



**PAREX**  
**BANKAS**

■ Ernst & Young Baltic UAB

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Register of Legal Persons

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AB PAREX BANKAS

We have audited the accompanying balance sheet AB PAREX BANKAS (hereinafter “the Bank”) as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as of 31 December 2004 and the results of its operations and their cash flows for the year then ended in accordance with the requirements of the decree of the Board of the Bank of Lithuania No. 294 “On publication of financial statements of banks”, dated 24 October 1996 and its subsequent amendments.

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



Jonas Akelis  
Auditor’s licence No. 000003

Vilnius,  
28 February 2005



The year of 2004 has brought success to the Lithuanian PAREX bankas: it was marked by a particularly high growth rate of key financial indicators, continuous increase of customer number and enhanced range and quality of services.

The Bank assets grew by 15,6 percent during the year and amounted to LTL 444 million. The portfolio of loans granted to the Bank customers (net value) increased by 55 percent and reached LTL 243 million. The growth rate of PAREX bankas portfolio of loans exceeded the average domestic market rate (according to *Lietuvos bankas* data, during 2004 the share of loans provided by commercial banks grew by 39.7 percent). Provisions for loan losses in the customer loan portfolio by the end of the accounting year made up only 0.5 percent.

Successfully planned Bank strategy determined the trend of growth in many segments and allowed achievement of even better results than planned, especially in retail banking. The number of private customers reached almost 23 thousand and the total portfolio of loans to private customers as of December 31, 2004 was LTL 107 million, i.e. since the end of 2003 has increased by 133 percent.

During 2004, deposits from the public segment grew by 17 percent and by the end of 2004 totalled to LTL 218 million thus testifying the growing customer trust and loyalty to PAREX bankas.

In 2004, PAREX bankas earned LTL 5.5 million of net audited profit thus surpassing the target by 12 percent.

In 2004, PAREX bankas consolidated its position within the market by offering a wider range of banking products and original marketing campaigns.

In pursue of increasing the number of card holders, in autumn there were introduced two new methods of crediting payment cards and conducted an effective marketing campaign. Now the customers may choose to repay their credit either periodically by 10 percent monthly instalments or by free instalments at any time they can afford, provided that upon the expiry of card validity the total amount of credit is covered.

During the year 2004, PAREX bankas continued the strategy of Family bank and offered to families discounts on interest rates of mortgage loans; moreover, it presented the loyalty program with discounts in more than 156 partner stores all over Lithuania.

In 2004, PAREX bankas held public events aimed at the enhancement of PAREX bankas awareness and promotion of PAREX group's wide range of services. Encouraged by successful implementation of EuroBaby project, PAREX bankas, together with the Kaunas city Municipality, arranged an event called Provisional Capital Day. This measure strengthened the relationships with the Kaunas city authorities and citizens thus opening new prospects for cooperation.

Significant changes were introduced in the area of Information Technologies (IT), too. The improvements in the banking system enabled reduction of IT costs and progress of performance quality. PAREX bankas implemented an IT assets management system conforming to ISO/IEC 17799:2000. The Bank will further undertake projects performed on the ongoing basis to ensure high security and efficiency of its IT infrastructure

In 2004, there was made a considerable progress in the field of payment cards and the migration of cards system data to BIS FORPOST was successfully completed. This has reduced the volume of manual work and the likelihood of human errors. Furthermore, now the customers are able to see the actual balance of their card accounts and any reserved amounts on PAREX internet bank. BIS FORPOST has also improved the quality of customer service and reduced the services delivery time.

In the previous year, PAREX bankas managed to strengthen its position within the market of retail banking and medium size business. Continuous implementation and improvement of banking products developed by individual market segments and specific customer needs is supposed to help the Bank to maintain high level of growth rate and successfully achieve the targets in 2005, too.

A handwritten signature in black ink, appearing to read "Janis Tukans".

**Janis Tukans**  
Chairman of the Board

February 2005

**BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003**  
(All amounts in LTL thousand unless otherwise stated)

Form 1

No.	Item	Notes	Current financial year			Previous financial year		
			Bank	Consolidated		Bank	Consolidated	
				Financial Group	Entire Group		Financial Group	Entire Group
1	2	3	4	5	6	7	8	9
<b>Assets</b>								
1.	Cash, precious metals and other valuables		10,577	-	-	9,308	-	-
2.	Placements with the central banks	2	23,881	-	-	20,589	-	-
3.	Due from banks and other credit and financial institutions	3	54,831	-	-	62,991	-	-
3.1.	Deposits		48,542	-	-	59,301	-	-
3.2.	Repurchase agreements		-	-	-	3,690	-	-
3.3.	Loans		6,289	-	-	-	-	-
4.	Short-term treasury bills	12	-	-	-	-	-	-
5.	Loans to customers	4, 5	243,335	-	-	156,559	-	-
6.	Financial lease		-	-	-	-	-	-
8.	Debt securities	7, 12	89,975	-	-	111,400	-	-
9.	Claims due to derivative agreements		103	-	-	130	-	-
10.	Equity securities	7, 12	100	-	-	885	-	-
10.1	Investments accounted for under the equity method		-	-	-	-	-	-
11.	Intangible fixed assets (less amortization)	9	751	-	-	703	-	-
12.	Tangible fixed assets (less depreciation)	10	17,847	-	-	18,585	-	-
12.1	Buildings and other real estate		13,346	-	-	13,543	-	-
12.2	Vehicles		538	-	-	607	-	-
12.3	Office equipment and other		3,963	-	-	4,435	-	-
13.	Accrued income and deferred expenses	12, 30	1,129	-	-	754	-	-
14.	Other assets	11	1,679	-	-	2,373	-	-
16.	<b>Total assets</b>		<b>444,208</b>	<b>-</b>	<b>-</b>	<b>384,277</b>	<b>-</b>	<b>-</b>

(continued on the next page)

**BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003**  
(All amounts in LTL thousand unless otherwise stated)





No.	Item	Notes	Current financial year			Previous financial year		
			Bank	Consolidated		Bank	Consolidated	
				Financial Group	Entire Group		Financial Group	Entire Group
1	2	3	4	5	6	7	8	9
<b>Liabilities</b>								
17.	Due to the central banks		-	-	-	-	-	-
18.	Due to banks and other credit and financial institutions	13	166,871	-	-	143,932	-	-
18.1.	Deposits		166,871	-	-	143,932	-	-
18.2.	Repurchase agreements		-	-	-	-	-	-
18.3.	Loans		-	-	-	-	-	-
19.	Deposits and letters of credit	14	218,221	-	-	186,818	-	-
20.	Liabilities due to derivative agreements		150	-	-	8	-	-
21.	Special and lending funds	15	-	-	-	-	-	-
22.	Debt securities issued	16	-	-	-	-	-	-
23.	Accrued expenses and deferred income	31	1,732	-	-	1,444	-	-
24.	Subordinated loans	17	8,030	-	-	8,030	-	-
25.	Other liabilities	17	16,448	-	-	16,659	-	-
27.	<b>Total liabilities</b>		<b>411,452</b>	-	-	<b>356,891</b>	-	-
<b>Shareholders' equity</b>								
30.	<b>Capital and reserves</b>		<b>32,756</b>	-	-	<b>27,386</b>	-	-
30.1	Registered share capital		31,000	-	-	31,000	-	-
30.2	Treasury shares		-	-	-	-	-	-
30.3	Share premium		-	-	-	-	-	-
30.4	Fixed assets revaluation reserve		-	-	-	-	-	-
30.5	Financial assets revaluation reserve		737	-	-	833	-	-
30.6	Retained earnings (deficit)	18	(5,365)	-	-	(11,432)	-	-
30.7	Net profit (loss) for the year	18	5,466	-	-	6,067	-	-
30.8	Other capital and reserves		918	-	-	918	-	-
30.9.	Funds of branch (division) of foreign bank received form the central office		-	-	-	-	-	-
31.	<b>Minority interest</b>		x	-	-	x	-	-
32.	<b>Total liabilities and shareholders' equity</b>		<b>444,208</b>	-	-	<b>384,277</b>	-	-

(end)

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

These financial statements presented on pages 4 - 38 were approved on behalf of the Bank by:

Chairman of the Board	Janis Tukans	
Chief Accountant	Dalia Steponaityt	

**OFF-BALANCE SHEET ITEMS AS OF 31 DECEMBER 2004 AND 2003**



(All amounts in LTL thousand unless otherwise stated)

No.	Item	Notes	Current financial year			Previous financial year		
			Bank	Consolidated		Bank	Consolidated	
				Financial Group	Entire Group		Financial Group	Entire Group
1	2	3	4	5	6	7	8	9
<b>Claims and liabilities of the Bank *</b>								
1.	Guarantees and warranties issued		17,375	-	-	2,477	-	-
2.	Issued letters of credit		2	-	-	2,047	-	-
3.	Crediting commitments		17,426	-	-	12,912	-	-
4.	Other commitments	19	4,377	-	-	5,089	-	-
5.	Financial derivatives	19	x	-	-	x	-	-
5.1.	Amounts receivable (claims)		40,101	-	-	171,787	-	-
5.2.	Amounts payable (liabilities)		40,136	-	-	171,659	-	-

(end)

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

These financial statements presented on pages 4 - 38 were approved on behalf of the Bank by:

Chairman of the Board	Janis Tukans	
Chief Accountant	Dalia Steponaityt	

**INCOME STATEMENTS THE YEAR ENDED 31 DECEMBER 2004**  
(All amounts in LTL thousand unless otherwise stated)



Form 2

No.	Item	Notes	Current financial year			Previous financial year		
			Bank	Consolidated		Bank	Consolidated	
				Financial Group	Entire Group		Financial Group	Entire Group
1	2	3	4	5	6	7	8	9
<b>1.</b>	<b>Interest income</b>		<b>17,231</b>	-	-	<b>14,960</b>	-	-
1.1.	on loans to credit and financial institutions and placements with credit institutions		688	-	-	681	-	-
1.2.	on other loans		12,227	-	-	10,126	-	-
1.3.	on subordinated loans		-	-	-	-	-	-
1.4.	on debt securities purchased		4,316	-	-	4,153	-	-
1.5.	on financial lease		-	-	-	-	-	-
1.6.	other interest income		-	-	-	-	-	-
<b>2.</b>	<b>Interest expenses</b>		<b>6,589</b>	-	-	<b>5,349</b>	-	-
2.1.	on liabilities to credit and financial institutions and amounts due to financial institutions		4,798	-	-	3,009	-	-
2.2.	on deposits and other repayable funds		1,791	-	-	2,340	-	-
2.3.	on subordinated loans		-	-	-	-	-	-
2.4.	on debt securities issued		-	-	-	-	-	-
2.5.	other interest expenses		-	-	-	-	-	-
<b>3.</b>	<b>Interest income, net (1-2)</b>		<b>10,642</b>	-	-	<b>9,611</b>	-	-
<b>4.</b>	<b>Provision expenses</b>		<b>(606)</b>	-	-	<b>(785)</b>	-	-
4.1.	for loans and accrued interest		347	-	-	960	-	-
4.2.	for guarantees and warranties		4	-	-	14	-	-
4.3.	for the risk of doubtful assets		218	-	-	147	-	-
4.4.	adjustments of expenses incurred due to the recovery of the previously written-off loans		(1,175)	-	-	(1,906)	-	-
<b>5.</b>	<b>Net interest income after provisions (3-4)</b>		<b>11,248</b>	-	-	<b>10,396</b>	-	-
6.	Service fees and commission income	28	7,543	-	-	7,236	-	-
7.	Service fees and commission expenses	28	1,951	-	-	1,740	-	-
<b>8.</b>	<b>Interest, service fees and commission income, net (5+6-7)</b>		<b>16,840</b>	-	-	<b>15,892</b>	-	-
<b>9.</b>	<b>Gain from equity securities</b>		-	-	-	-	-	-
9.1.	gain (loss) on investments accounted for under the equity method		-	-	-	-	-	-
<b>10.</b>	<b>Realized profit (loss)</b>		<b>5,284</b>	-	-	<b>4,790</b>	-	-
10.1.	from operations in foreign currency		4,090	-	-	2,949	-	-
10.2.	from operations in debt securities		2,173	-	-	2,806	-	-
10.3.	from operations in equity securities		9	-	-	90	-	-
10.4.	from operations in derivative and other financial instruments		(988)	-	-	(1,055)	-	-
<b>11.</b>	<b>Unrealized profit (loss)</b>		<b>913</b>	-	-	<b>1,522</b>	-	-
11.1.	from operations in foreign currency		950	-	-	1,351	-	-
11.2.	from operations in debt securities		-	-	-	-	-	-
11.3.	from operations in equity securities		(2)	-	-	49	-	-
11.4.	from operations in derivative other financial instruments		(35)	-	-	122	-	-

(continued on the next page)

**INCOME STATEMENTS THE YEAR ENDED 31 DECEMBER 2004**



(All amounts in LTL thousand unless otherwise stated)

No.	Item	Notes	Current financial year			Previous financial year		
			Bank	Consolidated		Bank	Consolidated	
				Financial Group	Entire Group		Financial Group	Entire Group
1	2	3	4	5	6	7	8	9
12.	<b>Profit from operations (8+9+10+11)</b>		<b>23,037</b>	-	-	<b>22,204</b>	-	-
13.	<b>Other banking income</b>		13	-	-	8	-	-
14.	<b>Operating expenses</b>		<b>12,723</b>	-	-	<b>11,849</b>	-	-
14.1.	salaries, social security and other related expenses	33	7,497	-	-	6,943	-	-
14.2.	training and business trips expenses		112	-	-	84	-	-
14.3.	rent and premises maintenance expenses		984	-	-	1,063	-	-
14.4.	transportation and communication		998	-	-	985	-	-
14.5.	advertising, marketing		594	-	-	569	-	-
14.6.	other administrative expenses	35	2,538	-	-	2,205	-	-
15.	<b>Other Bank's expenses</b>	36	<b>2,603</b>	-	-	<b>2,042</b>	-	-
16.	<b>Depreciation and amortization expenses</b>		<b>2,131</b>	-	-	<b>2,084</b>	-	-
17.	<b>Expenses for other specific provisions</b>		<b>140</b>	-	-	<b>91</b>	-	-
17.1.	provisions for other doubtful assets		105	-	-	91	-	-
17.2.	provisions for off-balance sheet items		35	-	-	-	-	-
18.	<b>Profit from the ordinary activities (12+13-14-15-16-17)</b>		<b>5,453</b>	-	-	<b>6,146</b>	-	-
19.	Extraordinary result (loss)		13	-	-	(79)	-	-
20.	<b>Profit (loss) before tax (18+19)</b>		<b>5,466</b>	-	-	<b>6,067</b>	-	-
21.	Income tax		-	-	-	-	-	-
22.	Deferred taxes and income tax adjustment		-	-	-	-	-	-
23.	Minority interest in income (loss)		-	-	-	-	-	-
24.	<b>Net profit (loss)</b>		<b>5,466</b>	-	-	<b>6,067</b>	-	-
25.	<b>Basic earnings per share (in LTL)</b>		<b>17.63</b>	-	-	<b>19.57</b>	-	-

(end)

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

These financial statements presented on pages 4 - 38 were approved on behalf of the Bank by:

Chairman of the Board	Janis Tukans	
Chief Accountant	Dalia Steponaityt	

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2004**  
(All amounts in LTL thousand unless otherwise stated)



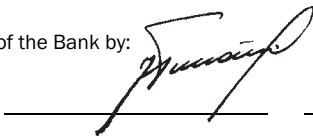

Form 3

No.	Item	Current financial year	Previous financial year
1	2	3	4
<b>Cash flows from banking activities</b>			
1.	<b>Income (expenses)</b>		
1.1.	Interest income	18,650	13,146
1.2.	Interest (expenses)	(6,261)	(5,228)
1.3.	Recovery of loans previously written-off	1,175	1,906
1.4.	Income from foreign exchange operations, net	4,090	1,894
1.5.	Income on securities, net	2,182	2,896
1.6.	Service fees and commission income, net	5,592	5,496
1.7.	Remuneration-related expenses	(7,507)	(6,895)
1.8.	Other income (expenses)	(8,889)	(9,156)
A.	Operating result	<b>9,032</b>	<b>4,059</b>
2.	<b>(Increase) decrease in current assets</b>		
2.1.	(Increase) in compulsory reserves held with the central bank	(1,539)	(588)
2.2.	Decrease (increase) in loans to credit and financial institutions	(6,324)	2,198
2.3.	(Increase) decrease in loans	(87,109)	(6,430)
2.4.	Decrease (increase) in securities	-	1,943
2.5.	(Increase) decrease in other current assets	808	392
B.	Changes in current assets	<b>(94,164)</b>	<b>(2,485)</b>
3.	<b>Increase (decrease) in liabilities</b>		
3.1.	Increase (decrease) in liabilities to the central bank	-	-
3.2.	Increase (decrease) in liabilities to credit and financial institutions	22,939	(33,184)
3.3.	Increase (decrease) in public deposits and letters of credit	31,403	58,682
3.4.	Increase (decrease) in other liabilities	580	6,728
C.	Changes in liabilities	<b>54,922</b>	<b>32,226</b>
D.	Net cash flows from banking activities before taxes (A+B+C)	<b>(30,210)</b>	<b>33,800</b>
4.	<b>Income tax</b>	-	-
E.	Net cash flows from banking activities after taxes (D-4)	<b>(30,210)</b>	<b>33,800</b>
<b>Cash flows from investing activities</b>			
5.	Disposals (acquisitions) of tangible and intangible fixed assets	(1,472)	(775)
6.	(Investments into) and sale of securities	20,370	(15,707)
7.	Dividends received	-	-
8.	Interest received	-	-
9.	Cash flows from other investing activities	-	-
F.	Net cash flows from investing activities	<b>18,898</b>	<b>(16,482)</b>
<b>Cash flows from financing activities</b>			
10.	Issue of own securities (only paid part)	-	-
11.	(Purchase) of own securities	-	-
12.	Dividends paid	-	-
13.	Interest paid	-	-
14.	Cash flows from other financial activities	-	-
G.	Net cash flows from financing activities	-	-
<b>Increase (decrease) in cash (E+F+G)</b>		<b>(11,312)</b>	<b>17,318</b>
15.	Cash and cash equivalents at the end of the financial year	65,121	76,433
16.	Cash and cash equivalents at the beginning of the financial year	76,433	59,115

