

AB Bank SNORAS

2008 Separate and Consolidated Financial Statements

*Prepared According to International Financial Reporting Standards
Presented together with Independent Auditor's report*

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AB Bankas SNORAS

We have audited the accompanying 2008 financial statements of AB Bank SNORAS, a public limited liability company registered in the Republic of Lithuania (hereinafter the Bank), and consolidated financial statements of the Bank together with its subsidiaries (hereinafter the Group), which comprise the Bank's and the Group's balance sheets as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Jonas Akelis
Auditor's licence
No. 000003
President



The audit was completed on 13 March 2009.

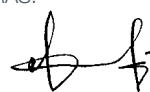
CONSOLIDATED AND SEPARATE BALANCE SHEETS

	Notes	Group		Bank	
		As of 31 December		As of 31 December	
		2008	2007	2008	2007
Assets					
Cash and cash equivalents	3	2,338,360	3,099,436	1,538,464	1,587,821
Financial assets at fair value through profit or loss	4	145,169	849,619	91,132	708,028
Amounts due from credit institutions	5	227,827	438,360	181,537	387,828
Available-for-sale financial assets	8	-	33,835	-	32,865
Loans to customers, net	6	4,953,299	4,086,816	3,425,752	2,648,726
Held-to-maturity financial assets	7	261,660	149,999	158,146	126,309
Investments in subsidiaries	1	-	-	137,636	136,912
Investment property	9	65,659	34,100	-	-
Property and equipment	11	234,552	203,232	125,176	105,890
Work in progress	10	106,064	43,503	-	-
Intangible assets	12	27,981	20,845	8,998	3,607
Deferred income tax assets	13	1,131	544	-	-
Other assets	15	90,014	36,695	27,810	15,788
Total assets		8,451,716	8,996,984	5,694,651	5,753,774
Liabilities					
Amounts due to credit institutions	17	318,689	519,312	614,008	382,596
Derivative financial liabilities	4	14,807	4,199	788	418
Debt securities issued	19	593,913	639,920	576,298	625,378
Amounts due to customers	18	6,746,009	7,017,321	3,900,959	4,117,040
Subordinated loans	16	114,416	114,379	70,293	70,198
Current income tax liabilities		3,828	8,490	-	3,558
Deferred income tax liabilities	13	13,133	11,718	7,913	5,160
Other liabilities	15	64,146	86,150	29,272	44,942
Total liabilities		7,868,941	8,401,489	5,199,531	5,249,290
Equity					
	20				
Share capital		411,922	253,354	411,922	253,354
Share surplus		-	99,137	-	99,137
Reserves		66,455	65,379	61,242	55,255
Retained earnings		50,365	123,864	21,956	96,738
Total equity attributable to equity holders of the parent		528,742	541,734	495,120	504,484
Minority interest		54,033	53,761	-	-
Total equity		582,775	595,495	495,120	504,484
Total equity and liabilities		8,451,716	8,996,984	5,694,651	5,753,774

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

Signed and authorised for release on behalf of the Board of Directors of the AB Bank SNORAS:

President Raimondas Baranauskas



13 March 2009

Chief Financial Officer Jurgita Bliumin



13 March 2009

CONSOLIDATED AND SEPARATE STATEMENTS OF INCOME

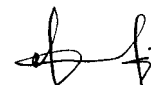
	Notes	Group		Bank	
		For the year ended 31 December		For the year ended 31 December	
		2008	2007	2008	2007
Interest revenue		571.545	425.620	340.565	233.951
Interest expense		(351.196)	(229.218)	(240.903)	(146.003)
Net interest income	24	220.349	196.402	99.662	87.948
(Impairment) recovery of interest earning assets	14	(68.046)	(1.271)	(38.338)	11.476
Net interest income after impairment of interest earning assets		152.303	195.131	61.324	99.424
Fee and commission revenue		117.983	103.151	81.815	72.168
Fee and commission expenses		(26.071)	(24.129)	(10.803)	(8.910)
Net fee and commission income	25	91.912	79.022	71.012	63.258
Net gains and losses from transactions with financial assets designated at fair value through profit or loss	26	16.900	(3.378)	10.354	(1.447)
Net gains and losses from transactions with financial instruments classified as held for trading	27	(30.156)	(675)	(23.148)	(3.066)
Net gains and losses from transactions in foreign currencies	28	74.218	29.617	35.692	10.604
Net gains and losses from sales of available-for-sale financial assets		(11)	(2.164)	-	(2.164)
Sale of minority interest*	1	-	-	-	14.408
Dividend revenue		80	1.147	11.406	10.155
Other income	29	11.575	8.316	4.514	1.831
Other non interest income		72.606	32.863	38.818	30.321
Salaries and benefits	30	(135.178)	(106.216)	(70.280)	(55.116)
Depreciation and amortisation	11, 12	(24.692)	(20.243)	(11.513)	(8.722)
Other operating expenses	30	(125.098)	(88.785)	(62.017)	(43.951)
Other (impairment and provisions) releases		-	140	-	140
Operating expenses		(284.968)	(215.104)	(143.810)	(107.649)
Profit before income tax		31.853	91.912	27.344	85.354
Income tax expense	13	(8.511)	(18.995)	(5.388)	(13.631)
Profit for the year		23.342	72.917	21.956	71.723
Attributable to:					
Minority interest		56	5.545	-	-
Equity holders of the parent		23.286	67.372	21.956	71.723
		23.342	72.917	21.956	71.723
Basic and diluted earnings per share	21	0,05	0,19		

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

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

Signed and authorized for release on behalf of the Board of Directors of the AB Bank SNORAS:

President Raimondas Baranauskas



13 March 2009

Chief Financial Officer Jurgita Bliumin



13 March 2009

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended 31 December, 2008 and 2007

Group	Attributable to the equity holders of the Bank									
	Share capital	Share surplus	Reserve capital	Re-valuation reserve of property and equipment	Re-valuation reserve of financial assets	Re-serve of foreign currency translation	Other general reserves	Retained earnings	Minority interest	Total equity
As of 31 December 2006	157.267	305	8.790	18.312	(2.650)	(174)	43.049	93.927	29.434	348.260
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	(2.164)	-	-	-	-	(2.164)
Revaluation of financial assets	-	-	-	-	4.748	-	-	-	-	4.748
Revaluation of property and equipment	-	-	-	23.719	-	-	-	-	2.997	26.716
Reserve of foreign currency translation	-	-	-	-	-	230	-	-	-	230
Total income and expense recognized directly in equity	-	-	-	23.719	2.584	230	-	-	2.997	29.530
Net profit	-	-	-	-	-	-	-	67.372	5.545	72.917
Total income and expenses for the period	-	-	-	23.719	2.584	230	-	67.372	8.542	102.447
Transfer of revaluation reserve to the retained earnings	-	-	-	(56)	-	-	-	56	-	-
Increase of share capital (Note 20)	96.087	98.832	-	-	-	-	(39.020)	(15.887)	15.434	155.446
Dividends	-	-	-	-	-	-	-	(25.061)	(2.364)	(27.425)
Sale of minority interest (Note 1)	-	-	-	-	-	-	-	14.052	2.715	16.767
Transfer to reserve capital	-	-	7.400	-	-	-	-	(7.400)	-	-
Transfer to other reserves	-	-	-	-	-	-	3.195	(3.195)	-	-
As of 31 December 2007	253.354	99.137	16.190	41.975	(66)	56	7.224	123.864	53.761	595.495
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	66	-	-	-	-	66
Reversal of deferred tax from revaluation reserve	-	-	-	(1.366)	-	-	-	-	(1.892)	(3.258)
Reserve of foreign currency translation	-	-	-	-	-	(4.975)	-	-	-	(4.975)
Total income and expense recognized directly in equity	-	-	-	(1.366)	66	(4.975)	-	-	(1.892)	(8.167)
Net profit	-	-	-	-	-	-	-	23.286	56	23.342
Total income and expenses for the period	-	-	-	(1.366)	66	(4.975)	-	23.286	(1.836)	15.175
Increase of share capital (Note 20)	158.568	(99.137)	-	-	-	-	-	(59.431)	-	-
Dividends	-	-	-	-	-	-	-	(30.003)	(3.037)	(33.040)
Minority interest emerged with the acquisition of subsidiary companies (Note 1)	-	-	-	-	-	-	-	-	5.145	5.145
Transfer to reserve capital	-	-	2.467	-	-	-	-	(2.467)	-	-
Transfer to other reserves	-	-	-	-	-	-	4.884	(4.884)	-	-
As of 31 December 2008	411.922	-	18.657	40.609	-	(4.919)	12.108	50.365	54.033	582.775

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SEPARATE STATEMENTS OF CHANGES IN EQUITY (cont'd)

For the years ended 31 December, 2008 and 2007

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

Bank	Share Capital	Share surplus	Reserve capital	Re-valuation reserve of property and equipment	Re-valuation reserve of financial assets	Reserve of foreign currency translation	Other general reserves	Retained earnings	Total equity
As of 31 December 2006	157.267	305	8.790	18.310	(2.650)	-	42.593	76.329	300.944
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	(2.164)	-	-	-	(2.164)
Revaluation of financial assets	-	-	-	-	4.765	-	-	-	4.765
Revaluation of property and equipment	-	-	-	14.265	-	-	-	-	14.265
Total income and expense recognized directly in equity	-	-	-	14.265	2.601	-	-	-	16.866
Net profit	-	-	-	-	-	-	-	71.723	71.723
Total income and expenses for the period	-	-	-	14.265	2.601	-	-	71.723	88.589
Transfer of revaluation reserve to the retained earnings	-	-	-	(56)	-	-	-	56	-
Increase of share capital (Note 20)	96.087	98.832	-	-	-	-	(39.020)	(15.887)	140.012
Dividends	-	-	-	-	-	-	-	(25.061)	(25.061)
Transfer to reserve capital	-	-	7.400	-	-	-	-	(7.400)	-
Transfer to other reserves	-	-	-	-	-	-	3.022	(3.022)	-
As of 31 December 2007	253.354	99.137	16.190	32.519	(49)	-	6.595	96.738	504.484
Gains less losses from sales of available-for-sale financial assets	-	-	-	-	49	-	-	-	49
Reversal of deferred tax from revaluation reserve	-	-	-	(1.366)	-	-	-	-	(1.366)
Total income and expense recognized directly in equity	-	-	-	(1.366)	49	-	-	-	(1.317)
Net profit	-	-	-	-	-	-	-	21.956	21.956
Total income and expenses for the period	-	-	-	(1.366)	49	-	-	21.956	20.639
Increase of share capital (Note 20)	158.568	(99.137)	-	-	-	-	-	(59.431)	-
Dividends	-	-	-	-	-	-	-	(30.003)	(30.003)
Transfer to reserve capital	-	-	2.467	-	-	-	-	(2.467)	-
Transfer to other reserves	-	-	-	-	-	-	4.837	(4.837)	-
As of 31 December 2008	411.922	-	18.657	31.153	-	-	11.432	21.956	495.120

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

Signed and authorized for release on behalf of the Board of Directors of the AB Bank SNORAS:

President Raimondas Baranauskas



13 March 2009

Chief Financial Officer Jurgita Bliumin



13 March 2009

CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS

	Group		Bank		
	Notes	For the year ended 31 December 2008	2007	For the year ended 31 December 2008	2007
Operating activities					
Net result for the year		23.342	72.917	21.956	71.723
Adjustments to reconcile net profit or loss to net cash provided by operating activities		143.794	112.926	85.888	52.147
Income tax expenses		8.511	18.995	5.388	13.631
Unrealized foreign currency gains and losses		27.534	16.674	14.671	13.151
Depreciation / amortization		24.692	20.243	11.512	8.722
Impairment		49.620	5.665	19.912	(8.155)
Provisions, net		-	(140)	-	(140)
(Gains) losses on sale of investments, net		(1.746)	-	(1.746)	(14.408)
Impairment of held-to-maturity investments		18.426	-	18.426	-
(Gains) losses on sale of tangible assets, net		(343)	(1.527)	(11)	(219)
Change in accrued interest income		(11.961)	(2.839)	(3.378)	(1.208)
Change in accrued interest expenses		27.932	55.855	21.114	40.773
Cash flows from operating activities		166.007	185.843	107.844	123.870
Decrease (increase) in balances with banks		202.708	(256.991)	198.204	(229.393)
(Increase) in loans and receivables		(809.686)	(1.543.743)	(778.975)	(1.070.144)
Sale of held for trading securities		197.421	201.517	203.042	116.644
Sale of financial assets designated at fair value through profit or loss		508.321	(573.415)	407.465	(437.647)
(Increase) decrease in other assets		(266.374)	4.223	(26.973)	(16.372)
(Decrease) increase in deposits from credit institutions		(200.928)	(377.032)	231.210	(263.267)
(Decrease) increase in deposits (other than from credit institutions)		(330.890)	2.332.879	(256.057)	1.038.551
(Decrease) increase in other liabilities		(8.350)	1.157	(13.108)	(1.667)
Income tax (paid)		(13.123)	(17.032)	(7.558)	(15.666)
Cash flow from (to) operating activities		(554.894)	(42.594)	65.094	(755.091)
Investing activities					
Cash (payments) to acquire tangible assets	11	(51.368)	(58.342)	(29.436)	(16.535)
Cash receipts from the sale of tangible assets		673	2.804	44	425
Cash (payments) to acquire intangible assets	12	(10.347)	(5.028)	(6.787)	(2.006)
Cash receipts from the sale of intangible assets		116	-	-	-
Cash (payments) for the investment in subsidiaries, net of cash acquired		(3.208)	(159)	(724)	(54.061)
Cash receipts from the disposal of associates, subsidiaries, net of cash disposed		-	-	-	17.264
Effect on cash and cash equivalents on transfer of subsidiary		-	(65.596)	-	-
Sale of available-for-sale assets		33.769	820.210	32.914	820.160
Cash (payments) to acquire held-to-maturity investments		(125.450)	(5.314)	(48.343)	(52.989)
Net cash flow from (to) investing activities		(155.815)	688.575	(52.332)	712.258
Financing activities					
Dividends (paid)		(33.040)	(27.425)	(30.003)	(25.061)
Cash receipts from the sale of shares in subsidiaries to minority interest		-	17.264	-	-
Issue of debt certificates (including bonds)		18.665	614.108	18.665	599.959
(Repayments) of debt certificates (including bonds)		(64.672)	(8.324)	(67.745)	(8.324)
Cash proceeds from the issuance of subordinated liabilities		-	6.101	-	-
Cash proceeds from issuing shares or other equity instruments		-	155.446	-	140.012

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CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS *(cont'd)*

	Notes	Group		Bank	
		For the year ended 31 December 2008	For the year ended 31 December 2007	For the year ended 31 December 2008	For the year ended 31 December 2007
Net cash flow from (to) financing activities		(79.047)	757.170	(79.083)	706.586
Net (decrease) increase in cash and cash equivalents		(789.756)	1.403.151	(66.321)	663.753
Net foreign exchange difference		28.680	(58.315)	16.964	(40.507)
Cash and cash equivalents at beginning of the period		3.099.436	1.754.600	1.587.821	964.575
Cash and cash equivalents at end of the period	3	2.338.360	3.099.436	1.538.464	1.587.821
Interest received		566.760	414.566	344.363	230.231
Interest (paid)		(323.264)	(173.363)	(219.789)	(105.233)
Dividends received		80	1.147	11.406	10.155

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

Signed and authorized for release on behalf of the Board of Directors of the AB Bank SNORAS:

President Raimondas Baranauskas



13 March 2009

Chief Financial Officer Jurgita Bliumin



13 March 2009

1. PRINCIPAL ACTIVITIES

AB Bank SNORAS (hereinafter the Bank) is the parent company of the Group. It was formed on 17 March 1992 under the laws of the Republic of Lithuania. The Bank operates under a general banking license issued by the Bank of Lithuania. The Bank's main office is in Vivulskio Str. 7, Vilnius, Lithuania and it has 11 branches in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Utena, Marijampolė, Mažeikiai, Alytus, Tauragė, Tallin and 241 operating outlets.

