

MEDICINOS BANKAS

CONSOLIDATED AND BANK'S SEPARATE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditors' report to the shareholders of UAB Medicinos Bankas

Report on the Financial Statements

We have audited the accompanying financial statements of UAB Medicinos Bankas, 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 statement of financial position as at 31 December 2010, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

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 the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

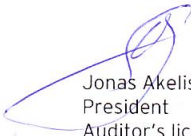
Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UAB Medicinos Bankas and the Group as at 31 December 2010, 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.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Group's Consolidated Annual Report for the year ended 31 December 2010 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

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


Jonas Akelis
President
Auditor's licence
No. 000003


Ramūnas Bartašius
Auditor's licence
No. 000362

The audit was completed on 25 February 2011.

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MEDICINOS BANKAS

ANNUAL MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

In 2010 Lithuania experienced another year of economic downturn; its negative economic impact was experienced by all subjects of the country's economy. During this period, rather negative climate among economy participants prevailed: unemployment in the country increased up to 17.8 percent, users' expectations in the country and the factual domestic consumption level shrank respectively; attractiveness of the country to investors decreased, etc. During this term, a number of economic entities that encountered financial problems as well as the number of enterprises going bankrupt continued to increase. The Bank, having considered the present unfavourable economic situation of the country, continued to put efforts together with clients that encountered financial problems, to look for mutually acceptable decisions that would make up the assumptions to assume financial liabilities. Despite the Bank efforts, the negative overall domestic economic situation and continuous price correction in real estate market had a major impact on significantly increased credit risk as well as negative financial result of the Bank in 2010.

In accordance with International Financial Reporting Standards UAB Medicinos bankas incurred net loss of 34.84 million Litas in 2010. Net service fee and commission income during the year increased 0.55 million Litas or by 5.09 percent up to 11.39 million Litas. Net interest income increased 3.31 million Litas or by 15.98 percent and the total sum amounted to 24.02 million Litas. However, the Bank during the year conservatively appraised its financial assets and during the year additionally made 56.05 million Litas of special provisions in order to cover possible credit risk that, in fact, determined final financial result. Due to increased credit risk, the impairment of Bank loans constituted 82.95 million Litas for the end of the year, which increased 3.08 times from the beginning of the year. The operating profit of the Bank before impairment and income tax was 21.02 million Litas (growth 41.72 percent during the year).

In 2010 UAB Medicinos bankas further continued the moderate period for increase activity volume special attention drawn to improve efficiency. On 31 December 2010, the total assets of UAB Medicinos Bankas amounted to 854 million Litas and increased by 49 million Litas or by 6.09 percent as compared to 2009. During 2010, the value of loans, granted to the clients, increased by 50.51 million Litas or by 9.5 percent and amounted to total of 583 million Litas. The deposits of the customers were 677 million Litas or increased by 74 million Litas or by 12.3 percent. At the end of 2010 UAB Medicinos Bankas covered 0.86 percent of the overall credit market and 1.37 percent of the deposit market of Lithuania. The Bank's shareholders' equity increased by 1 percent and amounted up to 96 million Litas.

The risks of the Bank activities are managed in line with the principles of Risk Management Policy approved by the Board of the Bank. Certain risks are restricted by implementing the internal system of limits. The structure of risks is a traditional one, where credit, interest rate, foreign exchange rate, liquidity, and operational risks prevail.

In 2010, the Bank complied with all the requirements specified by the Bank of Lithuania: capital adequacy, liquidity, maximum open foreign currency and precious metals position as well as maximal exposure requirement.

The number of the clients of the Bank, who use more than one of the services provided by the Bank, increased by 5 percent – from 34,165 to 35,786. The number of private clients, among the mentioned above, increased by 5 percent from 29,510 to 31,002. The number of business clients at the end of 2010 made up 4,783, i.e. increased by 3 percent during the year as compared to 4,655 clients at the end of 2009. In 2010, the number of private customers, holding term deposit accounts in the Bank, increased by 0.3 percent up to 17,847 (at the end of 2009, up to 17,800 clients). The number of customers, taking advantage of the Internet Banking Service, increased by 23 percent – from 6,808 up to 8,374 during 2010.

In 2009 the Bank underwent the reorganization of the client service network that resulted in the overall number of 93 client servicing points in various regions of Lithuania. In 2010 this also served as a mean of further improvement of both the efficiency and expenditure management. The ratio between the expenditure and revenue of the Bank decreased from 62.5 to 52.8 percent, as compared to 2009. The staff number optimization process enabled to decrease the number of the staff to 482 employees or by 5 percent and expenditure for wages decreased by 1 percent.

MEDICINOS BANKAS

ANNUAL MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Since June 2005 UAB Medicinos Bankas is a member of Global Compact – the international movement for socially responsible business under initiation of the United Nations - that encourages businesses to develop their activities on the basis of ten universal principles concerning human rights, employee rights, and environment protection as well as to contribute to the struggle against corruption. Thus, the documents of the Bank system, such as regulations on customer servicing and crediting order, and the rules of internal arrangement were amended with the items encouraging social responsibility. The Bank maintains a nice tradition: on the first business day of the New Year, the State Vilnius String Quartet presents a concert for the customers and employees of the Bank. The bank is a constant donor to the Charity and Support Fund of S.Karosas that has been supporting for 13 years young gifted musicians, future professionals of art. UAB Medicinos bankas hopes that the above mentioned ten principles of Global Compact shall be the basis for the sustained creation of worthiness for the customers, staff, and shareholders.

With the aim to effectively manage real estate and rational application of the resources, in 2009 the Bank established two subsidiaries: UAB MB Turtas and UAB MB Valda.

The vision of UAB Medicinos Bankas is to be a leader in servicing micro, small, and medium businesses, to effectively provide financial services to private customers, develop professional skills of the staff, further improve cultural basis of 'employee – customer' relations, and sustain high standards of technology and efficiency. The experience, gained during 18 years, serves as a perfect guarantee for successful realization of future plans of UAB Medicinos bankas.

To assure its activities in 2011 the Bank has developed its business programs in which possible risks due to the present economic recession have been both identified and evaluated as well as measures for risk management have been foreseen. The Bank has accumulated a significant capital basis (capital adequacy ratio of the Bank as of 31 December 2010, was equal to 16.24 percent) which shall serve as a means for amortization of possible risks and will assure further increase of activity volume. In forthcoming year, the Bank shall further dedicate special attention to credit risk and cash flow management searching for minimization of the risks, associated with of the activities mentioned.

On behalf of the Group of UAB Medicinos Bankas we convey our deep respect to our customers, shareholders, and partners. We are also especially thankful for fruitful cooperation with UAB Medicinos bankas.

Chairman of the Management Board and
Head of Administration



Gintaras Treinys

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Group		Assets	Notes	The Bank	
31 December 2010	31 December 2009			31 December 2010	31 December 2009
		Cash and due from central bank			
25,254	20,650	<i>Cash</i>		25,254	20,650
28,564	42,170	<i>Placements with the central bank</i>	3	28,564	42,170
53,818	62,820			53,818	62,820
95,812	77,444	Placements with banks and other credit institutions	4	58,574	49,132
		Financial assets at fair value through profit or loss			
1,710	580	<i>Derivative financial instruments</i>	14	1,710	580
20,379	2,810	<i>Debt securities</i>	5	20,379	2,810
22,089	3,390			22,089	3,390
152,318	96,505	Available-for-sale financial assets		152,318	88,481
152,318	96,505	<i>Debt securities</i>	6	152,318	88,481
44,370	81,437	Held-to-maturity investments	7	44,370	81,437
467,542	469,448	Loans and receivables	8	500,053	505,589
-	-	Investments in subsidiaries	12	10,450	20
4,979	-	Investment property	11	-	-
7,063	7,971	Property and equipment	9	7,063	7,971
415	480	Intangible assets	10	415	480
		Tax assets			
21	752	<i>Current taxes</i>		21	752
1,297	511	<i>Deferred taxes</i>	31	1,297	511
1,318	1,263			1,318	1,263
3,984	3,980	Other assets	13	3,312	4,007
853,708	804,738	Total assets		853,780	804,590

(continued on the next page)

The accompanying notes are an integral part of these financial statements

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

The Group		Liabilities and equity	Notes	The Bank	
31 December 2010	31 December 2009			31 December 2010	31 December 2009
Liabilities					
34,706	22,118	Due to banks and other credit institutions	15	34,706	22,118
57	23	Derivative financial instruments	14	57	23
677,666	603,280	Due to customers	16	677,670	603,296
7,146	12,297	Debt securities issued	17	7,146	12,297
61	110	Finance lease liabilities	19	61	110
3,738	3,062	Other liabilities	20	3,523	3,062
34,528	69,056	Subordinated loans	18	34,528	69,056
757,902	709,946	Total liabilities		757,691	709,962
Equity					
68,875	68,875	Issued capital	21	68,875	68,875
(35,109)	483	Retained earnings		(34,826)	436
1,281	1,297	Revaluation reserve of property and equipment	21	1,281	1,297
2,377	719	Financial assets revaluation reserve	21	2,377	602
58,382	23,418	Other reserves	21	58,382	23,418
95,806	94,792	Total shareholders' equity		96,089	94,628
853,708	804,738	Total liabilities and shareholders' equity		853,780	804,590

The accompanying notes are an integral part of these financial statements. The financial statements were authorised for issue on 25 February 2011. These financial statements were approved on behalf of the Bank by:

Acting Chairman of Board
and Head of Administration

G. Treinys

Deputy CEO, Chief
Accountant

R. Grumbinienė

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED INCOME STATEMENTS

The Group				The Bank	
2010	2009		Notes	2010	2009
52,969	61,530	Interest revenue	24	53,266	61,435
(29,248)	(40,726)	Interest expenses	24	(29,248)	(40,726)
23,721	20,804	Net interest income		24,018	20,709
12,646	11,251	Service fee and commission revenue	25	12,683	11,341
(1,299)	(502)	Service fee and commission expenses	25	(1,292)	(502)
11,347	10,749	Net service fee and commission income		11,391	10,839
961	1,115	Net profit on securities trading	26	961	1,115
6,238	4,150	Net foreign exchange gain	27	6,238	4,150
1,386	1,392	Net gain on operations with derivatives	14	1,386	1,392
532	564	Other income	28	532	592
44,185	38,774	Total operating income		44,526	38,797
(56,932)	(14,900)	Impairment of loans and other financial assets	29	(56,957)	(14,973)
-	299	Reversal of provision		-	299
(12,747)	24,173	Operating income after impairment and provision		(12,431)	24,123
(14,517)	(14,655)	Salaries and benefits	30	(14,503)	(14,652)
(1,132)	(1,239)	Depreciation		(1,132)	(1,239)
(307)	(398)	Amortisation		(307)	(398)
(7,566)	(7,976)	Other operating expenses	30	(7,566)	(7,976)
(23,522)	(24,268)	Total operating expenses		(23,508)	(24,265)
(36,269)	(95)	Operating profit (loss)		(35,939)	(142)
1,095	504	Income tax expense	31	1,095	504
(35,174)	409	Profit (loss) for the year		(34,844)	362
(35,174)	409	Attributable to equity holders of the parent		(34,844)	362
(255.35)	2.97	Basic and diluted earnings per share (in LTL)	21		

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and Head of Administration

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Deputy CEO Chief
Accountant

R. Grumbinienė

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
(35,174)	409	Profit (loss) for the year	(34,844)	362
		Other comprehensive income (expenses), net of tax:		
		Financial assets revaluation reserve (Note 21)	1,775	2,438
1,658	2,555			
(33,516)	2,964	Total comprehensive income for the period, net of tax	(33,069)	2,800
		Attributable to:		
(33,516)	2,964	Equity holders of the parent	(33,069)	2,800

The accompanying notes are an integral part of these financial statements. The financial statements were authorised for issue on 25 February 2011. These financial statements were approved on behalf of the Bank by:

Acting Chairman of Board
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G. Treinys

Deputy CEO, Chief
Accountant

R. Grumbinienė

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Bank

	Issued capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2009	68,875	6,066	1,240	(1,836)	17,408	91,753
Total comprehensive income	-	362	-	2,438	-	2,800
Depreciation transfer for land and buildings	-	18	57	-	-	75
Transfer to reserve capital	-	(5,700)	-	-	5,700	-
Transfer to legal reserve	-	(310)	-	-	310	-
At 31 December 2009	68,875	436	1,297	602	23,418	94,628
Total comprehensive income	-	(34,844)	-	1,775	-	(33,069)
Depreciation transfer for land and buildings	-	18	(16)	-	-	2
Transfer to reserve for loss covering	-	-	-	-	34,528	34,528
Transfer to legal reserve	-	(436)	-	-	436	-
At 31 December 2010	68,875	(34,826)	1,281	2,377	58,382	96,089

The Group

	Issued capital	Retained earnings	Revaluation reserve of property and equipment	Financial assets revaluation reserve	Other reserves	Total
At 1 January 2009	68,875	6,066	1,240	(1,836)	17,408	91,753
Total comprehensive income	-	409	-	2,555	-	2,964
Depreciation transfer for land and buildings	-	18	57	-	-	75
Transfer to reserve capital	-	(5,700)	-	-	5,700	-
Transfer to legal reserve	-	(310)	-	-	310	-
At 31 December 2009	68,875	483	1,297	719	23,418	94,792
Total comprehensive income	-	(35,174)	-	1,658	-	(33,516)
Depreciation transfer for land and buildings	-	18	(16)	-	-	2
Transfer to reserve for loss covering	-	-	-	-	34,528	34,528
Transfer to legal reserve	-	(436)	-	-	436	-
At 31 December 2010	68,875	(35,109)	1,281	2,377	58,382	95,806