(end)

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

These financial statements presented on pages 4 - 38 were approved on behalf of the Bank by:

Chairman of the Board	Janis Tukans		
Chief Accountant	Dalia Steponaityt		

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004**

(All amounts in LTL thousand unless otherwise stated)

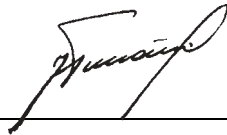

Form 4

No.	Item	Current financial year			Previous financial year			Increase (+) or decrease (-)		
		Bank	Consolidated		Bank	Consolidated		Bank	Consolidated	
			Financial Group	Entire Group		Financial Group	Entire Group		Financial Group	Entire Group
1	2	4	5	6	7	8	9	7	8	9
<b>1. Capital and reserves</b>										
1.1.	Registered share capital	31,000	-	-	31,000	-	-	-	-	-
1.2.	(Treasury shares)	-	-	-	-	-	-	-	-	-
1.3.	Share premium	-	-	-	-	-	-	-	-	-
1.4.	Reserve capital	917	-	-	917	-	-	-	-	-
1.5.	Retained earnings or deficit	(5,365)	-	-	(11,432)	-	-	6,067	-	-
1.6.	General provision for asset losses	-	-	-	-	-	-	-	-	-
1.7.	Other general reserves	1	-	-	1	-	-	-	-	-
1.8.	Fixed assets revaluation reserve	-	-	-	-	-	-	-	-	-
1.9.	Financial assets revaluation reserve	737	-	-	833	-	-	(96)	-	-
1.10.	Restricted (distributable) profit	-	-	-	-	-	-	-	-	-
1.11.	Net profit for the year	5,466	-	-	6,067	-	-	(601)	-	-
<b>2. Total shareholders' equity</b>		<b>32,756</b>	<b>-</b>	<b>-</b>	<b>27,386</b>	<b>-</b>	<b>-</b>	<b>5,370</b>	<b>-</b>	<b>-</b>

(end)

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

These financial statements presented on pages 4 - 38 were approved on behalf of the Bank by:

Chairman of the Board	Janis Tukans	
Chief Accountant	Dalia Steponaityt	

## **GENERAL PROVISIONS**

AB PAREX BANKAS (hereinafter referred to as “the Bank”) arranges its financial accounting and prepares financial statements in accordance with resolutions of the Bank of Lithuania and International Financial Reporting Standards to the extent they are in compliance with the laws and other legal acts of the Republic of Lithuania.

The financial statements are prepared in accordance with the requirements of the decree of the Board of the Bank of Lithuania No. 294 “On publication of financial statements of banks”, dated 24 October 1996 and its subsequent amendments.

Only financial information of the Bank is presented in these financial statements, as the Bank does not own any subsidiaries.

The preparation of the financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Significant estimates for the preparation of the accompanying financial statements are made in the event of depreciation, loan loss provisioning and impairment evaluation. 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.

## **ACCOUNTING PRINCIPLES**

The principal accounting policies adopted while preparing these financial statements are set out below:

### Presentation currency

The accounting is arranged and the accompanying financial statements are presented in the local currency of the Republic of Lithuania, the Litas (LTL).

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3,4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

### Revenue and expense recognition

Interest income is recognized on accrual basis. Provisions are made for accrued interest income of loans, which are regarded as bad or doubtful debts, and accrued interest income. Interest is no longer accrued from the moment when the payment of loan or the interest is overdue for more than 30 days. All interest income, which was previously recognized as income but were not received, are recognized as provision expenses in the income statement and decrease of current assets in the balance sheet when certain loan is attributed to the bad loans group.

Interest expenses are recognized on accrual basis.

Income from commission fees and other activities is recognized at the date of related transaction, except for the account servicing fees which are recognized at the end of every month. Commission fees, and other expenses are recognised as incurred.

Cash received during an accounting period, which is not recognized as income for the period, is shown in the balance sheet as a liability, and expenses incurred during an accounting period, which are not recognized as expenses of the period, are shown in the balance sheet as an asset.

### Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. Licences and software is amortised over a period not exceeding 5 years. Amortisation expenses for the year are included into the income statement.

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repair and maintenance costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance and / or that they have resulted in an increase of the useful life of the asset, the expenditures are capitalised as an additional cost of property, plant and equipment. The minimal acquisition cost applied for property, plant and equipment is LTL 500.

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

Buildings	70 years
Office equipment	4 – 6 years
Vehicles	6 years

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

When the estimated fair value of an asset is lower than its balance value, the balance value of this asset should be immediately reduced to the amount of fair value and such impairment shall be recognised as expenses. However, such impairment shall be 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.

When the estimated fair value of an asset is higher than its balance value, the balance value of this asset should be increased to the amount of fair value and such increase shall be recorded in the revaluation reserve of non-financial assets under the capital caption. However, such increase in value shall be recognised as income only to the extent it does not exceed the amount of the previous revaluation decrease recognised as expenses.

### Loans and prepayments

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Bank and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers. The Bank grants the loans after the documentation presented by the borrower is analysed and approved by the Credit committee and the Board of Directors. The approval of Credit Committee of A/S Parex Banka is required if the loan exceeds LTL 600 thousand.

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Specific provisions

Specific provisions are formed for the loans, prepayments, guarantees and other doubtful assets and are recognised as expenses in the statement of income. The demand of such specific provisions is set on each instance based on Rules for Doubtful Assets Evaluation, Grouping and Formation of Specific Provisions, approved by AB Parex bank based on the resolution of the Board of the Bank of Lithuania dated 20 March 2003 No 15 Regarding Approval of General Provisions on Evaluation, Grouping and Formation of Specific Provisions. Based on those provisions, the Bank uses the following grouping of the loans, accrued amounts, guarantees and other doubtful assets and percentage of provisions:

1. Standard loans	0 percent
2. Possible risk loans	1-15 percent
3. Increased risk loans	15-40 percent
4. Doubtful loans	40-60 percent
5. Bad loans	100 percent

While setting the demand on specific provisions the evaluation of the client is made based on how the client follows the loan and interest payment schedule and overall financial position of the client. Provisions are calculated less the value of the collateral, multiplied by a certain coefficient. Coefficients applied to the value of collateral are based on the type of the collateral.

In the case of loans to borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and additional country risk provisions are established.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairments; subsequent recoveries are credited to the adjustment of expenses incurred due to the recovery of the previously written-off loans in the income statement.

If the amount of the impairment subsequently decreases, the release of the provision is recognised as adjustment of expenses incurred due to the recovery of the previously written-off loans in the income statement.

### Maturity of assets and liabilities

The maturity of the Bank's assets and liabilities is presented in Note 22 and shows the remaining period from the balance sheet date to the actual maturity.

### Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognized at cost (including transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in income from trading securities or securities available for sale. Interest earned while holding trading securities is reported as interest income. Dividends received are included in income from trading securities or securities available for sale.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognized at trade date (the date that the Bank commits to purchase or sell the asset). Otherwise such transactions are treated as derivatives until settlement occurs.

### 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 accrued over the life of repurchase agreements using fixed interest rate for the whole period.

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

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Available-for-sale financial assets

Investments in securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity securities' prices are classified as available-for-sale.

Available-for-sale financial assets are initially stated at cost and subsequently re-measured at fair value based on available market prices or quotes of brokers. All purchases and sales of available-for-sale securities are recognised on the trade date. The result of revaluation of available for sale securities is recognised in equity as fair value reserve. When the securities are disposed of, the related accumulated fair value revaluation is included in the statement of income as profit (loss) from trading securities. If there is objective evidence that the value of investment has been impaired, the cumulative net loss that has been recognised directly in equity is charged to the statement of income and the asset is stated in the balance sheet at the recoverable amount calculated as discounted future cash flows using current market interest rate for similar financial assets.

### Investment portfolio

The investment portfolio comprises treasury bills and other fixed income securities that the Bank has the intent and ability to hold to maturity. All purchases and sales of held-to-maturity securities (investment portfolio) are recognised on the trade date. The investment portfolio is valued based on amortised cost using the effective interest rate method, less any provision for impairment. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as a difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

### Derivative financial instruments

In the normal course of business, the Bank engages in forward, swap and other contracts. Subsequent to initial recognition and measurement, outstanding forwards, currency swaps and other financial instruments are carried in the balance sheet at the fair value. The estimated fair values of these contracts are reported on a gross basis as financial assets held for trading for contracts having a positive fair value; and financial liabilities held for trading for contracts with a negative fair value. Contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis.

Gain or loss from changes in the fair value of outstanding forward contracts, currency swaps, options and other financial instruments, which are not classified as hedging instruments, are recognised in the statement of income as they arise.

### Foreclosed assets held for resale

Assets acquired through foreclosures are recorded at the estimated fair value at time of foreclosure, net of disposal cost. Write-downs from cost to fair value at the time of foreclosure are charged to the income statement. Subsequent adjustments to the fair value are charged to the provision for those foreclosed assets held for resale. Gains or losses recognized on the sale of such assets are included in the income statement. Determinations of fair value are based on periodic appraisals, which are subject to significant fluctuations as economic conditions change.

### Borrowings and borrowing costs

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost using the method of actual interest rate, the difference between net proceeds and redemption value being recognised in the income statements over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

### Operating lease

Leases of assets under which substantially all 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 an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis. The future minimum lease payments under non-cancellable operating lease are specified in Note 29.

