEPTION DATE) TO 31 DECEMBER 2008
(All amounts in LTL thousand unless otherwise stated)

BALANCE SHEET

Assets	Note	31 December 2008
Cash and due from banks		
<i>Cash</i>		276
<i>Placements with the central bank</i>	3	834
<i>Placements with banks and other credit institutions</i>	4, 26	14,127
		15,237
Available-for-sale financial assets		
<i>Equity securities</i>	5	2,125
		2,125
Held-to-maturity investments		
<i>Debt securities</i>		96
		96
Loans and receivables	6, 26	31,491
Deferred income tax asset	21	1,172
Property and equipment	7	17
Intangible assets	8	37
Other assets	9	2,850
Total assets		53,025
Liabilities and shareholder's equity		
Liabilities		
Financial liabilities at amortised cost		
<i>Deposits (other than from credit institutions)</i>	10	34,272
<i>Debt securities</i>	11	2,442
		36,714
Other liabilities	12	997
Total liabilities		37,711
Shareholder's equity		
Capital and reserves	13	
<i>Registered share capital</i>		20,000
<i>Revaluation reserve of financial assets</i>		(806)
<i>Retained earnings (loss)</i>		(3,880)
Total shareholder's equity		15,314
Total shareholder's equity and liabilities		53,025

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

These financial statements were signed and approved on behalf of the Bank for issue on 25 March 2009 by:

Chairman of the Board



Dalius Kaziūnas

Chief Accountant



Giedrė Reiponienė

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 2 JANUARY 2008 (INCEPTION DATE) TO 31 DECEMBER 2008



(All amounts in LTL thousand unless otherwise stated)

INCOME STATEMENT

	Note	From 2 January 2008 to 31 December 2008
Interest revenue		1,752
Interest expenses		(322)
Net interest income	15	1,430
Service fee and commission revenue		592
Service fee and commission expenses		(112)
Net service fee and commission income	16	480
Net (loss) on securities trading	17	(64)
Net foreign exchange gain	18	27
Other operating income		(37)
Impairment for financial assets, net	19	(452)
Operating expenses	20	(6,271)
Profit before income tax expenses		(4,850)
Income tax benefit	21	970
Net (loss) for the period attributable to shareholder of the Bank		(3,880)

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

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Chairman of the Board		Dalius Kaziūnas
Chief Accountant		Giedrė Reiponienė

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 2 JANUARY 2008 (INCEPTION DATE) TO 31 DECEMBER 2008

(All amounts in LTL thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Registered share capital	Fair value reserve of financial assets	Retained (loss)	Total
Revaluation reserve of financial assets	-	(806)	-	(806)
Total income and expense recognised directly in equity	-	(806)	-	(806)
Net (loss) for the period	-	-	(3,880)	(3,880)
Total income and expenses for the period	-	(806)	(3,880)	(4,686)
Increase of share capital	20,000	-	-	20,000
Balance as of 31 December 2008	20,000	(806)	(3,880)	15,314

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

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 (All amounts in LTL thousand unless otherwise stated)

CASH FLOW STATEMENTS

	<u>From 2 January 2008 to 31 December 2008</u>
Operating activities	
Net result for the year	(3,880)
Non – cash adjustments:	
Deferred taxes	(970)
Unrealised foreign currency gains and losses	7
Depreciation / amortisation	4
Impairment of financial assets	452
Other non-cash items	135
Change in accrued interest income	(248)
Change in accrued interest expenses	130
Cash flows (to) operating profits before changes in operating assets and liabilities	(4,370)
(Increase) in loans and receivables	(31,701)
(Increase) in other assets	(2,358)
Increase in deposits (other than from credit institutions)	34,179
Increase in other financial liabilities	364
Net cash flow (to) operating activities	(3,886)
Investing activities	
Cash (payments) to acquire property, plant and equipment	(18)
Cash (payments) to acquire intangible assets	(40)
(Acquisition) of available for sale financial assets	(4,851)
Sale of available for sale financial assets	1,717
(Acquisition) of held-to-maturity investments	(2,702)
Redemption of held-to-maturity investments	2,608
Net cash flow (to) investing activities	(3,286)
Financing activities	
Cash proceeds from issuing shares	20,000
Issue of bonds	2,406
Net cash flow from financing activities	22,406
Net increase in cash and cash equivalents	15,234
Cash and cash equivalents at beginning of the period	-
Cash and cash equivalents at end of the period	15,234
Cash flows from operating activities include:	
Interest received	1,505
Interest (paid)	(192)

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

These financial statements were signed and approved on behalf of the Bank for issue on 25 March 2009 by:

Chairman of the Board		Dalius Kaziūnas
Chief Accountant		Giedrė Reiponienė

Note 1. Background information

AB Bankas Finasta (hereinafter the Bank) is registered in the Republic of Lithuania on 2 January 2008. The address of its registered office is as follows:

Maironio Str. 11,
Vilnius,
Lithuania.

According to Lithuania's Bank act No. 80 it was provided a license No. 20 for the Bank which enabled a right to implement financial services under license stated in unit 6 of article 2 of Lithuania Republic banks law. The bank implements services not only for corporate clients but also for the individuals.

As at 31 December 2008, the number of employees of the Bank was 112.

On the 31 December 2008 the only shareholder of the Bank was UAB Finasta Įmonių Finansai. Ultimate parent company is AB Invalda.