The accompanying notes are an integral part of these financial statements. The financial statements were authorised for issue on 25 February 2011. These financial statements were approved on behalf of the Bank by:

Acting Chairman of Board
and Head of Administration

G. Treinys

Deputy CEO, Chief
Accountant

R. Grumbinienė

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS

<u>The Group</u>			<u>The Bank</u>	
<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
			Notes	
		Operating activities		
(35,174)	409	Profit (loss) for the year	(34,844)	362
		Adjustments to reconcile net profit or loss to net cash:		
1,439	1,637	Depreciation and amortisation	1,439	1,637
15	7	(Gain) loss on disposal of property and equipment and investment property	15	7
57,123	15,077	Impairment of loans	57,148	15,140
-	(146)	Impairment (reversal of impairment) of other assets	-	(146)
-	(299)	Provisions	-	(299)
(1,096)	(557)	Derivatives revaluation	(1,096)	(557)
(66)	(302)	Elimination of accrued vacation pay	(66)	(302)
(1,095)	(504)	Income tax expenses	(1,095)	(504)
264	191	Elimination of other non-cash items	302	191
21,410	15,513	Cash flows from (to) operating activities before changes in operating assets and liabilities	21,803	15,529
		Changes in operating assets and liabilities:		
(17,569)	(2,318)	Changes in trading financial assets	(17,569)	(2,318)
(2,021)	(1,727)	Changes in compulsory reserves	(2,021)	(1,727)
(22,476)	(20,794)	Changes in amounts due from banks	9,462	(20,794)
(55,217)	(10,128)	Loans and receivables	(51,612)	(46,332)
12,490	(3,443)	Changes in due to banks and other credit institutions	12,490	(3,443)
55,862	74,633	Changes in due to customers	55,196	74,649
346	(1,110)	Changes in other assets and liabilities	1,446	(1,137)
(7,175)	50,626	Net cash flows from operating activities before income tax	29,195	14,427
-	(730)	Income tax (paid)	-	(730)
(7,175)	49,896	Net cash flows from operating activities after income tax	29,195	13,697
		Investing activities		
(492)	(1,459)	(Acquisitions) of intangibles and property and equipment	(492)	(1,459)
(4,172)	-	(Acquisitions) of investment property	-	-
11	17	Proceeds from sale of property and equipment	11	17
-	-	Investment in subsidiaries	(9,623)	(20)
78,272	78,678	Proceeds from disposal / redemption of available for sale debt securities	70,365	78,678
38,223	84,777	Redemption of held-to-maturity financial assets	38,223	84,777
(133,269)	(262,830)	(Acquisitions) of available for sale and held-to-maturity financial assets	(133,269)	(254,923)
(21,427)	(100,817)	Net cash flows to investing activities	(34,785)	(92,930)

(continued on the next page)

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

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

SEPARATE AND CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)

The Group			The Bank	
2010	2009	Notes	2010	2009
Financing activities				
7,808	4,539		7,808	4,539
(12,959)	(19,101)		(12,959)	(19,101)
2,864	(35,819)		2,864	(35,819)
16,030	37,328		16,030	37,328
13,743	(13,053)		13,743	(13,053)
Net cash flows (to) financing activities				
(272)	(313)		(272)	(313)
(15,131)	(64,287)		7,881	(92,599)
Net (decrease) increase in cash and cash equivalents				
98,010	162,297		69,698	162,297
82,879	98,010	32	77,579	69,698
Cash and cash equivalents at 31 December				
Additional information to operating cash flows				
29,358	40,102		26,618	39,910
(34,264)	(39,944)		(34,264)	(39,944)
-	1		-	1
Interest received				
Interest (paid)				
Dividends received				

The accompanying notes are an integral part of these financial statements. The financial statements were authorised for issue on 25 February 2011. These financial statements were approved on behalf of the Bank by:

Acting Chairman of Board
and Head of Administration

G. Treinys

Deputy CEO, Chief
Accountant

R. Grumbinienė

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 1 Background information

UAB Medicinos Bankas (hereinafter referred to as the Bank) was established on 24 November 1992 (as KB Ancorobank) and on 16 January 1997 was reorganised to UAB Medicinos Bankas. The address of its registered office is as follows:

Pamėnkalnio Str. 40,
Vilnius,
Lithuania.

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. The Bank provides services to both corporate and retail sectors.

The financial statements of the Group include the financial statements of the Bank and its wholly owned subsidiaries UAB MB Turtas and UAB MB Valda (main activity of both – real estate management and development), which were established on 12 August 2009 and 30 November 2009 respectively. As of 31 December 2010 UAB MB Turtas owned investment properties for total value of 4,979 thousand LTL (as of 31 December 2009 - nil). As of 31 December 2010 and 2009 UAB MB Valda had no investment properties.

As of 31 December 2010 the Bank employed 482 employees (509 employees as of 31 December 2009). As of 31 December 2010 the Group employed 484 employees (511 employees as of 31 December 2009).

As of 31 December 2010 and 2009 the shareholders of the Bank were as follows:

	Ordinary shares held	Per cent of ownership
Mr. Saulius Karosas	120,974	87.82
Western Petroleum Ltd.	13,600	9.87
Other	3,176	2.31
Total	137,750	100.00

The issued share capital consists of 137,750 ordinary shares with the par value of LTL 500 each. As of 31 December 2010 and 2009 all shares were fully paid.

Note 2 Significant accounting policies

Statement of compliance

The separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by European Union (EU).

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial assets at fair value through profit or loss, available for sale financial assets, investment property, measured at fair value, and buildings measured at revalued amounts.

Functional and presentation currency

These financial statements are presented in Litas (hereinafter LTL), which is the Bank's and its subsidiaries' functional currency unless otherwise stated. Financial information presented in LTL has been rounded to the nearest thousand.

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

The principal effects of these changes are as follows:

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they 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.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group, because the Group did not have the respective financial statement items and transactions addressed by these changes.

Standards issued but not yet effective

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

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)

The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Group does not have these kinds of transfers.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Group has not estimated yet the impact of the implementation of these changes.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011).

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group, however it may impact the related parties disclosures.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group, as the Group does not have such instruments.

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Amendment to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group does not have defined benefit assets.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

Basis of consolidation

Subsidiaries

The consolidated financial statements are prepared annually for the year ended 31 December and include the parent company and its controlled subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year using consistent accounting policies.

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated.

Subsidiaries in the stand-alone financial statements are accounted at cost – that is the income from the investment is recognized only to the extent that the bank receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

In these financial statements all presented amounts related with the Bank fully reflect amounts of the Financial Group.

Financial assets and financial liabilities

The Group and the Bank recognize 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-evaluate this classification at each financial year-end.

All “regular way” purchases and sales of investments are recognized 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 recognized as derivative instruments until settlement occurs.

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

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 expense and dividends on such investments are recognised as interest revenue and expense and dividend revenue, respectively.

Derivative financial instruments

The Bank uses derivatives such as foreign exchange forwards and swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative are initially recognised in the balance sheet at their fair value on the settlement date. Changes in the fair value of derivatives held for trading are included in net trading income.

Fair values of the derivative financial instruments are disclosed in Note 14.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

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

Loans and receivables

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

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

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

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 are 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. Gains and losses are recognised in income when the factoring receivables are derecognised or impaired, as well as through the amortisation process.

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.

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.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Repurchase agreements

Securities sold that are subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and the liability to the counterparty of the agreement is included in 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 repurchase agreements using effective interest rate for the whole period.

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

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 have transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have 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) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where the Group and the Bank has transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have 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 exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to LTL at the official exchange rate of the Bank of Lithuania (spot exchange rate) prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than LTL are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate prevailing at the balance sheet date. Gains and losses resulting from the translation of balance sheet items are recognised in the income statement. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

LTL has been pegged to EUR at the rate of LTL 3.4528 for one EUR, effective from 2 February 2002.

MEDICINOS BANKAS

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

The official exchange rates of the main currencies, used for the revaluation of balance sheet items as at the year-end were as follows (LTL units to currency unit):

	<u>31 December 2010</u>	<u>31 December 2009</u>
EUR	3.4528	3.4528
USD	2.6099	2.4052

Interest revenue and expenses

Interest revenue and expense are recognised in the income statement on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. 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.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission

Fees and commission revenue and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission revenue, including account servicing fees, investment management fees, sales commission, placement fees and other are recognised on accrual basis as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to the transaction and service fees, which are expensed as the services are received.

Expenses

Other expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred. The amount of expenses is usually accounted for as the amount paid or due.

Dividends

Dividend revenue is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash, current accounts with the Bank of Lithuania and current accounts with other banks due to their high liquidity with maturity up to three months from the date of acquisition are accounted for as cash and cash equivalents in the cash flows 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.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Intangible assets

Initially intangible assets acquired by the Group and the Bank are stated at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Group and the Bank did not have any intangible assets with indefinite life.

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.

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

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use. The estimate useful life of software is 3 - 7 years.

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment. The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in income statement as incurred.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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 is determined using fair value at the balance sheet date. The fair value of the buildings is determined by appraisals undertaken by certified independent appraisers. The depreciation of buildings is calculated on a straight-line basis over their estimated useful lives. The revaluation reserve for buildings is being reduced each period by the difference between depreciation based on the revalued carrying amount of the asset and that based on its original cost, which is transferred directly to retained earnings.

In the case of revaluation, when the estimated 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 such decrease is recognised as an expense. However, such impairment is deducted from the amount of increase of the previous revaluation of this asset accounted for in the revaluation reserve to the extent it does not exceed the amount of such increase.

In the case of revaluation, when the estimated fair value of an asset is higher than its carrying amount. The carrying amount of this asset is increased to the amount of fair value and such increase is recorded in the revaluation reserve of property and equipment within equity.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for property and equipment are as follows:

Buildings	60 - 90 years
IT hardware	3 - 6 years
Vehicles	6 years
Fixtures and fittings	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each financial year-end.

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group and the Bank have a currently enforceable legal right to set off the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's and the Bank's trading activity.

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.

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 (a '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 assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding 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 calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the 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.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Available for sale investments

In the case if investments are classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of investment is less than its cost. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

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. However, the reversal does not result in a carrying amount that exceeds what the amortised cost would have been absent any impairment.

Renegotiated loans

Where possible, the Group and the Bank seek 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 carrying amounts of the Group's and the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

If such an indication exists, 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 the same expense caption where impairment was recognised.

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. The increased amount cannot exceed the carrying amount determined, net of depreciation (if any), had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in income statement unless the asset is carried at revaluated 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, on a systematic basis over its remaining useful life.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Finance – the Group and the Bank as lessee

The Group and the Bank recognise finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine. Otherwise, the 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.

Operating – the Group and the Bank as lessee

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

Share capital

Share capital is presented on the balance sheet at the amount subscribed.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is calculated based on the Lithuanian tax legislation.

In accordance with the Lithuanian Law on Corporate Income Tax, the current income tax rate is 15% on taxable income. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with Lithuanian tax legislation. Income tax rate valid for 2009 was 20%. Starting from 1 January 2010 income tax rate was decreased to 15%.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities. The losses from disposal of securities 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.

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 laws that have been 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 recognised in the financial statements.

Off-balance sheet items

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

Related parties

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

Credit-related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. 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 where payment has become probable.

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 purpose.

Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow or recourse embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is 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 the risks specific to the liability. Where discounting is used the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

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

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2010

(All amounts in LTL thousand unless otherwise stated)

Note 2 Significant accounting policies (cont'd)

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 for loan losses, determination of fair values, and realisation of deferred tax asset.

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.

Going concern

To assure its activities in 2011 the Bank has developed its business programs in which possible risks due to the present economic recession have been both identified and evaluated as well as measures for risk management have been foreseen. The Bank has accumulated a significant capital basis which shall serve as a means for amortization of possible risks and will assure further increase of activity volume. Based on these assumptions the Bank and the Group prepared these financial statements.

Impairment losses on loans and receivables

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 estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables when scheduling its future cash flows. The Group and the Bank use its 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.

Fair value of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. The Group engaged independent valuation specialists to determine fair value as at 31 December 2010. investment properties were evaluated using comparative value method principle.

The key assumptions used to determine the fair value of the investment properties, are further explained in Note 11.

Deferred tax asset

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. Please refer to Note 35 for description of change in estimates on loan impairment.

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 the impact of dilutive potential ordinary shares on this amount, 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.

Events after the statement of financial position date

Events subsequent to the yearend that provide additional information about the Group's and the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

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(All amounts in LTL thousand unless otherwise stated)

Note 3 Placements with the central bank

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
23,481	21,460	Compulsory reserve with the central bank	23,481	21,460
5,083	20,710	Correspondent account with the central bank	5,083	20,710
28,564	42,170	Placements with the central bank	28,564	42,170

From 24 September 2005 the portion of compulsory reserve calculated in accordance with requirements of the European Central Bank (ECB) is held as interest bearing deposits and the remaining portion of compulsory reserve is held as non-interest bearing deposit. Interest bearing part as of 31 December 2010 and 2009 amounted to 1/2 of all compulsory reserves. Interest rate for the interest bearing part equals the ECB refinance rate, valid on the day of transaction.

