



ANNUAL REPORT • 1998



ŪKIO BANKAS

1998 Annual Report
Prepared for the publication
by UAB „RODIKLIS”
Kaunas, May 1999

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PURSUING THE CHOSEN STRATEGY



The year 1998 was successful to ŪKIO BANKAS. According to the earned net profit, ŪKIO BANKAS was in the third position among private banks of Lithuania. The Bank was successful in performing its preset task to improve the quality of assets. Conditions have been improved to make the Bank a modern, highly competitive credit institution. As since the end of 1997 the Bank has been carrying out the program of flexible reorganization, it has become more open to market changes and challenges. The Bank has gained additional attractiveness by introducing exclusive service conditions to its clients.

The Bank was successful in solving one of the most important tasks of the year - to radically improve the quality of assets. As in 1997 ŪKIO BANKAS made necessary provisions for problem loans and worked a lot with its debtors, in 1998 the attention was centered on the realization of assets taken over for debts, improvement of the quality of the credit portfolio, increase of income-earning assets. The amount received for sold assets that had been taken over for debts was 18.3 million Litas. This enabled to decrease the special provisions by 6.2 million Litas. Next year it is planned to reorganize problem loans and to realize the major part of the assets taken over.

The Bank achieved positive results in another priority field - investment banking. Development of investment projects is mainly performed by our subsidiary UAB ŪKIO BANKO INVESTICINĖ GRUPĖ (INVESTMENT COMPANY). The company carries out large scale investment projects in Lithuania, the Ukraine, Russia, Central Europe. In December 1998, the Bosnian Serbian Government approved our subsidiary as a consultant for the preparation of the privatization program for factory BIRAČ, one of the biggest alumina factories in Europe.

Last year another subsidiary UAB ŪKIO BANKO LIZINGAS (LEASING COMPANY) significantly increased its portfolio and the number of customers. In 1998, the company offered leasing services to private customers. In 1999, leasing services will also be provided to corporate customers of the Bank.

ŪKIO BANKAS has decided to increase the share capital from 60 million Litas to 84 million Litas. In 1999 it is intended to sell the new share issue to a strategic investor. The increase in the share capital will enable to expand the volume of banking services provided and to enhance the customer servicing quality.

The works performed and the results achieved in 1998 enable the Bank to pursue an aggressive growth policy in an attempt to acquire the biggest possible share in the market. The growth will be mainly associated with an increase in its income-earning assets by means of significantly intensified crediting activities. The currently available services will be further improved and new banking services will be introduced. By offering its customers a complete package of services and introducing exclusive servicing conditions to its regular customers, the Bank will further develop the corporate and investment banking activities. Gaining importance in the international financial market, the Bank intends to be active in borrowing money for the implementation of the customers' projects.

Plans have been made to develop and improve the activities of the whole network of the Bank branches by carrying out partial reorganization and making additional investments in the strategic branch offices.

In the field of information technologies, ŪKIO BANKAS intends to introduce a new updated data processing system and to develop electronic banking services.

In view of the fact that the banking conditions in Lithuania are constantly changing - foreign banks come to the local market, the biggest local banks establish strategic partnership with foreign banks, ŪKIO BANKAS will also seek strategic partnership with foreign financial institutions.



Liutauras Varanavičius,
Chairman of the Board

ORGANIZATIONAL STRUCTURE OF THE BANK

The Bank's management bodies are: the General Shareholders Meeting, Supervisory Council, Board of Directors and Administration.

THE SUPERVISORY COUNCIL

The Supervisory Council of ŪKIO BANKAS consists of nine members elected by the General Shareholders Meeting for four years' term of office.

THE SUPERVISORY COUNCIL OF ŪKIO BANKAS

Ulf Löwenhäv -	Chairman, partner of Gripsholm Securities AB
Jurgis Drašutis Mockevičius -	Deputy Chairman, Adviser to the Board

MEMBERS

Stevan Belogrlić -	President of ASN Moscow
In Huan Song -	Managing Director of JINDO (UK), Ltd.
Byung Ho Kim -	Senior Managing Director of JINDO Corporation
Oлга Gončaruk -	Chief Financial Director of AB Holdinginė Tekstilės korporacija
Ala Kurauskienė -	Director of UAB Logista
Gražina Jakavičienė -	Lawyer, Member of the Lithuanian Council of Lawyers
Giedrius Pukas -	Chairman of the Board of AB Dirbtinis pluoštas

THE BOARD

The Board of ŪKIO BANKAS consists of five persons appointed by the Council of the Bank for four years' term of office.