All shares of the Bank are ordinary shares with the par value of LTL 10 each, which are were fully paid as of 31 December 2008. The share capital is divided into 2,000,000 shares.

The Bank takes deposits, makes transactions, exchange currency, grants loans, consults clients, invests in securities and trades them also it implements other services. Bank's specialization is the services of investment and private banking. The Bank implements wealth management and companies financial services for individuals and corporate clients who invest actively.

Second half of 2008 was a time of severe crisis in financial markets. Lithuanian financial sector, being integral part of global system was also affected. Financial institutions faced some stress test scenarios in real life and their ability to withstand was tested. The financial crisis and the fact that Bank has commenced its operations in second half of 2008 resulted in operating losses for the period.

At the beginning of 2009 start-up procedures are finished and the Bank is ready to intensify sales actions. There are first results with institutional investors whom we started to work a couple of months ago. Sales pipeline in Private Banking segment shows good potential with investment solutions. Working hours were extended in Client service department to meet clients demand for visiting Bank not in official working hours. Trading department has extended its working hours to meet Clients demand to trade outside Europe and results are better than estimated. All those activities made in the first quarter of 2009 are expected to generate better revenues than in the first couple of 2009 months.

However, if needed, the Bank is ready to suspend development projects that are not key for the daily operations or are not crucial in the nearest future. The cost cutting procedures would follow to arrive to the bare minimum functions to sustain activities of the Bank - such plan is ready and can be taken into action anytime, leading to positive monthly results maintaining Capital Adequacy, Liquidity and Capital base indexes as required by legislation.

By the same time Invalda AB as the ultimate shareholder of the Bank is considering strategic alternatives of future development of the whole Invalda AB group's financial sector. Strengthening of capital base, reorganization, attraction of new investor and/or other strategic alternatives of financial group entities are under consideration. Only this factor is keeping off the cost cutting action. The decision is expected to be made in the near future.

In January 2009 the shareholder has strengthened the capital base (Note 29) by forming reserve capital of LTL 4 million (by cash contribution) in order to enable the Bank to absorb expected losses in 2009, if any. According to the Bank's forecasts the current capital base is sufficient for the Bank to operate as a going concern in 2009. Management believes that Invalda AB will do necessary actions to strengthen the Bank's financial position in the future, if needed.

Note 2. Significant accounting policies

Basis of presentation

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

Statement of compliance

As described in the Note 1, the Bank is still in start-up phase in current challenging economic environment, however, the management of the Bank has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, these financial statements of the Bank have been prepared on a going concern basis, applying International Financial Reporting Standards (IFRS), effective as of 31 December 2008 as adopted by the European Union.

The Bank was established on 2 January 2008, therefore these financial statements are prepared for the period from 2 January 2008 to 31 December 2008.

Standards issued but not yet effective

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 January 2009).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Bank as the Bank does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. In accordance with the transitional requirements of these amendments, the Bank will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 8 Operating Segments (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment Reporting. The Bank expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Bank is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Note 2. Significant accounting policies (cont'd)

Amendment to IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Bank, as the Bank has not issued such instruments.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Bank anticipates that these amendments to standards will have no material effect on the financial statements.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.

IFRS 7 Financial Instruments: Disclosures. Removal of the reference to 'total interest income' as a component of finance costs.

IAS 1 Presentation of Financial Statements. Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period. Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".

IAS 18 Revenue. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 19 Employee Benefits. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.

IAS 23 Borrowing Costs. The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

IAS 27 Consolidated and Separate Financial Statements. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

Note 2. Significant accounting policies (cont'd)

IAS 28 Investment in Associates. If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.

IAS 29 Financial Reporting in Hyperinflationary Economies. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

IAS 34 Interim Financial Reporting. Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.

IAS 36 Impairment of Assets. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

IAS 38 Intangible Assets. Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

IAS 39 Financial Instruments: Recognition and Measurement. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment Property. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IAS 41 Agriculture. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

IFRIC 12 Service Concession Arrangements (effective once adopted by the EU).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Bank is not an operator and, therefore, this interpretation has no impact on the Bank.

IFRIC 13 Customer Loyalty Programmes (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Bank does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Bank.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2009)

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Bank does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Bank.

IFRIC 15 Agreement for the Construction of Real Estate (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This interpretation does not have impact to the Bank.

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Note 2. Significant accounting policies (cont'd)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the financial statements because the Bank does not have hedges of net investments.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the financial statements because the Bank does not distribute non-cash assets to owners.

IFRIC 18 Transfers of Assets from Customers (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the financial statements because the Bank does not have such agreements.

Functional and presentation currency

The functional currency of the Bank is the local currency of the Republic of Lithuania, Litas (LTL). The amounts shown in these financial statements are presented in thousand Litas, unless otherwise stated. Information presented has been rounded to the nearest thousand.

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

Comparative numbers

The bank started its activity only in 2008 and accordingly in these financial statements comparative numbers are not presented.

Foreign currencies

Foreign currency transactions are recorded in the Litas (LTL) at the official rate of the Bank on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the income statement at the time of transaction using the exchange rate ruling at that date.

All monetary assets and liabilities denominated in foreign currencies are translated into the Lithuanian Litas (LTL) at the official rate of the Bank of Lithuania prevailing at the end of reporting period. Currency exchange rates as of 31 December 2008:

	<u>31 December 2008</u>
EUR	3.4528
USD	2.4507
LVL	4.8872

Revenue and expense recognition

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

Cash and cash equivalents

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

Note 2. Significant accounting policies (cont'd)

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful lives of 3 to 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Property and equipment

Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met.