Note 4 Placements with banks and other credit institutions

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
2,030	16,475	Current accounts with correspondent banks	2,030	16,475
24,319	-	Overnight deposits	24,319	-
1,000	-	Bank accounts	-	-
68,463	60,969	Term deposits	32,225	32,657
95,812	77,444	Placements with banks and other credit institutions	58,574	49,132

As of 31 December 2010 for the spot transactions, the Group and the Bank have pledged term deposits with carrying amount of LTL 3,459 thousand (as of 31 December 2009 - LTL 20,794 thousand).

Note 5 Financial assets at fair value through profit or loss

The Group and the Bank

Financial assets at fair value through profit or loss amounting to LTL 20,379 thousand as of 31 December 2010 represent bonds of the Republic of Lithuania (as of 31 December 2009 – LTL 2,810 thousand). These financial assets are part of Bank and Group trading portfolio.

Coupon rates and maturities of the debt securities are as follows:

	2010		2009	
	%	Maturity	%	Maturity
Bonds of the Republic of Lithuania	5.60-7.60	2011-2020	5.30-7.80	2010

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Note 6 Available-for-sale financial assets

Available-for-sale securities comprise the following:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
Debt securities:				
104,365	69,103	Government bonds of the Republic of Lithuania	104,365	69,103
3,614	-	Government bonds of the Republic of Latvia	3,614	-
2,628	-	Government bonds of the Republic of Poland	2,628	-
3,460	-	Government bonds of the Irish Republic	3,460	-
3,565	-	Government bonds of the Kingdom of Spain	3,565	-
6,902	-	Government bonds of the Portuguese Republic	6,902	-
-	8,141	Government bonds of the Czech Republic	-	8,141
26,515	18,097	Corporate bonds of the Republic of Lithuania	26,515	10,073
1,269	1,164	Corporate bonds of the Republic of Latvia	1,269	1,164
152,318	96,505	Available-for-sale securities	152,318	88,481

As of 31 December 2010 the Group and the Bank have pledged debt securities amounting to LTL 324 thousand (as of 31 December 2009 – no pledged securities) to secure foreign exchange forward agreements. As of 31 December 2010 and 2009 all corporate bonds were issued by commercial banks.

Coupon rates, yields and maturities of the debt securities mentioned above are as follows:

	2010		2009	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	3.75-9.38	2011-2018	3.55 - 9.38	2010 - 2015
Government bonds of the Republic of Latvia	5.50	2018		
Government bonds of the Republic of Poland	3.75	2017		
Government bonds of the Irish Republic	4.00	2011		
Government bonds of the Kingdom of Spain	4.10	2011		
Government bonds of the Portuguese Republic	5.15	2011		
Government bonds of the Czech Republic	-	-	4.63	2014
Corporate bonds	2.63-8.00	2011-2015	2.63 - 9.00	2010 - 2011

Note 7 Held-to-maturity investments

Held-to-maturity investments are as follows:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
30,726	37,594	Government bonds of the Republic of Lithuania	30,726	37,594
13,644	13,728	Government bonds of the Republic of Ireland	13,644	13,728
-	30,115	Corporate bonds	-	30,115
44,370	81,437	Held-to-maturity investments	44,370	81,437

As of 31 December 2010 the Group and the Bank pledged Held-to-maturity investments amounting to LTL 25,539 thousand (as of 31 December 2009 – LTL 22,315 thousand) to secure foreign exchange forward agreements and loans from KfW.

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Note 7 Held-to-maturity investments (cont'd)

Coupon rates and maturities of Held-to-maturity investments are as follows:

	2010		2009	
	%	Maturity	%	Maturity
Government bonds of the Republic of Lithuania	5.88-9.95	2012-2015	3.78 - 9.95	2012 - 2015
Government bonds of the Republic of Ireland	3.90	2012	3.90	2012
Corporate bonds	-	-	7.00 - 10.95	2010

Note 8 Loans and receivables

Loans and receivables to customers comprise:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
529,719	487,061	Loans to customers, including short-term bills of exchange	562,328	523,275
1,728	7,657	Loans granted under repurchase agreements	1,728	7,657
18,707	1,052	Overdrafts	18,707	1,052
236	508	Factoring	236	508
<u>550,390</u>	<u>496,278</u>		<u>582,999</u>	<u>532,492</u>
(81,959)	(26,157)	Less: individual impairment	(81,959)	(26,157)
<u>(889)</u>	<u>(673)</u>	Less: collective impairment	<u>(987)</u>	<u>(746)</u>
<u>467,542</u>	<u>469,448</u>	Loans and receivables, net	<u>500,053</u>	<u>505,589</u>

The Group and the Bank have entered into repurchase agreements with two Lithuanian companies. The subject of these agreements is real estate with the fair value amounting to LTL 3,730 thousand as of 31 December 2010 (as of 31 December 2009 – LTL 5,900 thousand).

As at 31 December 2010 the Group and the Bank had a concentration of loans within the loan portfolio represented by loans issued to 10 major clients, the amount of which amounted to LTL 122,305 thousand or 24.46 % of the Bank and LTL 103,408 thousand or 22.12 % of the Group net loan portfolios (in 2009 – LTL 133,163 thousand or 26.34% of the Bank and LTL 111,442 thousand or 23.74% of the Group). Total impairment of these loans in the Bank and in the Group amounted to LTL 11,490 thousand and LTL 11,434 thousand (in 2009 – LTL 2,276 thousand in the Bank and LTL 2,428 thousand in the Group).

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(All amounts in LTL thousand unless otherwise stated)

Note 9 Property and equipment

The movements in property and equipment were as follows:

The Bank

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2009	6,053	1,118	6,916	14,087
Additions	-	-	325	325
Disposals and write-offs	(74)	-	(374)	(448)
Balance as of 31 December 2010	5,979	1,118	6,867	13,964
Accumulated depreciation and impairment losses				
Balance as of 31 December 2009	973	676	4,467	6,116
Charges for the year	79	153	900	1,132
Disposals and write-offs	-	-	(347)	(347)
Balance as of 31 December 2010	1,052	829	5,020	6,901
Net book value				
As of 31 December 2009	5,080	442	2,449	7,971
As of 31 December 2010	4,927	289	1,847	7,063

The Bank

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2008	5,934	1,122	6,043	13,099
Additions	119	34	1,139	1,292
Disposals and write-offs	-	(38)	(266)	(304)
Balance as of 31 December 2009	6,053	1,118	6,916	14,087
Accumulated depreciation and impairment losses				
Balance as of 31 December 2008	894	535	3,745	5,174
Charges for the year	79	173	987	1,239
Disposals and write-offs	-	(32)	(265)	(297)
Balance as of 31 December 2009	973	676	4,467	6,116
Net book value				
As of 31 December 2008	5,040	587	2,298	7,925
As of 31 December 2009	5,080	442	2,449	7,971

The carrying value of vehicles held under finance leases on 31 December 2010 was LTL 61 thousand (in 2009 – LTL 110 thousand). Leased assets are pledged as security for the related finance lease liabilities.

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(All amounts in LTL thousand unless otherwise stated)

Note 9 Property and equipment (cont'd)

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2009	6,053	1,118	6,916	14,087
Additions	-	-	325	325
Disposals and write-offs	(74)	-	(374)	(448)
Balance as of 31 December 2010	5,979	1,118	6,867	13,964
Accumulated depreciation and impairment losses				
Balance as of 31 December 2009	973	676	4,467	6,116
Charges for the year	79	153	900	1,132
Disposals and write-offs	-	-	(347)	(347)
Balance as of 31 December 2010	1,052	829	5,020	6,901
Net book value				
As of 31 December 2009	5,080	442	2,449	7,971
As of 31 December 2010	4,927	289	1,847	7,063

The Group

	Land, buildings and other real estate	Vehicles	Office equipment and other	Total
Acquisition cost or revalued amounts				
Balance as of 31 December 2008	5,934	1,122	6,043	13,099
Additions	119	34	1,139	1,292
Disposals and write-offs	-	(38)	(266)	(304)
Balance as of 31 December 2009	6,053	1,118	6,916	14,087
Accumulated depreciation and impairment losses				
Balance as of 31 December 2008	894	535	3,745	5,174
Charges for the year	79	173	987	1,239
Disposals and write-offs	-	(32)	(265)	(297)
Balance as of 31 December 2009	973	676	4,467	6,116
Net book value				
As of 31 December 2008	5,040	587	2,298	7,925
As of 31 December 2009	5,080	442	2,449	7,971

As of 31 December 2010 owner occupied buildings of the Group and the Bank are accounted for at the revalued amounts. The valuation was performed on the basis of comparative price method. Had the appraisal not been performed, the carrying value of buildings of the Group and the Bank as of 31 December 2010 would be LTL 4,214 thousand (as of 31 December 2009 LTL 4,307 thousand).

The carrying value of equipment and vehicles of the Group held under finance leases as of 31 December 2010 was LTL 61 thousand (as of 31 December 2009 – LTL 110 thousand). Leased assets are pledged as security for the related finance lease liabilities.

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Note 10 Intangible assets

The movements in intangible assets were as follows:

	<u>The Bank</u>	<u>The Group</u>
	<u>Software</u>	<u>Software</u>
Acquisition cost		
Balance as of 31 December 2009	2,964	2,964
Additions	242	242
Disposals and write-offs	(16)	(16)
Balance as of 31 December 2010	3,190	3,190
Accumulated amortisation		
Balance as of 31 December 2009	2,484	2,484
Charges for the year	307	307
Disposals and write-offs	(16)	(16)
Balance as of 31 December 2010	2,775	2,775
Net book value		
As of 31 December 2009	480	480
As of 31 December 2010	415	415
	<u>The Bank</u>	<u>The Group</u>
	<u>Software</u>	<u>Software</u>
Acquisition cost		
Balance as of 31 December 2008	2,905	2,905
Additions	149	149
Disposals and write-offs	(90)	(90)
Balance as of 31 December 2009	2,964	2,964
Accumulated amortisation		
Balance as of 31 December 2008	2,177	2,177
Charges for the year	398	398
Disposals and write-offs	(91)	(91)
Balance as of 31 December 2009	2,484	2,484
Net book value		
As of 31 December 2008	728	728
As of 31 December 2009	480	480

As of 31 December 2010 and 2009 the Group and the Bank did not have any intangible assets acquired under the finance lease agreements.

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(All amounts in LTL thousand unless otherwise stated)

Note 11 Investment property

	<u>The Group</u>
Balance as of 31 December 2009	-
Additions	4,979
Balance as of 31 December 2010	4,979

Investment property consists of repossessed assets for defaulted loans.

Investment properties are stated at fair value, which is determined based on valuation performed by independent appraisers by using comparative value method principle. Comparative value method principle is to determine the market value of comparable properties with similar transaction prices, taking into account the differences between the object and analogues. Applying this method assessor directly changes the object by analogue. Applying the comparative value method, property assessor must collect and analyse more data on events in the area of similar items for sale and purchase transactions, as well as the proposed sale of similar items. If the property assessor has insufficient information about similar objects (analogue) in the area, he must explore comparable analogues in other areas of comparable facilities and to clarify the difference. In order to calculate the adjustments, there is a need to compare the data ant to clarify correction factors: the time correction factor; the size of the area correction factor, correction factor for the financial conditions, other correction factors, expressing the differences of physical and terms of use conditions.

The average prices of land plots and buildings used in determining the fair value according to their purpose were as follows:

	Land plots	<u>Average prices per are, in LTL thousand</u>
Agricultural		0.10 - 1.20
Forestry		0.10
	Buildings	<u>Average prices per sq.m., in LTL thousand</u>
Commercial		1.04
Other		3.28

Note 12 Investment in subsidiaries

On 12 August 2009 and 30 November 2009 the Bank has established two fully owned subsidiaries UAB MB Turtas and UAB MB Valda, respectively (main activity – real estate management and development). In 2010 operating result of both subsidiaries was loss of LTL 355 thousand.

Balance as of 31 December 2010	Ownership (%)	Nominal amount	Carrying value
UAB MB turtas	100	10,440	10,440
UAB MB valda	100	10	10
			<u>10,450</u>
Balance as of 31 December 2009	Ownership (%)	Nominal amount	Carrying value
UAB MB turtas	100	10	10
UAB MB valda	100	10	10
			<u>20</u>

Note 13 Other assets

Other assets comprise:

The Group			The Bank	
<u>31 December 2010</u>	<u>31 December 2009</u>		<u>31 December 2010</u>	<u>31 December 2009</u>
-	1,166	Repossessed assets	-	1,166
2,921	2,048	Prepayments	2,255	2,048
574	212	Cheque maintenance (GLOBAL BLUE)	574	212
37	166	Deferred expenses	37	166
452	388	Other	446	415
<u>3,984</u>	<u>3,980</u>	Other assets	<u>3,312</u>	<u>4,007</u>

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Note 14 Derivative financial instruments

The Bank and Group

31 December 2010	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards	53,707	1,663	-
Foreign exchange swaps	18,269	47	57
		1,710	57

The Bank and Group

31 December 2009	Notional amount Purchase	Fair value Assets	Fair value Liabilities
Foreign exchange forwards	69,693	232	-
Foreign exchange swaps	14,431	348	23
		580	23

As of 31 December 2010 for the foreign exchange forward agreements, the Group and the Bank have pledged debt securities with carrying amount of LTL 12,219 thousand (as of 31 December 2009 - LTL 29,382 thousand).