THE BOARD OF ŪKIO BANKAS

Liutauras Varanavičius -	Chairman
Jonas Saulėnas -	Deputy Chairman

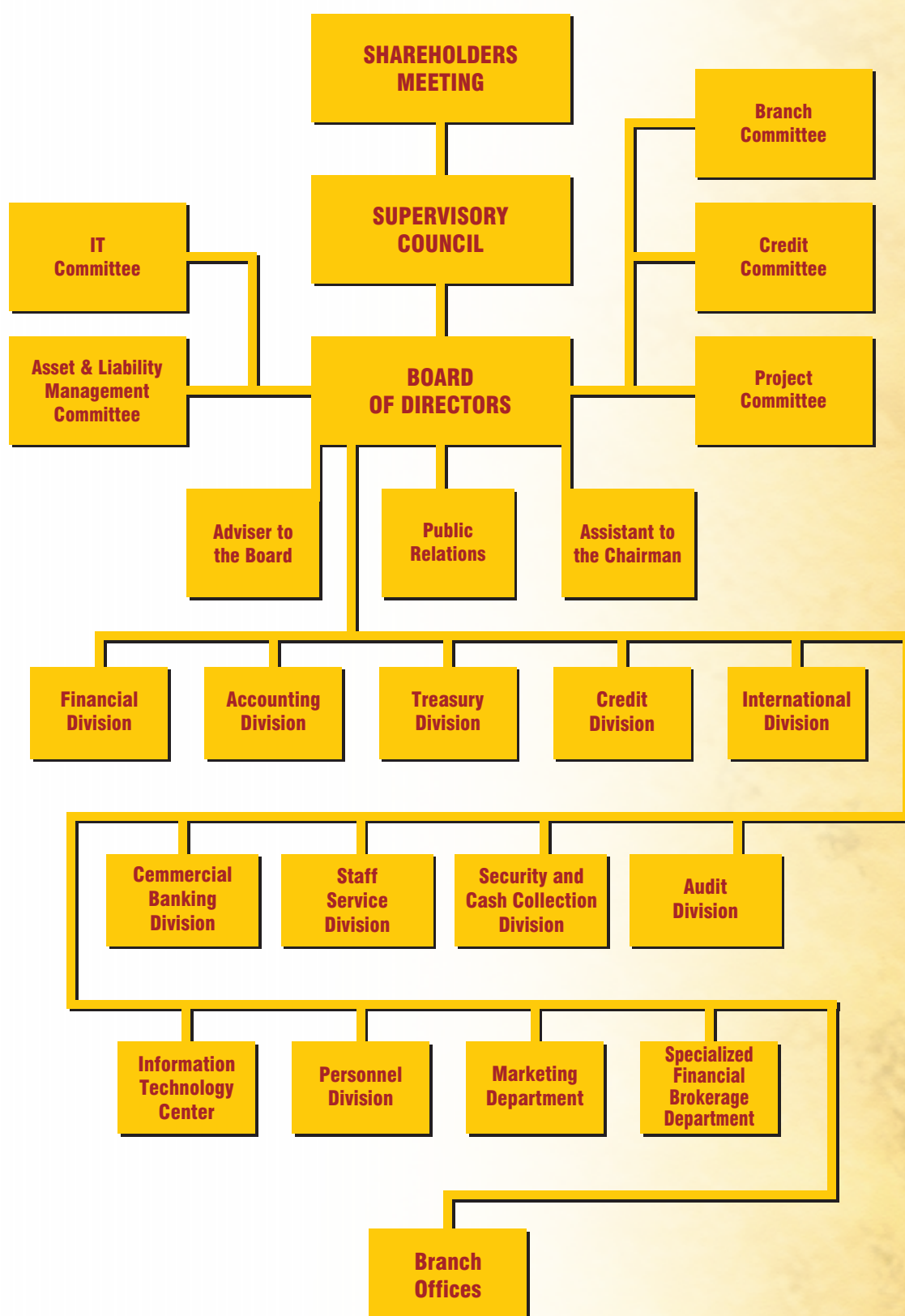
MEMBERS

Audrius Globys
Edita Navickaitė
Gintaras Ugianskis

THE ADMINISTRATION

The Chairman of the Board is the head of the Administration. The day - to - day activities of the Bank are organized and carried out by the Administration consisting of the headquarters management, directors and deputy directors of divisions and departments and managers of the branch offices.

ORGANIZATIONAL STRUCTURE OF ÜKIO BANKAS



ACTIVITIES OF BANKS IN LITHUANIA IN 1998

GENERAL TENDENCIES

At the end of 1998 the Lithuanian financial market included 10 commercial banks, among them 2 state banks, 2 specialized banks (Asset Bank and Lithuanian Development Bank), 2 branch offices of foreign banks, 4 representative offices of foreign banks and 28 credit unions. During 5 years claims of Lithuanian commercial banks against Lithuanian economic entities and individuals increased by 71.3 per cent and at the end of 1998 amounted to 8.2 billion Lit. Funds borrowed by the private sector reached 50 per cent of the amount. Over the year 1998 the total assets of Lithuanian commercial banks increased by 21 per cent and at the end of the year constituted 10.6 billion Lit. In 1998 the Lithuanian banking market witnessed a marked increase in foreign investments, private banks sold the bigger part of share capital or are about to sell it to strategic investors.

PROFIT OF BANKS

In 1998, the profit received in the Lithuanian banking system was 88.6 million Lit. The activities of the banks were profitable. As compared with the financial results of 1997, in 1998 the activities of most banks were much more successful, the rates of return on assets and return on equity increased. The year 1998 was much better for Lithuanian banks than those of neighbouring countries. In 1998 Latvian banks suffered a loss of 90.25 million USD (361 million Lit), Estonian banks - a loss of 498.5 million Estonian crowns (about 137 million Lit).

RISK LIMITING STANDARDS

In 1998, most banks demonstrated cautiousness in their activities which is proved by the fact that the risk limiting standards were observed with reservation. On January 1, 1999 the capital adequacy ratio constituted 24.41 per cent which is more than twofold higher than the required 10 per cent minimum. The liquidity standard respectively constituted 58.71 per cent, as compared to the required 30 per cent minimum.

THE STRUCTURE OF THE BALANCE

The total assets of commercial banks and branch offices of foreign banks that operated at the beginning of 1999 constituted 10.6 billion Lit (over 1998 increased by 27 per cent); lent funds amounted up to 4.7 billion Lit (increased by 19 per cent); the portfolio of deposits reached 6.3 billion Lit (increased by 7 per cent), of which 3 billion Lit were deposits of private persons (which is by 35 per cent more than at the beginning of 1998), deposits in national currency made up 3.8 billion Lit (increased by 4 per cent) and those in foreign currency - 2.5 billion Lit (increased by 12.5 per cent). Over 1998, the total shareholders equity increased by 2.6 times and constituted 1.3 billion Lit.

CREDITS

The loans granted remain the major part of the assets of banks. At the beginning of 1999 the share of credits in the total assets of Lithuanian commercial banks was about 45 per cent. The recent years, however, witnessed a decreasing tendency in the share of loans in the total assets, which shows that the commercial banks of Lithuania have been implementing a stricter crediting policy, looking for other investment alternatives, giving preference to assets involving less risk. However, crediting still remains the main field of banking activities and the main source of income (about 38 per cent of total income).

In the recent years the share of long-term loans in the structure of loans granted has increased: in 1996 long-term loans made 35 per cent, in 1997 - 41 per cent, and in 1998 - 51 per cent of the total loan portfolio. Long-term crediting is favoured by the facts that the capital basis keeps growing and that access to long-term resources is given by foreign credit institutions.