The Bank offers the following banking services: accepts deposits from individuals, issues loans and provides short-term trade financing and consults clients, processes payments in Litas and other currencies, issues and services magnetic and microchip cards, collects payments, exchanges currency and provides other services. The subsidiary companies of the Bank provide the real estate management, construction and renovation, asset management, consumer financing and securities fund management services to the participants of the markets of Lithuania and Baltic states.

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

As of 31 December		
Shareholders (ordinary shares) of AB Bank SNORAS	2008, %	2007, %
Mr. Vladimir Antonov, chairman of the Bank's Council	67,28	68,65
Mr. Raimondas Baranauskas, chairman of the Bank's Board	25,01	25,10
Other: number of shareholders / owned %	3.027/7,71	2.365/6,25
Total	100,00	100,00

Gruodžio 31 d.		
Shareholders (preference shares) of AB Bank SNORAS	2008, %	2007, %
Conversgroup Holding Company	45,00	45,00
Mr. Raimondas Baranauskas, chairman of the Bank's Board	10,00	10,00
Clients of Skandinaviska Enskilda Banken	9,92	9,93
Mr. Žilinskis Algirdas Liudvikas	5,64	5,64
Other: number of shareholders / owned %	343/29,44	305/29,43
Total	100,00	100,00

As of 31 December 2008 the members of the Management Board controlled 98,035,867 shares or 25.01 % (2007 – 58,584,341 or 25.10%) of the Bank.

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

Subsidiary	Ownership %		Country	Industry
	2008	2007		
UAB SNORO Lizingas	100%	100%	Lithuania	Consumer financing
UAB SNORO Rizikos Kapitalo Valdymas *	100%	100%	Lithuania	Debt recovery
UAB Vilniaus Kapitalo Vystymo Projektai	60%	60%	Lithuania	Real estate
UAB SNORO Turto Valdymas	100%	100%	Lithuania	Venture capital projects
UAB SNORO Fondų Valdymas	100%	100%	Lithuania	Fund management
UAB SNORO Investicijų Valdymas	100%	100%	Lithuania	Real estate
UAB SNORO Valda	100%	-	Lithuania	Real estate
UAB JT Investicijų Valdymas *	66,66%	-	Lithuania	Fund management
UAB FMJ Jūsų Tarpininkas *	100%	-	Lithuania	Financial brokerage
ZAO SNORAS Capital Market *	99,98%	-	Russia	Fund management
ZAO Yarovit *	100%	-	Russia	Real estate
AS Latvijas Krājbanka	76,02%	75,93%	Latvia	Banking
SIA Krājinvestīcijas *	76,02%	75,93%	Latvia	Real estate
Ieguldījumu Pārvaldes Sabiedrība LKB Asset Management*	76,02%	75,93%	Latvia	Fund management
AS Ieguldījumu Sabiedrība Astra Fondi *	76,02%	75,93%	Latvia	Fund management
AS Pirmais Atklātais Pensiju Fonds *	76,02%	75,93%	Latvia	Fund management
SIA LKB Līzings *	76,02%	75,93%	Latvia	Consumer financing
SIA LKB Drošība *	76,02%	-	Latvia	Security and cash services
AAS LKB Life *	75,86%	-	Latvia	Insurance
AS Center Credit *	38,77%	-	Latvia	Investment services
SIA Spozhyv Service	38,77%	-	Ukraine	Consumer financing

*The companies are not under direct control of the Bank.

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

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

UAB SNORO Lizingas was formed as a private company under the laws of the Republic of Lithuania on 30 April 1999. The company's principal activity is consumer financing. In 16 November 2007, UAB SNORO Lizingas founded 100% controlled subsidiary company UAB SNORO Rizikos Kapitalo Valdymas. The company's principal activity is debt recovery.

UAB Vilniaus Kapitalo Vystymo Projektai was formed as a private company under the laws of the Republic of Lithuania on 17 November 2000. The company's principal activity is real estate development, rent and sale. On 29 December 2007 the Bank sold 40% of UAB Vilniaus Kapitalo Vystymo Projektai shares. Gain from sale of shares in amount of LTL 14.408 thousand in the consolidated financial statements of the Group was accounted for directly in the statement of changes in equity.

UAB SNORO Turto Valdymas was formed as a private company under the laws of the Republic of Lithuania on 18 December 2003. The company's principal activity is venture capital projects. In December 2007 and January 2008 this subsidiary acquired 29,8% of shares in Dutch company Spyker Cars N.V. and in 25 December 2008 this subsidiary sold all shares of Spyker Cars N.V. (Note 4).

On 21 March 2008 UAB SNORO Turto Valdymas bought 99,98% of JSC Imaco Trade Invest (subsequently name was changed to JSC SNORAS Capital Market Limited). The company's principal activity is fund management in Russia.

On 19 June 2008 UAB SNORO Turto Valdymas bought 100% of JSC Transport company Yarovit. The company's principal activity is real estate development.

On 26 August 2008 UAB SNORO Turto Valdymas bought 66,66% of UAB JT Investicijų Valdymas. The company's principal activity is fund management

On 26 August 2008 UAB SNORO Turto Valdymas bought 66% and on 15 December the 44% of UAB FMJ Jūsų Tarpininkas. The company's principal activity is financial brokerage

UAB SNORO Fondų Valdymas was formed as a private company under the laws of the Republic of Lithuania on 4 March 1992. The company's principal activity is fund management.

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

UAB SNORO Valda was formed as a private company under the laws of the Republic of Lithuania on 25 November 2008. The company's principal activity is real estate management.

In September 2005 the Bank acquired 83,01% interest in the Latvian commercial bank AS Latvijas Krājbanka.

AS Latvijas Krājbanka has a 100% owned limited liability company Krājinvestīcijas. The limited liability company Krājinvestīcijas was registered with the Latvian Enterprise Registry on 30 June 2004. The principal activities of Krājinvestīcijas are real estate property management.

In 2006 subsidiary of the Bank AS Latvijas Krājbanka founded 100% controlled investment fund management company LKB Assets Management.

In 9 January 2007 the subsidiary of the Bank AS Latvijas Krājbanka founded a 100% controlled company SIA LKB Līzings. The principal activities of SIA LKB Līzings - consumer financing.

In 30 June 2007 the subsidiary of the Bank AS Latvijas Krājbanka acquired 100% of shares in a pension fund management company AS Pirmais Atklātais Pensiju Fonds.

In September 2008 AS Latvijas Krājbanka acquired 99,79% of AAS Baltikums Dzīvība shares. To promote the company's recognisability and connection to AS Latvijas Krājbanka the company's name was changed to the insurance company LKB LIFE. The principal activities of AAS Baltikums Dzīvība – insurance services.

In August 2008 AS Latvijas Krājbanka concluded a contract on acquisition of 51% of SIA Center Credit capital shares. SIA Center Credit, in its turn, holds 100% capital shares of the limited liability company Spozhyv Servis («Спожив Сервис») registered in the Ukraine. The principal activities of SIA Center Credit – investment and crediting services.

As of 31 December 2008 the number of employees of the Group was 2.514 (2.111 as of 31 December 2007). As of 31 December 2008 the number of employees of the Bank was 1.287 (1.103 as of 31 December 2007).

Financial crisis and its impact on AB Bank SNORAS Group

Year 2008, especially the second half of the year, 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 management of the Bank, who already has successfully dealt with challenges of the Russian crisis in 1998, was able to react to the incoming crisis timely and took active measures to minimize impact of it. Such strategy proved itself. The management has a firm opinion that the Group and the Bank has not been affected more than any other similar profile institution in the banking sector of Lithuania or Latvia. Even more, due to little reliance on interbank market funding, the Group was affected relatively less by freeze of interbank lending than other financial institutions. The prudent and conservative credit risk management resulted in relatively small exposure to such sectors, which were affected most by worsening economic conditions. Therefore the management of the Group and the Bank is sure that AB Bankas SNORAS is in a strong position to be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future.

Nevertheless, the Bank is having plans to strengthen its capital position by injecting extra capital into Group financial institutions. The deal of increase of the Latvijas Krājbanka share capital by EUR 10,616 thousand is in finalizing state. AB Bankas SNORAS is also planning a new USD 20 million hybrid capital injection to happen soon. Such measures shall provide extra cover to absorb any possible credit losses and increase depositors protection.

In late 2008 the Bank had to address the downward trend of the liquidity ratio, which was caused by deposit outflow in the fourth quarter, due to meaningful concerns about the economy of the country and the capability of the governmental and regulatory institutions to cope with a non standard situation, particularly issues related to nationalization of one of the largest privately owned banks in Latvia. It was also influenced by regular seasonal fluctuations – which is related to trade activities before the year-end sales and was slightly distorted due to lowered overall consumer activity.

Bank's liquidity ratio at the year-end comprised 36,37%, which is reasonably above the minimum requirements and does not conflict with an efficient use of funds nowadays. The deposit outflow trend significantly influenced the liquidity position of the Group and the Bank in November, while already in December the expected recovery took place. The additional efforts were put into customer relationship management – the information about the regular ongoing deposit campaigns was more actively delivered to the customers. Recent statistics reflect that the customers have gradually regained the pace in the stressed economic environment all around the world. Not only the amount of deposits and their maturities but also volume of payments and foreign currency exchange transactions has recently increased. By 13th March, 2009, the total amount of private persons' deposits of the Bank has increased by more than 8 % when compared to 31st December 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Statement of compliance

As described in the Note 1, the current economic environment is challenging, however, the management of the Bank does not believe that uncertainties in Global financial markets and Lithuanian economy, as related to its operations, are any more significant than those of similar enterprises in Lithuania and has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future.

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

Presentation currency

The financial statements are presented in thousands of Lithuanian Litas (LTL), the local currency of the Republic of Lithuania, unless otherwise stated. Subsidiaries in Latvia maintain their records in Latvian Lat (LVL), subsidiaries in Russia maintain their records in Russian Rouble (RUB) and subsidiaries in Ukraine maintain their records in Ukrainian Hryvnia (UAH). As these financial statements are presented in LTL thousands, individual amounts were rounded.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Bank and the Group have adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets;
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions.

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

Standards issued but not yet effective

The Bank and the Group have 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 consolidated 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 and the Group, as they do 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 Group 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 Group 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 and the Group are still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

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 Group 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 fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group, as the Group 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 Group, as the Group 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 Group anticipates that these amendments to standards will have no material effect on the financial statements.

- 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.
- 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 is 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. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

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 and the Group do not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Bank and the Group.

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. The Group is still assessing how this interpretation will impact consolidated financial statements.

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 consolidated financial statements because the Group 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 consolidated financial statements because the Group 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 consolidated financial statements because the Group does not have such agreements.

Subsidiaries

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

Acquisition of Subsidiaries

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

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

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

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

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

Accounting for subsidiaries in separate financial statements

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

Financial assets and financial liabilities

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

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

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

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

Derivative Financial Instruments

In the normal course of business, the Group and the Bank enter into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially 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 consolidated statement of income as gains less losses from derivative instruments.

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

Financial assets or financial liabilities held for trading

Financial assets or financial liabilities classified as held for trading other than derivatives are included in the category "financial assets at fair value through profit or loss". Financial assets

or financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Such assets or liabilities are initially and subsequently measured at fair value, which is market price. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expenses and dividends on such investments are recognised as interest income and expenses and dividend income, respectively.

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Related profit or loss on revaluation is charged directly to the income statement. Interest income and expenses and dividends on such investments are recognised as interest income and expenses and dividend income respectively.

Held to maturity investments

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

Loans and receivables

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

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

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

Non-performing loans

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

Write-offs

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

Factoring

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Debt issued and other borrowed funds

Issued financial instruments and their components are classified as liabilities, where the substance of the contractual arrangement results in the Group and the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of

a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of compound financial instruments, that contain both liability and equity elements, are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amounts separately determined as the fair value of the liability component on the date of issue.

After initial recognition, debt issued and other borrowings, which are not designated at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an ex-

change 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 recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash, current accounts with the Central Banks and current accounts with other banks due to their high liquidity with maturity up to three months as from the date of deposit or acquisition are accounted for as cash and cash equivalents in the cash flow statement. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

Sale and repurchase agreements and lending securities

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

Borrowed securities are not included into the financial statements, unless they were sold to a third party. A liability for the obligation to return these securities is recognised at fair value as a trading liability.

Leases

Finance - Group and Bank as a lessee

The Group and the Bank 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. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's and the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Finance - Group as a lessor

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

Operating - Group and Bank as a lessee

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

Operating - Group as a lessor

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

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

Taxation

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

The standard income tax rate in Lithuania is 15%. 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 period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Group and the Bank change its activities due to which these losses incurred except when the Group and the Bank do not continue its activities due to reasons which do not depend on the Group and the Bank itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

In 2008 and 2007 the standard income tax rate in Latvia was 15% and is based on the taxable profit reported for the taxation period.

In 2008 and 2007 the standard income tax rate in Russia was 24% and is based on the taxable profit reported for the taxation period.

In 2008 and 2007 the standard income tax rate in Ukraine was 25% and is based on the taxable profit reported for the taxation period.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method.

