

**LITHUANIAN CENTRAL CREDIT UNION  
FINANCIAL STATEMENTS  
31 DECEMBER 2004**

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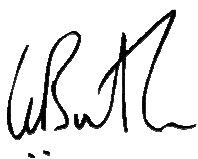
(all tabular amounts are in LTL thousand, unless otherwise stated)

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**AUDITOR'S REPORT TO THE MEMBERS OF LITHUANIAN CENTRAL CREDIT UNION**

1. We have audited the accompanying balance sheet of Lithuanian Central Credit Union ("the Union") as at 31 December 2004 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Union's management. Our responsibility is to express an opinion of these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements give a true and fair view of the financial position of the Union as at 31 December 2004 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

On behalf of PricewaterhouseCoopers UAB



Christopher C. Butler  
Partner



Asta Liepienė  
Auditor's Certificate no. 000438

Vilnius, Republic of Lithuania  
1 March 2005

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(all tabular amounts are in LTL thousand, unless otherwise stated)

**INCOME STATEMENT**

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Interest income		1,294	819
Interest expense		614	337
<b>Net interest income</b>	1	<b>680</b>	<b>482</b>
Commission and service income		145	77
Commission and service expense		44	21
<b>Net interest, commission and service income</b>		<b>781</b>	<b>538</b>
Other income	3	16	-
Operating expenses	4	614	407
Impairment losses on loans	2	18	64
Depreciation of tangible assets	9	26	23
Amortisation of intangible assets	10	2	1
<b>Profit before income tax</b>		<b>137</b>	<b>43</b>
Income tax expense	5	-	2
<b>Net profit for the year</b>		<b>137</b>	<b>41</b>

The accounting policies and notes on pages 8 to 20 form an integral part of these financial statements.

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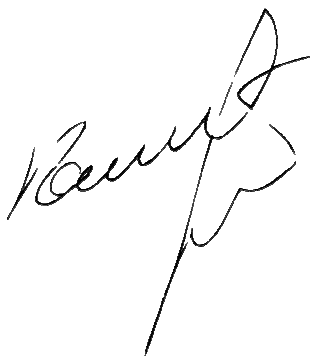
(all tabular amounts are in LTL thousand, unless otherwise stated)

**BALANCE SHEET**

	Notes	31 December 2004	31 December 2003
<b>ASSETS</b>			
Cash and balances with central banks	6	6,427	7,634
Claims on credit institutions	7	10,635	10,478
Held-to-maturity investment securities	8	27,762	13,726
Tangible fixed assets	9	61	86
Intangible assets	10	96	5
Other assets	11	1	-
<b>Total assets</b>		<b>44,982</b>	<b>31,929</b>
<b>LIABILITIES</b>			
Amounts owed to credit institutions	12	32,971	20,475
Deposits	13	4,345	4,833
Liquidity reserve	14	1,473	920
Other liabilities	15	127	45
<b>Total liabilities</b>		<b>38,916</b>	<b>26,273</b>
<b>CAPITAL AND RESERVES</b>			
Primary shares	16	54	48
Additional shares		5,273	5,279
Reserve capital		158	117
Stabilisation fund		444	171
Retained earnings		137	41
<b>Total capital and reserves</b>		<b>6,066</b>	<b>5,656</b>
<b>Total liabilities, capital and reserves</b>		<b>44,982</b>	<b>31,929</b>

The accounting policies and notes on pages 8 to 20 form an integral part of these financial statements.

The financial statements on pages 4 to 20 were signed on 28 February 2005 by:



Chief Executive Officer  
Ramūnas Stankevičius



Chief Accountant  
Sigitas Bubnys

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**CASH FLOW STATEMENT**

	Notes	Year ended 31 December 2004	Year ended 31 December 2003
<b>Operating activities</b>			
Income/expenses			
Interest received		1,098	549
Interest paid		(584)	(219)
Net commission and other receipts		115	59
Salaries and social security paid		(479)	(320)
Other operating expenses		(121)	(54)
Changes in assets/liabilities			
(Increase)/decrease in deposits with credit institutions		-	5,000
Increase in loans to credit unions		(233)	(9,855)
Increase in amounts owed to credit institutions		12,467	19,610
Increase/(decrease) of deposits from legal entities		(488)	4,819
Increase in liquidity reserve	14	554	920
<b>Net cash from operating activities before income tax</b>		<u>12,329</u>	<u>20,509</u>
Income tax paid		-	(20)
<b>Net cash from operating activities</b>		<u>12,329</u>	<u>20,489</u>
<b>Investing activities</b>			
Purchase of tangible and intangible fixed assets	9,10	(31)	(14)
Purchase of debt securities	8	(13,788)	(13,572)
<b>Net cash used in investing activities</b>		<u>(13,819)</u>	<u>(13,586)</u>
<b>Financing activities</b>			
Payments received from members for primary and additional shares		945	877
Repayment of additional shares to the Lithuanian Government		(945)	(885)
Repayment of primary shares to the member who cancelled his membership		-	(1)
Contributions to stabilisation fund		274	171
<b>Net cash from financing activities</b>		<u>274</u>	<u>162</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(1,216)</u>	<u>7,065</u>
<b>Cash and cash equivalents at beginning of period</b>		<b>7,653</b>	<b>588</b>
<b>Cash and cash equivalents at end of period:</b>		<b><u>6,437</u></b>	<b><u>7,653</u></b>
Correspondent account with the Bank of Lithuania	6	6,427	7,634
Account with Vilniaus Bankas AB	7	10	19

The accounting policies and notes on pages 8 to 20 form an integral part of these financial statements.

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**STATEMENT OF CHANGES IN CAPITAL AND RESERVES**

	Primary shares	Additional shares of credit unions	Additional shares of the Lithuanian Government	Reserve capital	Stabilisa- tion fund	Retained earnings	Total
<b>At 31 December 2002</b>	<b>37</b>	<b>-</b>	<b>5,291</b>	<b>-</b>	<b>-</b>	<b>117</b>	<b>5,445</b>
Primary shares contributed by new members	12	-	(12)	-	-	-	-
Additional shares contributed by members	-	865	(865)	-	-	-	-
Shares reclaimed by members who cancelled their membership	(1)	-	-	-	-	-	(1)
Transfer of profit 2002	-	-	-	117	-	(117)	-
Transfers to stabilisation fund	-	-	-	-	171	-	171
Net profit for the year	-	-	-	-	-	41	41
<b>At 31 December 2003</b>	<b>48</b>	<b>865</b>	<b>4,414</b>	<b>117</b>	<b>171</b>	<b>41</b>	<b>5,656</b>
Primary shares contributed by new members	6	-	(6)	-	-	-	-
Additional shares contributed by members	-	939	(939)	-	-	-	-
Transfer of profit 2003	-	-	-	41	-	(41)	-
Transfers to stabilisation fund	-	-	-	-	273	-	273
Net profit for the year	-	-	-	-	-	137	137
<b>At 31 December 2004</b>	<b>54</b>	<b>1,804</b>	<b>3,469</b>	<b>158</b>	<b>444</b>	<b>137</b>	<b>6,066</b>

The accounting policies and notes on pages 8 to 20 form an integral part of these financial statements.

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**GENERAL INFORMATION**

The Lithuanian Central Credit Union (hereinafter referred to as LCCU) was registered with the Enterprise Register of Lithuania on 22 April 2002. On 28 November 2002 the Bank of Lithuania issued a license to LCCU to perform all operations provided for in the Lithuanian Law on Central Credit Union. LCCU started its principal activities on 2 December 2002.

LCCU operates under the Lithuanian Law on Central Credit Union. LCCU is a credit institution organised on co-operative basis, established by credit unions of legal entities and the Lithuanian Government, and registered in the manner prescribed by the Lithuanian Law on Central Credit Union. LCCU is funded by capital contributed by members, and performs the functions of liquidity maintenance and solvency recovery of credit unions. In addition, LCCU performs clearing transactions of credit unions and their members, accepts deposits, grants loans and takes on the related risks and responsibility.

LCCU is located at Savanorių Ave. 2 in Kaunas. As at the end of the reporting period, LCCU employed 11 employees (at the end of 2003: 10 employees).

In 2004, LCCU provided services to its members credit unions and 3 other legal entities. As at 31 December 2004, the members of LCCU were 53 (31 December 2003: 47) credit unions and the Lithuanian Government.

**ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

**Basis of preparation**

These financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are prepared under the historical cost convention.

The amounts shown in these financial statements are presented in a local currency, the litas (LTL).

The preparation of financial statements in compliance with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

**Foreign currency translation**

Foreign currency transactions are accounted for using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Foreign currency balances at year-end are translated using the exchange rate prevailing at year-end.

**Income and expense recognition**

Interest income and expenses are recognised on an accrual basis using the effective interest method and based on purchase prices.

Revenue earned during the accounting period and not recognised as current period income is shown in the balance sheet as liabilities, and expenses incurred in the current period but not recognised in the income statement are shown in the balance sheet as assets.