The quality analysis of the loan portfolio demonstrates favourable tendencies as the ratio of provisions for problem loans to other lent funds decreases.

THE CAPITAL

The Lithuanian banking system is well capitalized according to the scope of activities: the capital adequacy ratio of banks is more than three times higher than the minimum requirement (8 per cent) recommended by Basel Bank Surveillance Committee. In the opinion of experts, at present the Lithuanian banking system has an adequate buffer for lessening potential losses that might be caused by long-term effects of the Russian crisis.

SUBSIDIARIES

Most of the banks develop and diversify their activities by founding subsidiaries. On January 1, 1999 there were 12 subsidiaries with which the banks consolidated their annual reports. This number does not include subsidiaries engaged in insurance activities due to difference in the type of activities that cannot be reflected in consolidated reports. By the scale of activities, leasing companies are most distinguished.

FOREIGN CREDIT INSTITUTIONS

Lately, the Lithuanian financial market has attracted the attention of foreign credit institutions expressing intentions to open branch offices in Lithuania. At present, there are two branches of foreign banks in Lithuania: Vilnius Branch of the Polish „Kredyt Bank PBI S.A.” and Vilnius Branch of the French bank „Societe Generale”. There are four representatives offices of foreign banks: Russian bank „Kontakt”, Polish „Bank Polska Kasa Opieki SA-Grupa Pekao SA”, Austrian „Creditanstalt Investment Bank”, German „Norddeutsche Landesbank Girozentrale”.

ACTIVITIES OF THE BANK IN 1998



IMPROVEMENT OF THE QUALITY OF ASSETS

Improvement of the quality of assets and management of the problem loans were issues of major importance for the Bank in 1998.

Persistent and determinate work yielded results. In 1998, the Bank sold or restructured assets taken over for debts for the amount of 18.3 million Litas. The Asset Management Department that had been established for the purpose realized the property under most favorable conditions. If in 1997 the Bank kept increasing special provisions, in 1998 conditions were created for reducing the provisions by 6.2 million Litas.

Restructure of the portfolio of loans and particular attention paid to problem loans was one of the factors that resulted in both better quality of assets and positive financial results of the year.

CREDITING ACTIVITY

In 1998, significant progress was made in recovering problem loans. At the same time new crediting products were introduced to the market. The Loan Department of the Bank was reorganized into the Credit Division. The Credit Manual, the main working tool for specialists involved in crediting activities, was subjected to revision and supplementation.

At the beginning of 1998, the Bank offered credit lines to its customers, and it was one of the first in Lithuania which introduced overdraft and factoring services. All this enabled the Bank to take stronger positions in the strategically important segment: financing of commercial enterprises.

More critical risk assesment in offering new loans significantly increased the quality of the loan portfolio. The income-earning loan portfolio in 1998 increased by 16 million Litas (by 37 per cent), and on January 1, 1999 it made 64 per cent of the total loan portfolio. On January 1, 1998 income-earning loans made 35 per cent of the total loan portfolio. Due to the adequate evaluation of the loan risk and risk diversification, no marked impact of the Russian crisis on the quality of the loan portfolio was noted.

Adjustments in the crediting policy of the Bank were mainly directed at the financing of commercial enterprises. Similar as in the earlier years, in the credit portfolio short-term loans prevailed that were intended for financing the turnover capital and international trade of the enterprises. Long-term loans were also granted to small and medium business enterprises from the Bank's long-term resources.

In 1998 the portfolio of problem loans decreased by 47 million Litas (by 57 per cent).

The total amount of assets taken over for bad loans made 22.9 million Litas, of which the sold assets constituted 16.5 million Litas. The balance value of the taken over assets on January 1, 1999 made 32 million Litas. Real estate prevails in the assets taken over. In the current situation of enhanced development of the real estate market, the Bank expects to sell this property under favorable terms without much delay.

DEPOSITS

The main customers of the Bank are Lithuanian corporate clients and private persons. At the end of 1998 the total amount of time deposits and demand deposits in the accounts with ŪKIO BANKAS made 120 million Litas.

At the end of 1998 time deposits of private persons made up 44 per cent, whereas term deposits of corporate clients were maintained at 30 per cent of the total deposits kept at the Bank. Demand deposits made up 26 per cent in the deposit portfolio.

In October 1998, as the Bank launched an aggressive policy in the deposit market, the deposits increased by 10.1 million Litas. Alongside with other things, this shows an improving financial situation of the Bank, and growing confidence in the Bank.

INTERNATIONAL BANKING

The number of the Bank's customers who maintain active business contacts with foreign partners is growing, therefore, an income share from foreign transfer payments is growing, as well. In 1998, revenues from payment transfers amounted to 2.02 million Litas and made up about 13 per cent of the total income received from the banking activities. In 1998, revenues from international payment transfers were 53 per cent of the total income from the payment transfers. To ensure quality and efficiency of international settlements, ŪKIO BANKAS has continuously expanded the network of correspondent banks throughout the world.

The Bank intends further to improve the quality and to enhance efficiency of foreign transfers. It is expected to achieve this purpose by installing new computer software system, optimizing the network of correspondent banks, pursuing the strategy of flexible changes, improving the qualifications of employees and developing electronic banking.

An increasing number of customers who keep commercial contacts with foreign countries contributes to the popularity of documentary payments.

In 1998 mutual confidence between customers increased. This was demonstrated by a considerable growth in the volume of import collection. As compared with 1997, it was 216 per cent higher. The volume of import letters of credit increased by 30 per cent.

CASH OPERATIONS



In 1998, the Bank's net income from cash operations made 1.387 million Litas. The net income was received from operations in Litas. Expenses and income from operations in foreign currencies were almost equal.

Net income from cash operations in 1998 constituted about 9 per cent of the total income earned from the banking activities.

FOREIGN EXCHANGE AND SECURITIES

In 1998, the net income received from foreign exchange was 4.6 million Litas.

Cash exchange at currency exchange yielded 69 per cent of income, currency conversion of transfer payments made 33 per cent, and 2 per cent came from exchange currency carried out by dealers.