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Hedge accounting

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

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

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the statement of income. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the statement of income in the period in which the hedged transaction impacts the statement of income or included in the initial measurement of the cost of the related asset or liability.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of income.

### Purchase of debts (factoring)

A factoring transaction is a funding transaction wherein the Bank finances its customers through buying their claims. Companies alienate rights to invoices due at a future date to the Bank. Factoring transactions comprise factoring transactions with a right to recourse (the Bank is entitled to selling the overdue claim back to 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 on the payment term set by the purchaser.

The factoring balance includes the aggregate amount of factored invoices outstanding as of the end of accounting period.

### Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of income.

### Fair values of financial assets and liabilities

For financial instruments traded in organised financial markets fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. For unquoted equity investments fair value is based on the expected discounted cash flows. 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.

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Taxation

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

The standard income tax rate in Lithuania is 15%. Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

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

Road tax of 1% is imposed on income from interest margin and on other income. Real estate tax is calculated as 1% on the value of property, plant and equipment.

### Cash and cash equivalents

Cash includes cash, precious metals, placements with the corresponding accounts of the Bank of Lithuania and other banks.

For the purposes of producing the cash flow statement, highly liquid investments with the redemption term of at least 3 months are regarded as cash equivalents. Mandatory reserves held in the Bank of Lithuania are not included into cash equivalents.

### Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into LTL at the official exchange rate prevailing as of 31 December 2004 and 2003. Gains and losses arising from this translation are included in the income statements. All non-monetary items are translated at historical rates.

Transactions denominated in foreign currency are recorded at the exchange rate prevailing as of the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the statement of income at the time of settlement using the exchange rate prevailing as of that date.

### Related parties

In accordance with the Law on Commercial Banks of the Republic of Lithuania, related parties of a bank are: 1) owners and their management of a block of shares in the Bank and its subsidiaries, the spouses and their brothers (sisters), parents, grandparents and children of such owners or their management as well as companies controlled by such owners more than 10% of their ownership capital, 2) companies owned by the Bank more than 10% of their ownership capital 3) management of the Bank and its subsidiaries, their spouses and their brothers (sisters), parents, grandparents and children of such management, as well as companies controlled by such owners more than 10% of their ownership capital.

For the purposes of these financial statements, parties are also considered as related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

## **ACCOUNTING PRINCIPLES (CONT'D)**

### Contingencies

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

### Subsequent events

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

### Corresponding figures

Where necessary, the corresponding figures have been adjusted to conform with changes in presentation in the current year.



**Note 1. Activity of credit institution**

AB PAREX BANKAS (hereinafter referred to as “the Bank”) was founded on 24 October 1996 (as AB Industrijos Bankas, and on 5 October 2000, according to the resolution of the Bank of Lithuania No. 127, the official name of the Bank was changed from AB Industrijos Bankas to AB PAREX BANKAS). The address of its registered office is as follows:

K. Kalinausko g. 13,  
Vilnius, 03107  
Lietuva

The Bank has 6 branches in Lithuania (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys and Alytus).

On 16 July 1998, according to the resolution of the Bank of Lithuania No. 134, the Bank was granted license No. 17 that allowed the Bank to perform all operations of a commercial bank. The Bank accepts deposits, grants loans, performs monetary and documentary settlements, exchanges currencies and grants guarantees for its clients. The Bank also trades in securities, provides consulting and custody services.

As of 31 December 2004 the Bank employed 186 employees (192 employees as of 31 December 2003).

As of 31 December 2004 and 2003 A/S Parex Banka (Latvia) was the sole shareholder of the Bank.

The issued share capital of the Bank consists of 310 thousand ordinary shares with the par value of LTL 100 each. As of 31 December 2004 all shares were fully paid.

**Note 2. Placements with the central banks**

	<b>Current financial year</b>	<b>Previous financial year</b>
Funds in correspondent accounts	3,820	2,562
Compulsory reserves in local currency	6,213	5,718
Compulsory reserves in foreign currencies	13,848	12,309
Total placements with Bank of Lithuania	<u>23,881</u>	<u>20,589</u>

The compulsory reserves are held with the Bank of Lithuania according the requirements of the Bank of Lithuania as non-interest bearing deposits. The amount depends on liabilities of the Bank in Litas and foreign currencies. As of 31 December 2004 and 31 December 2003 the rate of compulsory reserves was to 6%.

**Note 3. Due from banks and other credit and financial institutions**

	<b>Current financial year</b>	<b>Previous financial year</b>
Funds in correspondent accounts	44,511	58,845
Deposits	4,175	456
Repurchase agreements*	-	3,690
Loans	6,295	-
short-term (within one year)	-	-
long-term (over one year)	6,295	-
Total	<u>54,981</u>	<u>62,991</u>
(Provisions):		
(specific provisions)	(101)	-
(specific provisions for the general risk of loan portfolio)	(49)	-
Total, net of provisions	<u>54,831</u>	<u>62,991</u>

\* As of 31 December 2003 there were 9 reverse repurchase transactions with financial brokerage company AB Finasta, which mature until 23 March 2004.

As of 31 December 2004 two Litas denominated long-term loans for insurance companies were granted by the Bank.

**Note 3. Due from banks and other credit and financial institutions (cont'd)**

As of 31 December 2004 the Bank had 92 correspondent accounts (170 correspondent accounts as of 31 December 2003) in 32 banks (56 banks as of 31 December 2003), 14 of which were registered in Organisation of economic co-operation and development (OECD) countries, 7 in Russia, 2 in Lithuania, 1 in Latvia, 1 in Estonia, 1 in Azerbaijan, 4 in Byelorussia and 2 in the Ukraine. Based on the decision of the Board, during 2004 most of the correspondent accounts in Russian banks were closed in order to manage the funds more effectively.

**4 Note. Loans to customers**

	<u>Current financial year</u>	<u>Previous financial year</u>
Loans to customers		
short-term (within one year)	30,457	18,609
long-term (after one year)	211,569	129,198
Total loans	<u>242,026</u>	<u>147,807</u>
Reverse repurchase agreements	394	6,904
Factoring	2,132	2,959
Discounted bills of exchange		
Short-term	-	-
Long-term	-	-
Total	<u>244,552</u>	<u>157,670</u>
(Provisions):		
(specific provisions)	(972)	(964)
(specific provisions for the total risk of loan portfolio)	(245)	(147)
Total, net of provisions	<u><u>243,335</u></u>	<u><u>156,559</u></u>

change in provision for possible credit losses during 2004 and 2003 are presented in the table below:

	<u>For loans</u>	<u>For accrued interest</u>	<u>Total provisions</u>
Specific provisions as of 1 January 2003	<u>1,964</u>	<u>8</u>	<u>1,972</u>
Specific provisions charged to the statement of income	951	9	960
Provisions for loan portfolio charged to the statement of income	147	-	147
Provisions of written-off loans	(1,951)	(9)	(1,960)
Specific provisions as of 1 January 2004	<u>1,111</u>	<u>8</u>	<u>1,119</u>
Specific provisions charged to the statement of income	340	7	347
Provisions loan portfolio charged to the statement of income	98	-	98
Provisions of written-off loans	(332)	(10)	(342)
Specific provisions as of 31 December 2004	<u><u>1,217</u></u>	<u><u>5</u></u>	<u><u>1,222</u></u>

**4 Note. Loans to customers (cont'd)**

	<b>Current financial year</b>	<b>Previous financial year</b>
<b>Specific provisions as of 1 January 2004</b>	964	1,964
Increase in specific provisions:		
due to increased risk	3,307	979
due to change in foreign exchange rates	31	46
Decrease in specific provisions:		
due to decreased or eliminated risk	2,904	1,412
due to written off loans	414	459
due to change in foreign exchange	12	154
<b>Specific provisions as of 31 December 2004</b>	<b>972</b>	<b>964</b>
	<b>Current financial year</b>	<b>Previous financial year</b>
<b>Specific provisions for loan portfolio as of 1 January 2004</b>	<b>147</b>	-
Increase in specific provisions	98	147
(Decrease) in specific provisions	-	-
<b>Specific provisions for loan portfolio as of 31 December 2004</b>	<b>245</b>	<b>147</b>

**Note 5. Loans by economic activities**

The breakdown of loans by industries is presented in the table below:

<b>Loans by economic activities</b>	<b>Current financial year</b>			<b>Specific provisions</b>
	<b>Short term loans</b>	<b>Long term loans</b>	<b>Total loans</b>	
Loans to legal entities by industries:				
Agriculture, hunting and forestry	475	878	1,353	1
Fishery	-	300	300	-
Mining and pit running	2,200	-	2,200	2
Manufacturing	1,175	4,189	5,364	12
Electricity, gas and water supply	-	6,747	6,747	7
Construction	9,025	16,161	25,186	26
Retail and wholesale trade	7,976	36,871	44,847	218
Hotels and restaurants	3,588	9,116	12,704	133
Transport, storage and telecommunications	2,958	6,360	9,318	10
Financial mediation	394	-	394	-
Real estate, rent and other	1,038	13,335	14,373	83
State management and defence	-	7,113	7,113	7
Education	-	26	26	-
Healthcare and social work	109	2,290	2,399	3
Other utility, social and service activities	900	4,347	5,247	271
Total loans to legal entities	29,838	107,733	137,571	773
To individuals	3,145	103,836	106,981	444
Total loans granted	32,983	211,569	244,552	1,217