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

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

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

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

Computers and communication equipment	3 years
Office equipment	4 – 8 years
Vehicles	6 years

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

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

Financial assets and financial liabilities

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

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

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

Note 2. Significant accounting policies (cont'd)

Financial assets or financial liabilities held for trading

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

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

Non-performing loans

Loans are treated as non-performing when loan principal or interest payable is overdue for 30 and more days.

Write-offs

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

Note 2. Significant accounting policies (cont'd)

Available-for-sale financial assets

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

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

Offsetting

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

Impairment of financial assets

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

Note 2. Significant accounting policies (cont'd)

Impairment of financial assets (cont'd)

Due from banks and loans and advances to customers

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

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

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

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

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

Held to maturity investments

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

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

Renegotiated loans

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

Note 2. Significant accounting policies (cont'd)

Impairment of other assets

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

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

Fair values of financial assets and liabilities

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

Leases

Finance – Bank as lessee

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

Finance – Bank as lessor

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

Operating – Bank as lessee

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

Operating – Bank as lessor

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

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

Note 2. Significant accounting policies (cont'd)

Share capital

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

Dividends

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

Income tax

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

The standard income tax rate in Lithuania was 15% in 2008 (15% and 3% social tax in 2007). Starting from 1 January 2009 the income tax applied to the companies in the Republic of Lithuania is 20%.

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

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

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

Off-balance sheet items

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

Related parties

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

Note 2. Significant accounting policies (cont'd)

Credit-related commitments

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

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

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

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

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

Provisions

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

Contingencies

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

Use of estimates in the preparation of financial statements

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

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

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

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

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Note 2. Significant accounting policies (cont'd)

Use of estimates in the preparation of financial statements (cont'd)

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

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

Subsequent events

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

Note 3. Placements with the central bank

	<u>31 December 2008</u>
Compulsory reserves	800
Funds in correspondent accounts	34
Total	<u><u>834</u></u>

The bank of Lithuania pays interest for the part of compulsory reserve's according to European Central Bank requirements. Interest rate is equal to ECB refunding interest rates which is valid on agreement day.

Note 4. Placements with banks

	<u>31 December 2008</u>
Funds in correspondent accounts	5,224
Overnight deposits in other banks	2,000
Deposit accounts in other banks	6,903
Total	<u><u>14,127</u></u>

Note 5. Available-for-sale financial assets

As of 31 December 2008 available-for-sale financial assets comprise equity securities of companies, which are listed in the secondary list of the Baltic Stock Exchange.

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Note 6. Loans and receivables

On 31 December 2008 the Bank had reverse repurchase agreements in amount of LTL 11,456 thousand. As of 31 December 2008 the fair value of securities pledged according to reverse repurchase agreements is LTL 11,435 thousand

	<u>31 December 2008</u>
Loans to customers	20,487
Reverse repurchase agreements	<u>11,456</u>
Total	31,943
Less: individual impairment	<u>(452)</u>
Loans and receivables	<u>31,491</u>

Loans have been granted to following types of customers:

	<u>31 December 2008</u>
Corporate clients	12,652
Private individuals	<u>18,839</u>
Loans to customers	<u>31,491</u>

Note 7. Property and equipment

Changes in property and equipment during the year 2008 are presented in the table below:

	<u>Office equipment and other</u>	<u>Total</u>
Acquisition cost		
Additions	18	18
As of 31 December 2008	<u>18</u>	<u>18</u>
Accumulated depreciation		
Charges for the period	1	1
As of 31 December 2008	<u>1</u>	<u>1</u>
Net book value		
As of 31 December 2008	<u>17</u>	<u>17</u>

Depreciation expenses were accounted for under operating expenses.

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Note 8. Intangible assets

Changes in intangible assets during the year 2008 are presented in the table below:

	<u>Software</u>	<u>Other intangible assets</u>	<u>Total</u>
Acquisition cost			
Additions	17	23	40
As of 31 December 2008	<u>17</u>	<u>23</u>	<u>40</u>
Accumulated amortisation			
Charge for the year	1	2	3
As of 31 December 2008	<u>1</u>	<u>2</u>	<u>3</u>
Net book value			
As of 31 December 2008	<u>16</u>	<u>21</u>	<u>37</u>

Amortisation expenses are included into operating expenses.

Note 9. Other assets

	<u>31 December 2008</u>
Receivables for sold securities	1,600
Accounts receivable	494
Deferred expenses	363
Transit account	220
Amounts for transactions with securities	156
Other	17
Total	<u><u>2,850</u></u>

Note 10. Due to customers

	<u>31 December 2008</u>
Demand deposits	9,469
Term deposits	24,803
Total	<u><u>34,272</u></u>

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

	<u>31 December 2008</u>
Private individuals	30,928
Corporate clients	3,344
Total	<u><u>34,272</u></u>

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Note 10. Due to customers (continued)

Due to customers breakdown according to currencies:

Due to customers	LTL	EUR	USD	TRY	Other currencies	Total
Private individuals	17,867	12,066	660	115	220	30,928
Corporate clients	3,039	37	188	22	58	3,344
Amounts due to customers:	20,906	12,103	848	137	278	34,272

Note 11. Debt securities

Date of issuance	16 October 2008
Total par value, LTL	2,403,600
Amount, units	24,036
Par value, LTL	100
Date of redemption	16 October 2009
Interest rate, %	7.5

Note 12. Other liabilities

	<u>31 December 2008</u>
Payables for goods and services received	362
Amounts due to customers	342
Taxes, other than income tax	215
Vacation pay accrual	72
Other	6
Total	<u>997</u>

Note 13. Capital

Share capital

The Bank's capital is divided into 2,000,000 ordinary shares with the par value of LTL 10 each. On 31 December 2008 all shares were authorised, issued and fully paid.