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

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

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

Property and equipment

Property and equipment, except for buildings, are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Buildings are recorded at revalued amounts, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over the estimated useful lives of assets.

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

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

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

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

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

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

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

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

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

Investment properties

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

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

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

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

Projects under development

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

Goodwill

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

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

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

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

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Estimated useful lives of intangibles with finite useful lives are presented below:

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

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

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

Impairment of financial assets

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

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Group and the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant (the significance level of the Group and the Bank is LTL 345 thousand or EUR 100 thousand). If the Group and the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted using the financial asset's original effective interest rate. If loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The cal-

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

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

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

Held to maturity investments

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

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

Renegotiated loans

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

Impairment of other assets

The Group and the Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group and the Bank make 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 expenses 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 through profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge (if any) is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Credit-related commitments

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

In the ordinary course of the business the Group and the Bank issue 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 Group's and the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required for 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 Group and the Bank will make payments in the event when a customer cannot meet its obligations to the third parties. In case of execution of such a guarantee it is subsequently accounted for as balance sheet item and is subject for impairment assessment. Until a guarantee is terminated, it is treated as risk asset for capital adequacy calculation purposes.

Documentary and commercial letters of credit represent written undertakings by the Group and the Bank on behalf of a customer authorising a third party to draw drafts on the Group and the Bank up to a stipulated amount under specific terms and conditions. Letters of credit are 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 Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow or recourse embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision are presented in the income statement. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Provisions made to guarantees and stand-by facilities

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

Retirement and Other Employee Benefit Obligations

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

Share capital

Share Capital

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

Dividends

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

Earnings per share

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

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

Contingencies

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

Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment (including goodwill), provisions for loan commitments and stand-by facilities, fair value, and realisation of deferred tax assets.

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

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

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

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

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

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

Income and expense recognition

Interest income and expenses 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 income and expenses 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.

Foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the Bank of Lithuania exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official exchange rates of the main currencies, used for the revaluation of balance sheet items as at the year end were as follows (LTL units to currency

	31 December 2008	31 December 2007
1 EUR*	3,4528	3,4528
1 USD	2,4507	2,3572
100 RUB	8,3337	9,6085
1 LVL**	4,8872	4,9567
1 GBP	3,5517	4,7088

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

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

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

Segment reporting

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

Fair values of financial assets and liabilities

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

Subsequent events

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	Group		Bank	
	2008 m.	2007 m.	2008 m.	2007 m.
Cash at hand	196.158	223.135	112.244	136.679
Current accounts with the Central Banks	455.589	415.561	335.809	263.337
Current accounts with other credit institutions	1.480.147	755.691	912.929	710.681
Time deposits with credit institutions up to 90 days	206.466	1.705.049	177.482	477.124
Cash and cash equivalents	2.338.360	3.099.436	1.538.464	1.587.821

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

The compulsory reserve rate in Lithuania is 4% (6% as of 31 December 2007). The interest is calculated from the base of compulsory reserves, calculated according to the requirements of European Central Bank (ECB). There is no interest for the remaining compulsory reserves. The interest rate for the interest bearing part is equal to the ECB refinancing interest rate, valid on the day of transaction.

The rate of compulsory reserve rate in Latvia is 3,5% (8% as of 31 December 2007).

4. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are held for trading or designated as financial assets at fair value through profit or loss upon initial recognition.

Trading assets comprise:

	Group		Bank	
	2008	2007	2008	2007
Treasury bills and bonds of the Republic of Lithuania	23.572	146.511	23.302	146.079
Other governments' debt securities	1.453	26.359	-	26.359
Corporate bonds	26.649	67.851	26.649	67.851
Corporate shares	1.762	2.314	3	2.314
Investment funds' units	600	821	-	-
Derivative financial instruments	18.033	21.658	2.736	18.649
Trading assets	72.069	265.514	52.690	261.252

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

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

	Group		Bank	
	2008	2007	2008	2007
Treasury bills and bonds of the Republic of Lithuania	-	39.376	-	-
Other governments' debt securities	12.392	295.599	-	295.599
Corporate bonds	58.886	213.053	38.442	151.177
Corporate shares	1.822	36.077	-	-
Available for sale assets designated at fair value through profit and loss upon initial recognition	73.100	584.105	38.442	446.776

Bank's management has decided to reduce portfolio of securities due to current market situation, thus decrease in portfolio in year 2008 is observed.

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4. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

In December 2007 and January 2008 Group acquired 29,8% of shares in Dutch company Spyker Cars N.V. These shares were classified as financial assets designated as at fair value through profit and loss upon initial recognition. In 25 December 2008 Group sold all shares for LTL 80.169 thousand (except one ordinary share). The profit from this deal amounts to LTL 16.034 thousand.

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

Group	2008		2007	
	%	Maturity	%	Maturity
Treasury bills and bonds of the Republic of Lithuania	3,75 - 5,1	2009 - 2016	3,7 - 5,6	2008 - 2015
Other governments' debt securities	3,38 - 6,01	2009 - 2016	2,5 - 10,6	2008 - 2020
Corporate bonds	4,12 - 10,10	2009 - 2017	1,5 - 12,79	2008 - 2017

Bank	2008		2007	
	%	Maturity	%	Maturity
Treasury bills and bonds of the Republic of Lithuania	3,75 - 5,1	2009 - 2016	3,7 - 5,6	2008 - 2015
Other governments' debt securities	-	-	2,5 - 10,6	2008 - 2012
Corporate bonds	4,33 - 7,6	2009 - 2017	1,5 - 9,7	2008 - 2017

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

Group	2008			2007		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts						
Forwards and Swaps – foreign	797.320	4.347	5.935	936.998	3.163	2.677
Forwards and Swaps – domestic	207.019	703	16	138.115	333	-
SPOT transactions	1.556.031	11.070	8.856	387.527	1.566	1.522
Foreign exchange contracts total	2.560.370	16.120	14.807	1.462.640	5.062	4.199
Call options						
Currency basket linked options	-	-	-	51.028	7.328	-
Equity indices linked options	99.472	1.913	-	86.320	6.123	-
FX linked options	34.528	-	-	-	-	-
Commodity indices linked options	-	-	-	14.143	3.145	-
Call options total	134.000	1.913	-	151.491	16.596	-
Total	2.694.370	18.033	14.807	1.614.131	21.658	4.199

Bank	2008			2007		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts						
Forwards and Swaps – foreign	332.120	120	692	344.667	1.720	418
Forwards and Swaps – domestic	207.019	703	96	138.115	333	-
SPOT transactions	333.835	-	-	-	-	-
Foreign exchange contracts total	872.974	823	788	482.782	2.053	418
Call options						
Currency basket linked options	-	-	-	51.028	7.328	-
Equity linked options	99.472	1.913	-	86.320	6.123	-
FX linked options	34.528	-	-	-	-	-
Commodity indices linked options	-	-	-	14.143	3.145	-
Call options total	134.000	1.913	-	151.491	16.596	-
Total	1.006.974	2.736	788	634.273	18.649	418

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

5. AMOUNTS DUE FROM CREDIT INSTITUTIONS

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

Group	OECD		Lithuania		Russia		Other countries		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Time deposits of more than 90 days	181.983	312.521	-	58.029	-	98	45.844	67.712	227.827	438.360
Amounts due from credit institutions	181.983	312.521	-	58.029	-	98	45.844	67.712	227.827	438.360

Bank	OECD		Lithuania		Russia		Other countries		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Time deposits of more than 90 days	181.537	312.521	-	58.029	-	-	-	17.278	181.537	387.828
Amounts due from credit institutions	181.537	312.521	-	58.029	-	-	-	17.278	181.537	387.828

6. LOANS TO CUSTOMERS, NET

Loans to customers comprise:

	Group		Bank	
	2008	2007	2008	2007
Loans to customers	4.594.643	3.747.754	3.060.454	2.313.715
Credit lines	378.677	295.638	348.974	270.275
Promissory notes	4.665	7.407	3.282	7.405
Reverse repurchase agreements	47.695	54.489	37.078	54.489
Factoring	1.584	11.472	1.011	9.930
	5.027.264	4.116.760	3.450.799	2.655.814
Less: allowance for loan impairment (Note 14)	(73.965)	(29.944)	(25.047)	(7.088)
Loans to customers, net	4.953.299	4.086.816	3.425.752	2.648.726

During 2008 the management of the Group and the Bank has made certain assumptions to arrive at the current estimates of impairment. The management of the Group and the Bank constantly monitor the loan portfolio and investigates market trends so that it could make necessary changes in impairment estimation, if required. Having other information available, management of the Group and the Bank may change assumptions for the impairment assessment, which would result in a change of the impairment allowance.

The Group's fair value of securities acquired under reverse repurchase agreements as of 31 December 2008 was LTL 53.977 thousand, the Bank's – LTL 43.360 thousand (LTL 76.748 thousand as of 31 December 2007).

Loans have been extended to the following types of customers:

	Group		Bank	
	2008	2007	2008	2007
Corporate clients	2.942.782	2.131.000	2.357.328	1.709.562
Individuals	1.894.314	1.868.482	990.285	879.043
State budget or municipal authorities	48.532	42.878	46.573	39.640
State companies	10.435	5.402	130	5.402
Other	57.236	39.054	31.436	15.079
Loans to customers, net	4.953.299	4.086.816	3.425.752	2.648.726

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6. LOANS TO CUSTOMERS, NET (Cont'd)

Loans are issued within the following industry sectors:

	Group		Bank	
	2008	2007	2008	2007
Individuals	1.894.314	1.868.482	990.285	879.043
Real estate	783.693	588.753	535.631	373.827
Manufacturing	408.266	255.565	312.640	192.090
Trading	323.879	282.857	223.791	208.067
Transport	313.037	203.286	170.488	101.958
Construction	260.726	198.208	189.146	160.487
Services	256.810	218.078	201.142	162.409
Financial services	223.592	201.402	629.422	414.857
Agriculture and food processing	120.868	106.425	82.009	66.199
Government and municipalities	44.512	24.221	42.630	20.948
Electricity	25.213	32.370	20.714	25.099
Fuel, gas and chemical	10.580	3.473	-	-
Other	287.809	103.696	27.854	43.742
Loans to customers, net	4.953.299	4.086.816	3.425.752	2.648.726

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

	Group		Bank	
	2008	2007	2008	2007
Unpaid principal	5.000.813	4.117.578	3.429.856	2.652.826
Accrued and unpaid interest	43.514	19.852	25.063	9.686
Deferred income	(17.063)	(20.670)	(4.120)	(6.698)
Impairment loss allowance	(73.965)	(29.944)	(25.047)	(7.088)
Loans to customers, net	4.953.299	4.086.816	3.425.752	2.648.726

The Group's and the Bank's interest income earned on impaired loans during 2008 was accordingly LTL 5.562 thousand and LTL 4.604 thousand (LTL 2.768 thousand and LTL 1.137 thousand in 2007, respectively).

7. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets comprise:

Group	2008		2007	
	Carrying value	Nominal value	Carrying value	Nominal value
Corporate bonds	214.776	227.076	141.036	152.750
Government's bonds	65.310	65.641	8.963	7.894
Impairment	(18.426)	-	-	-
Held-to-maturity securities	261.660	292.717	149.999	160.644

Bank	2008		2007	
	Carrying value	Nominal value	Carrying value	Nominal value
Corporate bonds	160.195	167.466	126.309	137.348
Government's bonds	16.377	17.264	-	-
Impairment	(18.426)	-	-	-
Held-to-maturity securities	158.146	184.730	126.309	137.348

(cont'd on the next page)

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

Group	2008		2007	
	%	Maturity	%	Maturity
Corporate bonds	2,5 - 10,10	2008 - 2013	2,5 - 9,93	2008 - 2010
Government's bonds	3,75 - 6,78	2015	5,0 - 5,12	2008 - 2013

Bank	2008		2007	
	%	Maturity	%	Maturity
Corporate bonds	2,5-8,75	2008-2011	2,5	2008-2010
Government's bonds	3.75	2011	-	-

Held-to-maturity securities include structured bonds, purchased by the Bank in 2007. Derivative instruments, embedded in those bonds, were separated and reported under derivative instruments caption (Note 4). After separation of embedded derivatives, securities acquired are valued at amortised cost using market yields of similar bonds by their maturity and credit risk at acquisition date, as no active market exists for those securities. Amortised cost of those securities as of 31 December 2008 was LTL 114.796 thousand (as of 31 December 2007 LTL 126.309 thousand).

The Group's and the Bank's fair value of held-to-maturity financial instruments amounted to LTL 232.829 thousand and LTL 134.632 thousand as of 31 December 2008, respectively (LTL 149.935 thousand and LTL 126.309 thousand as of 31 December 2007, respectively).

In 2008 the management decided to make impairment for held-to-maturity securities in amount of LTL 18.426 thousand. Valuation of held to maturity securities was made based on Moody's historical data and statistics of bonds default and recovery rates.

The Group's and the Bank's interest income earned on held-to-maturity securities in 2008 amounted to LTL 13.004 thousand and LTL 7.500 thousand, respectively (in 2007 - LTL 4.704 thousand and LTL 2.755 thousand, respectively).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include:

Group	2008		2007	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills and bonds of the Republic of Lithuania	-	-	969	968
Other government's bond	-	-	32.866	33.079
Available-for-sale financial assets	-	-	33.835	34.047

Bank	2008		2008	
	Carrying value	Nominal value	Carrying value	Nominal value
Other government's bond	-	-	32.865	32.111
Available-for-sale financial assets	-	-	32.865	32.111

9. INVESTMENT PROPERTY

Investment properties are stated at fair value, which has been determined based on valuation performed by independent appraisers as of 31 December 2008. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The revaluation of buildings was performed on the market value basis.

	Group		Bank	
	2008	2007	2008	2007
Opening balance as at 1 January	34.100	18.381	-	-
Additions	31.559	11.594	-	-
Sale	-	-	-	-
Net gain from a fair value adjustment	-	4.125	-	-
Closing balance as at 31 December	65.659	34.100	-	-

10. WORK IN PROGRESS

Work in progress comprises the subsidiary companies of the Group – the developing real estate projects of UAB Vilniaus Kapitalo Vystymo Projektai in Lithuania and JSC Transport company Yarovit in Russia, in Saint Peterburg. The Group acquired JSC Transport company Yarovit in 2008 (Note 31).