Commission expenses are recognised when incurred. Commission income is recognised when the related transaction has been performed.

(all tabular amounts are in LTL thousand, unless otherwise stated)

## **Taxes**

### Income tax

Pursuant to the Lithuanian Law on Profit Tax, LCCU is exempted from the income tax in 2003 and 2004.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

### Road tax

Net interest income and other income are subject to road tax at a rate of 1 per cent.

## **Employee benefits**

LCCU pays social security contributions for its employees to the State Social Security Fund (hereinafter „the Fund“) according to its defined contribution plan in compliance with the Lithuanian regulatory legislation. A defined contribution plan is a plan under which LCCU pays fixed contributions into the Fund and LCCU has no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Social security contributions are recognised as expenses on an accrual basis and attributed to payroll expenses.

## **Cash and cash equivalents**

Cash and cash equivalents represent cash on hand and correspondent accounts with the Bank of Lithuania and commercial banks.

## **Held-to-maturity investment securities**

Investments securities with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Management determines the classification of its securities at the time of the purchase.

Investment securities are initially stated at cost (including transaction costs). Afterwards, held-to-maturity debt securities are carried at amortised cost, using the effective yield method, and impairment losses are recognised.

Interest earned while holding the securities is included in interest income.

Purchases and sales of investment securities are recognised on the trade date.

## **Loans and impairment losses on loans**

Loans originated by LCCU through direct provision of funds to the credit unions are classified as loans originated by LCCU and are carried at amortised cost. All loans are recognised when cash is transferred to the borrowers.

Impairment losses on loans as a result of credit risk are recognised if there is an objective evidence that LCCU will not be able to collect all amounts due. The amount of losses represents the difference between the carrying amount and the recovered amount, which is the present value of expected cash flows discounted at an interest rate effective at the moment of inception.

## **Intangible assets**

Intangible assets are recorded at cost less subsequent accumulated amortisation. Amortisation is calculated on a straight-line basis over the useful life of 3 years.

Costs associated with developing and maintaining computer software programs are recognised as an expense as incurred. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

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**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows: computer hardware – 5 years, other assets – 3 to 5 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in the income statement.

Assets with an estimated useful life less than 1 year or with the acquisition value below LTL 500 is expensed in the income statement in the period when the acquisition was made.

**Fair value of assets and liabilities**

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

Fair value of held-to-maturity investment securities is determined by reference to their market prices or prices quoted by brokers or dealers.

<b>Held-to-maturity investment securities</b>	<b>2004</b>	<b>2003</b>
Book value	27,762	13,726
Fair value	27,194	13,703

(all tabular amounts are in LTL thousand, unless otherwise stated)

## **FINANCIAL RISK MANAGEMENT POLICIES**

### **Credit risk**

In the ordinary course of business, LCCU takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The purpose of credit risk management is to improve the quality of loans granted by LCCU. When granting loans to the credit unions members of LCCU, the main criteria of borrower's financial position are taken into consideration. Based on those criteria, the borrower is assessed before issuing the loan and throughout the whole period from the loan issue to its repayment. The criteria used for assessment of credit unions include: reputation, rating evaluation, the quality of credit union's loan portfolio, credit union's balance sheet, income statement, assessment of business plans and collateral. The evaluation of credit unions' financial position is performed on a quarterly basis, and if an objective evidence arises that LCCU will be unable to collect the whole loan amount, impairment losses on such loan are recognised. In order to reduce the credit risk, the Bank of Lithuania has set for LCCU a limit on the maximum amount of loan that may be granted to one borrower – this amount should not exceed 25 per cent of LCCU capital.

### **Liquidity risk**

In the ordinary course of business, LCCU is exposed to the possible risk of mismatches in cash flows. The purpose of liquidity risk management is to ensure that LCCU will be able to meet its obligations in full. The main elements of liquidity risk management include LCCU Board's information system, liquidity management control, diversification of financing sources, planning of foreseen commitments. The liquidity risk is managed by following the liquidity ratio set by the Bank of Lithuania and by preparing cash flow reports of LCCU on a monthly basis.

Note 17 analyses certain categories of assets and liabilities of LCCU based on the period remaining at balance sheet date to the contractual maturity date.

### **Interest rate risk**

LCCU's exposure to interest rate risk is analysed in Note 18. LCCU manages its interest rate risk by reviewing on a monthly basis the maturing cash flow reports and by establishing once in a quarter new or leaving old interest rates on loans. All loan agreements between LCCU and its members include the provision on review of interest rates once in a quarter.