The Group			The Bank	
2010	2009		2010	2009
(653)	158	Realised gain from swaps	(653)	158
1,598	678	Realised gain from foreign exchange forwards	1,598	678
(10)	324	Unrealised gain from swaps	(10)	324
451	232	Unrealised gain from foreign exchange forwards	451	232
1,386	1,392	Net gain (loss) from operations with derivative financial instruments	1,386	1,392

Note 15 Due to banks and other credit institutions

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
27,640	15,046	Term deposits	27,640	15,046
6,652	6,554	Loans	6,652	6,554
414	518	Current accounts and overnight deposits	414	518
34,706	22,118	Amounts due to banks and other credit institutions	34,706	22,118

As of 31 December 2010 interest rates on amounts due to banks and other credit institutions varied from 1.1 % to 4.00 % (as of 31 December 2009 – from 2.01 % to 10.00 %).

Break down by maturities and contractual interest rates of the amounts due to banks and other credit institutions:

Country	Currency of issue	Maturity	Interest rate	31 December 2010	
				The Bank	The Group
Lithuania	LTL	2010-2011	1,1 – 4.0	21,507	21,507
Lithuania	EUR	2010-2011	1,1 – 2.1	6,133	6,133
Germany	EUR	2013	2.39	6,652	6,652
Other	-	-	-	414	414
Total				34,706	34,706

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Note 15 Due to banks and other credit institutions (cont'd)

Country	Currency of issue	Maturity	Interest rate	31 December 2009	
				The Bank	The Group
Lithuania	LTL	2010	4.3 - 10.0	8,010	8,010
Lithuania	EUR	2010	2.1 - 5.0	7,036	7,036
Germany	EUR	2010-2011	2.0 - 2.1	6,554	6,554
Other	-	-	-	518	518
Total				22,118	22,118

As of 31 December 2010 for the loans received, the Group and the Bank have pledged debt securities with carrying amount of LTL 13,644 thousand (LTL 13,728 thousand as of 31 December 2009).

Note 16 Due to customers

Amounts due to customers comprise:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
485,017	489,939	Term deposits	485,017	489,939
138,153	77,640	Current accounts	138,157	77,656
		Lending funds		
28,126	21,757	UAB Investicijų ir verslo garantijos	28,126	21,757
10,011	10,015	Ministry of Economy of the Republic of Lithuania	10,011	10,015
16,359	3,929	Rural Credit Guarantee Fund	16,359	3,929
677,666	603,280	Amounts due to customers	677,670	603,296
21,089	17,308	Held as security against guarantees and loans	21,093	17,308

As at 31 December 2010 amounts due to ten largest third party customers of the Group and the Bank amounted to LTL 88,510 thousand or 13.06 % of the Bank and the Group (2009 – LTL 87,569 thousand or 14.52 % of the Bank and the Group).

As at 31 December 2010 and 2009 the major customers were residents of the Republic of Lithuania.

In 2010 the Bank and the Group signed two agreements with Rural credit guarantee fund to finance investments in accordance with two Rural Development Programme for 2007 - 2013 measures. During 2010 the Group and the Bank received LTL 14,380 thousand under these agreements.

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

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
440,426	436,081	Individuals	440,430	436,081
139,608	91,760	Corporate enterprises	139,608	91,776
36,394	36,271	Financial institutions	36,394	36,271
61,238	39,168	Government departments and state owned enterprises	61,238	39,168
677,666	603,280	Amounts due to customers	677,670	603,296

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Note 16 Due to customers (cont'd)

An analysis of customer accounts by sector is as follows:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
440,430	436,081	Individuals	440,430	436,081
81,685	62,734	Insurance and other financial services	81,685	62,734
65,344	27,454	Trade	65,344	27,454
21,564	19,120	Real estate constructions	21,568	19,136
9,242	9,156	Transport and communication	9,242	9,156
5,778	5,182	Manufacturing	5,778	5,182
7,143	3,304	Agriculture	7,143	3,304
786	2,320	Energy	786	2,320
45,694	37,929	Other	45,694	37,929
677,666	603,280	Amounts due to customers	677,670	603,296

Note 17 Debt securities issued

As of 31 December 2010 and 2009 the Group and the Bank had unlisted bonds issued as follows:

Currency of issue	Maturity	Contractual interest rates	Book value of issue as at 31 December 2010	Book value of issue as at 31 December 2009
LTL	2010	6.25 – 10.00	-	6,362
USD	2010	3.30	-	3,908
EUR	2010	8.60 – 9.00	-	1,301
EUR	2011	8.10	782	726
LTL	2011	3.20-4.45	6,364	-
			7,146	12,297

Note 18 Subordinated loans

In June 2006 the Bank received first subordinated loan of EUR 10,000 thousand, equivalent to LTL 34,528 thousand, from the major shareholder of the Bank. On 15 June 2010 the subordinated loan agreement was terminated and all amount was transferred into reserve for loss covering.

In July 2008 the Bank received second subordinated loan of EUR 10,000 thousand, equivalent to LTL 34,528 thousand, from the major shareholder of the Bank. The subordinated loan bearing annual interest of a reference rate three months LIBOR and 0.2 % margin (as of 31 December 2010 – 1.03438 %) was granted for 5 years. On 16 June 2010 additional agreement was signed to prolong subordinated loan till 1 June 2016. The loan allows for the possibility of negotiating a conversion into ordinary shares; however, no specific conversion conditions are foreseen in the loan agreement, which would be agreed on good faith.

According to the regulations of the Board of the Bank of Lithuania, the Bank had a permission to include the received subordinated loan in the Bank's Tier 2 capital.

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Note 19 Finance lease liabilities

Liabilities under finance lease agreements are as follows:

The Bank and Group	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	2010	2009
Finance lease payments:				
Up to one year	45	54	41	49
One to five years	19	64	20	61
Total	64	118	61	110
Less: future interest expense	(3)	(8)	-	-
Total finance lease liabilities	61	110	61	110

Note 20 Other liabilities

Other liabilities comprise:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
1,319	1,385	Accrued payments to employees	1,319	1,385
428	165	Deferred income	428	165
385	374	Fee payable to the State Social Insurance Board	385	374
216	195	Deposit insurance fee	216	195
1,390	943	Other	1,175	943
3,738	3,062	Other liabilities	3,523	3,062

Note 21 Shareholders' equity

As of 31 December 2010 and 2009 the share capital of the Group and the Bank consisted of 137,750 ordinary shares with the par value of LTL 500 each. All shares are issued, authorised and fully paid. The shares are not listed.

Other reserves of the Group and the Bank were as follows:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
1,676	1,240	Legal reserve	1,676	1,240
22,178	22,178	Reserve capital	22,178	22,178
34,528	-	Reserve for loss covering	34,528	-
58,382	23,418	Total other reserves	58,382	23,418

Nature and purpose of reserves

Legal reserve

The Bank's legal reserve amounted to LTL 1,676 thousand as of 31 December 2010 (LTL 1,240 thousand as of 31 December 2009). A legal reserve is a compulsory reserve under Lithuanian legislation and is used to cover the accumulated losses. Annual transfers of not less than 5 % of net profit are compulsory until the reserve reaches 10 % of the share capital. The legal reserve can be used to cover Bank's operating losses and for share capital increase.

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Note 21 Shareholders' equity (cont'd)

Reserve capital

The Bank's and the Group's reserve capital amounting to LTL 22,178 thousand as of 31 December 2010 (LTL 22,178 thousand as of 31 December 2009) is created from additional shareholders' contributions and the profit of the Bank. The purpose of the reserve capital is to guarantee the financial stability of the Bank. The reserve capital can be used to cover Bank's operating losses and for share capital increase.

Reserve for loss covering

During the year 2010 reserve for loss covering was created amounting to LTL 34,528 thousand (Note 18).

Revaluation reserve of property and equipment

The revaluation reserve of property and equipment is used to record increase 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.

Financial assets revaluation reserve

Fair value changes of available for sale financial assets are accounted for in this reserve.

The movement of financial assets revaluation reserve was as follows:

<u>The Group</u>	<u>The Bank</u>
(1,836) As at 1 January 2009	(1,836)
1,986 Net gain/loss from changes in fair value	1,869
675 Net gain/loss transferred to net profit on disposal	675
<u>(106) Changes of deferred income taxes (Note 31)</u>	<u>(106)</u>
<u>719 As at 31 December 2009</u>	<u>602</u>
1,528 Net gain/loss from changes in fair value	1,656
444 Net gain/loss transferred to net profit on disposal	433
<u>(314) Changes of deferred income taxes (Note 31)</u>	<u>(314)</u>
<u>2,377 As at 31 December 2010</u>	<u>2,377</u>

Note 22 Earnings per share

	<u>The Group</u>	
	<u>31 December 2010</u>	<u>31 December 2009</u>
Net profit attributable to equity holders	(35,174)	409
Number of shares at the year-end (units)	<u>137,750</u>	<u>137,750</u>
Basic and diluted earnings per share (in LTL)	(255.35)	2.97

The Bank has been granted subordinated loans from shareholder who allows for the possibility of negotiating a conversion into ordinary shares on a good faith basis. Therefore, no dilution effect results from this instrument.

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Note 23 Commitments and contingencies

Financial commitments and contingencies

The financial commitments and contingencies comprise the following:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
		Credit related commitments and guarantees		
26,282	57,633	Credit related commitments	32,704	57,633
2,875	1,422	Guarantees	2,875	1,422
29,157	59,055		35,579	59,055
(1,439)	(307)	Less: Cash held as security against letters of credit and guarantees	(1,439)	(307)
27,718	58,748	Total credit related commitments and guarantees	34,140	58,748
		Operating lease commitments		
1,558	1,816	Not later than 1 year	1,558	1,816
1,176	2,247	Later than 1 year but not later than 5 years	1,176	2,247
1	29	Later than 5 years	1	29
2,735	4,092	Total operating lease commitments	2,735	4,092

In 2010 the Bank's and Group's operating lease expenses amounted to LTL 2,015 thousand (in 2009 – LTL 2,121 thousand).

Insurance

The Group is a member of the obligatory deposit insurance system. The system operates under the Lithuanian legislation and is governed by Indėlių ir Investicijų Draudimas VĮ (State Company Deposit and Investment Insurance). The insurance covers the Bank's liabilities to individual depositors for the amount up to LTL 345,000 for each individual in case of business failure.

Note 24 Net interest income

The Group			The Bank	
2010	2009		2010	2009
20,489	37,962	On loans to customers	21,378	38,271
18,847	11,339	On impaired loans to customers	18,847	11,339
4,236	6,243	On held-to-maturity investments	4,236	6,243
7,985	3,916	On available-for-sale investments	7,393	3,824
398	1,723	On placements with the banks and other credit institutions	398	1,411
900	214	On investments at fair value through profit or loss	900	214
114	133	On placements with central bank	114	133
52,969	61,530	Interest revenue	53,266	61,435
(25,025)	(36,132)	On obligations to customers, including letters of credit	(25,025)	(36,132)
(2,405)	(2,121)	Deposit insurance	(2,405)	(2,121)
(940)	(1,109)	On subordinated loan	(940)	(1,109)
(436)	(738)	On debt securities issued	(436)	(738)
(437)	(618)	On obligations to banks and other credit institutions	(437)	(618)
(5)	(8)	On finance lease payable	(5)	(8)
(29,248)	(40,726)	Interest expenses	(29,248)	(40,726)
23,721	20,804	Net interest income	24,018	20,709

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Note 25 Net service fee and commission income

Net fee and commission income comprises:

The Group			The Bank	
2010	2009		2010	2009
7,900	6,750	Cash collection	7,900	6,750
2,282	2,318	Settlements operations	2,282	2,318
2,421	2,147	Euro exchange	2,458	2,236
3	21	Guarantees and letters of credit	3	21
10	3	Securities transactions	10	4
30	12	Other	30	12
12,646	11,251	Service fee and commission revenue	12,683	11,341
(513)	-	Operating fee according to agreement	(513)	-
(452)	(282)	Cash operations	(452)	(282)
(115)	(80)	Settlements operations	(108)	(80)
(30)	(49)	Euro exchange	(30)	(49)
(74)	(58)	Securities transactions	(74)	(58)
(115)	(33)	Other	(115)	(33)
(1,299)	(502)	Service fee and commission expense	(1,292)	(502)
11,347	10,749	Net service fee and commission income	11,391	10,839

Note 26 Net profit (loss) on securities trading

The Group			The Bank	
2010	2009		2010	2009
		Trading securities		
		Debt securities		
655	1,036	Realised gain	655	1,036
306	29	Unrealised gain	306	29
		Equity securities		
-	50	Realised gain (loss)	-	50
-	-	Unrealised (loss)	-	-
961	1,115	Net profit (loss) on securities trading	961	1,115

Note 27 Net foreign exchange gain

The Group			The Bank	
2010	2009		2010	2009
5,966	4,463	Gain on dealing in foreign currencies	5,966	4,463
272	(313)	Balance sheet revaluation, net	272	(313)
6,238	4,150	Net foreign exchange gain	6,238	4,150

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Note 28 Other income

The Group			The Bank	
2010	2009		2010	2009
417	-	Income from project implementation	417	-
58	549	Exchange offices income	58	549
4	-	Rental revenue	4	-
-	1	Dividends revenue	-	1
6	11	Sale of assets	6	11
47	3	Other income	47	31
532	564	Total other income	532	592

Note 29 Impairment of loans and other financial assets

The Group			The Bank	
2010	2009		2010	2009
(57,123)	(15,067)	Impairment loss on loans and receivables	(57,148)	(15,140)
-	146	Reversal of impairment / (impairment) of other assets	-	146
191	21	Recovery of loans previously written-off	191	21
(56,932)	(14,900)	Total impairment of loans and other financial assets	(56,957)	(14,973)

Impairment expenses for the year 2010 and 2009 by industry sectors are as follows:

The Group			The Bank	
2010	2009		2010	2009
(5,220)	(2,974)	Trading enterprises	(5,220)	(2,974)
(18,381)	(3,168)	Real estate operations	(18,406)	(3,241)
(12,837)	(3,867)	Real estate constructions	(12,837)	(3,867)
(719)	(1,082)	Transport	(719)	(1,082)
(4,646)	(655)	Manufacturing	(4,646)	(655)
(7,098)	(1,160)	Services	(7,098)	(1,160)
(597)	(105)	Agriculture and food processing	(597)	(105)
(1)	(3)	Energy	(1)	(3)
(15)	(31)	Financial services	(15)	(31)
(7,418)	(1,855)	Individuals	(7,418)	(1,855)
(56,932)	(14,900)	Total impairment of loans and other financial assets	(56,957)	(14,973)

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Note 30 Operating expenses

Salaries and benefits and other operating expenses are as follows:

The Group			The Bank	
2010	2009		2010	2009
		Salaries and benefits		
(11,062)	(11,075)	Salaries and bonuses	(11,051)	(11,073)
(3,444)	(3,568)	Social security costs	(3,441)	(3,567)
(11)	(12)	Other employment taxes	(11)	(12)
(14,517)	(14,655)	Total salaries and benefits	(14,503)	(14,652)
		Other operating expenses		
(2,015)	(2,200)	Occupancy and rent	(2,015)	(2,200)
(1,577)	(1,584)	Communication	(1,577)	(1,584)
(994)	(1,004)	Taxes other than income tax	(994)	(1,004)
(912)	(570)	Debt recovery costs	(912)	(570)
(695)	(718)	Office supplies	(695)	(718)
(172)	(173)	Security	(172)	(173)
(168)	(100)	Repair and maintenance of property and equipment	(168)	(100)
(34)	(193)	Marketing and advertising	(34)	(193)
(24)	(63)	Representation	(24)	(63)
(21)	(226)	Legal and consultancy	(21)	(226)
(21)	(38)	Business travel and related	(21)	(38)
(15)	(14)	Personnel training	(15)	(14)
(918)	(1,093)	Other	(918)	(1,093)
(7,566)	(7,976)	Total other operating expenses	(7,566)	(7,976)

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Note 31 Income tax

The Group's and the Bank's income tax is specified below:

The Group			The Bank	
2010	2009		2010	2009
-	-	Current income tax expenses	-	-
(3)	(77)	Prior year income tax correction	(3)	(77)
1,098	581	Change in deferred tax income	1,098	581
1,095	504	Total income tax income (expenses)	1,095	504
Components of deferred income tax				
Deferred income tax assets:				
1,756	706	Tax loss carried forward	1,756	706
47	49	Accruals	47	49
148	113	Collective impairment for loans	148	113
1,951	868	Deferred income tax assets before valuation allowance	1,951	868
-	-	Less: valuation allowance	-	-
1,951	868	Deferred income tax assets, net	1,951	868
Deferred income tax liabilities:				
(420)	(106)	Revaluation on available for sale financial instruments	(420)	(106)
(228)	(230)	Revaluation of property and equipment	(228)	(230)
(6)	(21)	Other	(6)	(21)
(654)	(357)	Deferred income tax liabilities	(654)	(357)
1,297	511	Deferred income tax, net	1,297	511
Deferred tax income (expense) recognised:				
(312)	(39)	In statement of changes in equity	(312)	(39)
1,098	581	In income statement	1,098	581

Deferred income tax assets are recognized for tax loss carried forward to the extent that realization of the related tax benefit through future taxable profits is probable. The deferred tax assets recognised at 31 December 2010 in respect of tax losses have been based on profitability assumptions over 3 year horizon. The expected future taxable profits are based on business plan assumptions taking into consideration uncertainties arising from the current adverse economic environment. If the business plan earnings and assumptions in following quarters substantially deviate from the current assumptions, the amount of existing deferred tax assets may need to be adjusted.

Deferred tax components related to revaluation of available for sale financial instruments (Note 21) and revaluation of property and equipment are accounted for in equity.

The income tax expense, 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:

The Group			The Bank	
2010	2009		2010	2009
(5,276)	19	Profit tax calculated at 15% tax rate (20% in 2009)	(5,227)	28
2,130	913	Non taxable income and non deductible expenses	2,081	904
4,244	(282)	Unrecognised deferred tax asset	4,244	(282)
(3)	(77)	Prior year income tax correction	(3)	(77)
-	(69)	Effect of changes in tax rates	-	(69)
1,095	504	Total income tax income (expenses)	1,095	504

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Note 32 Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement comprise:

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
25,254	20,650	Cash on hand	25,254	20,650
5,083	20,710	Current accounts with the Bank of Lithuania	5,083	20,710
3,030	16,475	Current accounts with other credit institutions	2,030	16,475
24,319	-	Overnight deposits with credit institutions	24,319	-
25,193	40,175	Term deposits with credit institutions up to 90 days	20,893	11,863
82,879	98,010	Cash and cash equivalents	77,579	69,698

Note 33 Fair values of financial instruments

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 transaction, involuntary liquidation or distress sale. As no readily available market exists for a large part of the Bank's and Group's financial instruments, judgment is necessary in arriving at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to variable rate financial instruments, as the Group and the Bank did not identify significant increases in credit spreads.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flow using prevailing market interest rates for debts with similar credit risk and maturity.

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

Financial Assets at Fair Value Through Profit or Loss and Available-for-Sale Financial Assets. The carrying amount is the fair value of such investments.

Held-to-maturity investments. Their fair value was calculated based on market quotations.

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

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

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 and credit quality.

Debt securities issued and subordinated loan. The fair value is calculated discounting of scheduled future cash flows using current market rates.

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Note 33 Fair values of financial instruments (cont'd)

In the table below carrying amounts and fair values of financial instruments which are not carried at fair value in the financial statements are presented. This table does not include the fair values of non-financial assets and non-financial liabilities.

The Bank	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,818	53,818	62,820	62,820
Placements with banks and other credit institutions	58,574	58,574	49,132	49,132
Held-to-maturity investments	44,370	45,252	81,437	83,763
Loans and receivables	500,053	514,101	505,589	528,027
Financial liabilities				
Due to banks and other credit institutions	34,706	34,762	22,118	22,118
Due to customers, including letters of credit	677,670	682,114	603,296	607,145
Debt securities issued	7,146	7,143	12,297	12,469
Finance lease liabilities	61	66	110	139
Subordinated loans	34,528	34,235	69,056	63,031

The Group	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and due from central bank	53,818	53,818	62,820	62,820
Placements with banks and other credit institutions	95,812	95,812	77,444	77,444
Held-to-maturity investments	44,370	45,252	81,437	83,763
Loans and receivables (including finance lease receivable)	467,542	481,595	469,448	492,044
Financial liabilities				
Due to banks and other credit institutions	34,706	34,762	22,118	22,118
Due to customers, including letters of credit	677,666	682,110	603,280	607,129
Debt securities issued	7,146	7,143	12,297	12,469
Finance lease liabilities	61	66	185	242
Subordinated loans	34,528	34,235	69,056	63,031

Financial instruments which are carried at fair value in the financial statements are distributed by 3 levels:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of all Bank contracted derivatives is defined as level 2. These are mainly FX swaps and derivatives which are revaluated using discounted cash flow or present value calculation method. In all cases revaluation is based on market observable inputs. Debt securities are priced in accordance to market quotes and, in cases when there is no active market for particular security, other techniques for defining the price for this kind of security is applied with the reference to market observable inputs. As of 31 December 2010 due to absence of active market, bonds issued by other Lithuanian and foreign banks were classified under Level 2 (in 2009 – nil). There were no movements of financial instruments between level 1 and level 2 in 2010 and 2009.

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Note 33 Fair values of financial instruments (cont'd)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

The Bank

As at 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1,710	-	1,710
Financial assets designated at fair value through profit or loss	20,379	-	-	20,379
Financial investments available-for-sale	124,534	27,784	-	152,318
Financial liabilities				
Derivative financial instruments	-	57	-	57
As at 31 December 2009				
As at 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	580	-	580
Financial assets designated at fair value through profit or loss	2,810	-	-	2,810
Financial investments available-for-sale	87,317	1,164	-	88,481
Financial liabilities				
Derivative financial instruments	-	23	-	23

The Group

As at 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	1,710	-	1,710
Financial assets designated at fair value through profit or loss	20,379	-	-	20,379
Financial investments available-for-sale	124,534	27,784	-	152,318
Financial liabilities				
Derivative financial instruments	-	57	-	57
As at 31 December 2009				
As at 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	580	-	580
Financial assets designated at fair value through profit or loss	2,810	-	-	2,810
Financial investments available-for-sale	95,341	1,164	-	96,505
Financial liabilities				
Derivative financial instruments	-	23	-	23

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Note 34 Related party transactions

Transactions between the Group and the Bank and their related parties, respectively, were effected on normal commercial terms and conditions as transactions with unrelated parties.

The outstanding balances of loans, term deposits and bonds issued at the year end, and related expense and income for the year are as follows:

The Bank, 2010	Key management personnel			
	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as of 31 December 2010, net	-	32,511	-	30,817
Interest rate, %	-	5.90-5.99	-	1.99 – 12.84
Interest income on loans	-	1,749	1	1,407
Impairment of loans	-	(98)	-	(92)
Term deposits as of 31 December 2010	-	-	325	7,942
Interest expense on deposits	-	-	(18)	(451)
Interest rate, %	-	-	1.10-6.15	0 – 9.50
Demand accounts as of 31 December 2010	597	4	13	6,502
Bonds issued as of 31 December 2010	-	-	-	-
Interest expense on bonds	(73)	-	(1)	(131)
Interest rate, %	-	-	-	-
Subordinated loans as of 31 December 2010	34,528	-	-	-
Interest expense on subordinated loans	(940)	-	-	-
Interest rate, %	1.03	-	-	-
Fee and commission revenue	5	44	-	204
Other operating expenses	-	(10)	(102)	(758)
The Bank, 2009			Key management personnel	
	Shareholders	Subsidiaries	Key management personnel	Other*
Loans outstanding as of 31 December 2009, net	318	36,141	11	34,848
Interest rate, %	9.80 - 11.70	5.70	6.60	2.00 – 15.40
Interest income on loans	1	308	-	985
Impairment of loans	-	(72)	-	(70)
Term deposits as of 31 December 2009	801	-	1,044	12,417
Interest expense on deposits	(77)	-	(21)	(532)
Interest rate, %	4.00 - 10.50	-	2.70 – 9.60	0 – 10.00
Demand accounts as of 31 December 2009	798	16	29	4,225
Bonds issued as of 31 December 2009	3,929	-	69	2,619
Interest expense on bonds	(238)	-	(4)	(156)
Interest rate, %	3.30 – 9.00	-	9.50	9.50 - 10.00
Subordinated loans as of 31 December 2009	69,056	-	-	-
Interest expense on subordinated loans	(1,109)	-	-	-
Interest rate, %	(0.90 – 4.00)	-	-	-
Fee and commission revenue	7	97	76	101
Other operating expenses	(2)	33	(133)	(1,182)

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Note 34 Related party transactions (cont'd)

The Group, 2010	Shareholders	Key management personnel	Other*
Loans outstanding as of 31 December 2010, net	-	-	30,817
Interest rate, %	-	-	1.99 – 12.84
Interest income on loans	-	-	1,407
Impairment of loans	-	-	(92)
Term deposits as of 31 December 2010	-	609	7,942
Interest expense on deposits	-	(29)	(451)
Interest rate, %	-	1.10-8.40	0 – 9.50
Demand accounts as of 31 December 2010	597	19	6,502
Bonds issued as of 31 December 2010	-	-	-
Interest expense on bonds	(72)	(1)	(131)
Interest rate, %	-	-	-
Subordinated loans as of 31 December 2010	34,528	-	-
Interest expense on subordinated loans	(940)	-	-
Interest rate, %	1.03	-	-
Fee and commission revenue	5	-	204
Other operating expenses	-	(107)	(758)
The Group, 2009	Shareholders	Key management personnel	Other*
Loans outstanding as of 31 December 2009, net	318	11	34,848
Interest rate, %	9.80 - 11.70	6.60	2.00 – 15.40
Interest income on loans	1	-	985
Impairment of loans	(1)	-	(70)
Term deposits as of 31 December 2009	801	1,044	12,417
Interest expense on deposits	(77)	(21)	(532)
Interest rate, %	4.00 - 10.50	2,70 – 9,60	0 – 10.00
Demand accounts as of 31 December 2009	798	29	4,225
Bonds issued as of 31 December 2009	3,929	69	2,619
Interest expense on bonds	(238)	(4)	(156)
Interest rate, %	3.30 – 9.00	9.50	9.50 - 10.00
Subordinated loans as of 31 December 2009	69,056	-	-
Interest expense on subordinated loans	(1,109)	-	-
Interest rate, %	(0.90 – 4.00)	-	-
Fee and commission revenue	7	76	101
Other operating expenses	(2)	(133)	(1,182)

* Other related parties are entities controlled by the members of the management of the Group and the Bank or shareholders of the Bank and other related parties.

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Note 34 Related party transactions (cont'd)**The Group**

Compensation of key management personnel comprised the following:

	<u>2010</u>	<u>2009</u>
Salaries and other short-term benefits	640	706
Social security costs	198	216
Total key management personnel compensation	<u>838</u>	<u>922</u>

Key management personnel include members of the board and administration and management of subsidiaries.