In 1998, an active trade in derivatives was started in the interbank market. This service was also offered to the customers of the bank. The turnover of derivatives made 830 million Litas, and the yielded income made 337 thous. Litas.

ŪKIO BANKAS intends to keep developing currency exchange services by improving the service quality and by attracting corporate customers for currency exchange.

During one year the Specialized Financial Brokerage Department (SFBD) of the Bank performed and registered in the national securities' market 1121 deals. The total market value of the portfolio of the Bank's own shares stored at the SFBD was 9601 thous. Litas, and the value of the portfolio of the customers' shares was 3336 thous. Litas, of which the customers' portfolio of government securities made up 749 thous. Litas. In 1998, the Bank's income from interest on government securities amounted to 274 thous. Litas.

The Bank's profit from transactions in securities was 348 thous. Litas, and the income from the customers' commission made up 25 thous. Litas.

LEASING ACTIVITIES

In the middle of 1997, the Bank established a subsidiary company UAB ŪKIO BANKO LIZINGAS (LEASING COMPANY) for providing leasing services.

UAB ŪKIO BANKO LIZINGAS offers its services to customers who wish to acquire office equipment, household equipment, cars, real estate, etc.

Standard leasing services are also developed in the network of branch offices of ŪKIO BANKAS. In all other cases customers are served by the leasing company of the Bank.

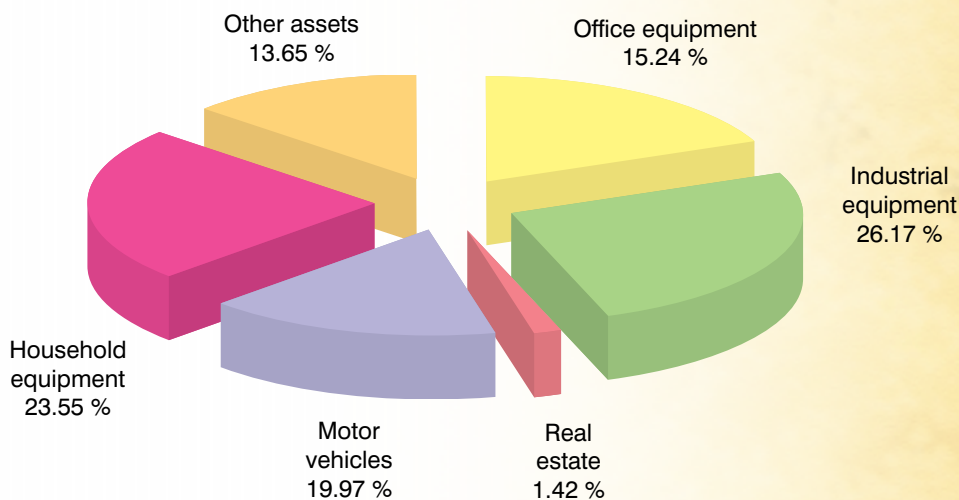
At the end of 1998 the authorized capital of UAB ŪKIO BANKO LIZINGAS was one million Litass. 100 percent of shares are owned by ŪKIO BANKAS.

In 1998 the company had concluded 861 agreements on leasing, the considerably increased leasing portfolio amounted up to 3.7 million Litass.

By the value of assets, industrial equipment (26.17 per cent) and domestic equipment (23.55 per cent) prevailed in the leasing portfolio. Motor vehicles and office equipment made up 19.97 per cent and 15.24 per cent accordingly. By the number of agreements, the largest part (81.18 per cent) was made by leasing of household equipment.

The Bank is planning to intensify leasing services in the market, to develop the range of products offered for leasing, to improve the conditions of service, to start providing leasing services to corporate customers of the Bank. Plans are made to involve a strategic foreign partner in the activities.

Leasing portfolio structure



INVESTMENT ACTIVITIES

The investment activities of the Bank have been concentrated at UAB ŪKIO BANKO INVESTICINĖ GRUPĖ (INVESTMENT COMPANY). This company was founded in July 1998 for developing and management of investment projects of ŪKIO BANKAS.

At the end of 1998 the authorized capital of the investment company made 11 million Litas. ŪKIO BANKAS held 49.5 per cent shares of the company for 5.4 million Litas nominal value.

UAB ŪKIO BANKO INVESTICINĖ GRUPĖ offers and successfully develops large - scale privatisation and investment projects in Lithuania, as well as in other countries.

ŪKIO BANKAS participates in the investment projects prepared by the company as one of its financial partners.

The Bank intends to extend investment banking activities by intensifying this kind of activity in the Lithuanian market.



OTHER BANKING SERVICES

In 1998, the Bank offered its customers a number of other services: it sold traveller's and order cheques, provided cash collection, safe custody, distributed „Globus" cards and served „Visa" and „Eurocard/Mastercard" cards.

The income of the Bank from all these services in 1998 was 1.37 million Litas, which made up 7.43 per cent of the total income from the Bank activities.

Though this income constituted a minor portion in the whole income structure, the Bank considers it important that the customers be provided with a maximum package of services.

In the future the Bank intends to expand these services. The range and quality of services is expected to significantly increase upon installation of a new information system and computer software.

BANK'S PERSONELL

There were 330 employees in ŪKIO BANKAS in 1998, including 84 in the managerial staff. The number and the structure of the staff was optimum to meet the Bank's needs in pursuing its objectives.

Education of the Bank's employees has improved: at present 74 per cent of the total number of the bank employees have higher and professional education, including 42.2 per cent with higher education. In accordance with the employees' qualifications improvement system implemented at the Bank, the employees improve their qualifications at different seminars inside the country and abroad, and at training sessions held at the Bank. The management of the Bank encourages the employees to improve their qualifications, and professional skills and to creatively apply all this knowledge in their daily work in the bank. This is also reflected in the employees' motivation system: employees who have acquired the latest knowledge and skills in banking activities have more chances to launch a professional career.

Most of the Bank's employees are young people. Implementation of one of the guiding principles followed by the management stipulates for the combination of fresh energy with experience, therefore, first of all young people are encouraged to learn from their more experienced colleagues how to improve their professional knowledge and the customer servicing skills.