**Note 5. Loans by economic activities (cont'd)**

Loans by economic activities	Previous financial year			Specific provisions
	Short term loans	Long term loans	Total loans	
Loans to legal entities by industries:				
Agriculture, hunting and forestry	50	1,381	1,431	-
Mining and pit running	4,380	-	4,380	-
Manufacturing	641	11,029	11,670	-
Electricity, gas and water supply	-	5,692	5,692	-
Construction	4,584	4,862	9,446	-
Retail and wholesale trade	8,715	27,192	35,907	787
Hotels and restaurants	-	5,912	5,912	-
Transport, storage and telecommunications	37	4,110	4,147	-
Financial mediation	6,704	-	6,704	-
Real estate, rent and other	302	4,000	4,302	-
State management and defence	-	9,266	9,266	-
Education	-	43	43	-
Healthcare and social work	16	1,931	1,947	-
Other utility, social and service activities	1,380	4,486	5,866	-
Loans, not attributed to any economic activities	87	4,698	4,785	154
Total loans to legal entities	26,896	84,602	111,498	941
To individuals	1,576	44,596	46,172	170
Total loans granted	28,472	129,198	157,670	1,111

As of 31 December 2004 AB PAREX BANKAS complied with the maximum credit exposure to one borrower requirement set by the Bank of Lithuania, according to which the total amount of loans granted to one borrower and related parties may not exceed 25% of the eligible Bank's capital.

As of 31 December 2004 the largest exposure to one borrower was 22.87% of the eligible Bank's capital (24.66% of the eligible Bank's capital as of 31 December 2003).

**Note 6. Financial lease**

In 2004 and 2003 AB PAREX BANKAS was not engaged in financial lease activities.

**Note 7. Debt and equity securities**

Debt securities	Current financial year	Previous financial year
	Government treasury securities of the Republic of Lithuania	22,064
Bonds issued by Lithuanian entities	-	7,048
Bonds issued by foreign entities	67,979	39,854
Total	90,043	111,400
General provisions for debt securities of banks and other companies	(68)	-
Total debt securities, net	89,975	111,400

Equity securities	Current financial year	Previous financial year
	Listed on the Vilnius Stock Exchange of Lithuania	-
Not listed	70	101
Shares of investment funds	30	784
Total	100	885

Equity securities represent investments in Lithuanian and foreign entities shares accounted for at the fair value.

**Note 8. Financial assets**

	<b>Current financial year</b>	<b>Previous financial year</b>
<b>Debt securities</b>		
<b>Trading financial assets</b>		
Equity securities	30	784
Debt securities	-	-
Treasury securities	-	-
Loans	-	-
	30	784
<b>Investments held to maturity</b>		
Debt securities	-	-
Treasury securities	-	-
	-	-
<b>Financial assets available for sale</b>		
Equity securities	70	101
Debt securities*	89,975	111,400
Treasury securities	-	-
	90,050	111,501
<b>Loans and receivables</b>		
Loans*	247,098	146,696
Repurchase agreements	394	10,594
Purchased debts	2,132	2,959
	249,624	160,249
<b>Total</b>	339,699	272,534

\*Debt securities and loans are presented at net book value

As of 31 December 2004 and 2003 investments in debt securities are accounted for at fair value, which is determined based on market prices of the above-mentioned securities. According to IAS 39 "Financial instruments: recognition and measurement" the Bank revalues debt securities to fair value. The difference between the book value and the fair value of trading and available-for-sale securities is accounted for in the income statement and the fair value reserve in shareholder's equity respectively.

**Note 9. Intangible fixed assets**

Changes in intangible assets during the year 2004 are presented in the table below:

	<b>Software</b>	<b>Licences</b>	<b>Total</b>
<b>Acquisition cost</b>			
Balance as of 31 December 2003	883	1,447	2,330
Additions	126	246	372
Disposals	(23)	-	(23)
Balance as of 31 December 2004	986	1,693	2,679
<b>Amortisation</b>			
As of 31 December 2003	854	773	1,627
Charge for the year	31	293	324
Write-offs	(23)	-	(23)
As of 31 December 2004	862	1,066	1,928
<b>Net book value</b>			
As of 31 December 2003	29	674	703
As of 31 December 2004	124	627	751

**Note 10. Property, plant and equipment**

Changes in property, plant and equipment during the year 2004 are presented in the table below:

	<b>Buildings and other real estate</b>	<b>Vehicles</b>	<b>Office equipment and other</b>	<b>Total</b>
<b>Acquisition cost</b>				
As of 31 December 2003	14,282	934	9,085	24,301
Additions	-	86	1,016	1,102
Disposals, write-offs	-	-	(475)	(475)
As of 31 December 2004	14,282	1,020	9,626	24,928
<b>Depreciation</b>				
As of 31 December 2003	739	327	4,650	5,716
Charges for the year	197	155	1,455	1,807
Disposals and write-offs	-	-	(442)	(442)
As of 31 December 2004	936	482	5,663	7,081
<b>Net book value</b>				
As of 31 December 2003	13,543	607	4,435	18,585
As of 31 December 2004	13,346	538	3,963	17,847

Total annual amortization charge is included in operating expenses in the income statement of the Bank.

The Bank has no pledged property, plant and equipment.

**Note 11. Other assets**

	<b>Current financial year</b>	<b>Previous financial year</b>
Money in transit (transit accounts)	1,230	1,852
Repossessed assets	186	186
Advance payments for supplies	15	135
Foreign bank cheques	9	47
Accounts receivable	-	-
Other assets	242	244
	1,682	2,464
Provisions for the general risk of other assets	(3)	
Specific provisions	-	(91)
Total other assets, net	1,679	2,373
	<b>Current financial year</b>	<b>Previous financial year</b>
<b>Specific provisions at the beginning of the financial year</b>	91	-
Increase in specific provisions:		
due to increased risk	-	91
due to changes in foreign exchange	-	-
Decrease in specific provisions:		
due to decreased or eliminated risk	-	-
due to write-off of loans	91	-
due to changes in foreign exchange	-	-
<b>Specific provisions at the end of the financial year</b>	-	91

**Note 11. Other assets (cont'd)**

	<b>Current financial year</b>	<b>Previous financial year</b>
<b>Specific provisions for the general risk of other assets at the beginning of the financial year</b>	-	-
Increase in specific provisions	3	-
(Decrease) in specific provisions	-	-
<b>Specific provisions for the general risk of other assets at the end of the financial year</b>	<b>3</b>	<b>-</b>

**12 Note. Provisions for assets and off balance liabilities**

The breakdown of provisions by type is presented in the table below:

	<b>Current financial year</b>	<b>Previous financial year</b>
Provisions for asset items		
for loans	972	964
for other doubtful assets	-	91
for accrued interest income	5	8
for funds in banks and other credit and financial institutions	101	-
	1,078	1,063
Provisions for off balance sheet items		
for guarantees and warranties	4	14
for general risk of the off balance sheet items	35	-
	39	14
Specific provisions for the general risk of doubtful assets	365	147

**Note 13. Due to banks and other credit and financial institutions**

	<b>Current financial year</b>	<b>Previous financial year</b>
Funds in correspondent accounts	5,434	10,121
Deposits	161,437	133,811
of which deposits pledged for the loans issued	-	-
Repurchase agreements	-	-
Loans		
Short-term (within one year)	-	-
Long-term (over one year)	-	-
Total	166,871	143,932

**Note 14. Deposits and letters of credit**

	<b>Current financial year</b>	<b>Previous financial year</b>
Demand deposits	158,168	117,845
Term deposits		
Short-term (within one year)	53,684	65,793
Long-term (over one year)	6,369	3,180
	60,053	68,973
Total	218,221	186,818

**Note 15. Special and lending funds**

As of 31 December 2004 and 2003 there were no special and lending funds.

**Note 16. Debts securities issued**

As of 31 December 2004 and 2003 there were no debt securities issued by the Bank.

**Note 17. Subordinated loans**

On 26 March 2002 the Bank has signed LTL 360 thousand subordinated loan agreement with A/S Parex Banka for a 4 year period. On 26 March 2002 the Bank has signed LTL 7,670 thousand subordinated loan agreement with A/S Parex Banka for a 7 year period. The both subordinated loans are non-interest bearing and include an option to convert debts to share capital.

**Other liabilities**

	<b>Current financial year</b>	<b>Previous financial year</b>
Cash in transit accounts	15,782	16,001
Amounts payable to suppliers	285	304
Other liabilities	381	354
	<u>16,448</u>	<u>16,659</u>

Cash in transit increased at the end of 2004 due to the amounts transferred to the Bank's customers, accounted for in the customers accounts as of 3 January 2005.

**18 Note. Profit distribution**

	<b>Current financial year</b>	<b>Previous financial year</b>
Retained earnings (deficit) at the beginning of the financial year	(5,365)	(11,432)
Net profit for the current year	5,466	6,067
Distributable profit (loss)	101	(5,365)
Profit distribution:		
Transfers to reserve capital	5	-
Balance of retained earnings at the end of the financial year	96	-
Retained earnings (deficit) at the end of the financial year, transferred to the forthcoming financial year	96	(5,365)

Profit distribution should be approved by the decision of the shareholder of AB PAREX BANKAS.