Note 35 Risk management

Risk is inherent in the Bank's and Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to Bank's and Group's continuing profitability and each individual within the Bank and Group is accountable for the risk exposures relating to his or her responsibilities.

The Group and the Bank is exposed to credit risk, liquidity risk and market risk, it is also subject to operating risk.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board has the responsibility to monitor the overall risk process within the Bank and Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk department

The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Group and the Bank.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risk of the Group and the Bank.

Internal Audit

Risk management processes throughout the Group and the Bank are audited annually by the internal audit that examines both the adequacy of the procedures and the Bank's and Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

Monitoring and controlling of risks are primarily performed based on limits established by the Group and the Bank. These limits reflect the business strategy and market environment of the Group and the Bank as well as the level of risk that the Bank or the Group is willing to accept.

Information compiled from all the business is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and the head of each business division.

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Note 35 Risk management (cont'd)

The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all necessary information to assess and conclude on the risks of the Group and the Bank.

A daily briefing is given to the Board of Directors on the utilisation of market limits, analysis of proprietary investments and liquidity.

Credit risk

Credit risk is the risk that the Group and the Bank will incur the loss because its customers or counterparties failed to discharge their contractual obligations. The Group and the Bank manage and control credit risk by setting limits on the amount of risk they are willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits. The Group and the Bank have established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revision. The credit quality review process allows the Group and the Bank to assess the potential loss to which it is exposed and to take corrective action. The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

The Group and the Bank during 2010 has changed its estimates in credit risk assessments: prolonged realization terms of collateral, due to slow recovery of the economy which forced clients to reconsider their business plans or cancel some projects; prolonged estimates of cash flows from clients under bankruptcy as the real bankruptcy process is longer than expected in 2009. All these changes in estimates resulted in higher impairment losses by LTL 23,751 thousand (see Note 29).

Maximum exposure to credit risk without taking into account any collateral and other credit enhancement

The table below shows the maximum exposure to credit risk. The maximum exposure is shown net value, before the effect of collateral agreements.

The Group			The Bank	
31 December 2010	31 December 2009		31 December 2010	31 December 2009
Balance sheet items, other than trading and investment activities				
28,564	42,170	Balances with the Bank of Lithuania	28,564	42,170
95,812	77,444	Due from banks	58,574	49,132
465,819	461,791	Loans issued	498,330	497,932
1,723	7,657	Repurchase agreements	1,723	7,657
<u>591,918</u>	<u>589,062</u>		<u>587,191</u>	<u>596,891</u>
Off balance sheet items				
2,875	1,422	Guarantees	2,875	1,422
26,282	57,633	Loan commitments	32,704	57,633
<u>621,075</u>	<u>648,117</u>	Total balance and off balance sheet items, other than trading and investment activities	<u>622,770</u>	<u>655,946</u>
Trading and investment activities				
Financial assets at fair value through profit or loss				
1,710	580	<i>Derivative financial instruments</i>	1,710	580
20,379	2,810	<i>Debt securities</i>	20,379	2,810
Available-for-sale financial assets				
152,318	96,505	<i>Debt securities</i>	152,318	88,481
Held-to-maturity investments				
44,370	81,437	<i>Debt securities</i>	44,370	81,437
<u>218,777</u>	<u>181,332</u>	Total trading and investment activities	<u>218,777</u>	<u>173,308</u>
<u>839,852</u>	<u>829,449</u>	Total credit exposure	<u>841,547</u>	<u>829,254</u>

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Note 35 Risk management (cont'd)

Tables below present breakdown of trading and investment activities by type and grade:

	The Bank		The Group	
	2010	2009	2010	2009
Government bonds	189,283	131,376	189,283	131,376
Corporate bonds	27,784	41,352	27,784	49,376
Derivatives	1,710	580	1,710	580
Total	218,777	173,308	218,777	181,332

	The Bank		The Group	
	2010	2009	2010	2009
Bonds exposure by rating grade				
High grade (AAA-A)	20,631	58,508	20,631	66,532
Standard grade (B-BBB+)	176,188	113,056	176,188	113,056
Not rated	20,248	1,164	20,248	1,164
Total	217,067	172,728	217,067	180,752

Tables below present breakdown of trading and investment activities by geographical region:

	2010				2009	
	The Bank and The Group		The Bank		The Group	
	Government bonds	Corporate bonds	Government bonds	Corporate bonds	Government bonds	Corporate bonds
Bonds exposure by geography						
Lithuania	155,470	26,515	109,507	40,188	109,507	48,212
Ireland	17,104	-	13,728	-	13,728	-
Czech Republic	-	-	8,141	-	8,141	-
Latvia	3,614	1,269	-	1,164	-	1,164
Poland	2,628	-	-	-	-	-
Spain	3,565	-	-	-	-	-
Portugal	6,902	-	-	-	-	-
Total	189,283	27,784	131,376	41,352	131,376	49,376

The Group and the Bank have no impaired or overdue amounts within trading and investment activities.

For trading and investment activities, the Group and the Bank has assigned "AAA" to "A" (based on Fitch ratings or similar international rating agency equivalent) rating bonds to high grade, "BBB" to "B" rating bonds – to standard grade.

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Note 35 Risk management (cont'd)

Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client, by geographical region and by industry sector.

The Bank's maximum credit exposure to one client or counterparty as of 31 December 2010 was LTL 31,298 thousand (LTL 31,388 thousand as of 31 December 2009). Comparable figure were recalculated according to new rules which entered into force from 1st January 2010) before taking into account collateral. This concentration to one client is to subsidiary of the Bank..

The Group's maximum credit exposure to one client or counterparty as of 31 December 2010 was LTL 30,674 thousand (LTL 31,388 thousand as of 31 December 2009) before taking into account collateral.

Exposure by geographical area

The Bank, 2010	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Lithuania	91,222	109,542	382,266	19,945	1,723	604,698
Russia	4,843	267	-	-	-	5,110
Germany	3,927	-	407	-	-	4,334
USA	200	-	-	-	-	200
Belarus	-	-	545	-	-	545
Georgia	7,873	-	-	-	-	7,873
Other	10	-	-	-	-	10
Total	108,075	109,809	383,218	19,945	1,723	622,770

The Bank, 2009	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Lithuania	107,019	99,628	399,378	33,500	7,657	647,182
Russia	2,259	-	-	-	-	2,259
Germany	4,092	463	-	-	-	4,555
USA	1,367	-	-	-	-	1,367
Belarus	-	-	506	-	-	506
Other	77	-	-	-	-	77
Total	114,814	100,091	399,884	33,500	7,657	655,946

The Group, 2010	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Lithuania	128,460	109,542	343,333	19,945	1,723	603,003
Russia	4,843	267	-	-	-	5,110
Germany	3,927	-	407	-	-	4,334
USA	200	-	-	-	-	200
Belarus	-	-	545	-	-	545
Georgia	7,873	-	-	-	-	7,873
Other	10	-	-	-	-	10
Total	145,313	109,809	344,285	19,945	1,723	621,075

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Note 35 Risk management (cont'd)

The Group, 2009	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Lithuania	135,331	99,628	363,237	33,500	7,657	639,353
Russia	2,259	-	-	-	-	2,259
Germany	4,092	463	-	-	-	4,555
USA	1,367	-	-	-	-	1,367
Belarus	-	-	506	-	-	506
Other	77	-	-	-	-	77
Total	143,126	100,091	363,743	33,500	7,657	648,117

Exposure by industry sector

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

The Bank, 2010	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Trading enterprises	-	19.959	52.557	-	-	72.516
Real estate operations	-	2.709	95.933	-	-	98.642
Real estate constructions	-	4.071	55.115	-	-	59.186
Transport	-	5.002	17.660	-	-	22.662
Manufacturing	-	8.896	45.664	-	-	54.560
Services	-	10.004	50.097	19,945	-	80.046
Agriculture and food processing	-	17.970	9.444	-	-	27.414
Energy	-	2.027	888	-	-	2.915
Financial services	108,075	131	2.681	-	1,723	112.610
Individuals	-	39.040	53.179	-	-	92.219
Total	108,075	109.809	383.218	19,945	1,723	622,770

The Bank, 2009	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Trading enterprises	-	18.461	56.731	-	-	75,192
Real estate operations	-	3.825	106.065	-	-	109,890
Real estate constructions	-	5.473	62.869	-	-	68,342
Transport	-	7.137	16.131	-	-	23,268
Manufacturing	-	6.018	45.943	-	-	51,961
Services	-	7.877	48.765	33,500	-	90,142
Agriculture and food processing	-	7.543	7.861	-	-	15,404
Energy	-	922	1.983	-	-	2,905
Financial services	114,814	717	143	-	7,657	123,331
Individuals	-	42.118	53.393	-	-	95,511
Total	114,814	100.091	399.884	33,500	7,657	655,946

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Note 35 Risk management (cont'd)

The Group, 2010	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Trading enterprises	-	19,959	52,557	-	-	72,516
Real estate operations	-	2,709	57,000	-	-	59,709
Real estate constructions	-	4,071	55,115	-	-	59,186
Transport	-	5,002	17,660	-	-	22,662
Manufacturing	-	8,896	45,664	-	-	54,560
Services	-	10,004	50,097	19,945	-	80,046
Agriculture and food processing	-	17,970	9,444	-	-	27,414
Energy	-	2,027	888	-	-	2,915
Financial services	145,313	131	2,681	-	1,723	149,848
Individuals	-	39,040	53,179	-	-	92,219
Total	145,313	109,809	344,285	19,945	1,723	621,075
The Group, 2009	Financial institutions	Retail loans	Corporate loans	Government institutions	Repurchase agreements	Total
Trading enterprises	-	18,461	56,731	-	-	75,192
Real estate operations	-	3,825	69,924	-	-	73,749
Real estate constructions	-	5,473	62,869	-	-	68,342
Transport	-	7,137	16,131	-	-	23,268
Manufacturing	-	6,018	45,943	-	-	51,961
Services	-	7,877	48,765	33,500	-	90,142
Agriculture and food processing	-	7,543	7,861	-	-	15,404
Energy	-	922	1,983	-	-	2,905
Financial services	143,126	717	143	-	7,657	151,643
Individuals	-	42,118	53,393	-	-	95,511
Total	143,126	100,091	363,743	33,500	7,657	648,117

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Note 35 Risk management (cont'd)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The ability to repay loan is the primary criterion in loan evaluation, though the Group and the Bank always demand collateral. Acceptable collaterals are classified into real estate, movable properties, guarantees, insurance, financial assets and other. Assets accepted as collateral are estimated at their fair value, while estimating present value of loan taking into account the costs for obtaining and selling the collateral. When real estate is appraised, the Group and the Bank also takes into account its liquidity and useful life.

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

The Bank, 2010	Retail loans	Corporate loans	Repurchase agreements	Issued guarantees	Total
Real estate	148,681	388,414	3,730	3,560	544,385
Securities	28	9,569	-	-	9,597
Vehicles	21,597	10,976	-	141	32,714
Equipment	9,037	12,993	-	-	22,030
Cash	6,952	12,593	576	1,439	21,560
Credit insurance	849	603	-	376	1,828
Guarantees received	19,337	16,552	1,728	-	37,617
Other	2,029	7,585	-	-	9,614
Total	208,510	459,285	6,034	5,516	679,345
The Group, 2010	Retail loans	Corporate loans	Repurchase agreements	Issued guarantees	Total
Real estate	148,681	388,414	3,730	3,560	544,385
Securities	28	9,569	-	-	9,597
Vehicles	21,597	10,976	-	141	32,714
Equipment	9,037	12,993	-	-	22,030
Cash	6,952	12,589	576	1,439	21,556
Credit insurance	849	603	-	376	1,828
Guarantees received	19,337	16,552	1,728	-	37,617
Other	2,029	7,585	-	-	9,614
Total	208,510	459,281	6,034	5,516	679,341
The Bank (Group), 2009	Retail loans	Corporate loans	Repurchase agreements	Issued guarantees	Total
Real estate	184,670	551,319	5,900	2,373	744,262
Securities	28	8,476	5,082	-	13,586
Vehicles	8,811	10,542	-	40	19,393
Equipment	3,853	11,753	-	-	15,606
Cash	4,411	10,512	1,728	494	17,145
Credit insurance	4,136	11,140	-	500	15,776
Guarantees received	11,274	9,885	1,728	-	22,887
Other	2,011	10,429	-	-	12,440
Total	219,194	624,056	14,438	3,407	861,095

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Note 35 Risk management (cont'd)

Credit quality per class of financial asset

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

Rating of loans

During evaluation of loans, the Group and the Bank apply specific valuation criteria and procedures on the clients. The main criteria for evaluation are those related client's financial position assessment. The financial position of the client is analysed based on constantly renewed financial information, also taking into account variations in certain financial ratios, affecting the position of the client. Based on a set of defined criteria ratings are assigned to the clients. High grade ("A" rating group) rating is assigned to reliable transactions, i.e. clients' operations are stable, the client complies with provisions of credit agreement, collateral is of good quality. Standard grade ratings ("B" rating group) are assigned to clients with minor breaches in provisions and loans secured with collateral. Substandard grade ratings ("C" rating group) are assigned to clients not past due but with lower financial situation and restructured clients' loans with identified default risk.