11. PROPERTY AND EQUIPMENT

The movements in property and equipment were as follows:

Group	Buildings	Furniture and fixture	Computers, office and other equipment	Vehicles	Construction in progress	Total
Cost/revalued amounts*						
31 December 2007	113.598	28.286	98.624	9.810	392	250.710
Additions	32.575	5.749	10.295	1.215	1.534	51.368
Additions emerged with the acquisition of subsidiary companies	389	1.140	141	392	-	2.062
Disposals	(15)	(1.916)	(8.801)	(911)	-	(11.643)
31 December 2008	146.547	33.259	100.259	10.506	1.926	292.497
Accumulated depreciation and impairment						
31 December 2007	31	7.072	36.582	3.793	-	47.478
Depreciation charge	2.549	5.243	11.089	1.646	-	20.527
Foreign exchange movements	765	235	350	(97)	-	1.253
Disposals	-	(1.743)	(8.735)	(835)	-	(11.313)
31 December 2008	3.345	10.807	39.286	4.507	-	57.945
Net book value:						
31 December 2007	113.567	21.214	62.042	6.017	392	203.232
31 December 2008	143.202	22.452	60.973	5.999	1.926	234.552

Group	Buildings	Furniture and fixture	Computers, office and other equipment	Vehicles	Construction in progress	Total
Cost/revalued amounts*						
31 December 2006	58.031	17.259	85.532	8.300	10.381	179.503
Additions	18.832	13.492	14.871	3.303	7.844	58.342
Revaluation	27.464	-	-	-	-	27.464
Disposals	(2.415)	(2.465)	(7.877)	(1.793)	(32)	(14.582)
Transfers	11.686	-	6.098	-	(17.801)	(17)
31 December 2007	113.598	28.286	98.624	9.810	392	250.710
Accumulated depreciation and impairment						
31 December 2006	2.307	5.384	34.418	4.167	-	46.276
Depreciation charge	1.567	3.625	10.125	1.360	-	16.677
Revaluation	(2.170)	-	-	-	-	(2.170)
Disposals	(1.673)	(1.937)	(7.961)	(1.734)	-	(13.305)
31 December 2007	31	7.072	36.582	3.793	-	47.478
Net book value:						
31 December 2006	55.724	11.875	51.114	4.133	10.381	133.227
31 December 2007	113.567	21.214	62.042	6.017	392	203.232

*Revalued amounts for buildings.

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	Bank	Buildings	Furniture and fixture	Computers, office and other equipment	Vehicles	Construction in progress	Total
Cost/revalued amounts*							
31 December 2007		59.528	4.514	71.348	7.789	392	143.571
Additions		18.607	1.215	6.883	1.197	1.534	29.436
Disposals		-	(390)	(3.827)	(822)	-	(5.039)
31 December 2008		78.135	5.339	74.404	8.164	1.926	167.968
Accumulated depreciation and impairment							
31 December 2007		-	1.817	31.678	4.186	-	37.681
Depreciation charge		1.283	1.153	6.643	1.038	-	10.117
Disposals		-	(390)	(3.796)	(820)	-	(5.006)
31 December 2008		1.283	2.580	34.525	4.404	-	42.792
Net book value:							
31 December 2007		59.528	2.697	39.670	3.603	392	105.890
31 December 2008		76.852	2.759	39.879	3.760	1.926	125.176

	Bank	Buildings	Furniture and fixture	Computers, office and other equipment	Vehicles	Construction in progress	Total
Cost/revalued amounts*							
31 December 2006		32.356	2.644	66.712	6.512	9.954	118.178
Additions		1.532	2.140	3.591	1.428	7.844	16.535
Revaluation		14.611	-	-	-	-	14.611
Disposals		(230)	(270)	(5.053)	(151)	(32)	(5.736)
Transfers		11.259	-	6.098	-	(17.374)	(17)
31 December 2007		59.528	4.514	71.348	7.789	392	143.571
Accumulated depreciation and impairment							
31 December 2006		1.549	2.000	30.421	3.540	-	37.510
Depreciation charge		635	86	6.281	797	-	7.799
Revaluation		(2.170)	-	-	-	-	(2.170)
Disposals		(14)	(269)	(5.024)	(151)	-	(5.458)
31 December 2007		-	1.817	31.678	4.186	-	37.681
Net book value:							
31 December 2006		30.807	644	36.291	2.972	9.954	80.668
31 December 2007		59.528	2.697	39.670	3.603	392	105.890

*Revalued amounts for buildings.

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

On 31 December 2007 the Bank and the Group revalued its' buildings. The revaluation was performed by independent property appraisals. The revaluation of buildings was performed on the market value basis. If buildings of the Group and the Bank were carried at cost, carrying value of those assets would have been LTL 79.755 thousand and LTL 52.875 thousand as of 31 December 2008, respectively (LTL 46.759 thousand and LTL 35.098 thousand as of 31 December 2007, respectively). As of 31 December 2008 owner occupied buildings of the Group and the Bank are accounted for at the market value.

12. INTANGIBLE ASSETS

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

Group	Non-contractual customer relationships	Base deposits	Brand name	Licences and computer software	Other intangible assets	Total
Cost						
31 December 2007	2.133	8.268	4.271	15.650	1.182	31.504
Additions	-	-	-	9.785	562	10.347
Additions emerged with the acquisition of subsidiary company (Note 31)	883	-	-	263	-	1.146
Disposals	-	-	-	(778)	-	(778)
31 December 2008	3.016	8.268	4.271	24.920	1.744	42.219
Accumulated amortisation and impairment						
31 December 2007	478	2.535	-	7.055	591	10.659
Charge for the year	213	1.111	-	2.841	-	4.165
Foreign exchange movements	-	-	-	71	5	76
Disposals	-	-	-	(662)	-	(662)
31 December 2008	691	3.646	-	9.305	596	14.238
Net book value:						
31 December 2007	1.655	5.733	4.271	8.595	591	20.845
31 December 2008	2.325	4.622	4.271	15.615	1.148	27.981

Group	Non-contractual customer relationships	Base deposits	Brand name	Licences and computer software	Other intangible assets	Total
Cost						
31 December 2006	2.133	8.005	4.271	11.539	1.182	27.130
Additions	-	-	-	5.028	-	5.028
Disposals	-	263	-	(917)	-	(654)
31 December 2007	2.133	8.268	4.271	15.650	1.182	31.504
Accumulated amortisation and impairment						
31 December 2006	265	1.424	-	5.660	591	7.940
Charge for the year	213	1.111	-	2.242	-	3.566
Disposals	-	-	-	(847)	-	(847)
31 December 2007	478	2.535	-	7.055	591	10.659
Net book value:						
31 December 2006	1.868	6.581	4.271	5.879	591	19.190
31 December 2007	1.655	5.733	4.271	8.595	591	20.845

Latvijas Krājbanka brand name in the amount of LTL 4.271 thousand, acquired in 2005 with the acquisition with of 83,01% AS Latvijas Krājbanka through the business combination in 2005, is considered to have an indefinite life. It was assumed that branded net income of AS Latvijas Krājbanka include net interest and net commission income, while profit on securities trading and foreign exchange and other operating income was perceived as non-branded net income. Accordingly, Latvijas Krājbanka brand name was allocated to Latvia's geographical unit (net interest and net commission income as cash-generating units) and the cash flow projection for Latvia's geographical unit was used while assessing impairment of Krājbanka brand name.

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

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

- Discount rates. In determining appropriate discount rates for cash-generating units, the regard was given to risk free rate (10 year Latvian Government bond yield) and market risk premium related to the assets tested for impairment. The calculated discount rate is equal to 26%;
- Growth rate estimates. The estimated growth of Latvia's geographical unit was assessed according the planned results, as a conservative approach. The growth rates are equal to 0,3% and 4% for the years 2009 and 2010, whereas the growth rates beyond the budgets (years 2011 and 2012) are equal to 3%.

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

The acquisition of non-contractual customer relationships is related to the acquisition of UAB Jūsų Investicijų Valdymas, UAB FMJ Jūsų Tarpininkas and ASS LKB Life (Note 31).

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

Bank	Licences and computer software	Total	Bank	Licences and computer software	Total
Cost			Cost		
31 December 2007	8.204	8.204	31 December 2006	6.487	6.487
Additions	6.787	6.787	Additions	2.006	2.006
Write-offs	(54)	(54)	Write-offs	(289)	(289)
31 December 2008	14.937	14.937	31 December 2007	8.204	8.204
Accumulated amortisation and impairment			Accumulated amortisation and impairment		
31 December 2007	4.597	4.597	31 December 2006	3.963	3.963
Charge for the year	1.396	1.396	Charge for the year	923	923
Write-offs	(54)	(54)	Write-offs	(289)	(289)
31 December 2008	5.939	5.939	31 December 2007	4.597	4.597
Net book value:			Net book value:		
31 December 2007	3.607	3.607	31 December 2006	2.524	2.524
31 December 2008	8.998	8.998	31 December 2007	3.607	3.607

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

13. TAXATION

	Group		Bank	
	2008	2007	2008	2007
Current income tax expense	12.219	19.412	5.279	13.952
Correction of prior year income tax	(1.278)	93	(1.278)	93
Change in deferred income tax	(2.430)	(510)	1.387	(414)
Income tax expenses	8.511	18.995	5.388	13.631
Components of deferred income tax				
Deferred income tax assets				
Revaluation of securities	-	52	-	-
Loss carry forward (on financial instruments)	1.184	2.558	860	2.012
Impairment of financial assets	2.194	1.540	-	-
Deferred administration fee	1.222	2.096	-	-
Loss carry forward (tax losses)	2.948	935	-	-
Other deferred tax asset items	1.380	654	-	-
Total deferred income tax assets	8.928	7.835	860	2.012
Less: valuation allowance	(2.194)	(3.106)	-	(712)
Deferred income tax assets, net	6.734	4.729	860	1.300
Deferred income tax liabilities				
Revaluation of property and equipment and investment properties	(14.221)	(12.248)	(6.251)	(4.886)
Investment incentive	(1.450)	(1.280)	(1.450)	(1.281)
Revaluation of derivative instruments	(473)	(294)	(329)	(293)
Capitalised VAT	(743)	-	(743)	-
Deferred commission expenses	(428)	(408)	-	-
Fair value step-ups of intangible assets	(1.421)	(1.673)	-	-
Total deferred income tax liabilities	(18.736)	(15.903)	(8.773)	(6.460)
Deferred income tax, net	(12.002)	(11.174)	(7.913)	(5.160)
Presented as:				
Deferred income tax asset	1.131	544	-	-
Deferred income tax liability	(13.133)	(11.718)	(7.913)	(5.160)
Deferred income tax, net	(12.002)	(11.174)	(7.913)	(5.160)
Deferred tax change, recognized				
(Expenses) income recorded through profit or loss	2.430	510	(1.387)	414
(Expenses) income recorded through equity	(3.258)	(2.689)	(1.366)	(2.403)
Net deferred tax change	(828)	(2.179)	(2.753)	(1.989)

The Group and the Bank have incurred taxable loss in previous periods, which can be carried forward for indefinite period, 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 and offset against future taxable income.

The Bank has interest income from Russian Federation which was a subject of Russian Withholding tax and is paying withholding tax in Russia. However, as the received interest is not exceeding 25% of total income, the Bank can deduct this corporate income tax up to 1/5 of the profit. The Bank can deduct such Corporate tax when it receives certification which proves that the withholding tax has been paid in Russia. Due to this, significant corrections of prior year income tax appeared in 2008.

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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:

	Group		Bank	
	2008	2007	2008	2007
Income tax calculated at a statutory 15% tax rate (18% in 2007)	4.778	16.544	4.102	15.364
Permanent differences	3.136	2.861	1.852	(1.351)
Effect of different tax rates in other countries	934	(931)	-	-
Prior year income tax correction	(1.278)	93	(1.278)	93
Change in taxation treatment of temporary differences	29	768	-	-
Change in valuation allowance	912	(340)	712	(475)
Total income tax	8.511	18.995	5.388	13.631

14. ALLOWANCES FOR IMPAIRMENT AND PROVISIONS

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

	Group	Bank
31 December 2006	34.695	20.279
Charge (reversal) for loans	5.666	(8.155)
Write-offs for loans	(10.400)	(5.033)
Effect of changes in currency rates for loans	(17)	(3)
31 December 2007	29.945	7.088
Charge (reversal) for loans	49.533	18.637
Charge (reversal) for held to maturity financial bonds	18.426	18.426
Charge (reversal) for amounts due from credit institutions	2.586	2.586
Write-offs for loans	(4.882)	(678)
Effect of changes in currency rates for loans	(630)	-
31 December 2008	94.977	46.059

The allowances for impairment made for individually impaired financial assets of the Group at 31 December 2008 amounts to LTL 70.060 thousand, the Bank – LTL 30.431 thousand (in 2007 – LTL 19.852 thousand, LTL 4.822 thousand respectively). Collective impairment of the Group at 31 December 2008 amounts to LTL 24.917 thousand, the Bank – LTL 15.628 thousand (in 2007 – LTL 10.092 thousand, LTL 2.266 thousand respectively).

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

	Group		Bank	
	2008	2007	2008	2007
Charge (reversal)	70.545	5.666	39.649	(8.155)
Recoveries of previously written-off loans	(2.499)	(4.395)	(1.311)	(3.321)
As reported in income statement	68.046	1.271	38.338	(11.476)

15. OTHER ASSETS AND OTHER LIABILITIES

Other assets comprise:

	Group		Bank	
	2008	2007	2008	2007
Other assets				
Collaterals taken for realization	32.070	-	-	-
Prepayments	14.899	15.915	5.910	3.724
Various receivables	11.090	4.510	500	252
Supplies for operations	16.880	4.274	16.344	3.829
Transit accounts	5.235	7.136	4.883	7.136
Other assets	9.840	4.860	173	847
Total other assets	90.014	36.695	27.810	15.788

In 2009, AS Latvijas Krājbanka continues the activities related to the realisation of the loan collaterals. Given the overall current economic situation and the stagnant real estate market, the AS Latvijas Krājbanka has commenced and will continue to exercise a flexible approach to realisation of the loan collaterals.

Specific activities are related to the development and realisation of the collaterals by assessing the necessity to perform additional works which would add value to the respective real estate and increase its competitiveness in the real estate market, as well as the inclusion of the collateral in the business and the realisation of the respective collateral as an operating business, for example, the resumption of the operations and cash flows of collaterals marketing the respective collateral not only as a real estate but also as an operating business.