### **Capital adequacy**

The Bank of Lithuania, which is the regulatory institution of LCCU, adopted the Basle Agreement capital adequacy recommendations with effect from 1997. In 2004, LCCU was required to maintain a capital adequacy ratio of 10 percent of risk-weighted assets to capital. The computation of capital adequacy ratio for 2004 is shown in Note 19.

### **Foreign exchange risk**

LCCU does not take on exposure to speculative foreign exchange risk. Liabilities assumed by LCCU in foreign currencies are denominated in the euro. Currently, the Bank of Lithuania has set a fixed exchange rate of the litas to the euro. This rate may change after Lithuania joins the Euro-zone within the EU and abandons the litas as an instrument for settlements. In this case the exchange rate of the litas against the euro may change, however, the Bank of Lithuania is obliged to give a prior notice of such change, and the necessary foreign exchange hedge instruments would be used. Foreign exchange risk taken on by LCCU is summarised in Note 20.

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**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 NET INTEREST INCOME**

	<b>2004</b>	<b>2003</b>
Interest income:		
On loans to credit unions	746	604
On balances with credit institutions	-	35
On held-to-maturity investment securities	548	180
<b>Total interest income</b>	<b>1,294</b>	<b>819</b>
Interest expense:		
On deposits of credit unions	349	166
On the liquidity fund	12	7
On deposits of other entities	221	143
On loans from credit institutions	32	21
<b>Total interest expenses</b>	<b>614</b>	<b>337</b>
<b>Net interest income</b>	<b>680</b>	<b>482</b>

Interest expenses on deposits of the Association of the Lithuanian Credit Unions during the current year amounted to LTL 201 thousand (2003: LTL 134 thousand).

**NOTE 2 IMPAIRMENT LOSSES ON LOANS**

	<b>2004</b>	<b>2003</b>
Impairment losses on loans at the beginning of the year	64	-
Released impairment losses on loans	(64)	-
Impairment losses on loans	82	64
<b>Impairment losses on loans at the end of the year</b>	<b>82</b>	<b>64</b>

**NOTE 3 OTHER INCOME**

	<b>2004</b>	<b>2003</b>
Receipts on repayment of loans prior to their maturity	13	-
Other income	3	-
<b>Total</b>	<b>16</b>	<b>-</b>

**NOTE 4 OPERATING EXPENSES**

	<b>2004</b>	<b>2003</b>
Wages and salaries	376	269
Social security costs	113	76
Legal and audit services	25	18
Stationery	8	4
Security of premises and other office supplies	2	2
Advertising and marketing expenses	2	-
Representation expenses	2	-
Transport, postal and communication expenses	52	25
Securities safekeeping expenses	4	-
Taxes and insurance	18	13
Other expenses	12	-
<b>Total</b>	<b>614</b>	<b>407</b>

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**NOTE 5 INCOME TAX**

	<b>2004</b>	<b>2003</b>
Current income tax	-	2
Deferred income tax	-	-
<b>Total income tax expense</b>	<b>-</b>	<b>2</b>
	<b>2004</b>	<b>2003</b>
<b>Profit before tax</b>	<b>137</b>	<b>41</b>
Non-taxable profit	137	41
Taxable profit	-	-
<b>Current income tax</b>	<b>-</b>	<b>2</b>

When preparing the financial statements for 2002, LCCU calculated its income tax at a rate of 13 per cent. However, according to the amendments to the Lithuanian Law on Profits Tax adopted in 2003, LCCU had to tax its profit for 2002 at a rate of 15 per cent, therefore, in 2003 an additional amount of kLTL 2 of income tax was paid. In accordance with the Lithuanian Law on Profits Tax, LCCU is exempted from the income tax in the years 2003 and 2004.

**NOTE 6 CASH AND BALANCES WITH THE CENTRAL BANK**

As at 31 December 2004, cash and balances with the central bank represented LCCU's correspondent account with the Bank of Lithuania amounting to LTL 6,427 thousand (31 December 2003: LTL 7,634 thousand). LCCU is not obliged to keep and maintain compulsory reserves with the Central Bank. No interest is paid on the balance in correspondent account with the Central Bank.

**NOTE 7 CLAIMS ON CREDIT INSTITUTIONS**

	<b>2004</b>	<b>2003</b>
Balances in correspondent accounts with the banks	10	19
Loans to credit unions	10,632	10,398
Accrued income on loans to credit unions	75	125
Impairment losses on loans of credit unions	(82)	(64)
<b>Total</b>	<b>10,635</b>	<b>10,478</b>

As at 31 December 2004, the total gross amount of impaired loans, on which impairment losses were recognised, amounted to kLTL 997 (31 December 2003: kLTL 320). Impairment losses on loans represent 0.771 per cent (31 December 2003: 0.616 per cent) of the total portfolio of loans to credit unions. Interest accrued on impaired loans as at 31 December 2004 amounted to kLTL 16 (31 December 2003: kLTL 2).