The Bank, 2010	Neither past due nor impaired			Past due or individually impaired	Total
	High grade	Standard grade	Substandard grade		
Asset classes					
Loans to and due from financial institutions	108,075	-	-	-	108,075
Retail loans	4,763	44,616	21,937	34,058	105,374
Corporate loans	2,300	92,461	34,159	225,013	353,933
Loans to government institutions	-	-	18,086	-	18,086
Repurchase agreements	1,723	-	-	-	1,723
Total	116,861	137,077	74,182	259,071	587,191

The Bank, 2009	Neither past due nor impaired			Past due or individually impaired	Total
	High grade	Standard grade	Substandard grade		
Asset classes					
Loans to and due from financial institutions	114,814	-	-	-	114,814
Retail loans	2,130	29,962	26,564	37,843	96,499
Corporate loans	538	112,564	82,938	181,881	377,921
Repurchase agreements	-	7,657	-	-	7,657
Total	117,482	150,183	109,502	219,724	596,891

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Note 35 Risk management (cont'd)

The Group, 2010	Neither past due nor impaired			Past due or individually impaired	Total
	High grade	Standard grade	Substandard grade		
Asset classes					
Loans to and due from financial institutions	145,313	-	-	-	145,313
Retail loans	4,763	44,616	21,937	34,058	105,374
Corporate loans	2,300	59,949	34,160	225,013	321,422
Loans to government institutions	-	-	18,086	-	18,086
Repurchase agreements	1,723	-	-	-	1,723
Total	154,099	104,565	74,183	259,071	591,918

The Group, 2009	Neither past due nor impaired			Past due or individually impaired	Total
	High grade	Standard grade	Substandard grade		
Asset classes					
Loans to and due from financial institutions	143,126	-	-	-	143,126
Retail loans	2,130	29,962	26,564	37,843	96,499
Corporate loans	538	76,423	82,938	181,881	341,780
Repurchase agreements	-	7,657	-	-	7,657
Total	145,794	114,042	109,502	219,724	589,062

As of 31 December 2010 the Group and the Bank has accepted collateral for past due or individually impaired loans in total amount of LTL 336,610 thousand (LTL 342,761 thousand as of 31 December 2009). As of 31 December 2010 Group's and Bank's fair value of collateral for impaired loans was LTL 219,274 thousand (LTL 206,314 thousand in 2009).

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Note 35 Risk management (cont'd)

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
The Bank (Group), 2010					
Asset classes					
Retail loans	21,169	1,453	1,673	1,973	26,268
Corporate loans	18,256	9,651	1,289	31,504	60,700
Total	39,425	11,104	2,962	33,477	86,968
The Bank (Group), 2009					
Asset classes					
Retail loans	18,682	5,053	2,459	2,367	28,561
Corporate loans	19,514	15,841	716	18,737	54,808
Total	38,196	20,894	3,175	21,104	83,369

As of 31 December 2010 the Bank has LTL 244,383 thousand renegotiated loans due to financial difficulties of the clients (LTL 219,760 thousand as of 31 December 2009).

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group 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 Board of Directors 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.

Due to fast growth of term deposits of resident individuals, most of deposits are placed for 6 to 13 month period. Several year statistics of the Group and the Bank show that activities of the Group and the Bank ensure stable increase in those funds, also most of such funds are extended after maturity, which allow investing them into longer term financial assets. Also liquidity risk of the Group and the Bank is mitigated by the fact that relatively big exposure is to the main shareholder of the Group and the Bank within short term liabilities. With active management of liquidity risk, the Group and the Bank applies more strict internal liquidity ratio than required by the Bank of Lithuania.

Starting 1 May 2004 the calculation of the liquidity ratio is based on the requirements of Resolution No. 1 set by the Board of the Bank of Lithuania on 29 January 2004. The Group's and the Bank's liquidity ratio cannot be lower than 30 %. The fluctuations of the liquidity ratio of the Group and the Bank during 2010 and 2009, calculated based on requirements of the Bank of Lithuania are as follows:

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Note 35 Risk management (cont'd)

The Bank

Reporting Dates	Liquid assets	Current liabilities	Liquidity ratio (%)
31 March 2009	244,220	403,167	60.58 %
30 June 2009	257,543	412,893	62.38 %
30 September 2009	252,248	432,302	58.35 %
31 December 2009	265,242	479,596	55.31 %
31 March 2010	280,002	470,947	59.46 %
30 June 2010	287,275	476,589	60.28 %
30 September 2010	237,362	497,681	47.69 %
31 December 2010	285,187	525,733	54.25 %

The Group

Reporting Dates	Liquid assets	Current liabilities	Liquidity ratio (%)
31 March 2009	244,220	403,167	60.58 %
30 June 2009	257,543	412,893	62.38 %
30 September 2009	252,248	432,302	58.35 %
31 December 2009	284,425	479,580	59.31 %
31 March 2010	280,002	470,947	59.46 %
30 June 2010	287,275	476,589	60.28 %
30 September 2010	237,362	497,681	47.69 %
31 December 2010	286,487	519,307	55.17 %

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:

The Bank

	31 December 2010							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Assets:								
Cash and due from banks	55,849	48,670	7,873	-	-	-	-	112,392
Investments in debt securities	-	7,444	14,589	43,664	72,931	78,439	-	217,067
Investments in subsidiaries	-	-	-	-	-	-	10,450	10,450
Loans and receivables	-	25,246	45,327	81,541	108,279	118,335	121,325	500,053
Other assets	-	4,605	1	1,668	39	26	7,479	13,818
Total	55,849	85,965	67,790	126,873	181,249	196,800	139,254	853,780
Liabilities:								
Due to banks and other credit institutions	414	20,960	2,475	7,685	3,172	-	-	34,706
Due to customers	138,156	76,384	140,247	249,017	23,476	50,290	100	677,670
Debt securities issued	-	-	-	7,146	-	-	-	7,146
Other liabilities	208	3,325	10	50	32	34,544	-	38,169
Total	138,778	100,669	142,732	263,898	26,680	84,834	100	757,691
Net position	(82,929)	(14,704)	(74,942)	(137,025)	154,569	111,966	139,154	96,089
Accumulated gap	(82,929)	(97,633)	(172,575)	(309,600)	(155,031)	(43,065)	96,089	-

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Note 35 Risk management (cont'd)

The Bank

	31 December 2009							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Assets:								
Cash and due from banks	79,295	32,657	-	-	-	-	-	111,952
Investments in debt securities	-	60	7,485	85,761	49,106	30,316	-	172,728
Investments in subsidiaries	-	-	-	-	-	-	20	20
Loans and receivables	-	15,137	13,236	80,011	159,158	130,413	107,634	505,589
Other assets	-	4,578	122	53	-	50	9,498	14,301
Total	79,295	52,432	20,843	165,825	208,264	160,779	117,152	804,590
Liabilities:								
Due to banks and other credit institutions	518	10,844	4,508	1,884	4,364	-	-	22,118
Due to customers	78,127	89,422	120,156	260,172	21,752	33,567	100	603,296
Debt securities issued	-	1,691	1,198	8,682	726	-	-	12,297
Other liabilities	284	2,768	10	43	81	69,065	-	72,251
Total	78,929	104,725	125,872	270,781	26,923	102,632	100	709,962
Net position	366	(52,293)	(105,029)	(104,956)	181,341	58,147	117,052	94,628
Accumulated gap	366	(51,927)	(156,956)	(261,912)	(80,571)	(22,424)	94,628	-

The Group	31 December 2010							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Assets:								
Cash and due from banks	56,849	48,970	33,197	10,614	-	-	-	149,630
Investments in debt securities	-	7,444	14,589	43,664	72,931	78,439	-	217,067
Loans and receivables	-	25,246	12,816	81,541	108,279	118,335	121,325	467,542
Other assets	-	4,611	1	1,668	39	26	13,124	19,469
Total	56,849	86,271	60,603	137,487	181,249	196,800	134,449	853,708
Liabilities:								
Due to banks and other credit institutions	414	20,960	2,475	7,685	3,172	-	-	34,706
Due to customers	138,152	76,384	140,247	249,017	23,476	50,290	100	677,666
Debt securities issued	-	-	-	7,146	-	-	-	7,146
Other liabilities	208	3,325	10	50	32	34,544	215	38,384
Total	138,774	100,669	142,732	263,898	26,680	84,834	315	757,902
Net position	(81,925)	(14,398)	(82,129)	(126,411)	154,569	111,966	134,134	95,806
Accumulated gap	(81,925)	(96,323)	(178,452)	(304,863)	(150,294)	(38,328)	95,806	-

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Note 35 Risk management (cont'd)

The Group	31 December 2009							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Assets:								
Cash and due from banks	79,295	43,815	17,154	-	-	-	-	140,264
Investments in debt securities	-	60	7,485	93,785	49,106	30,316	-	180,752
Loans and receivables	-	15,137	13,236	80,011	123,017	130,413	107,634	469,448
Other assets	-	4,550	122	54	-	50	9,498	14,274
Total	79,295	63,562	37,997	173,850	172,123	160,779	117,132	804,738
Liabilities:								
Due to banks and other credit institutions	518	10,844	4,508	1,884	4,364	-	-	22,118
Due to customers	78,111	89,422	120,156	260,172	21,752	33,567	100	603,280
Debt securities issued	-	1,691	1,198	8,682	726	-	-	12,297
Other liabilities	284	2,768	10	43	81	69,065	-	72,251
Total	78,913	104,725	125,872	270,781	26,923	102,632	100	709,946
Net position	382	(41,163)	(87,875)	(96,931)	145,200	58,147	117,032	94,792
Accumulated gap	382	(40,781)	(128,656)	(225,587)	(80,387)	(22,240)	94,792	-

Overdue loans and receivables are disclosed under column "Without maturity" as of 31 December 2010 and 2009.

The following tables provide an analysis of financial liabilities based on contractual undiscounted repayment obligations:

The Bank	31 December 2010							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	414	20,986	3,170	7,741	3,173	-	-	35,484
Due to customers	138,156	76,473	141,822	253,692	25,638	56,344	100	692,225
Debt securities issued	-	-	-	7,233	-	-	-	7,233
Other liabilities	208	3,325	10	50	32	37,813	-	41,438
Guarantees	2,875	-	-	-	-	-	-	2,875
Credit commitments	32,704	-	-	-	-	-	-	32,704
Total undiscounted financial liabilities	174,357	100,784	145,002	268,716	28,843	94,157	100	811,959

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Note 35 Risk management (cont'd)

The Bank

	31 December 2009							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	518	10,899	4,619	2,118	4,488	-	-	22,642
Due to customers	78,127	89,887	125,249	270,176	23,474	44,678	100	631,691
Debt securities issued	-	1,640	1,303	10,271	844	-	-	14,058
Other liabilities	284	2,768	10	43	81	69,065	-	72,251
Guarantees	1,422	-	-	-	-	-	-	1,422
Credit commitments	57,633	-	-	-	-	-	-	57,633
Total undiscounted financial liabilities	137,984	105,194	131,181	282,608	28,887	113,743	100	799,697

The Group

	31 December 2010							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	414	20,986	3,170	7,741	3,173	-	-	35,484
Due to customers	138,152	76,473	141,822	253,692	25,638	56,344	100	692,221
Debt securities issued	-	-	-	7,233	-	-	-	7,233
Other liabilities	208	3,325	10	50	32	37,813	215	41,653
Guarantees	2,875	-	-	-	-	-	-	2,875
Credit commitments	26,282	-	-	-	-	-	-	26,282
Total undiscounted financial liabilities	167,931	100,784	145,002	268,716	28,843	94,157	315	805,748

The Group

	31 December 2009							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Without maturity	
Liabilities:								
Due to banks and other credit institutions	518	10,899	4,619	2,118	4,488	-	-	22,642
Due to customers	78,111	89,887	125,249	270,176	23,474	44,678	100	631,675
Debt securities issued	-	1,640	1,303	10,271	844	-	-	14,058
Other liabilities	284	2,768	10	43	81	69,065	-	72,251
Guarantees	1,422	-	-	-	-	-	-	1,422
Credit commitments	57,633	-	-	-	-	-	-	57,633
Total undiscounted financial liabilities	137,968	105,194	131,181	282,608	28,887	113,743	100	799,681

The Group and the Bank do not expect to pay under any of the guarantees, though they were included in the range on demand assuming worst case scenario. In case of failure of clients to fulfil the obligations where the Group and the Bank has issued guarantees, guarantees would become payable on demand.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The market risk is managed and monitored using sensitivity analysis.

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Note 35 Risk management (cont'd)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a monthly basis. Interest rate risk is managed by forecasting the market interest rates and managing the mismatches between assets and liabilities from re-pricing maturities. The Group and the Bank apply the interest rate risk management methods allowing to measure the Bank's and the Group's sensitivity to interest rate changes by computing the impact to yearly net interest income in case of parallel shift by 1 percentage point in the yield curve.

The following table demonstrates the sensitivity to change in interest rates, with all other variables held constant, on the Bank's and the Group's pre-tax income (which equals the effect on net interest income):

The Bank	Interest rate change	Effect to net interest income	
		31 December 2010	31 December 2009
LTL	+ 1 %	(654)	(300)
EUR	+ 1 %	1,147	1,156
USD	+ 1 %	(8)	(73)
Others	+ 1 %	39	(5)
LTL	- 1 %	654	300
EUR	- 1 %	(1,147)	(1,156)
USD	- 1 %	8	73
Others	- 1 %	(39)	5

The Group	Interest rate change	Effect to net interest income	
		31 December 2010	31 December 2009
LTL	+ 1 %	(352)	9
EUR	+ 1 %	890	942
USD	+ 1 %	(8)	(72)
Others	+ 1 %	39	(5)
LTL	- 1 %	352	(9)
EUR	- 1 %	(890)	(942)
USD	- 1 %	8	72
Others	- 1 %	(39)	5

The Bank also estimates the impact of the change in market yields on the value of the trading debt security portfolio.