Fair value reserve

Fair value changes of available-for sale securities (net of deferred tax) are accounted for in the fair value reserve in equity.

Reserve capital

Reserve capital can be either offset against future losses or used for a share capital increase but cannot be distributed in any other manner. As it is disclosed in Note 29 Subsequent events, on 13 January 2009 the Bank's reserve capital was increased by LTL 4 million.

Note 14. Off-balance sheet assets and liabilities

Off-balance liabilities:

	<u>31 December 2008</u>
Contingent liabilities and commitments	
Lending commitments	1,110
Liabilities to the clients for securities custody	36,992
Total contingent liabilities and commitments	<u>38,102</u>

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Note 15. Interest revenue and interest expenses

	<u>From 2 January 2008 to 31 December 2008</u>
Interest revenue	
on loans and receivables	1,091
for debt securities held-to-maturity	52
for funds in the banks and other credit institutions	590
other	<u>19</u>
Total interest revenue	1,752
Interest expenses	
on due to customers	(265)
on issued bonds	(38)
other interest expenses (deposits insurance)	<u>(19)</u>
Total interest expenses	(322)
Interest income, net	<u><u>1,430</u></u>

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

Note 16. Service fee and commission revenue and expenses

	<u>From 2 January 2008 to 31 December 2008</u>
Service fee and commission revenue	
for operations with securities	474
commissions for transfer and payment transactions	83
commissions for lending commitments	<u>35</u>
Total service fee and commission revenue	592
Service fee and commission expenses	
for transfer and payment transactions	(106)
for safekeeping and custody services	<u>(6)</u>
Total service fee and commission expenses	(112)
Net service fee and commission income	<u><u>480</u></u>

Note 17. Net result on securities trading

	<u>From 2 January 2008 to 31 December 2008</u>
Realized loss from transactions with available-for-sale financial assets	(82)
Realized profit from transactions with available for sale financial assets	<u>18</u>
Net result on securities trading	<u><u>(64)</u></u>

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Note 18. Net foreign exchange gain

	<u>From 2 January 2008 to 31 December 2008</u>
Realised gain on foreign exchange trading, net	34
Balance sheet revaluation, net	(7)
Net foreign exchange gain, net	<u>27</u>

Note 19. Impairment of financial assets

Impairment of financial assets represents individually assessed impairment of loan portfolio.

Note 20. Operating expenses

	<u>From 2 January 2008 to 31 December 2008</u>
Advertising and marketing	1,454
Employees' salaries	1,420
Rent of premises	858
Taxes, other than income tax	832
Social security	439
Software rent and maintenance	272
Furniture and other property rent	147
Post and communication	141
Computer's rent and maintenance	130
Security	103
Office equipment maintenance	85
Representation	81
Business trips and training	75
Audit	68
Office stationary	22
Transportation rent and maintenance	17
Amortisation and depreciation	4
Other	123
Total	<u>6,271</u>

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Note 21. Income tax

	<u>From 2 January 2008 to 31 December 2008</u>
Current income tax expenses	-
Change in deferred income tax	(970)
Income tax (benefit)	<u><u>(970)</u></u>
Components of deferred income tax	
Tax loss carried forward	970
Revaluation of available for-sale securities	202
Deferred income tax asset	<u><u>1,172</u></u>
Deferred income tax liabilities	<u>-</u>
Deferred income tax, net	<u><u>1,172</u></u>
Deferred income tax recognised in income statement	970
Deferred income tax charged to equity (fair value reserve)	202

Delayed tax calculated by applying 20% income tax rate, which is valid from the 1 January 2009.

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

	<u>From 2 January 2008 to 31 December 2008</u>
Income tax calculated at statutory 15% tax rate	(728)
Change in tax rate	(242)
Total income tax (benefit)	<u><u>(970)</u></u>

Note 22. Capital adequacy

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

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

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Note 22 Capital adequacy (continued)

Capital adequacy ratio has been calculated as follows below:

Capital adequacy calculation	2008	
	Nominal	Weighted
Tier 1 equity items	15,277	15,277
Tier 2 equity items	-	-
Deductions from capital	-	-
Eligible capital	15,277	15,277
Capital requirements of		
Credit risk		3,200
Foreign exchange rate risk		122
Operational risk		281
Total amount subject to capital requirements		3,603
Capital adequacy ratio, %		33.92

Beyond the already calculated capital requirements in accordance with General Provisions on Capital adequacy rules approved by the Bank of Lithuania, by applying an internal capital adequacy assessment procedure (ICAAP) the Bank assess a need for additional capital for all relevant risks (concentration risk, strategic risk, interest rate risk in the banking book and other). Furthermore, the additional capital requirement can be allocated in accordance with Bank's stress-testing results.