In 2004, the effective interest rates on the loans to credit unions varied from 5.6 per cent to 7.1 per cent (2003: from 5.6 per cent to 8.1 per cent).

**NOTE 8 HELD-TO-MATURITY INVESTMENT SECURITIES**

	<b>2004</b>	<b>2003</b>
Held-to-maturity investment securities	27,361	13,572
Interest accrued on held-to-maturity investment securities	401	154
<b>Total</b>	<b>27,762</b>	<b>13,726</b>

Held-to-maturity investment securities represent debt securities issued by the Lithuanian Government. The redemption dates of these securities are disclosed in note 17. The effective interest rates on these securities vary from 1.77 per cent to 6.0 per cent (2003: from 2.0 per cent to 6 per cent). A part of securities (kLTL 2,523) are pledged to Vilniaus Bankas AB for the credit line of kLTL 2,000 granted by this bank. As at 31 December 2004, the credit line was not used.

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**NOTE 9 TANGIBLE FIXED ASSETS**

	Computer hardware	Other office equipment	Total
<b>Cost</b>			
At 31 December 2003	104	5	109
Additions	-	2	2
<b>At 31 December 2004</b>	<b>104</b>	<b>7</b>	<b>111</b>
<b>Accumulated depreciation</b>			
At 31 December 2003	22	1	23
Depreciation charge	25	2	27
<b>At 31 December 2004</b>	<b>47</b>	<b>3</b>	<b>50</b>
<b>Net book value</b>			
31 December 2003	82	4	86
<b>31 December 2004</b>	<b>57</b>	<b>4</b>	<b>61</b>

In addition, LCCU uses in its activities free of charge premises, computer hardware and furniture provided by the Association of the Lithuanian Credit Unions.

**NOTE 10 INTANGIBLE ASSETS**

	Prepayments	Computer software	Total
<b>Cost</b>			
At 31 December 2003	-	6	6
Additions	94	-	94
<b>At 31 December 2004</b>	<b>94</b>	<b>6</b>	<b>100</b>
<b>Accumulated amortisation</b>			
At 31 December 2003	-	1	1
Amortisation charge	-	3	3
<b>At 31 December 2004</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>Net book value</b>			
31 December 2003	-	5	5
<b>31 December 2004</b>	<b>94</b>	<b>2</b>	<b>96</b>

As at 31 December 2004, LCCU had a contractual commitment to purchase services for computer software development project for the total amount of kLTL 353.

**NOTE 11 OTHER ASSETS**

	2004	2003
Deferred charges	1	-
<b>Total</b>	<b>1</b>	<b>-</b>

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**NOTE 11 AMOUNTS OWED TO CREDIT INSTITUTIONS**

	<b>2004</b>	<b>2003</b>
Balances of credit unions:		
Time deposits	9,715	7,200
Demand deposits	22,603	12,479
Interest accrued on deposits	135	105
Total balances of credit unions	<u>32,453</u>	<u>19,784</u>
Loans from credit institutions	518	691
<b>Total</b>	<b><u>32,971</u></b>	<b><u>20,475</u></b>

The interest rates vary from 2.0 per cent to 4.8 per cent (2003: from 1.1 per cent to 5.5 per cent) on time deposits of credit unions, equal to 0.6 per cent on demand deposits (2003: varied from 0.5 per cent to 0.6 per cent), and equal to 5.0 per cent (2003: 5.0 per cent) on loans from credit institutions.

**NOTE 13 DEPOSITS**

	<b>2004</b>	<b>2003</b>
Demand deposits of legal entities	70	158
Time deposits of legal entities	4,261	4,661
Interest accrued on deposits of legal entities	14	14
<b>Total</b>	<b><u>4,345</u></b>	<b><u>4,833</u></b>

Demand deposits of the Association of the Lithuanian Credit Unions amounted to kLTL 67 (2003: kLTL 154), and time deposits amounted to kLTL 3,865 (2003: kLTL 4,264).

The interest rates vary from 3.0 per cent to 5.3 per cent (2003: from 3.1 per cent to 5.3 per cent) on time deposits of legal entities, and equal to 0.6 per cent (2003: varied from 0.5 per cent to 0.6 per cent) on demand deposits of legal entities.