Other liabilities comprise

	Group		Bank	
	2008	2007	2008	2007
Other liabilities				
Various payables	21.645	25.247	-	-
Accrued expenses	14.406	17.390	6.360	8.555
Transit accounts	12.199	12.886	12.035	12.373
Advances received	4.549	4.810	4.392	4.396
Deferred income	2.843	1.152	2.027	245
Other	8.504	24.665	4.458	19.373
Total other liabilities	64.146	86.150	29.272	44.942

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

16. SUBORDINATED LOANS

As of 14 September 2005 the Bank received a subordinated loan from its controlling shareholder, who is a private individual. The contractual subordinated loan amounts to LTL 69.056 thousand (EUR 20.000 thousand) with term of 15 years. This loan bears EUR LIBOR 12-month plus 1,8% margin. As of 31 December 2008 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70.293 thousand (in 2007 – LTL 70.198 thousand). The loan agreement foresees the possibility of conversion to the shares of the Bank, but terms for conversion are not outlined. The conditions for conversion will be agreed by the parties in good faith.

As of 31 December 2008, the Bank's subsidiary's AS Latvijas Krājbanka outstanding subordinated loan from Convers Group Management Company amounted to LTL 18.894 thousand (LTL 19.163 thousand in 2007). The debt terms include an interest rate of 7% and a term of seven years, maturing on 8 November 2012. According to the agreement on subordinated debt with Convers Group Management Company dated on 8 November 2005, the borrower has the right to receive the invested funds at the end of the loan agreement or if the bank is liquidated. The borrower has rights to apply for conversion of the subordinated loan into shares according to the Agreement and legislation. Subordinated loan agreement foresees fixed conversion price of LVL 1,15 per share. On 16 October 2008 the parties agreed to prolong repayment term until 10 years and changed interest rate to 10% per annum starting from 17 October 2008.

As of 31 December 2008 the Bank's subsidiary's AS Latvijas Krājbanka had two subordinated loans from Akademgrupp. The outstanding subordinated loans were LTL 25.229 thousand (LTL 25.018 thousand in 2007). First loan agreement was signed on 27 December 2006 for the amount of USD 7,1 million with an interest rate of 8,6 % per year and the repayment term of seven years. On 16 October 2008 the parties agreed to prolong repayment term until 9 years. Second loan agreement was signed on 23 August 2007 for the amount of USD 3,3 million with an interest rate of 9,3 % per year and the repayment term of six years. On 16 October 2008 the parties agreed to prolong repayment term until 9 years. According to the provisions under the above-mentioned contracts, the lender has the right to demand early repayment of the loan only upon liquidation of the Bank, and the lender's claim will be settled following settlement of the claims of all other creditors but before settlement of the claims by the Bank shareholders.

17. AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	Group		Bank	
	2008	2007	2008	2007
Time deposits and loans	245.415	218.945	474.683	82.519
Repurchase agreements	29.885	259.909	29.885	259.909
Current accounts	43.389	40.458	109.440	40.168
Amounts due to credit institutions	318.689	519.312	614.008	382.596

The fair value of securities placed as collateral on repurchase agreements was LTL 31.295 thousands (in 2007 – LTL 273.353 thousand).

18. AMOUNTS DUE TO CUSTOMERS

The amounts due to customers include the following:

	Group		Bank	
	2008	2007	2008	2007
Time deposits	4.229.287	3.921.403	3.026.256	2.791.466
Current accounts	2.516.722	3.095.918	874.703	1.325.574
Amounts due to customers	6.746.009	7.017.321	3.900.959	4.117.040

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

	Group		Bank	
	2008	2007	2008	2007
Individuals	4.195.275	3.694.349	2.820.123	2.381.234
Corporate clients	2.173.953	2.973.358	999.588	1.561.108
Government departments and state owned enterprises	353.576	344.795	69.778	162.972
Other	23.205	4.819	11.470	11.726
Amounts due to customers	6.746.009	7.017.321	3.900.959	4.117.040

An analysis of customer accounts by sector is as follows:

	Group		Bank	
	2008	2007	2008	2007
Individuals	4.195.275	3.694.349	2.820.123	2.381.234
Trade	475.697	377.656	475.697	377.656
Services	243.130	1.280.444	243.130	455.424
Insurance	62.681	26.395	31.922	17.330
Transport and communication	55.242	85.943	55.242	85.943
Constructions	50.795	43.482	50.795	43.482
Real estate	49.310	110.393	49.310	112.044
Public management	41.931	109.851	25.740	109.851
Manufacturing	25.611	23.564	25.611	23.647
Construction of equipment	18.607	14.248	18.607	14.248
Agriculture	11.744	15.656	11.744	15.656
Fuel	10.104	17.611	10.104	17.611
Security brokers	7.878	5.580	14.683	17.979
Metallurgy	708	167	708	167
Chemicals	-	2.325	-	2.242
Other	1.497.296	1.209.657	67.543	442.526
Amounts due to customers	6.746.009	7.017.321	3.900.959	4.117.040

As of 31 December 2008 the Group had deposits from one customer amounting to LTL 588 million (as of 31 December 2007 - LTL 1.179 million).

As of 31 December 2008 the Bank had deposits from one customer amounting to LTL 74 million (as of 31 December 2007 - LTL 354 million).

19. DEBT SECURITIES ISSUED

As of 31 December 2008 the Group had the debt securities issued with the amortised cost in amount of LTL 593.913 thousand:

- On 21 May 2007 the Bank issued debt securities with the aggregate par value of EUR 175.000 thousand (LTL 604.240 thousand), coupon rate - 7% and maturing on 21 May 2010. During 2008 year, Bank redeemed EUR 19.372 thousand debt securities and the residual aggregate value of them amounts to EUR 155.628 thousand as of 31 December 2008. The amortised cost of debt securities amounts to LTL 557.633 thousand as of 31 December 2008.
- On 2008 the Bank issued two emissions equity linked notes and two emissions fixed interest bonds. The amortised cost of equity linked notes and fixed interest bonds amounts to LTL 16.575 thousand as of 31 December 2008.
- On 26 January 2007 AS Latvijas Krājbanka issued debt securities with the aggregate par value of EUR 5.000 thousand (LTL 17.264 thousand), the interest rate is 6 month EUR LIBOR + 1% and maturing on 31 January 2010. The amortised cost of debt securities amounts to LTL 17.615 thousand as of 31 December 2008.

As of 31 December 2007 the Group had the coupon debt securities issued with the amortised cost in amount of LTL 639.920 thousand.

20. EQUITY

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

Bank				
Calculation of weighted average for 2008	Number of shares	Par value	Issued/ 365 (days)	Weighted average of ordinary shares
Ordinary shares issued as of 31 December 2007 without emission as of 28 October 2008	233.354.240	1	365/365	233.354.240
New emission of ordinary shares on 28 October 2008**	158.568.327	1	365/365	158.568.327
Shares issued as of 31 December 2008	391.922.567	1	365/365	391.922.567

Bank				
Calculation of weighted average for 2007	Number of shares	Par value	Issued/ 365 (days)	Weighted average of ordinary shares
Ordinary shares issued as of 31 December 2006*	137.267.200	1	365/365	137.267.200
New emission of ordinary shares on 15 January 2007	54.906.880	1	350/365	52.650.433
New emission of ordinary shares on 16 August 2007	41.180.160	1	137/365	15.465.663
Ordinary shares issued as of 31 December 2007	233.354.240	1	365/365	205.374.296
Recalculated shares for EPS purposes	391.922.567	1	365/365	344.929.757

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

** New issue of ordinary shares was performed on 28 October 2008 using share surplus and retained earnings, thus 365 days were used for calculation of weighted average of ordinary shares as of 31 December 2008 and comparative numbers of the year 2007 were recalculated accordingly.

The preference shares (nominal value – LTL 20.000 thousand) are without voting right and with non-cumulative 10% dividend, therefore excluded from the calculations of the weighted average.

As of 31 December 2008 and 2007 all shares were fully paid.

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Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Revaluation reserve for financial assets

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

Reserve of foreign currency translation

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

Legal reserve

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

Reserve capital

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

Other general reserves

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

21. EARNINGS PER SHARE

	Group	
	2008	2007
Net profit attributable to Bank shareholders	23.286	67.372
Dividends attributable to preferred shares	(2.000)	(2.000)
Profit attributable to ordinary shares	21.286	65.372
Weighted average number of ordinary shares as of 31 December (thousand)*	391.923	344.930
Basic and diluted earnings per ordinary share (LTL)	0,05	0,19

* In January 2007 the par value of ordinary shares was decreased from LTL 10 to LTL 1 by increasing the number of shares accordingly. The number of ordinary shares in the table above is shown after the influence of share split. New issue of ordinary shares was performed on 28 October 2008 using share surplus and retained earnings. The number of ordinary shares in the table above is shown after the influence of new issue of shares.

On the 17 November 2006 the Bank has registered a new emission of LTL 20.000 thousand nominal amount preference shares. Preference shares are without voting rights and with 10% non cumulative dividends. Once the dividends are declared, the first LTL 2.000 thousand is to be paid for these shares. As dividends were declared in 2008 and 2007, the preferred dividends were deducted from profit attributable to ordinary shares in 2008 and 2007.

Management has prepared the project profit appropriation, which excludes dividends for 2008 (Note 37).

The Bank and the Group have been granted subordinated loans that can be converted into shares, but because neither the conversion date nor conversion terms are reliably set, diluted earnings can not be calculated and therefore corresponds to basic earnings per share. The conditions for conversion will be agreed by the parties in good faith.

22. DIVIDENDS PER SHARE

	Group		Bank	
	2008	2007	2008	2007
Dividends paid on preference shares	2.000	2.000	2.000	2.000
Dividends paid on ordinary shares	28.003	23.061	28.003	23.061
Total dividends paid	30.003	25.061	30.003	25.061
Number of preference shares (thousand)	2.000	2.000	2.000	2.000
Weighted average number of ordinary shares as of 31 December (thousand)	391.923	344.930	391.923	344.930
Dividends per preference share (LTL)	1,00	1,00	1,00	1,00
Dividends per ordinary share (LTL)	0,07	0,07	0,07	0,07

23. COMMITMENTS AND CONTINGENCIES

Legal

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

Financial commitments and contingencies

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

	Group		Bank	
	2008	2007	2008	2007
Credit related commitments				
Credit commitments	346.885	511.222	255.731	450.923
Issued guarantees	190.705	47.694	146.858	38.674
Total credit related commitments	537.590	558.916	402.589	489.597
Less - Provisions	-	-	-	-
Credit related commitments, net	537.590	558.916	402.589	489.597

24. INTEREST INCOME AND EXPENSES

Net interest income:

	Group		Bank	
	2008	2007	2008	2007
On placements with central bank	8.832	5.892	3.402	2.623
On loans and placements with credit institutions	64.484	73.760	38.967	41.054
On loans to customers	457.919	292.940	270.381	146.230
On financial assets at fair value through profit or loss	27.306	17.922	20.269	14.385
On held to maturity investments and available for sale financial assets	13.004	35.106	7.546	29.659
Interest income	571.545	425.620	340.565	233.951
On liabilities to and placements from credit institutions	12.866	13.474	5.703	6.606
On subordinated loans	8.244	7.158	4.669	4.015
On deposits and other repayable amounts	262.585	161.760	168.461	93.226
Deposit insurance expenses	22.233	18.542	17.679	14.539
On debt securities issued	45.268	28.284	44.391	27.617
Interest expenses	351.196	229.218	240.903	146.003
Net interest income	220.349	196.402	99.662	87.948

25. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

	Group		Bank	
	2008	2007	2008	2007
Payment card servicing	40.516	36.666	22.595	21.189
Settlement operations	24.387	21.439	16.914	12.990
Commissions for other payments	11.711	11.858	11.556	11.858
Cash collection	10.136	9.615	8.113	7.377
Securities' operations	5.719	3.530	1.644	651
Collection of payments	5.141	4.871	9.659	10.762
Currency exchange operations	4.469	3.622	4.054	3.334
Guarantees and letters of credit	3.150	104	1.834	91
Income from rent	975	659	353	220
Other income	11.779	10.787	5.093	3.696
Fee and commission income	117.983	103.151	81.815	72.168
Payment card servicing	9.594	8.691	3.116	3.099
Securities' operations	3.846	1.691	2.506	1.606
Settlement operations	2.645	1.745	2.645	1.745
Cash collection	1.848	1.848	1.588	1.848
Currency exchange operations	429	262	427	262
Other expenses	7.709	9.892	521	350
Fee and commission expense	26.071	24.129	10.803	8.910
Net fee and commission income	91.912	79.022	71.012	63.258

26. NET GAINS AND LOSSES FROM TRANSACTIONS WITH FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

27. NET GAINS AND LOSSES FROM TRANSACTIONS WITH FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING

Net result from transactions with financial classified as held for trading:

	Group		Bank	
	2008	2007	2008	2007
Net Gains and Losses from transactions with securities	(9.644)	64	(9.644)	47
Net Gains and Losses from derivative instruments	(20.512)	(739)	(13.504)	(3.113)
Net Gains and Losses from transactions with financial instruments held for trading	(30.156)	(675)	(23.148)	(3.066)

28. NET GAINS AND LOSSES FROM TRANSACTIONS IN FOREIGN CURRENCIES

Net result from transactions in foreign currencies comprises:

	Group		Bank	
	2008	2007	2008	2007
Profit from foreign currency exchange	46.685	46.645	21.021	24.101
Profit (loss) from revaluation of foreign currency positions	27.533	(17.028)	14.671	(13.497)
Net foreign exchange gain	74.218	29.617	35.692	10.604

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

29. OTHER INCOME

Other income comprises:

	Group		Bank	
	2008	2007	2008	2007
Managing closed accounts	4.124	983	4.124	983
Income from sale of assets	882	2.033	18	219
Change in fair value of investment property	-	4.125	-	-
Other income	6.569	1.175	372	629
Other income	11.575	8.316	4.514	1.831

30. SALARIES, BENEFITS AND OTHER OPERATING EXPENSES

Salaries and benefits and other operating expenses comprise:

	Group		Bank	
	2008	2007	2008	2007
Salaries and benefits	107.381	84.030	54.573	42.395
Social security costs	27.797	22.186	15.707	12.721
Salaries and benefits	135.178	106.216	70.280	55.116
Rent	20.899	14.867	9.113	5.770
Repair and maintenance of property and equipment	14.155	12.760	8.257	7.995
Marketing, advertising and representation	13.737	11.021	8.004	6.051
Taxes, other than income tax	13.567	7.593	12.542	6.733
Communications	11.608	9.681	5.758	5.065
Legal and other consultancy	10.225	3.364	4.587	919
Charity	5.124	2.386	2.997	1.095
Security	2.987	3.000	1.510	1.179
Data processing	2.878	2.197	2.190	1.753
Business travel and other related expenses	1.625	1.992	691	744
Representation expenses	1.619	2.114	1.175	1.717
Stationery	1.254	1.175	536	478
Loss on disposal of property and equipment	1.129	506	7	72
Personnel training	510	473	294	301
Other	23.781	15.656	4.356	4.079
Other operating expenses	125.098	88.785	62.017	43.951

31. BUSINESS COMBINATIONS

Acquisition in 2008

AAS LKB Life

In 2008, the Group company AS Latvijas Krājbanka bought 99,79% of AAS LKB Life, by acquiring 2.511.895 shares for the amount of LTL 13.264 thousand. At the date of the transaction, the fair value of the net assets acquired equalled the total purchase price. At the acquisition date, the fair value of the assets and liabilities of AAS LKB Life can be specified as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Balances due from credit institutions	13.836	13.836
Financial assets held for trading	1.515	1.515
Available-for-sale financial assets	5	5
Other assets	352	352
Intangible assets (Note 12)	562	-
Total assets	16.270	15.708
Liabilities	(2.981)	(2.981)
Net assets	13.289	12.727
Minority interest (24,14%)	(3.208)	
Total net assets acquired by the Group	10.081	
Group's effective part paid of acquisition	10.081	

If the combination had taken place at the beginning of the year, the total net operating income of the Group would have been less by LTL 215 thousand.