Note 23. Related party transaction

Parties related with the Bank are the following: parent company UAB Finasta Įmonių Finansai, the Bank's board members and AB Invalda group companies.

The Bank earns income from interest income, foreign currencies contracts, transactions with securities and interest income from related parties.

Related party transactions during 2008 and balances as of 31 December 2008 were the following:

	Amounts due to	Amounts due from	Income	Expenses
AB Finasta Įmonių Finansai	31	106	-	127
UAB Invalda Service	-	2,921	22	137
UAB Invalda Nekilnojamo Turto Valdymas	41	567	23	467
UAB Baltic Amadeus Infrastruktūros Paslaugos	10	-	-	33
UAB Finasta Rizikos Valdymas	-	2,505	138	-
AB FMI Finasta	321	3,211	150	426
UAB Invalda Turto Valdymas	1,596	13	110	22
UAB Finansų Spektro Investicija	-	3,015	57	-
AB Umega	-	1,661	61	-
AB Vilniaus baldai	-	389	330	-
AB Invalda	3	-	-	-

Also, during period ended 31 December 2008 UAB Finasta Įmonių Finansai has provided to the Bank accounting software on trial basis.

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Note 23. Related party transactions (cont'd)

The Bank's board consists of board chairman and two members of the board who are responsible for different departments:

- General bank management, services and products, administration and control are held by Bank's board chairman, general manager;
- Clients service, business development are held by Commerce office manager, a member of the Board;
- Risk control, transactions, accounting and planning are held by Finance office manager, a member of the Board.

In 2008 the Board's salaries were LTL 28 thousand (related social insurance was LTL 9 thousand). As of 31 December 2008 there were no loans issued to the Bank's board.

Note 24. Operating lease

The Bank concluded several contracts of operating lease. The terms of lease do not include restrictions of the activities of the Bank in connection with the dividends, additional borrowings or additional lease agreements.

Future lease payments according to the signed operating lease contracts are as follows:

	<u>2008</u>
Up to one year	1,140
One to five years	3,737
Over five years	<u>4,206</u>
Total	<u>9,083</u>

Expenses for operating rent were LTL 588 thousand.

Note 25. Compliance with the regulatory requirements of the Bank of Lithuania

On the 31 December 2008 the Bank was complied with the following requirements: capital adequacy, maximum open currency position, maximum aggregate open currency position, maximum loan for one debtor, liquidity.

Note 26. Cash and cash equivalents

	<u>31 December 2008</u>
Cash	276
Placements with the central bank	834
Placements with banks and other credit institutions	<u>14,127</u>
Accrued interest for deposits	<u>(3)</u>
Cash and cash equivalents	<u>15,234</u>

Note 27. Risk management

Management of risk is fundamental to the banking business and is an essential part of bank management process. The objectives of implemented risk management system are to safe Bank shareholder's equity, to ensure continuity of banking activities by limiting and controlling risk exposures as well as to ensure fulfilling of regulatory requirements. The keystones of risk management system lie in separation of functions and comprehensive limit system which includes horizontal and vertical structure of limits. Every limit depends on the level of competence as well as on substance of duties.

The Bank's organizational structure ensures that risk assuming units are separated from risk control function. The risk management process in the Bank is regulated by risk management policies and procedures.

Risk management is the responsibility of Risk Management Committee (ALCO) and the regular monitoring and controlling of financial risks is performed by the Bank's Risk Management Department.

In the ordinary course of business the Bank is exposed to various risks. The main risks inherent to the Bank's operations are those related to credit risk, operational risk, market risk and liquidity risk. The summary description of the Bank's risk management policies in relation to those risks follows.

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Note 27. Risk management (cont'd)

Credit risk

Credit risk is the risk to incur losses due to the Bank's customer's failure to fulfil their financial obligations towards the Bank.

Credit risk is predominant taking into account capital allocation to different types of risk. However, due to speciality of investment bank as well relatively smaller part of credits in Bank's asset portfolio, credit risk in the Bank is also relatively less of importance comparing to universal banks. Bank has not issued any guaranties to other counterparties.

Bank mitigate its credit risk issuing credits only to solvent counterparties which ordinary revenues are sufficient to meet obligations and/or by requiring collateral to ensure client's financial obligations to the Bank. Bank diversifies also credit portfolio regarding credit amount, collateral type and other aspects.

The credit risk is managed by carrying out a thorough analysis of the potential borrower before issuing credits and by monitoring thereof after the credit disbursement. The creditworthiness of the borrower is assessed by using Borrower's risk assessment methodology which is constantly improved and tested for reliability following the results of the analysis of historical data and credit risk analysis. Every decision to grant a credit is taken by at least two representatives of the Bank which include different levels of competence.

Maximum exposure to credit risk

The maximum exposure to credit risk of different financial instrument groups without taking into account the value of credit risk decreasing elements (specific provisions, collateral and so on) is set out below:

	<u>31 December 2008</u>
Balance sheet items before trading and investing activities	
Demand deposits with the Bank of Lithuania	834
Due from banks	14,127
Loans and receivables from customers	31,943
Other assets	4,521
Off balance sheet items	
Lending commitments	<u>1,110</u>
Total balance and of balance sheet items before trading and investing activities	<u><u>52,535</u></u>
Trading and investing activities	
Held-to-maturity financial assets	96
Available-for-sale financial assets	2,125
Total trading and investing activities	<u><u>2,221</u></u>
Total credit exposure	<u><u><u>53,937</u></u></u>

Items indicated in a table above are related to residents of the Republic of Lithuania.