**NOTE 14 LIQUIDITY RESERVE**

	<b>2004</b>	<b>2003</b>
Liquidity reserve at the beginning of the year	920	-
Increase during the year	553	920
<b>Liquidity reserve at the end of the year</b>	<b><u>1,473</u></b>	<b><u>920</u></b>

LCCU liquidity reserve is a reserve prescribed by the Law on LCCU, which is established to ensure the liquidity of LCCU members by the way of granting liquidity loans to the credit unions. Liquidity reserve comprises balances, which credit unions LCCU members are obliged to maintain in a special purpose account with LCCU. The amount of such balances equals to the percentage preset by the general meeting of LCCU members (in 2003 and 2004 – 1.2 per cent) of the credit unions' all time and demand deposits in the litas and foreign currencies, which represent liquidity reserve. Annual interest at a rate of 1 per cent (2003: 1 per cent) is paid on the balances maintained by the credit unions in the liquidity reserve.

At the end of each quarter, the amount of balance maintained by the credit union in the liquidity reserve is reviewed. These balances are recalculated by LCCU, which sends a written notice to each credit union. In case no objection is received from the credit union in respect of the amount specified in a written notice, LCCU by undisputed order debits the funds of LCCU from the credit union's current account or transfers credit union's funds to LCCU's current account.

Loans for the maintenance of the credit unions' liquidity may be granted when the liquidity of a credit union becomes lower than the required liquidity rate and when the structure of assets and liabilities of a credit union for the future months demonstrates a certain imbalance, which could affect the fulfilment of the obligations.

The balances with LCCU's liquidity reserve of a credit union, which is cancelling its membership, or which is under liquidation or whose membership is terminated, are returned to the credit union.

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**NOTE 15 OTHER LIABILITIES**

	<b>2004</b>	<b>2003</b>
Accrued vacation reserve	34	24
Taxes payable	2	1
Amount payable for computer software development project	65	-
Other liabilities	26	20
<b>Total</b>	<b>127</b>	<b>45</b>

**NOTE 16 CAPITAL AND RESERVES**

The members' capital of LCCU amounts to kLTL 5,327. It consists of primary and additional shares.

Each member of LCCU holding a primary share has 1 vote irrespective of the amount of additional shares paid in by the member.

The Lithuanian Law on Credit Unions foresees that after the Lithuanian Government joins LCCU, the amount of additional shares belonging to the Lithuanian Government should be reduced by the amount of primary shares of the newly joined members of LCCU and the amount of additional shares paid in by all members of LCCU. The amount of additional shares of the Lithuanian Government is reduced, until it reaches zero. Consequently, credit unions buy out additional shares of the Lithuanian Government according to the established order. As soon as all additional shares of the Lithuanian Government are bought out, its primary shares will also be bought out.

The reserve capital of LCCU comprises the profit for 2003 transferred to the reserve capital in accordance with the decision of the general meeting of members. The purpose of reserve capital is to guarantee financial stability of LCCU. The reserve capital is formed by making annual transfers of at least 10 per cent of LCCU's profit after tax, until the reserve capital reaches at least 5 per cent of the total amount of long-term investments and loans granted. Reserve capital is non-distributable.

The stabilisation fund of LCCU is a legally required reserve established to guarantee the stability and continuity of the activities of LCCU members. Stabilisation fund functions as a last resort borrowing source to recover the impaired solvency of the credit unions. Contributions to the stabilisation fund are transferred by the credit unions. The level of the annual required transfers to the stabilisation fund is determined by the Stabilisation Fund Commission as a percentage of a credit union's total assets (in 2004 and 2003: 0.2 per cent). The loans to ensure the stability and continuity of credit unions' activities may be granted, when the capital adequacy ratio of a credit union is lower or constantly decreases and in the nearest future can become lower than that required by the Central Bank. The Stabilisation fund is non-distributable.

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**NOTE 17 LIQUIDITY**

The structure of LCCU's liabilities and assets based on their maturity as at 31 December 2004 was as follows:

	On demand	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	5 - 10 years	No maturity	Total
<b>Assets</b>										
Cash and balances with the central bank	6,427	-	-	-	-	-	-	-	-	6,427
Investments in Lithuanian Government securities	-	1,214	3,040	7,012	6,124	4,609	1,105	4,658	-	27,762
Claims on credit institutions	10	857	1,233	1,333	1,575	3,455	1,232	940	-	10,635
Fixed tangible and intangible assets	-	-	-	-	-	-	-	-	157	157
Other assets	-	1	-	-	-	-	-	-	-	1
<b>Total assets</b>	<b>6,437</b>	<b>2,072</b>	<b>4,273</b>	<b>8,345</b>	<b>7,699</b>	<b>8,064</b>	<b>2,337</b>	<b>5,598</b>	<b>157</b>	<b>44,982</b>
<b>Liabilities, capital and reserves</b>										
Amounts owed to credit institutions	22,603	610	2,738	2,388	2,769	1,777	86	-	-	32,971
Deposits	70	12	-	234	576	3,453	-	-	-	4,345
Liquidity reserve	1,473	-	-	-	-	-	-	-	-	1,473
Other liabilities	34	73	-	20	-	-	-	-	-	127
Capital and reserves	-	-	-	-	-	-	-	-	6,066	6,066
<b>Total liabilities, capital and reserves</b>	<b>24,180</b>	<b>695</b>	<b>2,738</b>	<b>2,642</b>	<b>3,345</b>	<b>5,230</b>	<b>86</b>	<b>-</b>	<b>6,066</b>	<b>44,982</b>
<b>Difference between assets and liabilities, capital and reserves</b>	<b>(17,743)</b>	<b>1,377</b>	<b>1,535</b>	<b>5,703</b>	<b>4,354</b>	<b>2,834</b>	<b>2,251</b>	<b>5,598</b>	<b>(5,909)</b>	<b>-</b>

Liquid assets	35,056
Current liabilities	24,875
<b>Liquidity ratio in per cent</b>	<b>140.93%</b>

The structure of LCCU liabilities and assets based on their maturity as at 31 December 2003 was as follows:

	On demand	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	No maturity	Total
<b>Assets</b>	<b>7,653</b>	<b>1,822</b>	<b>2,242</b>	<b>5,218</b>	<b>4,630</b>	<b>3,288</b>	<b>6,985</b>	<b>91</b>	<b>31,929</b>
<b>Liabilities, capital and reserves</b>	<b>13,581</b>	<b>1,051</b>	<b>1,232</b>	<b>2,959</b>	<b>2,144</b>	<b>5,133</b>	<b>173</b>	<b>5,656</b>	<b>31,929</b>
<b>Difference between assets and liabilities, capital and reserves</b>	<b>(5,928)</b>	<b>771</b>	<b>1,010</b>	<b>2,259</b>	<b>2,486</b>	<b>(1,845)</b>	<b>6,812</b>	<b>(5,565)</b>	<b>-</b>

Liquid assets	21,644
Current liabilities	14,632
<b>Liquidity ratio in per cent</b>	<b>147.92%</b>

In accordance with the requirements of the Bank of Lithuania, the liquidity ratio should be not lower than 30 per cent. As at 31 December 2004, LCCU's liquidity ratio calculated in accordance with the rules approved by the Bank of Lithuania was 140.93 per cent (as at 31 December 2003: 147.92 per cent).

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**NOTE 18 INTEREST RATE RISK**

The table below summarises the interest rate risk of LCCU as at 31 December 2004. The table includes LCCU's assets and liabilities classified by the earlier of contractual reprising date or redemption (maturity) date.

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	3 - 5 years	5 - 10 years	Non- interest bearing	Total
<b>Assets</b>									
Cash and balances with the central bank	-	-	-	-	-	-	-	6,427	6,427
Investments in Lithuanian Government securities	1,214	3,040	7,012	6,124	4,609	1,105	4,658	-	27,762
Claims on credit institutions	857	9,768	-	-	-	-	-	10	10,635
Fixed tangible and intangible assets	-	-	-	-	-	-	-	157	157
Other assets	-	-	-	-	-	-	-	1	1
<b>Total assets</b>	<b>2,071</b>	<b>12,808</b>	<b>7,012</b>	<b>6,124</b>	<b>4,609</b>	<b>1,105</b>	<b>4,658</b>	<b>6,595</b>	<b>44,982</b>
<b>Liabilities, capital and reserves</b>									
Amounts due to credit institutions	23,213	2,738	2,388	2,769	1,777	86	-	-	32,971
Deposits	82	-	234	576	3,453	-	-	-	4,345
Liquidity reserve	1473	-	-	-	-	-	-	-	1,473
Other liabilities	-	-	-	-	-	-	-	127	127
Capital and reserves	-	-	-	-	-	-	-	6,066	6,066
<b>Total liabilities, capital and reserves</b>	<b>24,768</b>	<b>2,738</b>	<b>2,622</b>	<b>3,345</b>	<b>5,230</b>	<b>86</b>	<b>-</b>	<b>6,193</b>	<b>44,982</b>
<b>Balance sheet interest sensitivity gap</b>	<b>(22,697)</b>	<b>10,070</b>	<b>4,390</b>	<b>2,779</b>	<b>(621)</b>	<b>1,019</b>	<b>4,658</b>	<b>402</b>	<b>-</b>