As of 31 December 2004 and 2003 the share capital of the Bank consisted of 310 thousand ordinary shares with a par value of LTL 100 each (all shares are authorised, issued and fully paid). As of 31 December 2004 and 2003 A/S Parex Banka was the sole shareholder of AB PAREX BANKAS.

Basic earnings per share are calculated by dividing the result of the year by the average amount of shares per year.

	<b>Current financial year</b>	<b>Previous financial year</b>
Net profit attributable to owners of ordinary shares	5,466	6,067
Weighted average number of ordinary shares	310,000	310,000
Basic and diluted earnings per share, in LTL	<u>17.63</u>	<u>19.57</u>

As of 31 December 2004 the Bank had 2 subordinated loans with an option to convert the loans into share capital. As of 31 December 2004 and 2003 basic earnings per share are equal to diluted earnings per share as the subordinated loan agreements stipulates no terms for conversion.

**Note 19. Other off-balance sheet liabilities of the credit institution**

Off-balance sheet items consist of:

	<b>Current financial year</b>	<b>Previous financial year</b>
Contingent liabilities and commitments		
Guarantees issued	17,375	2,477
Letters of credit issued	2	2,047
Commitments to grant loans	17,426	12,912
Total contingent liabilities and commitments	<u>34,803</u>	<u>17,436</u>
Foreign exchange transactions (spot)		
Assets	4,365	5,082
Liabilities	(4,377)	(5,089)
	<u>(12)</u>	<u>(7)</u>

As of 31 December 2004 the maturities of commitments to grant loans and buy / sell currency was within one month.

**Derivative financial instruments**

	<b>Current financial year</b>			
	<b>Currency agreements</b>	<b>Interest rates</b>	<b>Equity-related</b>	<b>Other</b>
Assets				
Forward contracts	4,359	-	-	-
Swap contracts	35,742	-	-	-
Other assets	-	-	-	-
	<u>40,101</u>	-	-	-
Liabilities				
Forward contracts	(4,263)	-	-	-
Swap contracts	(35,873)	-	-	-
Other liabilities	-	-	-	-
	<u>(40,136)</u>	-	-	-
Derivative financial instruments, net	<u>(35)</u>	-	-	-
	<b>Previous financial year</b>			
	<b>Currency agreements</b>	<b>Interest rates</b>	<b>Equity-related</b>	<b>Other</b>
Assets				
Forward contracts	52,028	-	-	-
Swap contracts	119,759	-	-	-
Other assets	-	-	-	-
	<u>171,787</u>	-	-	-
Liabilities				
Forward contracts	(52,002)	-	-	-
Swap contracts	(119,657)	-	-	-
Other liabilities	-	-	-	-
	<u>(171,659)</u>	-	-	-
Derivative financial instruments, net	<u>128</u>	-	-	-

**Note 20. Other interest income. Other interest expenses**

In 2004 and 2003 there was no such income or expenses.

**Note 21. Capital adequacy**

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

The capital adequacy calculation rules include assessment of credit, market, foreign exchange, interest rate, equity securities and other risks. Up to 1 December 2004 the required minimum capital adequacy ratio was 10%; starting from 31 December 2004 - 8%.

Quarterly capital adequacy ratios of the Bank are presented in the table below:

	<b>31 December 2003</b>	<b>31 March 2004</b>	<b>30 June 2004</b>	<b>30 September 2004</b>	<b>31 December 2004</b>
Eligible bank capital	34,713	37,106	35,603	37,804	38,501
Risk weighted assets and liabilities					
Banking book	235,335	270,730	268,186	325,257	333,472
Trading book	3,038	4,451	4,501	3,026	1,725
Total banking and trading book	238,373	275,181	272,687	328,283	335,197
Capital adequacy ratio (percentage)	14.56	13.48	13.06	11.52	11.49

**Note 22. Liquidity**

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 years and up	Indefinite maturity	Total
<b>Assets</b>											
Cash and coins	10,577	-	-	-	-	-	-	-	-	-	10,577
Balances with the Bank of Lithuania	10,033	-	-	-	-	-	-	-	-	-	10,033
Obligatory reserves in foreign currency	-	-	-	-	-	-	-	-	-	13,848	13,848
Treasury bills of the Government of the Republic of Lithuania	-	-	-	-	-	-	408	-	-	-	408
Pledged securities	-	-	-	-	-	-	21,656	-	-	-	21,656
Due from banks and other credit and financial institutions	34,861	1,127	3,239	107	798	3,239	4,763	-	-	18	44,913
Therein funds in parent bank and financial institutions of B and C group countries	1,542	1,127	-	-	-	-	2,618	-	-	-	5,287
Pledged funds	9,506	-	-	-	-	-	-	-	-	-	9,506
Claims due to derivative agreements	-	103	-	-	-	-	-	-	-	-	103
Loans to resident customers, net	-	7,664	7,188	13,469	20,306	70,893	37,632	41,575	33,309	339	232,375
Loans to non-resident customers, net	-	3	5	8	5,352	5,106	158	328	-	-	10,960
Debt securities	-	-	2,088	2,096	-	19,456	35,553	8,718	-	-	67,911
Other debt and equity securities	-	-	-	-	-	-	-	-	-	100	100
Property, plant and equipment and intangible assets, net	-	-	-	-	-	-	-	-	-	18,598	18,598
Reposessed assets	-	-	-	-	-	-	-	-	-	186	186
Transit accounts	-	1,230	-	-	-	-	-	-	-	-	1,230
Accrued income, net	-	938	-	-	-	-	50	-	-	68	1,056
Other assets	-	69	-	-	-	-	-	-	-	267	336
<b>Total assets</b>	<b>64,977</b>	<b>11,134</b>	<b>9,281</b>	<b>15,680</b>	<b>26,456</b>	<b>98,694</b>	<b>100,220</b>	<b>50,621</b>	<b>33,309</b>	<b>33,836</b>	<b>444,208</b>

**Note 22. Liquidity (cont'd)**

	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 years and up	Indefinite maturity	Total
Liabilities											
Amounts owed to banks and other credit and financial institutions	9,219	76,275	24,177	49,061	5,521	-	2,618	-	-	-	166,871
Of which liabilities to the parent bank	5,272	52,662	7,603	46,068	-	-	-	-	-	-	111,605
Deposits from legal entities and organisations	-	3,243	5,041	2,262	2,140	2,864	-	-	-	-	15,550
Term deposits from the private individuals	-	10,204	13,423	7,641	9,730	3,460	9	36	-	-	44,503
Demand deposits	158,168	-	-	-	-	-	-	-	-	-	158,168
Liabilities due to derivative agreements	-	150	-	-	-	-	-	-	-	-	150
Transit accounts	-	15,782	-	-	-	-	-	-	-	-	15,782
Other liabilities	211	770	262	277	105	29	50	-	-	655	2,359
Specific provisions	-	-	-	-	4	-	-	-	-	35	39
Subordinated loans	-	-	-	-	-	360	7,670	-	-	-	8,030
The Bank's equity	-	-	-	-	-	-	-	-	-	32,756	32,756
<b>Total liabilities and shareholder's equity</b>	<b>167,598</b>	<b>106,424</b>	<b>42,903</b>	<b>59,241</b>	<b>17,500</b>	<b>6,713</b>	<b>10,347</b>	<b>36</b>	<b>-</b>	<b>33,446</b>	<b>444,208</b>
Off-balance sheet items	17,393	10	-	-	100	-	-	-	-	-	17,503
<b>Net asset (liability) gap</b>	<b>(120,014)</b>	<b>(95,300)</b>	<b>(33,622)</b>	<b>(43,561)</b>	<b>8,860</b>	<b>91,981</b>	<b>89,873</b>	<b>50,585</b>	<b>33,309</b>	<b>425</b>	<b>(17,464)</b>
Gap/asset ratio	(27.02)	(21.45)	(7.57)	(9.81)	1.99	20.71	20.23	11.39	7.50	0.10	(3.93)
Liquid assets											115,236
Current liabilities											298,816
<b>Liquidity ratio</b>	<b>38.56%</b>										

**Note 22. Liquidity (cont'd)**

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity is managed by continuous monitoring of the Bank's liquidity profile, compliance with external requirements, analysing balance sheet and memorandum items and their maturity as well as concentration of funding sources. Also,

A/S Parex Banka is committed to the Bank to provide required funding sources if there are liquidity problems.

As of 31 December 2004 and 2003 the Bank's liquidity ratio exceeded the statutory minimum of 30% which is required by the Bank of Lithuania.