BRANCHES OF THE BANK

In 1998 ŪKIO BANKAS had 17 branches in all the main Lithuanian cities.

The attention of the headquarters was concentrated on strategic branch offices, seeking to create most favorable conditions for them to become huge profit centers of the Bank.

BRANCHES OF ŪKIO BANKAS

ALYTUS BRANCH

Jotvingių str. 7a, LT-4580 Alytus
Phone (370 35) 54897, fax (370 35) 75660

DRUSKININKAI BRANCH

Šv. Jokūbo str. 3, LT-4690 Druskininkai
Phone (370 33) 56085, fax (370 33) 51077

JONAVA BRANCH

Sodų str. 19, LT-5000 Jonava
Phone (370 19) 61010, fax (370 19) 52689

JURBARKAS BRANCH

Dariaus ir Girėno str. 37, LT-4430 Jurbarkas
Phone (370 48) 71101, fax (370 48) 71102

KAIŠIADORYS BRANCH

Gedimino str. 32, LT-4230 Kaišiadorys
Phone (370 56) 54055, fax (370 56) 54080

KALNIEČIAI BRANCH

Savanorių ave. 352, LT-3042 Kaunas
Phone (370 7) 779287, fax (370 7) 779287

KAUNAS BRANCH

J. Gruodžio str. 9, LT-3000 Kaunas
Phone (370 7) 301400, fax (370 7) 301404

VILJAMPOLĖ CLIENT SERVICE DEPARTMENT

Raudondvario road 70, LT-3021 Kaunas
Phone (370 7) 360722, fax (370 7) 360733

KĖDAINIAI BRANCH

J. Basanavičiaus str. 47c, LT-5030 Kėdainiai
Phone (370 57) 57213, fax (370 57) 54510

KLAIPĖDA BRANCH

Danės str. 15, LT-5800 Klaipėda
Phone (8-26) 311317, fax (370 6) 219509

MARIJAMPOLĖ BRANCH

Kęstučio str. 9/20, LT-4520 Marijampolė
Phone (8-243) 91878, fax (370 43) 91965

PANEVĖŽYS BRANCH

Laisvės ave. 15, LT-5319 Panevėžys
Phone (8-25) 439369, fax (370 5) 438747

PLUNGĖ BRANCH

Telšių str. 2, LT-5640 Plungė
Phone (8-218) 71012, fax (370 18) 71011

RASEINIAI BRANCH

Dubysos str. 2, LT-4400 Raseiniai
Phone (8-228) 53014, fax (370 28) 52378

ŠIAULIAI BRANCH

Vilniaus str. 130, LT-5400 Šiauliai
Phone (8-21) 520540, fax (370 1) 435759

ŠILUTĖ BRANCH

Lietuvininkų str. 60, LT-5730 Šilutė
Phone (370 41) 77337, fax (370 41) 77390

UKMERGĖ BRANCH

Kęstučio sq. 7, LT-4120 Ukmergė
Phone (370 11) 63767, fax (370 11) 63928

VILNIUS BRANCH

Vytėnio str. 20, LT-2006 Vilnius
Phone (370 2) 262811, fax (370 2) 262808



INTERNATIONAL RELATIONS

International activities of ŪKIO BANKAS were developed in several directions. The Bank conducted intensive search for financial resources. It also made all the necessary steps for introduction of **Euro**, the currency of the European Union, so that customers may have every possibility to make use of all traditional banking products in this new currency immediately after introduction of Euro. Efforts were made to make the most efficient use of the already existing contacts with banks and financial institutions, and to look for new contacts as well.

At present ŪKIO BANKAS has its correspondent accounts at 50 banks, and maintains contacts with more than 150 banking institutions all over the world.

THE MAIN CORESPONDENT BANKS

COUNTRY	BANK	SWIFT CODE
Austria	Creditanstalt AG	CABVATWW
Belgium	Generale Bank	GEBABEBB
Belarus	Priorbank JS CB	PJCBBY2X
Czechia	Československa Obchodni Banka A. S.	CEKOCZPP
Denmark	Den Danske Bank A/S	DABADKKK
	Unibank A/S	UNIBDKKK
UK	Barclays Bank PLC	BARCGB22
Estonia	Hansabank Ltd.	HABAE2X
Spain	Citibank N.A.	CITIESMX
Italy	Banca Commerciale Italiana SpA	BCITITMM
Japan	The Bank of Tokyo-Mitsubishi Ltd.	BOTK JPJT
USA	Bankers Trust Company	BKTRUS33
	Citibank N.A.	CITIUS33
	Republic National Bank of New York	BLICUS33
	Canadian Imperial Bank of Commerce	CIBCCATT
Canada	Canadian Imperial Bank of Commerce	CIBCCATT
Kazakhstan	Kazkommertsbank	KZKOKZKX
Latvia	Trust Commercial Bank J.S.	KBRBLV2X
Poland	Kredyt Bank PBI S.A.	KRDBPLPW
Lithuania	Vilniaus Bankas	CBVILT2X
Norway	Den Norske Bank A.S.	DNBANOKK
The Netherlands	ABN AMRO Bank	ABNANL2A
France	Banque Nationale de Paris	BNPAFRPP
Russia	CB „Bank Austria Creditanstalt (Russia)” LLC	BKAURUMM
	Alfa-Bank	ALFARUMM
	Sberbank (Kaliningrad)	-
Finland	Merita Bank PLC	MRITFIHH
Sweden	Swedbank	SWEDSESS
Switzerland	Union Bank of Switzerland	UBSWCHZH
Ukraine	Privatbank CB	PBANUA2X
Hungary	Budapest Bank Ltd.	BUDAHUBB
Germany	Commerzbank AG	COBADEFF
	Dresdner Bank AG	DRESDEFF
	DG Bank	GENODEFF
	Deutsche Bank AG	DEUTDEFF
	Vereins- und Westbank AG	VUWBDEHH

FINANCIAL STATEMENTS FOR THE YEAR 1998



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of AB Ūkio Bankas:

We have audited the annual financial statements of AB Ūkio Bankas (the Bank) and the consolidated financial statements of Ūkio Bankas Group (the Group) as of 31 December 1998 and year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank for the year ended 31 December 1997 were audited by other auditors whose report dated 4 March 1998, included an explanatory paragraph regarding uncertainty over the banks ability to continue as a going concern.