Maximum exposure to credit risk by industry

Credit risk concentration is diversified by client, by industry sector, by type of collateral.

The Bank's maximum credit exposure to 10 clients or counterparties as of 31 December 2008 was LTL 27,697 thousand before taking into account collateral.

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Note 27. Risk management (cont'd)

Exposure by industry sector

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

31 December 2008	<u>Loans to private individuals</u>	<u>Loans to corporate clients</u>	<u>Repurchase agreements</u>	<u>Total</u>
Real estate, rent	-	-	9	9
Retail and wholesale trade	-	-	46	46
Financial services	-	3,031	5,520	8,551
Utility, social and service activities	-	-	22	22
Loans to private individuals	13,475	-	5,331	18,806
Other loans to corporate clients	-	3,981	76	4,057
Total loans and receivables, net of impairment	<u>13,475</u>	<u>7,012</u>	<u>11,004</u>	<u>31,491</u>

All credits are issued to the residents of the Republic of Lithuania.

Collateral and other credit enhancements

Type of credit enhancement required depends on assessment of the credit risk of the counterparty.

The ability to repay loan is the primary criterion in loan evaluation, though the Bank usually demands collateral as well. Acceptable collaterals are classified into real estate, guarantees, insurance, financial assets and other.

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

31 December 2008	<u>Loans to private individuals</u>	<u>Loans to corporate clients</u>	<u>Repurchase agreements</u>	<u>Total</u>
Guarantees	1,275	491	745	2,511
Deposits	-	-	1,761	1,761
Securities	3,943	407	11,435	15,785
Total	<u>5,218</u>	<u>898</u>	<u>13,941</u>	<u>20,057</u>

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Bank using an internal credit assessment system.

Rating of loans

During evaluation of loans, the Bank applies specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related client's financial position assessment. The financial position of the client is analyzed based on constantly renewed financial information, also on other information of the client. Based on a set of defined criteria ratings are assigned to the clients.

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Note 27. Risk management (cont'd)

In the table attached further lower risk is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreements. Higher risk is assigned to loans with identified impairment or default risk.

31 December 2008	Lower risk	Higher risk	Not classified	Total
Asset classes				
Loans to corporate clients	7,012	-	-	7,012
Loans to private individuals	13,104	371	-	13,475
Repurchase agreements	-	-	11,004	11,004
Total	20,116	371	11,004	31,491

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

31 December 2008	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Asset classes					
Loans to private individuals	1,210	-	-	-	1,210
Loans to corporate clients	491	-	-	-	491
Repurchase agreements	36	-	-	-	36
Total	1,737	-	-	-	1,737

As of 31 December 2008 the Bank has accepted collateral for past due and individually impaired loans in total amounts of LTL 4,096 thousand and of LTL 1,454 thousand respectively.

Impairment and provisioning principles

Upon assessing impairment losses of loans the Bank follows the requirements of IAS 39. Impairment losses are recognized for financial reporting purposes only for those losses that have been impaired at the balance sheet date based on objective evidence of impairment.

While Bank has not accumulated sufficient long-run historical data on actual losses of respective segment of loans and/or there is not available respective data in the market, the impairment losses for impaired large exposures are made based on individual valuation under the discounted cash flow method, where both future cash flows from borrower's operations and cash flows from collateral are taken into account. The amount of the impairment losses (specific provisions) is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows discounted based on the interest rate at inception.

31 December 2008	Financial institutions	Loans to corporate clients	Loans to private individuals	Repurchase agreements	Total
Neither past due nor impaired	14,127	6,521	12,265	9,593	42,506
Past due but not impaired	-	491	1,210	36	1,737
Impaired	-	-	-	1,826	1,826
Gross	14,127	7,012	13,475	11,455	46,069
Less: allowance for impairment	-	-	-	(452)	(452)
Net	14,127	7,012	13,475	11,004	45,618

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Note 27. Risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its current obligations (both balance liabilities and off-balance sheet commitments (credit commitments and other)) or will be able to meet them by acquiring funds or selling asset for unfavourable prices.

Unstable situation in the financial markets, the diminished trust in interbank market and the 2008 as the first year of the Bank's activity formed the conservative Bank's liquidity risk management policy, by matching cash flows and conservatively managing assets. The high level of Bank's capitalization makes significant positive impact on the Bank's liquidity.

The Risk Management Committee sets internal limits restricting liquidity risk and revises them periodically to ensure acceptable Bank's liquidity level and control. These limits estimate maximum mismatch of cash flows and maximum level of other relative ratios. The internal liquidity ratio is calculated according to requirements of the Bank of Lithuania. The current internal minimum ratio is greatly higher than the minimum requirement of the Bank of Lithuania (30 percent). The other internal relative ratios bind the Bank's loan portfolio funding with the client's deposits and determine clients' deposits coverage by very liquid assets.