Monthly liquidity ratios by months are presented in the table below:

<b>Period</b>	<b>Liquidity ratio (%)</b>
December 2003	43.97
January 2004	42.20
February 2004	43.53
March 2004	43.38
April 2004	43.76
May 2004	48.13
June 2004	39.27
July 2004	37.74
August 2004	36.41
September 2004	37.29
October 2004	34.85
November 2004	35.34
December 2004	38.56

**Note 23. Foreign currency positions**

The table below provides the analysis of the Bank's assets, liabilities and shareholders' equity as well as off balance sheet items outstanding as of 31 December 2004 by currency profile:

	<b>LTL</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>LVL</b>	<b>RUB</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>								
Cash on hand	6,121	1,673	1,843	326	186	22	406	10,577
Balances with the Bank of Lithuania	10,033	13,848	-	-	-	-	-	23,881
Due from banks and other credit institutions:								
Demand deposits	-	23,799	9,935	489	172	9,489	526	44,410
Term deposits	18	1,649	1,381	-	-	-	1,127	4,175
Long term loans	6,289	-	-	-	-	-	-	6,289
	<u>6,307</u>	<u>25,448</u>	<u>11,316</u>	<u>489</u>	<u>172</u>	<u>9,489</u>	<u>1,653</u>	<u>54,874</u>
Claims due to derivative agreements	103	-	-	-	-	-	-	103
Loans to customers, net	94,546	11,705	132,131	-	4,953	-	-	243,335
Debt securities	21,996	67,979	-	-	-	-	-	89,975
Equity securities	6	-	64	-	30	-	-	100
Intangible assets (less amortisation)	751	-	-	-	-	-	-	751
Property, plant, and equipment (less depreciation)	17,847	-	-	-	-	-	-	17,847
Reposessed assets	186	-	-	-	-	-	-	186
Transit accounts	918	139	164	-	-	-	9	1,230
Accrued income and deferred expenses	508	83	538	-	-	-	-	1,129
Other assets	254	9	-	-	-	-	-	263
General provisions for the funds with the banks	(43)	-	-	-	-	-	-	(43)
<b>Total assets</b>	<b><u>159,533</u></b>	<b><u>120,884</u></b>	<b><u>146,056</u></b>	<b><u>815</u></b>	<b><u>5,341</u></b>	<b><u>9,511</u></b>	<b><u>2,068</u></b>	<b><u>444,208</u></b>
<b>Liabilities</b>								
Amounts owed to credit institutions:								
Demand deposits	3,861	2,416	2,729	16	-	58	-	9,080
Term deposits	34,900	22,920	73,071	21,898	5,002	-	-	157,791
	<u>38,761</u>	<u>25,336</u>	<u>75,800</u>	<u>21,914</u>	<u>5,002</u>	<u>58</u>	<u>-</u>	<u>166,871</u>
Deposits from the public:								
Demand deposits	41,961	68,471	36,391	4,008	91	5,880	1,366	158,168
Term deposits	36,946	15,234	7,873	-	-	-	-	60,053
	<u>78,907</u>	<u>83,705</u>	<u>44,264</u>	<u>4,008</u>	<u>91</u>	<u>5,880</u>	<u>1,366</u>	<u>218,221</u>
Liabilities due to derivative agreements								
Liabilities due to derivative agreements	150	-	-	-	-	-	-	150
Accrued expenses and deferred income								
Accrued expenses and deferred income	980	317	350	83	2	-	-	1,732
Subordinated loans	8,030	-	-	-	-	-	-	8,030
Other liabilities	1,659	2,047	9,042	345	5	3,077	234	16,409
Special and other reserves	35	-	4	-	-	-	-	39
<b>Total liabilities</b>	<b><u>128,522</u></b>	<b><u>111,405</u></b>	<b><u>129,460</u></b>	<b><u>26,350</u></b>	<b><u>5,100</u></b>	<b><u>9,015</u></b>	<b><u>1,600</u></b>	<b><u>411,452</u></b>

**Note 23. Foreign currency positions (cont'd)**

	LTL	USD	EUR	GBP	LVL	RUB	Other	Total
<b>Shareholder's equity</b>								
Paid in capital	31,000	-	-	-	-	-	-	31,000
Other reserves	918	-	-	-	-	-	-	918
Revaluation reserve of financial assets	737	-	-	-	-	-	-	737
Retained (deficit)	(5,365)	-	-	-	-	-	-	(5,365)
Profit for the year	5,466	-	-	-	-	-	-	5,466
<b>Total shareholder's equity</b>	<b>32,756</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,756</b>
<b>Total liabilities and shareholder's equity</b>	<b>161,278</b>	<b>111,405</b>	<b>129,460</b>	<b>26,350</b>	<b>5,100</b>	<b>9,015</b>	<b>1,600</b>	<b>444,208</b>
Off-balance sheet assets	-	1,359	17,182	25,742	-	-	183	44,466
Off-balance sheet liabilities	10,055	10,425	23,736	-	-	411	-	44,627
<b>Net long (short) position</b>	<b>(11,800)</b>	<b>413</b>	<b>10,042</b>	<b>207</b>	<b>241</b>	<b>85</b>	<b>651</b>	
Net exposure to eligible bank capital (%)	n/a	1.07	26.08	0.54	0.62	0.22	1.69	n/a
F/X rates as of 31 December 2004 (LTL to 1 foreign currency unit)	1.0000	2.5345	3.4528	4.8662	4.9527	0.09106	n/d	n/a

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. According to the Bank of Lithuania requirements the total open currency position (excluding Euro) should not exceed 25% and open position of each individual foreign currency (excluding Euro) should not exceed 15% of the Bank's eligible capital calculated using the capital adequacy calculation rules. As of 31 December 2004 the Bank was in compliance with these requirements.

**Note 24. Subsequent events from the end of financial year to the date of approval of financial statements**

There were no significant subsequent events.

**Note 25. Related party transactions**

During the year 2004, a number of banking transactions were entered into with related parties in the normal course of business. These included settlements, loans, deposit accepted, and foreign currency transactions. The outstanding balances at the year-end with related parties were as follows:

	Amounts due to	Amounts due from	Income	Expenses
A/S Parex Banka (Latvia)	119,635	5,288	1,265	5,020
AP Anlage & Privatbank AG (Switzerland)	5,933	-	-	157
UAB Parex Investicij Valdymas	1,813	-	40	16
UAB Parex Faktoringas ir Lizingas	1,345	-	83	3
UAB DK Baltic Polis	1,266	-	40	37
UAB Parex Lizingas	20	-	5	88
UAB Parex Brokeri Sistema	3	-	-	-

As of 31 December 2004 amounts due to A/S Parex Banka represent 2 subordinated loans in the total amount of LTL 8,030 thousand (LTL 8,030 thousand as of 31 December 2003), funds in correspondent accounts in the amount of LTL 5,273 thousand (LTL 10,088 thousand as of 31 December 2003) and 9 term deposits in the amount of LTL 106,332 thousand (maturity varies from 3 January 2005 to 2 June 2005). As of 31 December 2003 amounts due to A/S Parex Banka also included 12 term deposits in amount of LTL 122,492 thousand (maturity varies from 2 January 2004 to 12 January 2004).

As of 31 December 2004 amounts due from A/S Parex Banka represent funds in correspondent accounts in the amount of LTL 1,543 thousand (LTL 1,840 thousand as of 31 December 2003) and 3 term deposits in the amount of LTL 3,745 thousand (maturity varies from 3 January 2005 to 24 August 2009).

**Note 25. Related party transactions (cont'd)**

Income from A/S Parex Banka during the year 2004 represent income of LTL 803 thousand (LTL 5,466 thousand in 2003) from foreign currency transactions, LTL 136 thousand from servicing of payment cards and LTL 326 thousand (LTL 127 thousand in 2003) interest income for amounts due from A/S Parex Banka.

Expenses of transactions with A/S Parex Banka include LTL 361 thousand (LTL 531 thousand in 2003) expenses for servicing of payment cards, LTL 3,623 thousand (LTL 2,852 thousand in 2003) interest expenses for amounts due to A/S Parex Banka and LTL 1,036 thousand (LTL 4,790 thousand in 2003) expenses due to the foreign exchange transactions.

As of 31 December 2004 AP Anlage & Privatbank AG (a member company of Parex financial group) had 5 term deposits in the Bank amounting to LTL 5,933 thousand (maturity varies from 6 April 2005 to 24 August 2009).

As of 31 December 2004 UAB Parex Investicij Valdymas (A/S Parex Banka is ultimate parent of the company) had a demand deposit of LTL 1.513 thousand and a term deposit in the Bank amounting to LTL 300 thousand.

As of 31 December 2004 UAB Parex Faktoringas ir Lizingas (A/S Parex Banka is ultimate parent of the company) had a demand deposit of LTL 1,345 thousand (a demand deposit of LTL 7 thousand and a term deposit amounting to LTL 1,000 thousand as of 31 December 2003)

As of 31 December 2004 UAB DK Baltic Polis (insurance company, a member company of Parex financial group) had a demand deposit of LTL 566 thousand (LTL 789 thousand as of 31 December 2003) and a term deposit in the Bank amounting to LTL 700 thousand (LTL 400 thousand as of 31 December 2003).

As of 31 December 2004 UAB Parex Lizingas (A/S Parex Banka is ultimate parent of the company) had demand deposit amounting to LTL 20 thousand in the Bank (LTL 152 thousand as of 31 December 2003).

**Note 26. Collateralisation of non-performing loans (falling under risk groups III, IV and V) and watch loans (falling under risk group II) by real estate and other asset (Unaudited)**

To secure repayment of non-performing loans granted (according to the rules of the Bank of Lithuania, groups II, III, IV and V) real estate in the amount of LTL 29.907 thousand and movable assets in the amount of LTL 7.281 thousand were pledged to the Bank. The pledged real estate is liquid, its value is not impaired, and its condition constantly monitored. Movable assets to the most extent comprise of easily realised machinery and equipment that can be realisable goods. The part of loans is secured by guarantees issued by owners of entities.