We conducted our audit in accordance with International Standards on Auditing. 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.

In our opinion the consolidated financial statements for Ūkio Bankas Group referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 1998, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

In our opinion the consolidated financial statements for AB Ūkio Bankas referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 1998, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche
Vilnius, Lithuania
29 January 1999

AB ŪKIO BANKAS CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 1998 AND 1997

ASSETS

	Notes	1998 LTL'000 Group	1998 LTL'000 Bank	1998 LTL'000 Group
Cash		10,382	10,382	11,792
Due from Bank of Lithuania	2	12,923	12,923	30,643
Due from other banks, net	3	22,131	25,087	23,491
Loans and advances to customers, net	4	76,589	76,589	84,596
Investments	5	10,873	11,863	8,686
Other assets, net	6	51,460	47,682	29,169
Fixed assets, net	7	22,333	22,238	22,059
Total assets		206,691	206,764	210,436

LIABILITIES

Due to Bank of Lithuania	8	5,965	5,965	5,582
Due to other banks	9	4,430	4,490	14,105
Current and term deposit accounts	10	154,227	154,227	156,912
Other liabilities		4,772	4,785	6,426
Total liabilities		169,394	169,467	183,025

SHAREHOLDERS' INVESTMENT

Share capital	11	60,000	60,000	60,000
Share premium		-	-	18,747
Revaluation reserve		-	-	(4,427)
Accumulated deficit		(22,703)	(22,703)	(46,909)
Total shareholders' investment		37,297	37,297	27,411
Total liabilities and shareholders' investment		206,691	206,764	210,436

AB ŪKIO BANKAS CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

Interest income	12	13,825	13,592	13,284
Interest expense	13	(8,975)	(8,979)	(11,246)
NET INTEREST INCOME		4,850	4,613	2,038
Fees and commission income, net	14	4,907	4,909	5,596
Foreign exchange profit, net		4,593	4,600	5,549
Loss from investment activities, net	15	(214)	(214)	(17)
Other operating income		2,886	2,904	554
TOTAL INCOME		17,022	16,812	13,720
Reversal of provisions (provisions) for losses	16	6,174	6,174	(18,892)
NET INCOME (LOSS) AFTER PROVISION		23,196	22,986	(5,172)
Salaries and related social expenses	17	10,148	9,986	9,431
Depreciation expense	7	1,952	1,945	1,929
Other administrative expenses	18	8,637	8,596	8,306
Restructuring charge	19	(3,000)	(3,000)	3,000
		17,737	17,527	22,666
PROFIT (LOSS) BEFORE TAXATION		5,459	5,459	(27,838)
Taxation	20	-	-	-
NET PROFIT (LOSS)		5,459	5,459	(27,838)
Income (loss) per share (in LTL)		1.1	1.1	(7.7)
Weighted Average Number of Common Shares Outstanding		5,000,000	5,000,000	3,625,000

AB ŪKIO BANKAS CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

1 January 1997	42,000	1,110	(2,577)	(19,071)	21,462
Issuance of 1.5 million shares	18,000	17,637	-	-	35,637
Revaluation of fixed assets	-	-	(1,850)	-	(1,850)
Net loss	-	-	-	(27,838)	(27,838)
December 1997	60,000	18,747	(4,427)	(46,909)	27,411
Share premium allocation	-	(18,747)	-	18,747	-
Revaluation of fixed assets	-	-	4,427	-	4,427
Net profit	-	-	-	5,459	5,459
31 December 1998	60,000	-	-	(22,703)	37,297

AB ŪKIO BANKAS CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

CASH FLOW FROM OPERATING ACTIVITIES

Interest received	16,665	14,721
Interest paid	(9,377)	(10,672)
Repayment of loans previously written-off	271	49
Net receipts from operations with foreign currency	(111)	5,161
Net receipts from operations with securities	279	2
Net receipts for services and commission	4,523	5,982
Cash payments of salaries and associated payments	(10,148)	(9,431)
Other payments	(24,338)	(12,829)
Net cash used in operating activities before change in operating assets	(22,236)	(7,017)
Changes in operating assets and liabilities:		
Due from Bank of Lithuania	17,720	(11,238)
Loans and advances to customers	30,466	806
Net sale (purchase) of investments	3,264	(3,811)
Other assets	(13,446)	(14,547)
Due to Bank of Lithuania	383	(789)
Due to other banks	(9,675)	(5,831)
Current and term deposits	(2,685)	11,728
Other liabilities	(1,654)	2,048
Net cash provided by (used in) operating activities	2,137	(28,651)

CASH FLOW FROM INVESTING ACTIVITIES

Additions of fixed assets, net of disposals	2,603	(1,921)
Investments in non-trading securities	(2,059)	(1,025)
Investment in associate and subsidiary	(5,451)	(400)
Net cash used in investing activities	(4,907)	(3,346)

CASH FLOW FROM FINANCING ACTIVITIES

Issuance of shares	-	35,637
Net cash provided by financing activities	-	35,637
Net (decrease) increase in cash and cash equivalents	(2,719)	3,640
Cash and cash equivalents at the beginning of year	35,283	31,643
Cash and cash equivalents at the end of year	32,513	35,283
Cash and cash equivalents consist of:		
Cash on hand	10,382	11,792
Demand deposits from other banks due within 3 month	22,131	23,491

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

1. Accounting policies

GENERAL INFORMATION

The Bank was established in June 1989 as Commercial Industry Bank. The Bank's main office is located in Kaunas and the Bank has 17 branches in Lithuania. The Bank accepts deposits from the public and makes loans, provides trade finance, transfer payments and exchanges currencies for its clients.

The significant accounting policies adopted by AB Ūkio Bankas and consolidated subsidiary (the Group) are set out below.

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis of accounting, in accordance with International Accounting Standards (IAS) and general practices within the banking industry. The following summarises the more significant of these policies.