AS Center Credit

In 2008 the Group company AS Latvijas Krājbanka bought 51% of AS Center Credit, by acquiring 75.556 shares for the amount of LTL 2.742 thousand (561 thousand lats). At the date of the transaction, the fair value of the net assets acquired equalled the total purchase price. At the acquisition date, the fair value of the assets and liabilities of AS Center Credit can be specified as follows:

	Fair value at the acquisition date	Carrying value at the acquisition date
Cash	601	601
Due from credit institutions	9.740	9.740
Loans and advances to customers	29.514	29.514
Intangible assets (Note 12)	206	279
Fixed assets (Note 11)	2.062	2.297
Other assets	890	655
Total assets	43.013	43.086
Due to credit institutions	(33.350)	(33.350)
Other liabilities	(5.742)	(5.742)
Net assets	3.921	3.993
Minority interest (61,23%)	(2.401)	
Total net assets acquired by the Group	1.520	
Group's effective part paid of acquisition	1.520	

If the combination had taken place at the beginning of the year, the total net operating income of the Group would have been less by LTL 4,125 thousand.

AP Anlage & privatbank AG

In 2008 the Group company AS Latvijas Krājbanka concluded the contract with AS Parex Banka for the purchase of 100% of AP Anlage & privatbank AG shares. The AP Anlage & Privatbank AG is registered in Switzerland and is focused on individual client service, asset management and investment consultation provision. AS Latvijas Krājbanka and AS Parex Banka have agreed to prolong the purchase transaction of AP Anlage & Privatbank AG shares until 24 April 2009. The decision is based on the situation and general tendencies on the world's financial market.

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31. BUSINESS COMBINATIONS (Cont'd)

JSC Imaco Trade Invest

On 21 March 2008 the Group company UAB SNORO Turto Valdymas bought 99,98% of JSC Imaco Trade Invest (subsequently name was changed to JSC SNORAS Capital Market Limited), acquiring 9,998 shares for the total amount of LTL 1.046 thousand (RUB 11.187 thousand). The company's principal activity is fund management in Russia.

For the purpose of purchase price allocation, the values of identifiable assets, liabilities and contingent liabilities based on carrying amounts of JSC Imaco Trade Invest as at the date of acquisition were:

	Fair value at the acquisition date	Carrying value at the acquisition date
Current assets	926	926
Non-current assets (Note 12)	378	-
Other non-current assets	208	479
	1.512	1.405
Current liabilities	(466)	(466)
Non-current liabilities	-	-
Net assets	1.046	939
Consideration paid by the Group	1.046	-

From the date of the combination, the amounts contributed by JSC Imaco Trade Invest to the net profit of the Group were not significant. If the combination had taken place at the beginning of the year, the total net operating result from continuing operations of the Group would have not been significantly different.

JSC Transport company Yarovit

On 19 June 2008 the Group company UAB SNORO Turto Valdymas bought 100% of JSC Transport company Yarovit acquiring 1.000 shares for the total amount of LTL 6.215 thousand (EUR 1.800 thousand), thus becoming the only holder of the company's shares. The company's principal activity is real estate development.

For the purpose of purchase price allocation, the values of identifiable assets, liabilities and contingent liabilities based on carrying amounts of JSC Transport company Yarovit as at the date of acquisition were:

	Fair value at the acquisition date	Carrying value at the acquisition date
Current assets	10.105	10.105
Non-current assets (Note 9)	65.677	64.602
	75.782	74.707
Current liabilities	5	5
Non-current liabilities	69.562	69.562
	69.567	69.567
Group's share of the fair value of net assets	6.215	5,140
Consideration paid by the Group	6.215	-

From the date of the combination, the amounts contributed by JSC Transport company Yarovit to the net profit of the Group were not significant. If the combination had taken place at the beginning of the year, the total net operating income of the Group would have been less by LTL 698 thousand.

UAB Jūsų tarpininko investicijų valdymas

On 26 August 2008 the Group company UAB SNORO Turto Valdymas bought 66,66% of UAB JT Investicijų Valdymas acquiring 156.000 shares of new emission for the total amount of LTL 1.560 thousand.

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For the purpose of purchase price allocation, the values of identifiable assets, liabilities and contingent liabilities based on carrying amounts of UAB JT Investicijų Valdymas as at the date of acquisition were:

	Fair value at the acquisition date	Carrying value at the acquisition date
Current assets	1.733	1.733
Non-current assets	557	557
	2.290	2.290
Current liabilities	-	-
Non-current liabilities	878	878
	878	878
Net assets	1.412	1.412
Minority interest (33,34%)	(471)	
Total net assets acquired by the Group	941	
Group's effective part paid of acquisition	941	

From the date of the combination, the amounts contributed by UAB JT Investicijų Valdymas to the net profit of the Group were not significant. If the combination had taken place at the beginning of the year, the total net operating income of the Group would have been less by LTL 807 thousand.

UAB FMJ Jūsų Tarpininkas

On 26 August 2008 the Group company UAB SNORO Turto Valdymas bought 66% of UAB FMJ Jūsų Tarpininkas acquiring 528.000 shares for the total amount of LTL 476 thousand and on 15 December 2008 – the 44 % of UAB FMJ Jūsų Tarpininkas shares (27.200) for the total amount of LTL 246 thousand, thus becoming the only holder of the company's shares.

For the purpose of purchase price allocation, the values of identifiable assets, liabilities and contingent liabilities based on carrying amounts of UAB FMJ Jūsų Tarpininkas as at the date of acquisition were:

	Recognised on acquisition	Carrying value
Current assets	431	431
Non-current assets	591	591
	1.022	1,022
Current liabilities	-	-
Non-current liabilities	546	546
	546	546
Group's share of the fair value of net assets	476	476
Consideration paid by the Group	476	-

From the date of the combination, the amounts contributed by UAB FMJ Jūsų Tarpininkas to the net profit of the Group were not significant. If the combination had taken place at the beginning of the year, the total net operating income of the Group would have been less by LTL 789 thousand.

Acquisition in 2007

On 1 July 2007 the AS Latvijas Krājbanka bought 100% of AS Pirmais Atklātais Pensiju Fonds (JSC First Open Pension Funds), acquiring 29,200 shares for the total amount of LTL 159 thousand (LVL 32 thousand), thus becoming the only holder of the company's shares.

Fair value of AS Ieguldījumu Sabiedrība Pirmais Atklātais Pensiju Fonds assets, liabilities and contingent liabilities on the acquisition date were as follows:

	Recognised on acquisition	Carrying value
Balances due from credit institutions	149	149
Other assets	15	25
Total	164	174
Liabilities	5	5
Group's share of the fair value of net assets	159	169
Consideration paid by the Group	159	-

AS Pirmais Atklātais Pensiju Fonds turnover and net profit for the time period from 1 July 2007 up to the 31 December 2007 comprised LTL 45 thousand and LTL 40 thousand, respectively. The net cash inflow from acquisition was not significant. If the combination had taken place at the beginning of the year, the revenues and the profit of the Group would not have been materially different.

32. SEGMENT REPORTING

For the purposes of this analysis, the Group's activities were divided into three main geographical segments: Lithuania (the Bank and its subsidiaries in Lithuania), Latvia (subsidiaries in Latvia – AS Latvijas Krājbanka and its subsidiaries in Latvia) and Russia (subsidiaries in Russia). The type of products and services included in each reported segment are the same. Transactions between the geographical segments are generally made on commercial terms and conditions. General corporate overheads were not allocated to the geographical segments.

	Lithuania		Latvia		Russia		Eliminations		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Total revenue from external customers	472.834	347.855	289.915	222.555	11.494	-	(12.109)	(8.776)	762.134	561.634
Revenue from segments	10.764	8.350	1.345	426	-	-	(12.109)	(8.776)	-	-
Total revenue	483.598	356.205	291.260	222.981	11.494	-	(24.218)	(17.552)	762.134	561.634
Segment results	28.323	63.460	12.074	28.452	(8.544)	-	-	-	31.853	91.912
Profit before tax									31.853	91.912
Income tax expense									(8.511)	(18.995)
Profit for the year									23.342	72.917
Segment assets*	5.426.475	5.660.416	3.340.840	3.339.432	95.428	-	(412.158)	(3.408)	8.450.585	8.996.440
Unallocated assets									1.131	544
Total assets									8.451.716	8.996.984
Segment liabilities*	4.808.114	5.293.633	3.128.712	3.109.736	96.735	-	(181.581)	(22.088)	7.851.980	8.381.281
Unallocated liabilities									16.961	20.208
Total liabilities									7.868.941	8.401.489
Capital expenditure (including intangibles, excluding goodwill)	36.480	18.471	26.381	43.663	-	-	-	-	62.861	62.134
Depreciation and amortisation	11.765	9.414	12.504	10.829	-	-	-	-	24.692	20.243
Change in impairment	43.176	(3.708)	24.870	4.979	-	-	-	-	68.046	1.271
Number of employees at the end of the period	1.387	1.214	1.125	897	2	-	-	-	2.514	2.111

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

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

	2008	2007
Lithuanian customers	327.737	244.957
Latvian customers	217.886	192.884
Other	216.511	123.793
Total revenue	762.134	561.634

Business segments are not applicable to the Group.

33. FINANCIAL RISK MANAGEMENT

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

Credit risk

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

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

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

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

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

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

Maximum exposure to credit risk

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

	Group		Bank	
	2008	2007	2008	2007
Cash equivalents	2.142.202	2.876.301	1.426.220	1.451.142
Financial assets at fair value through profit or loss	140.985	810.408	91.129	705.715
Amounts due from credit institutions	227.827	438.360	181.537	387.828
Available-for-sale financial assets	-	33.835	-	32.865
Held-to-maturity financial assets	261.660	149.999	158.146	126.309
Loans to customers, net	4.953.299	4.086.816	3.425.752	2.648.726
Total	7.725.973	8.395.719	5.282.784	5.352.585
Contingent liabilities	346.885	511.222	255.731	450.923
Financial commitments	190.705	47.694	146.858	38.674
Total	537.590	558.916	402.589	489.597
Maximum credit exposure	8.263.563	8.954.635	5.685.373	5.842.182

The maximum credit risk exposure to one client or counterparty as of 31 December 2008 in the Group was LTL 137.931 thousand (as of 31 December 2007 – LTL 71.065 thousand), in the Bank – LTL 86.216 (as of 31 December 2007 – LTL 71.065 thousand).

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

Maximum exposure to credit risk by industry

Credit risk exposure by industry is set out below:

	Group		Bank	
	2008	2007	2008	2007
Banking (including central banks)	2.617.537	3.628.195	1.829.501	2.113.543
Individuals	2.119.802	2.181.537	1.180.512	1.192.098
Real estate	783.693	588.753	535.631	373.827
Government and municipalities	147.787	575.168	83.435	521.852
Trading	323.879	282.857	223.791	208.067
Manufacturing	460.631	255.565	312.640	192.090
Financial services	220.841	221.098	632.071	447.071
Services	256.810	218.078	201.142	162.409
Transport	313.037	203.286	170.488	101.958
Constructions	260.726	198.208	189.146	160.487
Agriculture and food processing	120.868	106.425	82.009	66.199
Electricity	25.213	32.370	20.714	25.099
Fuel, gas and chemical	10.580	3.473	-	-
Other	602.159	459.622	224.293	277.482
Total	8.263.563	8.954.635	5.685.373	5.842.182

Maximum exposure to credit risk by countries

Credit risk exposure by countries is set out below:

	Group		Bank	
	2008 m.	2007 m.	2008 m.	2007 m.
Lithuania	2.961.078	2.953.065	3.425.416	3.043.855
Latvia	2.072.361	1.981.967	100.713	58.348
OECD	1.671.862	2.845.252	1.177.632	1.724.695
Other countries	1.558.262	1.174.351	981.612	1.015.284
Total	8.263.563	8.954.635	5.685.373	5.842.182

Credit quality per class of financial assets

Credit quality per class of financial assets are outlined below:

	Group		Bank	
	2008 m.	2007 m.	2008 m.	2007 m.
Neither past due nor impaired	7.014.263	8.557.535	4.755.548	5.703.615
Past due not impaired	1.127.265	355.114	829.531	129.371
Individually impaired	122.035	41.986	100.294	9.196
Total	8.263.563	8.954.635	5.685.373	5.842.182

The fair value of collateral that the Group holds relating to financial assets individually determined to be impaired at 31 December 2008 amounts to LTL 152.817 thousand, the Bank – LTL 132.706 thousand (in 2007 – LTL 75.151 thousand, LTL 18.710 thousand respectively). The main collateral type - property.

The impairment made for individually impaired financial assets at 31 December 2008 amounts to LTL 70.060 thousand, the Bank – LTL 30.431 thousand (in 2007 – LTL 19.852 thousand and LTL 4.822 thousand, respectively). Gross amount of financial assets, individually determined to be impaired, before deducting any individually assessed impairment allowance at 31 December 2008 amounts to LTL 192.095 thousand, the Bank – LTL 130.725 thousand (in 2007 – LTL 61.838 thousand and LTL 14.018 thousand respectively).