LCCU's interest rate risk as at 31 December 2003:

	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non- interest bearing	Total
<b>Assets</b>	<b>1,822</b>	<b>11,115</b>	<b>3,916</b>	<b>2,548</b>	<b>-</b>	<b>4,784</b>	<b>7,744</b>	<b>31,929</b>
<b>Liabilities, capital and reserves</b>	<b>14,632</b>	<b>1,232</b>	<b>2,959</b>	<b>2,144</b>	<b>5,133</b>	<b>173</b>	<b>5,656</b>	<b>31,929</b>
<b>Balance sheet interest sensitivity gap</b>	<b>(12,810)</b>	<b>9,883</b>	<b>957</b>	<b>404</b>	<b>(5,133)</b>	<b>4,611</b>	<b>2,088</b>	<b>-</b>

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**NOTE 19 CAPITAL ADEQUACY**

The table below summarises the computation of LCCU's capital adequacy ratio as at 31 December 2004. The table includes capital and assets of LCCU as at 31 December 2004, evaluated in accordance with the asset risk set by the Bank of Lithuania.

	Carrying amounts	Risk rate, %	Assets recalcula- ted based on the risk
<b>Capital</b>			
Share capital	5,327		
Reserve capital	158		
Stabilisation fund	444		
Retained earnings	137		
Intangible assets (-)	(96)		
<b>Total</b>	<b>5,970</b>		
<b>Assets</b>			
Cash in hand and balance in the correspondent account with the central bank	6,427		
Lithuanian Government securities	27,762		
Balances with banks	10	20	2
Loans to credit unions	10,625	100	10,625
Tangible fixed assets	61	100	61
Deferred charges	1	100	1
<b>Total</b>	<b>44,886</b>		<b>10,689</b>
<b>Capital adequacy ratio, per cent</b>			<b>55.85</b>

Pursuant to the requirements of the Bank of Lithuania, capital adequacy ratio should not be lower than 10 per cent. As at 31 December 2004, the capital adequacy ratio of LCCU calculated in compliance with the rules approved by the Bank of Lithuania was 50.85 per cent (31 December 2003: 50.22 per cent).

**NOTE 20 ASSETS AND LIABILITIES IN FOREIGN CURRENCIES**

The table below includes open foreign currency positions as at 31 December 2004:

Currency	Long position	Short position	Open position	Position as a percentage of the capital
Euro (EUR)	-	518	(518)	(8.54)

As at 31 December 2004, LCCU's liabilities in foreign currency (EUR) amounted to kLTL 518, however, the Bank of Lithuania has not established any requirements for the open position in respect of this currency. As at 31 December 2003, LCCU met the requirements of the Bank of Lithuania established for open foreign currency position, according to which the overall open foreign currency position should not exceed 25 per cent of LCCU's capital, and the open position of each individual foreign currency should not exceed 15 per cent of LCCU's capital.

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**NOTE 21 RELATED PARTIES**

Related parties of LCCU are considered to be credit unions – members of LCCU, the Association of the Lithuanian Credit Unions, Lithuanian Government, LCCU Board, Supervisory Council, Stabilisation Fund Commission, Inspector Commission, and management. Association of the Lithuanian Credit Union is treated as related party since its owners, managerial bodies and management are the same as those of LCCU.

In 2004, payroll expenses amounted to kLTL 143, including vacation reserve of kLTL 11 and social security expenses of kLTL 43 (2003: kLTL 136, including vacation reserve of kLTL 14 and social security expenses of kLTL 29).

Information on the transactions with related parties is presented in the following notes to these financial statements:

Note 1 – interest on loans granted, deposits taken and liquidity reserve placed;  
Note 2 – impairment losses on loans;  
Note 7 – loans granted;  
Note 9 – tangible fixed assets;  
Notes 12 and 13 – deposits taken;  
Note 14 – payments to the liquidity reserve;  
Note 16 – capital and reserves, and transfers to the stabilisation fund.

In addition, all commission income presented in the income statement is earned from the related parties – credit unions.

**NOTE 22 COMPLIANCE WITH LAWS**

In accordance with the requirements of the Bank of Lithuania, LCCU should comply with the ratios set for its capital adequacy, liquidity, maximum loan amount to a single borrower, and open foreign currency position. As at 31 December 2004, LCCU complied with all the compulsory requirements.