The accompanying financial statements are presented in the national currency of Lithuania, the Litas (LTL).

PRINCIPLES OF CONSOLIDATION

At 31 December 1998 the consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary UAB Ūkio Banko Lizingas. At 31 December 1997 the financial statements include only the accounts of the Bank. In the opinion of the management, the impact of not consolidating the subsidiary financial statements is not material (see Note 5). All intercompany accounts and transactions have been eliminated.

INTEREST, FEES AND COMMISSIONS

Interest income is recognised on the accrual basis. Loans are considered to be non-performing if they are in arrears on payment of either principal or interest for a period greater than 90 days. For such loans and the associated interest receivable, provisions are established for possible losses and no further interest is accrued.

Commissions, fees and other income are credited to income when earned.

Interest expense is recognised when incurred.

Commission, fees and other expenses are debited to expense when incurred.

FOREIGN CURRENCIES

Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities, including outstanding commitments to deliver or acquire foreign currencies under spot exchange transactions, if any, are translated at the rate of exchange on the balance sheet date.

The applicable rates used for the principal currencies at year-end were as follows:

	1998	1997
USD	4.0000	4.00 00
DEM	2.3951	2.2338
NLG	2.1253	1.9825
GBP	6.6968	6.6660

All resulting gains and losses relating to cash are recorded in the profit and loss account in the period in which they arose. Gains and losses on translation are credited or charged at the prevailing foreign exchange rate at period-end.

PROVISION FOR LOAN LOSSES

Loans represent the unpaid principal balance of loans less provisions for loan losses.

The Bank provides commercial and consumer loans to customers throughout its market area. The economic condition of the market area may have an impact on the borrowers' ability to repay their loans. Management has considered risk in determining the balance of provisions and possible loan losses.

Provisions for loan losses at the balance sheet date are established in accordance with IAS and represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provision.

The level of the provision is based on estimates considering known relevant factors affecting loan collectability and collateral values. Ultimate losses will vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known. Due to an inherent lack of reliable information about the customers' financial position, the estimate of probable losses is uncertain. Nevertheless, management has made their best estimates of potential losses and believe those loss estimates presented in the financial statements are reasonable in light of available information.

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

EARNINGS PER SHARE

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 1998 and 1997 was 5,000,000 and 3,625,000 shares respectively. Group had no dilutive options outstanding during 1998 and 1997 and at 31 December 1998 and 1997. There was no impact on the Group's financial condition or results of operation due to the adoption of IAS 33.

FORECLOSED ASSETS HELD FOR RESALE

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

INVESTMENTS

Investments consist of trading and investment securities and investments in associated company.

Trading securities are comprised of current investments in debt and equity securities that are acquired with the intention of reselling them in the short term or for which management intends to hold for less than one year. Trading securities are stated at lower of cost or market value.

Investment securities are comprised of long-term investments in debt and equity securities intended to be held for a number of years to generate income and capital gain. Investment securities are recorded at cost unless a decline in value is deemed to be permanent.

Investment in associate, in which the Bank does not exercise control, is accounted for under the equity method.

FIXED ASSETS

Fixed assets are stated at historical cost or related amounts, less accumulated depreciation and amortization. Depreciation is provided in equal monthly instalments except for the month placed in service over the expected useful lives as follows:

Buildings	60 years
Vehicles	5 years
Furniture, fixtures and equipment	2 to 36 years
Computer hardware	3 to 6 years
Software	1 year

The above expected useful lives are set in accordance with Lithuanian tax rules, which approximate their useful lives.

All assets in excess of LTL 100 are capitalised. Gains and losses on disposal of fixed assets are recognised in the profit and loss account in the year of disposal.

FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the normal course of business, the Bank enters into financial instruments with off balance sheet risk, which include foreign exchange contracts and issued guarantees. These financial instruments involve, to varying degrees, elements of credit, interest rate and currency risk. Provisions are made for estimated losses, if any, on such off balance sheet items.

REGULATORY REQUIREMENTS

The Bank is subject to the regulatory requirements of the Bank of Lithuania. These requirements include capital adequacy, liquidity, foreign currency position and loan concentration for individual loan customers.

TAXATION

The Bank has reported a tax loss in prior fiscal periods. Lithuanian tax legislation allows the carry forward of tax losses arising in prior fiscal periods to reduce tax expense in future periods for a maximum of five years. Accordingly, no corporate tax charge has been provided for in the profit and loss statement for the years ended 31 December 1998 and 1997.

Deferred taxes arise from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The Bank has not recognised the deferred income tax benefit from costs that have been recognised for financial reporting purposes in advance of their deductibility for income tax purposes (principally the provision for loan losses and net operating loss carry forwards) due to uncertainty over whether these assets will be realised.

CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flow, highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. Obligatory reserves held at the Bank of Lithuania are not considered to be cash equivalents.

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

USE OF ESTIMATES

The preparation of financial statements in accordance with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain 1997 balances have been reclassified to conform to the current period presentation.

2. Due from Bank of Lithuania

Due from Bank of Lithuania are composed as follows:

	1998 LTL'000	1997 LTL'000
Obligatory reserve	11,491	10,607
Other deposits	1,432	20,036
Total	12,923	30,643

In accordance with Bank of Lithuania regulations, the Bank maintains 10% (calculated monthly) of the average monthly balance of:

- resident and non-resident Litās liabilities
- resident and non-resident convertible currency and time deposits

These funds must be held at the Bank of Lithuania and are not available for general use by the Bank. The Bank was in compliance with this regulation as of 31 December 1998 and 1997.

Credits received from other Lithuanian banks are excluded from the calculation base.