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Group	Neither past due nor impaired 2008				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	4.194.967	-	-	4.194.967
Financial institutions	1.105.260	605.935	-	730.340	2.441.535
Investment activities:					
Bonds	298.746	25.158	-	35.824	359.728
Derivatives	11.788	1.735	-	4.510	18.033
Total	1.415.794	4.827.795	-	770.674	7.014.263

Group	Neither past due nor impaired 2007				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	4.118.289	-	-	4.118.289
Financial institutions	2.592.847	351.549	298.644	200.521	3.443.561
Investment activities:					
Bonds	909.887	44.581	55	19.504	974.027
Derivatives	1.566	-	-	20.092	21.658
Total	3.504.300	4.514.419	298.699	240.117	8.557.535

Bank	Neither past due nor impaired 2008				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	2.418.449	-	-	2.418.449
Financial institutions	577.861	894.082	-	640.765	2.112.708
Investment activities:					
Bonds	221.655	-	-	-	221.655
Derivatives	-	-	-	2.736	2.736
Total	799.516	3.312.531	-	643.501	4.755.548

Bank	Neither past due nor impaired 2007				Total
	High grade	Standard grade	Sub-standard grade	Without ratings	
Lending activities:					
Corporate and private	-	2.652.061	-	-	2.652.061
Financial institutions	1.415.150	436.302	255.436	79.777	2.186.665
Investment activities:					
Bonds	830.541	15.699	-	-	846.240
Derivatives	-	-	-	18.649	18.649
Total	2.245.691	3.104.062	255.436	98.426	5.703.615

Internal credit rating system is grouped as follows:

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

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

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

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

Group	Past due but not impaired loans 2008				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Private individuals	248.800	69.456	57.249	50.111	425.616
Corporate clients	396.750	150.705	59.187	95.007	701.649
Total	645.550	220.161	116.436	145.118	1.127.265

Group	Past due but not impaired loans 2007				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Private individuals	96.817	9.128	20.425	8.347	134.717
Corporate clients	167.312	3.276	16.572	33.237	220.397
Total	264.129	12.404	36.997	41.584	355.114

Bank	Past due but not impaired loans 2008				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Private individuals	173.218	29.632	23.002	24.585	250.437
Corporate clients	319.221	136.790	43.352	79.731	579.094
Total	492.439	166.422	66.354	104.316	829.531

Bank	Past due but not impaired loans 2007				Total
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Private individuals	30.621	5.198	879	-	36.698
Corporate clients	48.036	3.127	14.155	27.355	92.673
Total	78.657	8.325	15.034	27.355	129.371

Carrying amount of financial assets whose terms have been renegotiated

The carrying amount of financial assets whose terms have been renegotiated was LTL 103.881 thousand in the Group and LTL 65.023 thousand in the Bank (Group – LTL 80.762 thousand, Bank – LTL 42.336 thousand in 2007).

Market risk

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

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

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

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Interest rate risk

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

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

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

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

Interest rate sensitivity analysis

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

Influence on Group's and Bank's Equity is calculated as influence on available for sale financial assets adjusting by changes in interest rates on balance sheet date. Increase and reduce of interest rate in basis points was selected taking into consideration that range possibility of interest rate in LTL is higher, and interest rates in EUR and USD are generally at the low level, and large range in the short term should not be in the near future.

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

Group		2008			2007		
Currency	Interest rate increase / decrease in basis points	Impact on profit before taxes	Impact on Equity	Interest rate increase / decrease in basis points	Impact on profit before taxes	Impact on Equity	
LTL	+200	557	473	+200	(1.612)	(1.322)	
EUR	+50	4.110	3.494	+50	511	419	
USD	+50	(556)	(472)	+50	678	556	
LTL	-200	(557)	(473)	-200	1.612	1.321	
EUR	-50	(4.110)	(3.494)	-50	(511)	(419)	
USD	-50	556	472	-50	(678)	(556)	

Bank		2008			2007		
Valiuta	Interest rate increase / decrease in basis points	Impact on profit before taxes	Impact on Equity	Interest rate increase / decrease in basis points	Impact on profit before taxes	Impact on Equity	
LTL	+200	(1.760)	(1.496)	+200	883	724	
EUR	+50	2.124	1.805	+50	293	240	
USD	+50	(407)	(346)	+50	453	371	
LTL	-200	1.760	1.496	-200	(883)	(724)	
EUR	-50	(2.124)	(1.805)	-50	(293)	(240)	
USD	-50	407	346	-50	(453)	(371)	

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

Equity and commodity price risk

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

Group/Bank	2008		2007	
	Change in price, %	Impact on profit before taxes	Change in price, %	Impact on profit before taxes
Equity Indexes	-	-	-/+1,35	-/+562
Commodity indexes	-	-	-/+2,37	-/+331
Equities	-	-	-/+15,00	-/+4.960

The bank applies valuation model for impairment of securities where probability of default and recovery coefficients are assessed based on publicly available data. If estimated rate of recovery coefficient decreased by 10% that would have a negative effect of LTL 4.073 thousand on profit before taxes (LTL 3.462 thousand negative impact on equity).

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

Sensitivity analysis of foreign exchange deals

The table represents Group's and Bank's sensitivity analysis of USD and RUB currencies. The Group and the Bank have open position in these currencies so there is a possible future impact on the Statement of Income and Group's and Bank's Equity. The amount of impact was taken according to USD and RUB currencies exchange rate maximum daily changes during the last year.

Group	2008				2007			
	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity
	RUB	+4	106	90	RUB	+5	182	149
	RUB	-4	(106)	(90)	RUB	-5	(182)	(149)
	USD	+4	(183)	(155)	USD	+12	157	128
	USD	-4	183	155	USD	-12	(157)	(128)

Bank	2008				2007			
	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity	Currency	FX rate change %	Impact on P/L before taxes	Impact on Equity
	RUB	+4	(21)	(18)	RUB	+5	147	120
	RUB	-4	21	18	RUB	-5	(147)	(120)
	USD	+4	(114)	(96)	USD	+12	(28)	(23)
	USD	-4	114	96	USD	-12	28	23

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Liquidity Risk

Liquidity risk is the risk that the Group and Bank will be unable to meet its payment obligations associated with its financial liabilities and trade its asset for the relevant price to get funding. Liquidity risk also arises when the Group and Bank are not able to liquidate its market position without significant by lowering market prices. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group and the Bank perform daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank follows requirements for the liquidity ratio set by the Board of the Bank of Lithuania. The Bank's liquidity ratio (the ratio between certain liquid assets and liabilities) cannot be lower than 30 percent. In 2007 the Bank has outperformed this ratio almost twice. The Bank also follows requirements of the required reserves at the Bank of Lithuania.

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

	2008, %	2007, %
Average during the period	43,77	58,85
Highest	57,52	67,04
Lowest	30,11	44,57

AS Latvijas Krājbanka maintains the liquidity ratio at least equal to 30% of total current liabilities which is set as a minimal ratio. The liquidity ratio of AS Latvijas Krājbanka during the year was as follows:

	2008, %	2007, %
Average during the period	52,15	53,27
Highest	60,83	72,75
Lowest	46,43	46,14

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

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

The Group and the Bank have prepared these consolidated financial statements on a going concern basis notwithstanding the fact that they have a significant negative liquidity gap in the "on demand" maturity range of assets and liabilities. The Group's and Bank's management closely monitor and manage the Group's and Bank's liquidity position on a daily basis in accordance with the Group's and Bank's liquidity risk management framework. The negative liquidity gap in "on demand" assets and liabilities as at 31 December 2008 and 2007 is substantially due to significant "on demand" amounts due to customers. According to the past history of the Group and the Bank, customers' deposits are normally held with the Group and the Bank for periods significantly exceeding their stated maturity. The Group and the Bank have considered the risk of being adversely affected by liquidity issues and have taken actions to minimise the negative impact on the Group and the Bank. The Group's and the Bank's ability to avoid adverse changes in their liquidity position is depending on management's effectiveness in the continuing execution of the actions taken.

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. The main objective of Bank's contingency plans is to enable senior management to act effectively and efficiently at times of crisis. The specific liquidity crisis management plan is approved by the Management Board for addressing temporary and long-term liquidity disruptions caused by a general event in the market or Bank specific event. This plan addresses all the issues, responsibilities and actions to be taken once crisis is identified.

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

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

Group	2008							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity	
Assets:								
Cash and cash equivalents	2.181.325	120.273	36.762	-	-	-	-	2.338.360
Financial assets at fair value through profit or loss	-	17.340	4.710	52.641	49.623	16.090	4.765	145.169
Amounts due from credit institutions	-	51.449	141.089	31.294	487	-	3.508	227.827
Held-to-maturity financial assets	-	-	31.215	81.097	136.553	4.318	8.477	261.660
Loans to customers	-	659.607	305.999	1.030.266	2.197.789	660.651	98.987	4.953.299
Other assets	5.234	7.745	2.125	149	714	256	509.178	525.401
	2.186.559	856.414	521.900	1.195.447	2.385.166	681.315	624.915	8.451.716
Liabilities:								
Due to credit institutions	43.648	64.984	36.928	169.733	2.680	-	716	318.689
Derivative financial liabilities	-	10.084	-	-	4.723	-	-	14.807
Debt securities issued	-	440	-	2.090	591.383	-	-	593.913
Amounts due to customers	2.516.062	1.336.770	1.001.331	1.726.412	157.200	8.234	-	6.746.009
Subordinated loans	-	1.247	68	-	-	113.101	-	114.416
Deferred income tax liabilities	-	-	-	-	-	-	13.133	13.133
Other liabilities	18.856	17.735	2.630	3.810	-	-	24.943	67.974
	2.578.566	1.431.260	1.040.957	1.902.045	755.986	121.335	38.792	7.868.941
Net position	(392.007)	(574.846)	(519.057)	(706.598)	1.629.180	559.980	586.123	582.775
Accumulated gap	(392.007)	(966.853)	(1.485.910)	(2.192.508)	(563.328)	(3.348)	582.775	

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Group	2007							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity	
Assets:								
Cash and cash equivalents	1.394.387	1.656.117	48.932	-	-	-	-	3.099.436
Financial assets at fair value through profit or loss	-	68.192	61.707	69.336	519.923	87.373	43.088	849.619
Amounts due from credit institutions	-	50.433	172.838	215.089	-	-	-	438.360
Available-for-sale financial assets	-	33.835	-	-	-	-	-	33.835
Held-to-maturity financial assets	-	2.982	10.783	16.206	113.721	6.307	-	149.999
Loans to customers	-	198.939	180.657	995.118	2.051.098	613.425	47.579	4.086.816
Other assets	-	6.634	1.862	621	234	558	329.010	338.919
	1.394.387	2.017.132	476.779	1.296.370	2.684.976	707.663	419.677	8.996.984
Liabilities:								
Due to credit institutions	41.333	379.460	48.042	23.673	26.783	-	21	519.312
Derivative financial liabilities	-	4.199	-	-	-	-	-	4.199
Debt securities issued	-	-	-	-	639.920	-	-	639.920
Amounts due to customers	3.076.194	1.412.174	584.497	1.667.233	275.037	2.186	-	7.017.321
Subordinated loans	-	1.142	71	-	19.158	94.008	-	114.379
Deferred income tax liabilities	-	-	-	-	-	-	11.718	11.718
Provisions	-	-	-	-	-	-	-	-
Other liabilities	12.885	42.604	4.189	3.336	-	-	31.626	94.640
	3.130.412	1.839.579	636.799	1.694.242	960.898	96.194	43.365	8.401.489
Net position	(1.736.025)	177.553	(160.020)	(397.872)	1.724.078	611.469	376.312	595.495
Accumulated gap	(1.736.025)	(1.558.472)	(1.718.492)	(2.116.364)	(392.286)	219.183	595.495	-

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

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

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

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

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

Bank	2008							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde-fined maturity	
Assets								
Cash and cash equivalents	1.403.572	98.130	36.762	-	-	-	-	1.538.464
Financial assets at fair value through profit or loss	-	823	4.710	47.578	22.762	15.256	3	91.132
Amounts due from credit institutions	-	46.659	131.291	-	-	-	3.587	181.537
Held-to-maturity financial assets	-	-	4.586	45.687	100.009	-	7.864	158.146
Loans to customers, net	-	37.732	185.689	937.037	1.743.938	379.994	141.362	3.425.752
Investments in subsidiaries	-	-	-	-	-	-	137.636	137.636
Other assets	4.883	606	2.125	148	714	256	153.252	161.984
	1.408.455	183.950	365.163	1.030.450	1.867.423	395.506	443.704	5.694.651
Liabilities:								
Due to credit institutions	109.698	383.803	32.525	87.982	-	-	-	614.008
Derivative financial liabilities	-	788	-	-	-	-	-	788
Debt securities issued	-	-	2.090	-	574.208	-	-	576.298
Amounts due to customers	875.050	1.012.364	755.896	1.169.941	84.703	3.005	-	3.900.959
Subordinated loans	-	1.237	-	-	-	69.056	-	70.293
Deferred income tax liabilities	-	-	-	-	7.913	-	-	7.913
Other liabilities	9.825	8.381	2.630	3.810	-	-	4.626	29.272
	994.573	1.406.573	793.141	1.261.733	666.824	72.061	4.626	5.199.531
Net position	413.882	(1.222.623)	(427.978)	(231.283)	1.200.599	323.445	439.078	495.120
Accumulated gap	413.882	(808.741)	(1.236.719)	(1.468.002)	(267.403)	56.042	495.120	

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Bank	2007							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Unde-fined maturity	
Assets								
Cash and cash equivalents	1.110.697	477.124	-	-	-	-	-	1.587.821
Financial assets at fair value through profit or loss	-	53.502	55.468	38.437	481.456	76.852	2.313	708.028
Amounts due from credit institutions	-	-	172.838	214.990	-	-	-	387.828
Available-for-sale financial assets	-	32.865	-	-	-	-	-	32.865
Held-to-maturity financial assets	-	-	-	16.206	110.103	-	-	126.309
Loans to customers, net	-	104.939	108.897	854.317	1.313.324	261.912	5.337	2.648.726
Investments in subsidiaries	-	-	-	-	-	-	136.912	136.912
Other assets	-	909	1.807	159	234	558	121.618	125.285
	1.110.697	669.339	339.010	1.124.109	1.905.117	339.322	266.180	5.753.774
Liabilities:								
Due to credit institutions	41.043	269.817	48.042	23.673	-	-	21	382.596
Derivative financial liabilities	-	418	-	-	-	-	-	418
Debt securities issued	-	-	-	-	625.378	-	-	625.378
Amounts due to customers	1.326.094	1.061.669	440.454	1.100.087	186.550	2.186	-	4.117.040
Subordinated loans	-	1.142	-	-	-	69.056	-	70.198
Deferred income tax liabilities	-	-	-	-	-	-	5.160	5.160
Provisions	-	-	-	-	-	-	-	-
Other liabilities	12.373	21.427	4.189	3.336	-	-	7.175	48.500
	1.379.510	1.354.473	492.685	1.127.096	811.928	71.242	12.356	5.249.290
Net position	(268.813)	(685.134)	(153.675)	(2.987)	1.093.189	268.080	253.824	504.484
Accumulated gap	(268.813)	(953.947)	(1.107.622)	(1.110.609)	(17.420)	250.660	504.484	-