The table below summarises the Group's and the Bank's exposure to interest rate risk as of 31 December 2010 and 2009. The table below includes the Group's and the Bank's assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

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Note 35 Risk management (cont'd)

The Bank

	31 December 2010							Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	
Assets:								
Cash and due from banks	48,656	7,830	-	-	-	-	55,906	112,392
Investments in debt securities	6,879	13,070	15,798	24,450	71,340	78,439	7,091	217,067
Investments in equity securities and subsidiaries	-	-	-	-	-	-	10,450	10,450
Loans and receivables	230,975	100,776	110,855	9,942	2,251	4,202	41,052	500,053
Other assets	-	-	-	-	-	-	13,818	13,818
Total	286,510	121,676	126,653	34,392	73,591	82,641	128,317	853,780
Liabilities:								
Due to banks and other credit institutions	20,946	8,202	5,000	-	-	-	558	34,706
Due to customers	104,649	154,116	141,250	109,802	12,529	5,842	149,482	677,670
Debt securities issued	-	-	5,941	1,058	-	-	147	7,146
Other liabilities	34,528	-	-	-	-	-	3,641	38,169
Total	160,123	162,318	152,191	110,860	12,529	5,842	153,828	757,691
Total interest sensitivity gap	126,387	(40,642)	(25,538)	(76,468)	61,062	76,799	(25,511)	96,089

The Bank

	31 December 2009							Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	
Assets:								
Cash and due from banks	31,828	-	-	-	-	-	80,124	111,952
Investments in debt securities	-	6,795	42,323	38,961	49,100	30,316	5,233	172,728
Investments in equity securities and subsidiaries	-	-	-	-	-	-	20	20
Loans and receivables	223,472	103,407	126,486	10,577	9,163	6,795	25,689	505,589
Other assets	-	-	-	-	-	-	14,301	14,301
Total	255,300	110,202	168,809	49,538	58,263	37,111	125,367	804,590
Liabilities:								
Due to banks and other credit institutions	10,834	9,756	740	376	-	-	412	22,118
Due to customers	110,155	116,573	139,401	117,218	12,638	5,860	101,451	603,296
Debt securities issued	1,691	1,198	1,155	7,527	726	-	-	12,297
Other liabilities	34,528	-	-	-	-	34,528	3,195	72,251
Total	157,208	127,527	141,296	125,121	13,364	40,388	105,058	709,962
Total interest sensitivity gap	98,092	(17,325)	27,513	(75,583)	44,899	(3,277)	20,309	94,628

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Note 35 Risk management (cont'd)

The Group	31 December 2010							Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	
Assets:								
Cash and due from banks	48,956	43,687	-	-	-	-	56,987	149,630
Investments in debt securities	6,879	13,070	15,798	24,450	71,340	78,439	7,091	217,067
Loans and receivables	230,975	70,027	110,855	9,942	2,251	4,202	39,290	467,542
Other assets	-	-	-	-	-	-	19,469	19,469
Total	286,810	126,784	126,653	34,392	73,591	82,641	122,837	853,708
Liabilities:								
Due to banks and other credit institutions	20,946	8,202	5,000	-	-	-	558	34,706
Due to customers	104,649	154,116	141,250	109,802	12,529	5,842	149,478	677,666
Debt securities issued	-	-	5,941	1,058	-	-	147	7,146
Other liabilities	34,528	-	-	-	-	-	3,856	38,384
Total	160,123	162,318	152,191	110,860	12,529	5,842	154,039	757,902
Total interest sensitivity gap	126,687	(35,534)	(25,538)	(76,468)	61,062	76,799	(31,202)	95,806
31 December 2009								
The Group	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non interest bearing	Total
Assets:								
Cash and due from banks	60,140	-	-	-	-	-	80,124	140,264
Investments in debt securities	-	6,795	42,323	42,295	53,790	30,316	5,233	180,752
Loans and receivables	223,472	103,407	90,653	10,577	9,163	6,795	25,381	469,448
Other assets	-	-	-	-	-	-	14,274	14,274
Total	283,612	110,202	132,976	52,872	62,953	37,111	125,012	804,738
Liabilities:								
Due to banks and other credit institutions	10,834	9,756	740	376	-	-	412	22,118
Due to customers	110,155	116,573	139,401	117,218	12,638	5,860	101,435	603,280
Debt securities issued	1,691	1,198	1,155	7,527	726	-	-	12,297
Other liabilities	34,528	-	-	-	-	34,528	3,195	72,251
Total	157,208	127,527	141,296	125,121	13,364	40,388	105,042	709,946
Total interest sensitivity gap	126,404	(17,325)	(8,320)	(72,249)	49,589	(3,277)	19,970	94,792

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Note 35 Risk management (cont'd)

The Bank also estimates the impact of the change in market yields on the value of the trading debt securities portfolio.

The table below shows the impact of the change in value of trading debt securities if the yield increases/decreases by one percentage point on pre-tax income and equity:

The Bank / the Group	Yield change	2010	2009
		Pre-tax impact on profit	
Held for trading debt securities	+1 %	(142)	(16)
	-1 %	(47)	11
Available for sale debt securities	Yield change	Pre-tax income on equity	
	+1 %	(3,097)	(1,362)
	-1 %	1,505	1,325

Effect of changes in yields is bigger as of 31 December 2010 because the Bank increased its trading and debt securities portfolios in 2010.

Currency risk

The currency risk is managed by monitoring the risk exposure against the limits established for single open currency position. Positions are monitored on a daily basis. Our policy is to keep foreign exchange positions more or less closed.

The Group and the Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies, by branches, by subsidiaries and in total. These limits also comply with the minimum requirements of the Bank of Lithuania. The Bank's and the Group's exposure to foreign currency exchange rate risk is as follows:

The Bank	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2010						
LTL	276,139	491,999	53,707	-	(162,153)	(125.07)
EUR	532,055	299,976	83	70,072	162,090	125.02
USD	37,654	55,545	18,269	-	378	0.29
Other currencies	7,932	6,260	-	83	1,589	1.23
Total assets	853,780	853,780	72,060	70,156		
Long position						1,967
Short position						-
Eligible capital						129,651
Open foreign currency position 2010*						1.52 %

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Note 35 Risk management (cont'd)

The Bank

	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2009						
LTL	282,384	445,083	69,693	-	(93,006)	(66.70)
EUR	496,592	320,448	-	83,336	92,808	66.56
USD	19,718	34,223	14,431	-	(74)	(0.05)
Other currencies	5,896	4,836	-	-	1,060	0.76
Total assets	804,590	804,590	84,124	83,336		
Long positions						1,205
Short positions						-
Eligible capital						139,444
Open foreign currency position 2009*						0.86 %

The Group

	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2010						
LTL	308,578	491,927	53,707	-	(129,642)	(100.20)
EUR	499,544	299,976	83	70,072	129,579	100.15
USD	37,654	55,545	18,269	-	378	0.29
Other currencies	7,932	6,260	-	83	1,589	1.23
Total assets	853,708	853,708	72,060	70,156		
Long position						1,967
Short position						-
Eligible capital						129,388
Open foreign currency position 2010*						1.52 %

The Group

	Balance sheet		Off Balance sheet		Open position	Position as % of capital
	Assets	Equity and liabilities	Contingent claims	Contingent liabilities		
31 December 2009						
LTL	282,568	445,231	69,693	-	(92,970)	(66.62)
EUR	496,556	320,448	-	83,336	92,772	66.48
USD	19,718	34,223	14,431	-	(74)	(0.05)
Other currencies	5,896	4,836	-	-	1,060	0.76
Total assets	804,738	804,738	84,124	83,336		
Long positions						1,205
Short positions						-
Eligible capital						139,544
Open foreign currency position 2009*						0.86 %

*The Group and the Bank did not include Euro in open foreign currency position, as Litas is pegged to Euro and the Group and the Bank does not consider that Euro bears currency risk, as devaluation / revaluation of Litas is not expected in the short term. Exposure to Euro is presented above. Thus in sensitivity calculations Euros are not included. Below is presented pre-tax impact of changes in currency rates, calculated on linear basis:

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(All amounts in LTL thousand unless otherwise stated)

Note 35 Risk management (cont'd)

	<u>2010</u>	<u>2009</u>
Increase in FX rates by 10 %	197	121
Decrease in FX rates by 10 %	(197)	(121)

Note 36 Capital

The Group's and the Bank's capital management procedures are based on the regulatory capital requirements contained in the Capital Requirements Directive (CRD), which took effect on 1 January 2008. The CRD consists of three pillars two of which represented in financial statements:

Pillar one contains a set of rules for the mathematical calculation of capital requirements for credit, market and operational risks. These rules are set by the Bank of Lithuania and require banks to maintain a capital adequacy ratio of 8 % of risk-weighted assets, computed based on requirements of the Bank of Lithuania. Pillar two describes the supervisory review process and requires companies to carry out an internal capital adequacy assessment process (ICAAP).

The Bank's internal capital adequacy monitoring process is reviewed at least once a year and the most critical risks to the Bank are determined. The Bank assesses that credit, market and operational risks are the most important to the Bank's activities. Also, during the review process all the above mentioned risks are divided into sub-categories. All structural units of the Bank are involved in self-assessment to exposure of such risks. Based on identified significant risks an additional capital adequacy requirement (in addition to the ratio set by the Bank of Lithuania) is determined. An additional required capital is determined on a periodical basis based on stress testing and internal capital adequacy assessment.

Based on self-assessment results the Bank's management determined that credit risk is the most significant to the Bank. Concentration risk is assessed as a part of credit risk. Operational risk was assessed as moderate in the Bank. The following subcategories of operational risk are analysed in the Bank: IT risk and the Bank's employees' mistake risk. Liquidity risk is managed centrally, however, due to the fact that the Bank does not have strong parent company (financial institution) this risk assessed as high. Market risk includes foreign exchange, equity price risks. Other risks are considered as not material. There are internal regulations in the Bank which determine risk management process integrity. The risks taken by the Bank are controlled by limit system that is implemented in the Bank. In addition to limit system additional measures such as risk source monitoring and informing Bank's management are applied.

In addition to assessment of various risks and calculation of required additional capital stress testing for credit, liquidity, market, interest rate, foreign exchange and operational risks is performed. The purpose of such test is to determine whether the Bank's capital is sufficient to cover potential losses due to possible deterioration financial position of the Bank. Stress testing is performed once a year in order to comply with regulations set by the Bank of Lithuania.

The risk weighted assets is determined based on standard method when different risk weight is attributed to different categories of asset based on its type and risk involved taking into account collateral and warranties, which hedge the risk. Off-balance sheet positions are evaluated in a similar way. Operational risk capital adequacy requirement is determined based on Base Indicator method.

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Note 36 Capital (cont'd)

The primary objectives of the Group's and the Bank's capital management are to ensure that the Group and the Bank comply with externally imposed capital requirements and that the Group and the Bank maintain healthy capital ratios in order to support its business and to maximise shareholders value. Capital adequacy ratio of 10% of risk-weighted assets was required by Bank of Lithuania. As of 31 December 2010 and 2009, the Group's capital adequacy ratio on this basis exceeded the statutory minimum.

Capital adequacy ratio calculation summary, according to the requirements of the Bank of Lithuania is presented in the table below:

The Bank	2010		2009	
	Nominal	Weighted	Nominal	Weighted
Capital adequacy calculation				
Tier 1 equity items	92,016	92,016	91,887	91,887
Tier 2 equity items	37,637	37,637	47,557	47,557
Recalculated capital	129,653	129,653	139,444	139,444
Risk assets				
0 % risk assets	115,181	-	144,989	-
20 % risk assets	48,661	973	26,796	536
35 % risk assets	1,956	68	5,802	203
50 % risk assets	1,343	67	49,935	2,497
75 % risk assets	78,174	3,825	69,024	3,607
100 % risk assets	357,853	32,348	354,049	32,963
150 % risk assets	112,757	16,544	121,466	18,138
Trading book requirement	244,673	18,153	91,871	9,784
For debt securities		1,747		383
For equity securities		-		-
For foreign exchanges risk		16,406		9,401
Operational risk requirement		7,878		7,171
Total risk exposure		79,856		74,899
Capital adequacy ratio, %		16.24		18.62

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Note 36 Capital (cont'd)

The Group	2010		2009	
	Nominal	Weighted	Nominal	Weighted
Capital adequacy calculation				
Tier 1 equity items	91,751	91,751	91,887	91,887
Tier 2 equity items	37,637	37,637	47,657	47,657
Recalculated capital	129,388	129,388	139,544	139,544
Risk assets				
0 % risk assets	115,181	-	144,989	-
20 % risk assets	78,453	1,569	55,108	1,102
35 % risk assets	1,963	68	5,802	203
50 % risk assets	7,787	389	49,935	2,497
75 % risk assets	78,174	3,825	69,024	3,607
100 % risk assets	321,545	28,718	317,859	29,344
150 % risk assets	112,757	16,544	121,466	18,138
Trading book requirement	244,673	14,902	99,895	9,884
For debt securities		1,747		486
For equity securities		-		-
For foreign exchanges risk		13,155		9,398
Operational risk requirement		7,691		7,042
Total risk exposure		73,706		71,817
Capital adequacy ratio, %		17.55		19.43

Calculated capital consists of Tier 1 capital, which comprises share capital, retained earnings (current year profit is not included) and reserve capital. The other component of recalculated capital is Tier 2 capital, which includes subordinated long term debt, legal reserve and revaluation reserves.

Note 37 Events after the statement of financial position date

There were no material subsequent events at the Group and the Bank.