The clients' deposits concentration is low: the largest exposure to one client amounted at 6,4% (LTL 2,4 million) of all Bank's commitments on 31 December, 2008. The table below shows maturity gap on 31 December 2008:

Maturity gap 31 December 2008	On demand	Up to 3 month	3 – 12 months	1 – 5 years	Over 5 years	Undef. maturity	Total
Assets							
Cash	276	-	-	-	-	-	276
Balances with the Bank of Lithuania	834	-	-	-	-	-	834
Due from banks	5,224	8,903	-	-	-	-	14,127
Loans to customers, net	-	21,184	9,514	113	86	594	31,491
Available for sale financial assets	-	-	-	-	-	2,125	2,125
Held-to-maturity financial assets	-	-	96	-	-	-	96
Other assets	376	2,457	-	-	-	1,243	4,076
Total assets	6,710	32,544	9,610	113	86	3,962	53,025
Liabilities and own capital							
Due to customers	9,469	22,529	2,274	-	-	-	34,272
Debt securities issued	-	-	2,442	-	-	-	2,442
Own capital	-	-	-	-	-	15,314	15,314
Other liabilities	6	991	-	-	-	-	997
Total liabilities and own capital	9,475	23,520	4,716	-	-	15,314	53,025
Net assets (liabilities)	(2,765)	9,024	4,894	113	86	(11,352)	-
Loan commitments	-	(1,110)	-	-	-	-	(1,110)
Net assets (liabilities) including loan commitments	(2,765)	7,914	4,894	113	86	(11,352)	(1,110)
Gap as a percentage of total assets	(5.28)	14.93	9.34	0.22	0.16	(21.41)	(2.12)
The Bank							
Total current assets							24,319
Total current liabilities							29,766
Liquidity ratio, %	81.70						

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Note 27. Risk management (cont'd)

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

Financial liabilities	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	25,399	6,672	2,349	-	-	34,420
Debt securities issued	-	-	2,583	-	-	2,583
Other	6	991	-	-	-	997
Total non-discounted financial liabilities	25,405	7,663	4,932	-	-	38,000

The following table shows the contractual expiry by maturity of the Bank's loan commitments on 31 December 2008:

Financial commitments	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loan commitments	129	1	969	11	-	1,110
Total non-discounted financial commitments	129	1	969	11	-	1,110

Market risk

Market risk is the risk for the Bank to incur losses due to changes in the value of financial instrument due to changes of market variables (foreign exchange rate, market interest rate, securities prices).

Interest rate risk

General interest rate risk is the risk that the Bank will incur losses due to changes in market interest rates, when the assets sensitive to changes in certain maturity interest rate (off-balance sheet commitments) do not synchronize with the interest rate sensitive liabilities of corresponding maturity. Interest rate gap method is used in the Bank for the management and control of interest rate risk. Risk management committee approves cumulative interest rate gap limits in separate currency and all currencies. The limits reflect the interest rate risk level acceptable for the Bank and lets to evaluate the Bank's sensitivity to interest rate fluctuations (i.e. maximum possible loss (profit)).

Currently, the Bank's capitalization level has considerable impact on the interest rate gap. This results in positive total interest rate gap. The following table shows interest rate gap according to forecasted interest rate re-evaluation date, 31 December 2008:

	Up to 1 month	1 - 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	Over 3 years	Total
Assets							
Due from banks	8,900	-	-	-	-	-	8,900
Loans to customers, net	17,479	3,560	1,709	7,737	84	680	31,249
Debt securities	-	-	-	94	-	-	94
Interest rate sensitive assets	26,379	3,560	1,709	7,831	84	680	40,243
Interest rate non-sensitive assets	-	-	-	-	-	-	12,782
Total	26,379	3,560	1,709	7,831	84	680	53,025
Liabilities							
Term deposits	15,867	6,583	1,859	400	-	-	24,709
Debt securities issued	-	-	-	2,406	-	-	2,406
Interest rate sensitive liabilities	15,867	6,583	1,859	2,806	-	-	27,115
Interest rate non-sensitive liabilities	-	-	-	-	-	-	25,910
Total	15,867	6,583	1,859	2,806	-	-	53,025
Total gap	10,512	(3,023)	(150)	5,025	84	680	13,128
Total cumulative gap	10,512	7,489	7,339	12,364	12,448	13,128	-

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Note 27. Risk management (cont'd)

The following table shows the impact of interest rate increase /decrease by 1 % point to the Bank's before-tax profit:

	<u>Impact to pre-tax profit</u>	<u>Impact to equity</u>
The impact of interest rate increase by 1 % point to the Bank's before-tax profit	87	74
The impact of interest rate decrease by 1 % point to the Bank's before-tax profit	(87)	(74)

Specific interest rate risk and equity price risk

Specific interest rate risk is the risk for the Bank to incur losses due to changes in price of certain interest rate sensitive asset or liabilities (value of off-balance sheet commitments or claims) related with the risk of separate issuer.

Equity price risk is the risk for the Bank to incur losses due to changes in prices of equity.

For the management and control of specific interest rate risk and equity price risk, the Risk management committee defines general limits for acquisition of financial instruments according to accounting type of portfolio, distribution by type, issuer and stop loss limit, applied to each individual financial instrument. These risk is managed and limits controlled based on the results of the report of portfolio management results for debt security or equity valued at fair value, where the result of market prices-based revaluation for each financial instrument is shown.

Currency risk

Currency risk is the risk for the Bank to incur losses due to fluctuation of foreign currency exchange rates. Losses (profit) from fluctuation of foreign currency exchange rates may occur when bank assets (off-balance sheet claims), evaluated in foreign currency, does not correspond to liabilities (off-balance sheet commitments), evaluated in the same foreign currency (i.e. when open foreign currency position exists).