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33. FINANCIAL RISK MANAGEMENT (Cont'd)

Analysis of financial liabilities by remaining contractual maturities

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

Group	2008					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to central bank and other banks	611.634	33.405	222.722	-	-	867.761
Derivative financial instruments	552.211	2.654	948	-	-	555.813
Customer deposits	3.987.615	1.119.494	1.900.608	423.560	79.638	7.510.915
Subordinated debt	1.516	748	5.733	21.679	120.437	150.113
Debt securities in issue	-	2.618	37.615	592.070	17.701	650.004
Total undiscounted financial liabilities	5.152.976	1.158.919	2.167.626	1.037.309	217.776	9.734.606

Group	2007					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to central bank and other banks	443.251	24.946	49.704	-	-	517.901
Derivative financial instruments	356.475	86.574	-	-	-	443.049
Customer deposits	4.493.707	598.284	1.721.158	293.494	2.342	7.108.985
Subordinated debt	1.375	649	6.056	51.342	137.504	196.926
Debt securities in issue	-	466	42.763	707.660	-	750.889
Total undiscounted financial liabilities	5.294.808	710.919	1.819.681	1.052.496	139.846	9.017.750

Bank	2008					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to central bank and other banks	493.843	32.740	89.209	-	-	615.792
Derivative financial instruments	539.103	-	-	-	-	539.103
Customer deposits	2.004.075	869.665	1.375.860	102.549	412	4.352.561
Subordinated debt	1.237	-	3.680	19.626	104.001	128.544
Debt securities in issue	-	2.090	37.615	591.542	-	631.247
Total undiscounted financial liabilities	3.038.258	904.495	1.506.364	713.717	104.413	6.267.247

Bank	2007					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to central bank and other banks	310.928	24.531	48.020	-	-	383.479
Derivative financial instruments	21.473	23.827	-	-	-	45.300
Customer deposits	2.386.817	451.011	1.132.377	197.190	865	4.168.260
Subordinated debt	1.142	-	3.399	18.127	110.535	133.203
Debt securities in issue	-	-	42.297	688.834	-	731.131
Total undiscounted financial liabilities	2.720.360	499.369	1.226.093	904.151	111.400	5.461.373

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

Group	2008					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Credit commitments	96.007	2.882	46.811	179.658	21.526	346.884
Issued guarantees	45.659	1.578	33.976	1.821	107.672	190.706
Total	141.666	4.460	80.787	181.479	129.198	537.590

Group	2007					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Credit commitments	61.372	9.425	73.523	327.809	39.093	511.222
Issued guarantees	9.117	273	28.390	5.825	4.089	47.694
Total	70.489	9.698	101.913	333.634	43.182	558.916

Bank	2008					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Credit commitments	2.189	2.882	46.862	182.272	21.526	255.731
Issued guarantees	1.811	1.578	33.976	1.821	107.672	146.858
Total	4.000	4.460	80.838	184.093	129.198	402.589

Bank	2007					Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Credit commitments	1.073	9.425	73.523	327.809	39.093	450.923
Issued guarantees	97	273	28.390	5.825	4.089	38.674
Total	1.170	9.698	101.913	333.634	43.182	489.597

Operational risk

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

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

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

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Group	2008			2007		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Financial Assets						
Cash and cash equivalents	2,338.360	2,338.360	-	3,099.436	3,099.436	-
Financial assets at fair value through profit or loss	145.169	145.169	-	849.619	849.619	-
Amounts due from credit institutions	227.827	227.827	-	438.360	438.359	(1)
Available-for-sale financial assets	-	-	-	33.835	33.835	-
Held-to-maturity financial assets	261.660	232.829	(28.831)	149.999	149.935	(64)
Of which impaired HTM securities	24.885	2.817	(22.068)	-	-	-
Loans to customers, net	4,953.299	4,925.374	(27.925)	4,086.808	4,085.122	(1.686)
Financial liabilities						
Amounts due to credit institutions	318.689	318.689	-	519.312	519.312	-
Derivative financial liabilities	14.807	14.807	-	4.199	4.199	-
Debt securities issued	593.913	329.103	264.810	639.920	565.911	74.009
Amounts due to customers	6,746.009	6,791.149	(45.140)	7,017.321	7,016.043	1.278
Subordinated loans	114.416	113.986	430	114.379	110.840	3.539
Total difference to fair value			163.344			77.075

Bank	2008			2007		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Financial Assets						
Cash and cash equivalents	1,538.464	1,538.464	-	1,587.821	1,587.821	-
Financial assets at fair value through profit or loss	91.132	91.132	-	708.028	708.028	-
Amounts due from credit institutions	181.537	181.537	-	387.828	387.827	(1)
Available-for-sale financial assets	-	-	-	32.865	32.865	-
Held-to-maturity financial assets	158.146	134.632	(23.514)	126.309	126.309	-
Of which impaired HTM securities	24.885	2.817	(22.068)	-	-	-
Loans to customers, net	3,425.752	3,398.736	(27.016)	2,648.726	2,648.700	(26)
Financial liabilities						
Amounts due to credit institutions	614.008	614.008	-	382.596	382.596	-
Derivative financial liabilities	788	788	-	418	418	-
Debt securities issued	576.298	311.488	264.810	625.378	551.369	74.009
Amounts due to customers	3,900.959	3,948.298	(47.339)	4,117.040	4,116.926	114
Subordinated loans	70.293	70.293	-	70.198	70.198	-
Total difference to fair value			166.941			74.096

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

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The following describes the methodologies and assumptions used to determine the fair value for those financial instruments:

Cash.

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

Balances with the Central Banks.

The carrying amount is its fair value as these are current accounts at the Bank of Lithuania and Bank of Latvia.

Financial Assets at Fair Value Through Profit or Loss.

The carrying amount is the fair value of such investments.

Amounts Due from and to Credit Institutions.

approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, due to the re-pricing of assets to the market interest rates, the interest rates applicable approximate market rates and, consequently, the fair value approximate the carrying amounts.

Loans to Customers.

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

Amounts Due to Customers.

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

Debt securities issued.

The fair value is calculated using market rates.

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

Group	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non-market observable inputs			Total	
	2008	2007	2008	2007	2008	2007	2008	2007	
Financial assets									
Derivative financial instruments	12.983	1.566	5.050	3.496	-	16.596	18.033	21.658	
Financial assets at fair value through profit and loss	119.313	827.961	7.779	-	44	-	127.136	827.961	
Available-for-sale financial assets	-	33.835	-	-	-	-	-	33.835	
Total financial assets	132.296	863.362	12.829	3.496	44	16.596	145.169	883.454	
Financial liabilities									
Derivative financial instruments	8.856	1.152	5.951	2.677	-	-	14.807	4.199	
Total financial liabilities	8.856	1.152	5.951	2.677	-	-	14.807	4.199	

Bank	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non-market observable inputs			Total	
	2008	2007	2008	2007	2008	2007	2008	2007	
Financial assets									
Derivative financial instruments	1.913	-	823	2.053	-	16.596	2.736	18.649	
Financial assets at fair value through profit and loss	80.617	689.379	7.779	-	-	-	88.396	689.379	
Available-for-sale financial assets	-	32.865	-	-	-	-	-	32.865	
Total financial assets	82.530	722.244	8.602	2.053	16.596	91.132	740.893		
Financial liabilities									
Derivative financial instruments	-	-	788	418	-	-	788	418	
Total financial liabilities	-	-	788	418	-	-	788	418	

35. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures" party is considered to be related to an entity if:

- a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the entity that gives it significant influence over the entity; or
 - has joint control over the entity.
- b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;
- c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);
- d) the party is a member of the key management personnel of the entity or its parent;
- e) the party is a close member of the family of any individual referred to in (a) or (d);
- f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

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

The volumes of related party transactions and their balances in 2008 and 2007 are as follows:

Group	2008		2007	
	Shareholders	Key management personnel*	Shareholders	Key management personnel*
Loans issued at the beginning of the period, net	9.604	210	-	1.097
Loans issued at the end of the period, net	9.628	507	9.604	210
Due from banks at the beginning of the period	-	-	-	-
Due from at banks at the end of the period	-	-	-	-
Due to banks at the beginning of the period	-	-	-	-
Due to banks at the end of the period	-	-	-	-
Deposits at the beginning of the period	69	5.590	87	437
Deposits at the end of the period	-	9.998	69	5.590

Bank	2008			2007		
	Shareholders	Subsidiaries	Key management personnel*	Shareholders	Subsidiaries	Key management personnel*
Loans issued at the beginning of the period, net	9.604	281.844	200	-	204.936	342
Loans issued at the end of the period, net	9.628	532.258	2	9.604	281.844	200
Due from banks at the beginning of the period	-	21.871	-	-	33.465	-
Due from at banks at the end of the period	-	93.786	-	-	21.871	-
Due to banks at the beginning of the period	-	138	-	-	755	-
Due to banks at the end of the period	-	417.469	-	-	138	-
Deposits at the beginning of the period	69	4.984	5.469	87	1.307	209
Deposits at the end of the period	-	5.089	9.857	69	4.984	5.469

* Key management personnel include presidents and vice-presidents of AB Bank SNORAS and AS Latvijas Krājbanka

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

	Group		Bank	
	2008	2007	2008	2007
Salaries and other short-term benefits	4.170	4.004	2.523	1.657
Social security costs	852	647	782	513
Total key management compensation	5.022	4.651	3.305	2.170

As of 14 September 2005 the Bank also received a subordinated loan from its controlling shareholder, who is a private individual. As of 31 December 2008 the outstanding amount of subordinated loan, including accrued interest, amounted to LTL 70.293 thousand (LTL 70.198 thousand as of 31 December 2007) (Note 16).

In June 2008 the Bank sold the part of loan portfolio that involved impaired loans to the Group's subsidiary company UAB SNORO Rizikos Kapitalo Valdymas. The amount of transaction was LTL 10.533 thousand.

In November 2007 the Bank sold the part of loan portfolio that involved impaired loans to the Group's subsidiary company SNORO Rizikos Kapitalo Valdymas UAB. The amount of transaction was LTL 13.932 thousand.

As of 31 December 2008 outstanding Group's balances with the bank, related to main shareholder, were equal to LTL 472.206 thousand and LTL 16.528 thousand recorded respectively as amounts due to and due from banks in Group's balance sheet (31 December 2007 – LTL 298.474 thousand and LTL 10.060 thousand recorded respectively as amounts due to and due from banks in Group's balance sheet).

On 25 December 2008 UAB SNORO Turto Valdymas sold all shares of Dutch company Spyker Cars N.V for LTL 80.169 thousand (except one ordinary share) to the company related to the main shareholder (Note 1).

36. CAPITAL ADEQUACY

The Bank of Lithuania and Latvian Financial and Capital Market Commission (FCMC) require banks in Lithuania and Latvia respectively to maintain a capital adequacy ratio of 8%, computed based on requirements of respective regulator. Additionally, the Bank has agreed with the Bank of Lithuania to maintain a capital adequacy ratio of 10% (for the Bank only) through 31 December 2008 and 2007, the Group and the Bank were in compliance with the capital adequacy requirements.

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

	Group	Bank	Latvijas Krājbanka Group	AS Latvijas Krājbanka
31 December 2008	10,03	10,13	11,30	11,37
31 December 2007	10,55	11,72	12,00	12,10

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

Capital adequacy calculation, 2008	Group	Bank
Tier 1 equity items	479.909	457.072
Tier 2 equity items	147.625	95.536
Deductions from capital	(27.981)	(120.102)
Eligible capital	599.553	432.506
Total capital requirements for credit, counterparty credit and dilution risks and free deliveries	531.497	392.385
Total capital requirements for position, foreign exchange and commodity risks	6.709	2.140
Total capital requirements for operational risks	59.553	32.576
Capital requirements	597.759	427.101
Capital adequacy ratio	10,03	10,13

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36. CAPITAL ADEQUACY (Cont'd)

Capital adequacy calculation, 2007	Group		Bank	
	Nominal	Weighted	Nominal	Weighted
Tier 1 equity items	410.765	410.765	393.640	393.640
Tier 2 equity items	182.283	182.283	126.513	126.513
Deductions from capital	(20.845)	(20.845)		
Eligible capital	572.203	572.203	404.276	404.276
Risk weighted assets				
0% risk assets	1.233.097	-	939.979	-
20% risk assets	2.798.427	559.685	1.494.188	298.838
50% risk assets	342.566	171.283	150.606	75.303
100% risk assets	4.338.126	4.338.126	2.791.872	2.791.872
Off balance sheet risk weighted commitments	559.297	267.811	489.978	232.491
Trading book requirement	954.688	86.338	412.450	51.690
Total risk exposure		5.423.243		3.450.194
Capital adequacy ratio		10,55		11,72

In 2008 according to requirements of the Bank of Lithuania the Bank and the Group implemented the Internal Capital Adequacy Assessment Process (ICAAP). In accordance with the ICAAP regular and comprehensive analysis of main risks is executed, assessing their risk management and exploring internal capital adequacy.

37. SUBSEQUENT EVENTS

On 11 February 2009 Securities Commission (SC) approved the basic prospectus of LTL 100 million worth non-negotiable securities (bonds) of AB Bank SNORAS.

According to this prospectus, one or several fixed interest bond emissions of the medium duration (from 1 to 5 years), emissions of floating interest bonds, zero coupon bonds, bonds linked to the financial instruments and emissions of any combinations of these bond types can be issued in the public turnover of the securities. All these bonds will be non-subordinated, non-guaranteed and non-convertible. The emission parameters will be set up in the final provisions of each bond emission.

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

	2008
Unappropriated retained earnings at the beginning of the period	59.431
Increase of share capital	(59.431)
Current year result	21.956
Unappropriated retained earnings	21.956
Unappropriated retained earnings to be distributed	
Distribution:	
To reserve capital	4.000
To other general reserves	1.089
To pay dividends	-
Unappropriated retained earnings carried to next year	16.858

It is planned that the shareholders will approve LTL 900 thousand bonuses to the members of the supervisory council and the board. The respective amount was accrued in the financial statements of the Bank.

As of 6 March 2009 the Group company UAB SNORO Fondų Valdymas and UAB JT Investicijų Valdymas were reorganised to one company with name of UAB SNORAS Asset Management which is engaged in management of funds.