<b>Loan risk group</b>	<b>Loan amount</b>	<b>Real estate</b>	<b>Movable assets</b>
Loans falling to the II group of risk	13,516	26,240	7,281
Loans falling to the III group of risk	1,115	1,992	-
Loans falling to the IV group of risk	766	1,675	-
Loans falling to the V group of risk	162	-	-
	<u>15,559</u>	<u>29,907</u>	<u>7,281</u>

**Note 27. Activities of brokerage department**

The volume of transactions performed by the Bank's Financial brokerage department in the Vilnius Stock Exchange of Lithuania during the year 2004 amounted to LTL 243,365 thousand (LTL 100,077 thousand during 2003). During the reporting year the net commission income on trading in securities on clients account amounted to LTL 28 thousand (LTL 17 thousand during 2003).

Turnover of securities issued by the Government of Lithuania comprised LTL 32,841 thousand during the year 2004 (LTL 38,545 thousand during 2003).

**Note 28. Commission fee income and expenses**

	<b>Current financial year</b>	<b>Previous financial year</b>
Commission and fee income:		
Commission on money transfers	3,082	2,825
Payment cards servicing	1,340	1,420
Base currency exchange	1,353	1,716
Cash disbursement commission	725	605
Payment collection services	208	225
Commission for guarantees and warrantees	139	37
Accounts maintenance fee	118	135
Cheques servicing income	65	69
Safe room rent	32	29
Other	481	175
Total commission and fee income	<u>7,543</u>	<u>7,236</u>
Commission and fee expenses:		
Payment cards servicing	(947)	(1,016)
Accounts servicing	(590)	(471)
Base currency exchange	(188)	(148)
Other	(226)	(105)
Total commission and fee expenses	<u>(1,951)</u>	<u>(1,740)</u>
Net commission and fee income	<u><u>5,592</u></u>	<u><u>5,496</u></u>

**Note 29. Operating lease**

The Bank has various operating lease agreements for premises and other facilities. Lease terms do not contain restrictions on the Bank's activities concerning dividends, additional loans or further leasing. The future minimum lease payments under non-cancellable operating leases are as follows:

During one year	269
One to five years	414
After 5 years	-
Total	<u>683</u>

**Note 30. Accrued income and deferred expenses, net**

	<b>Current financial year</b>	<b>Previous financial year</b>
Accrued income	1,062	691
Deferred expenses	72	71
Total accrued income and deferred expenses	<u>1,134</u>	<u>762</u>
Less provision for accrued income	(5)	(8)
Total accrued income and deferred expenses, net	<u><u>1,129</u></u>	<u><u>754</u></u>

**Note 31. Accrued expenses and deferred income**

	<b>Current financial year</b>	<b>Previous financial year</b>
Accrued interest expenses	1,037	749
Vacation pay accrual	642	656
Accrued services' expenses	40	27
Deferred income	13	12
	<u>1,732</u>	<u>1,444</u>

**Note 32. Compliance with the regulatory requirements of the Bank of Lithuania**

As of 31 December 2004, the Bank was in compliance with the maximum credit exposure to one borrower, related parties and major loan, capital adequacy, open foreign currency position and liquidity limits established by the Bank of Lithuania.

**Note 33. Personnel expenses**

The Bank's payroll expenses during 2004 amounted to LTL 5,725 thousand (LTL 5,299 thousand in 2003) and LTL 1,772 thousand were incurred in social security expenses (LTL 1,644 thousand in 2003).

**Note 34. Income tax**

Taxable profit of the Bank for the year 2004 amounted to LTL 3,432 thousand which was adjusted with tax loss carry forward. As of 31 December 2004 tax loss carried forward amounted to LTL 8,184 thousand (including LTL 1,508 thousand for the year 2005 according the 58 article of Profit tax law of the Republic of Lithuania ) and which can be carried forward till the year 2007.

**Note 35. Other operating expenses**

	<b>Current financial year</b>	<b>Previous financial year</b>
Office equipment maintenance expenses	1,103	920
Audit, legal services and consultation expenses	438	359
REUTERS services	198	204
SWIFT membership fee	156	213
Stock exchange fee	122	44
Stationery expenses	101	106
Other operating expenses	420	359
<b>Total</b>	<b>2,538</b>	<b>2,205</b>

**Note 36. Other banking expenses**

	<b>Current financial year</b>	<b>Previous financial year</b>
Taxes	1,314	1,130
Deposit insurance expenses	908	772
Representation expenses	126	38
Other expenses	255	102
<b>Total</b>	<b>2,603</b>	<b>2,042</b>

**Note 37. Cash and cash equivalents**

	<b>Current financial year</b>	<b>Previous financial year</b>
Cash, precious metals and other valuables	10,577	9,308
Funds at correspondent accounts with the Bank of Lithuania	10,033	8,280
Cash due from credit and financial institutions	54,981	62,991
Specific provisions	(150)	-
<b>Total cash and cash equivalents, net of provisions</b>	<b>75,441</b>	<b>80,579</b>
Less:		
Deposits	(4,175)	(456)
Repurchase agreements	-	(3,690)
Loans	(6,295)	-
Add back:		
Specific provisions	150	-
<b>Cash and cash equivalents in the cash flow statement</b>	<b>65,121</b>	<b>76,433</b>

**Note 38. Changes in shareholders' equity**

	Registered share capital	Reserve capital	Other reserves	Revalua- tion re- serve of financial assets	Retained earnings (deficit)	Total
<b>As of 31 December 2002</b>	<b>31,000</b>	<b>917</b>	<b>1</b>	<b>1,994</b>	<b>(11,432)</b>	<b>22,480</b>
Change of fair value reserve due to disposal of securities	-	-	-	(2,938)	-	(2,938)
Change of fair value reserve due to revaluation of securities	-	-	-	1,777	-	1,777
Net profit for the year	-	-	-	-	6,067	6,067
<b>As of 31 December 2003</b>	<b>31,000</b>	<b>917</b>	<b>1</b>	<b>833</b>	<b>(5,365)</b>	<b>27,386</b>
Change of fair value reserve due to disposal of securities	-	-	-	(629)	-	(629)
Change of fair value reserve due to revaluation of securities	-	-	-	533	-	533
Net profit for the year	-	-	-	-	5,466	5,466
<b>As of 31 December 2004</b>	<b>31,000</b>	<b>917</b>	<b>1</b>	<b>737</b>	<b>(101)</b>	<b>32,756</b>

**Note 39. Contingencies and commitments**

	Current financial year	Previous financial year
Lending commitments	17,375	2,477
Issued guarantees	17,426	12,912
Total	34,801	15,389

The Bank concluded several contracts for lease of office premises and other operating leases. Information about operating lease liabilities is disclosed in Note 29.

**Note 40. Fair value of financial assets and liabilities**

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

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

**Amounts Due from and to Credit Institutions.** For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of the financial assets and liabilities. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value of these financial assets and liabilities approximates the carrying amounts.

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

**Investments.** Investments include securities with interest rates, which reflect market interest rates and, consequently, the fair value approximates the carrying amounts.

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

**Note 41. Credit risk**

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

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

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

Financial assets, bearing credit risk, comprise deposits and funds at banks and other credit and financial institutions, loans to customers, overdraft facilities, bills discounted, factoring, debt securities (except for the issued by the central banks or governments of the A group countries), leased assets, prepayments and income, accrued for these financial assets. Total amount of such assets as of 31 December 2004 of the Bank was LTL 365,076 thousand.

Credit related commitments

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

**Note 42. Currency risk**

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The assets and liabilities of the Bank in foreign currencies denominated in Litas according to the official exchange rate of 31 December 2004 are presented in Note 23.

**Note 43. Interest rate risk**

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

The tables below summarize the Bank's exposure to the interest rate risk. Assets and liabilities of the Bank are presented at carrying amounts and categorized by the contractual reprising or maturity dates as of 31 December 2004.

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest earning</b>	<b>Total</b>
<b>Assets</b>							
Cash	-	-	-	-	-	10,577	10,577
Funds with Bank of Lithuania	-	-	-	-	-	23,881	23,881
Due from other banks and other credit and financial institutions	1,127	-	6,289	2,618	-	44,797	54,831
Loans and advances to customers	44,860	78,062	100,645	14,345	5,084	339	243,335
Lease receivables	-	-	-	-	-	-	-
Debt securities	-	2,088	2,096	77,073	8,718	-	89,975
Equity securities	-	-	-	-	-	100	100
Fixed assets	-	-	-	-	-	18,598	18,598
Other assets	-	-	-	-	-	2,911	2,911
	<b>45,987</b>	<b>80,150</b>	<b>109,030</b>	<b>94,036</b>	<b>13,802</b>	<b>101,203</b>	<b>444,208</b>
<b>Liabilities</b>							
Due to banks and other credit and finance institutions	76,275	24,177	54,582	2,618	-	9,219	166,871
Demand and term deposit accounts	13,447	18,464	21,773	6,333	36	158,168	218,221
Other liabilities	-	-	-	-	-	59,116	59,116
	<b>89,722</b>	<b>42,641</b>	<b>32,675</b>	<b>8,951</b>	<b>36</b>	<b>226,503</b>	<b>444,208</b>
<b>Interest rate risk gap</b>	<b>(43,735)</b>	<b>37,509</b>	<b>32,675</b>	<b>85,085</b>	<b>13,766</b>	<b>(125,300)</b>	<b>-</b>





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