Foreign currency risk is managed and controlled by defining foreign currency position limits, which are calculated as a ratio of open foreign currency position with the Bank's eligible capital. Limits currently are mostly oriented at the needs of the Bank clients, so the limits, with exception of EUR position, are not big.

The following table shows information about open foreign currency positions of the Bank as of 31 December, 2008:

	<u>Balance</u>		<u>Off-balance sheet items</u>		<u>Open position</u>	<u>Position as % of capital</u>
	<u>Assets</u>	<u>Own capital and liabilities</u>	<u>Contingent assets</u>	<u>Contingent liabilities</u>		
LTL	41,138	39,657	-	-	1,481	9.7
EUR	10,582	12,105	-	-	(1,523)	(9.97)
LVL	60	25	-	-	35	0.23
BGN	40	35	-	-	5	0.03
Other	1,205	1,203	-	-	2	0.01
Total	53,025	53,025	-	-	-	-
Long positions					1,523	9.97
Short positions					(1,523)	(9.97)
Eligible capital						<u>15,277</u>

Considering that LTL is pegged to EUR and biggest open foreign currency position is just 0.24% of Banks eligible capital the data shows that fluctuations of foreign currency rates would have immaterial impact on the Bank's results and shareholders' equity.

Note 27. Risk management (cont'd)

Operational risk

Operational risk is defined as an exposure to potential losses that may occur from inadequate internal processes or systems, inadequate employee performance, IT system disruptions or external events.

Operational risk management is implemented in every structural unit of the Bank, the managers of structural units are responsible for operational risk management within their units. Operational risk in the Bank is managed by reducing it, for example, by using insurance, implementing internal control elements. The analytical reports of operational risk incidents and related losses periodically are provided to the board of the Bank.

The Bank managing operational risk has introduced different measures related to daily activities of management to insure acceptable operational risk level. The measures include the classic process of risk management – identifying, assessing, managing and control.

The Bank has launched declaration system of operational risk incidents and losses. The system accumulates historical data about operational risk incidents, the related direct and indirect losses and serves as a basis for assessing operational risk level in the Bank to identify the reasons of the most significant operational risk incidents and to apply the measures needed for operational risk management.

The Bank pays high attention to its business continuity by periodically looking through management of crisis and business continuity plans, IT services restoring procedures. Furthermore, to insure uninterrupted IT system and data security all critical IT components are duplicating.

Note 28. Fair value of financial instruments

In determining of fair values of financial instruments at fair value the Bank uses such methods:

Cash. That is money which fair value is their nominal value.

Funds in central Bank. Net value of funds which are in current accounts is their balance value because they are payment accounts in Central Bank.

Financial assets at fair value through profit or loss. These investments were evaluated at market prices and accordingly their fair value equals to their accounting value.

Loans given for the clients and receivable sums. Evaluation was made discounting future money flows for every loan during its term using interest rates which were valid in accounting term. Loans, which are issued to the clients with variable interest rates, fair values approximate to their carrying amounts.

Liabilities for the clients. Balances which term is shorter than 3 months, carrying amounts approximate to their fair values due to short-term maturity of such financial instrument. The fair value of deposits which have longer term interest rates and other liabilities was calculated by discounting money flows which were used for new debts with similar returning terms.

Classification of financial instruments which are accounted for by fair value given in the table.

31 December 2008

	Quoted market prices	Valuation techniques – non-market observable inputs	Total
Financial assets			
Available-for-sale financial assets	643	1,482	2,125
Total financial asset	643	1,482	2,125

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Note 28. Fair value of financial instruments (cont'd)

Financial instruments fair value is calculated according to IAS 39 "Financial instruments: admission and evaluation" requirements. Fair value is described as a sum which an instrument can be changed by agreement among knowing parties and doing it by free will when there are market conditions, except forced selling or liquidation cases. Because trade by bigger part of the Bank financial property and liability is not developed, evaluating their fair value, it is made assumptions supported current economic conditions and typical risk for that instrument.

For securities, where market value does not represent fair value the Bank uses valuation model, which are mainly dependent on the following factors: forecasted income, income growth rate, perpetuity growth, discount rate. As of 31 December 2008 the Bank applied the following assumptions in determining fair value of available-for sale security: cash flow forecasted for 5 years, income growth rates applied in forecast 0-10%, perpetuity rate -2%, discount rate – 12.6%. Sensitivity analysis of changes in assumptions is provided below:

	<u>Impact to pre-tax profit</u>	<u>Impact to equity</u>
Perpetuity rate +1/ -1%	-	183 / (183)
Discount rate +1 / -1%	-	(234) / 234

Below given financial instruments fair value were calculated according to date observed in the market except for debt and property securities which prices are calculated according to the market or redemption prices.

	<u>31 December 2008</u>	
	<u>Carrying amount</u>	<u>Fair value</u>
Financial assets		
Cash	276	276
Funds in Central Bank	834	834
Held-to-maturity investments	96	96
Due from banks	14,127	14,127
Loans given	31,491	31,398
Total assets	46,824	46,731
Financial liabilities		
Due to banks	-	-
Deposits	34,272	34,260
Debt securities	2,442	2,489
Total liabilities	36,714	36,749

Note 29. Subsequent events

On the 13 January 2009 the sole shareholder of the Bank decided to form LTL 4 million reserve capital of the Bank in form of cash contribution in order to restore the Bank's equity to comply with minimum equity requirement set by Lithuanian legislation.