3. Due from other banks, net

Due from other banks is comprised as follows:

	1998 LTL'000	1997 LTL'000
Due from Lithuanian banks	11,918	3,023
Due from foreign banks	10,264	20,468
Total	22,182	23,491
Less: Provision for losses	(51)	-
Total, net	22,131	23,491

4. Loans and advances to customers, net

Loans and advances to customers, by maturity, are composed as follows:

	1998 LTL'000	1997 LTL'000
Due within one year	54,200	69,983
Due after one year	41,493	56,176
Total loans and advances to customers	95,693	126,159
Provision for loan losses, net	(19,104)	(41,563)
Net loans and advances to customers	76,589	84,596

Loans and advances to customers, by industry, are composed as follows:

	1998 LTL'000	1997 LTL'000
Wholesale and retail trade	38,718	60,483
Manufacturing	35,053	38,760
Transportation	4,834	8,743
Hotel and restaurant	1,328	1,574
Agriculture	1,243	1,656
Construction	1,223	576
Real Estate	452	1,004
Other (including individuals)	12,842	13,363
Total loans and advances to customers	95,693	126,159

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

5. Investments

Investments are composed as follows:

	1998 LTL'000	1997 LTL'000
Trading:		
Lithuanian government bonds	2,261	7,184
Equity shares:		
Dirbtinis pluostas	3,052	-
Hermis Bank	-	500
Vilniaus Vingis AB	-	492
Vilniaus Bank	82	15
Other	-	54
Sub-total	3,134	1,061
Investment securities:		
Equity shares:		
Kredito korteliu centras	-	14
NVPB	15	15
SWIFT	5	5
UAB Siauliu skrydis	7	7
Sub-total	27	41
Investments in subsidiaries:		
UAB Ūkio Banko Lizingas	-	400
Investments in associates		
UAB Ūkio Banko Investicine Grupe	5,451	-
Total	10,873	8,686

Lithuanian government bonds (treasury bills) have maturities ranging up to one year with an average interest rate of approximately 6% to 13%.

Trading securities include shares of Lithuanian companies that are actively traded on the Lithuanian Stock Exchange or for which management is actively seeking buyers and intends to hold for less than 1 year.

The Banks has a strategic investment in to SWIFT and the National Stock Exchange of Lithuania.

The Bank has a 100% investment in UAB Ūkio Banko Lizingas. The subsidiary commenced its operations in September 1997. At 31 December 1997 the Bank accounted for this investment under the Equity Method. In the opinion of the management, the impact of not consolidating the subsidiary in the financial statements is not material. For the year ended 31 December 1998 this subsidiary has been consolidated.

The Bank has a 49.5% interest in an associate, UAB Ūkio Banko Investicine Grupe. The investment is accounted for under the equity method.

According to Bank of Lithuania regulations the Bank's investment portfolio should not exceed 10% of the shareholders' investment. As of 31 December 1998 the Bank was in compliance with this requirement.

6. Other assets, net

Other assets are composed as follows:

	1998 LTL'000	1997 LTL'000
Foreclosed assets held for resale, net	29,803	17,806
Accrued interest income, net	339	1,110
Deferred expenses	403	922
UAB Ūkio Banko Lizingas lease receivables	3,466	-
Other assets, net	17,449	9,331
Total	51,460	29,169

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

Foreclosed assets held for resale consist of the following:

	1998 LTL'000	1997 LTL'000
Premises	24,561	21,824
Constructions	5,659	5,572
Securities	2	-
Houses and apartments	610	309
Materials	47	51
Equipment	1,515	15
Vehicles	-	5
	32,394	27,776
Less: provisions for losses	(2,591)	(9,970)
Total	29,803	17,806

Other assets consist of the following:

	1998 LTL'000	1997 LTL'000
Receivables from clients for guarantees paid	55	1,881
Other receivables	17,472	8,997
	17,527	10,878
Less: Provision for losses	(78)	(1,547)
Total	17,449	9,331

7. Fixed assets, net

Fixed assets are composed as follows:

LTL'000	Buildings	Office equipment	Vehicles	Unfinished construction	Intangible assets	Total
Historical cost						
31 December 1996	18,703	7,212	1,448	333	248	27,944
Additions	232	1,393	291	34	117	2,067
Disposals and transfers	-	(91)	(322)	(32)	-	(445)
Revaluation	-	(425)	-	-	-	(425)
Value adjustment	(1,427)	-	-	-	-	(1,427)
31 December 1997	17,508	8,089	1,417	335	365	27,714
Additions	217	953	338	-	18	1,526
Revaluation	4,427	-	-	-	-	4,427
Disposals and transfers	(3,565)	(514)	-	-	(50)	(4,129)
31 December 1998	18,587	8,528	1,755	335	333	29,538
Accumulated depreciation						
31 December 1996	495	2,639	649	-	244	4,027
Charge for period	316	1,305	267	-	39	1,927
Disposals	-	(70)	(229)	-	-	(299)
31 December 1997	811	3,874	687	-	283	5,655
Charge for period	306	1,283	277	-	86	1,952
Disposals	(18)	(334)	-	-	(50)	(402)
31 December 1998	1,099	4,823	964	-	319	7,205
Net book value						
31 December 1997	16,697	4,215	730	335	82	22,059
31 December 1998	17,488	3,705	791	335	14	22,333

The assets stated above are held for the Group's own use.

8. Due to Bank of Lithuania

Due to Bank of Lithuania represent long-term loans in DEM and EURO. As of 31 December 1998 loans denominated in DEM account for LTL'000 3,616 (1997: 3,373) and mature in 2005 with annual interest rate of 6% and the loan in EURO accounts for LTL'000 2,349 (1997: 2,209) and matures in 2000 with annual interest rate of 7.62%

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

9. Due to other banks

Due to other banks is composed as follows:

	1998 LTL'000	1997 LTL'000
Due to Lithuanian banks	12	2,003
Due to foreign banks	4,418	12,102
Total	4,430	14,105

10. Current and term deposit accounts

Current and term deposit accounts are composed as follows:

	1998 LTL'000	1997 LTL'000
Current accounts		
National authorities	15	96
Local authorities	1,339	836
State enterprises	1,424	1,527
Private companies	39,306	49,799
Individuals	5,632	5,325
Non-profit organisations	1,171	719
Total current accounts	48,887	58,302
Term deposit accounts		
National authorities	34,818	34,651
State enterprises	610	290
Private companies	7,990	5,576
Individuals	61,111	57,793
Non-profit organisations	811	300
Total term deposit accounts	105,340	98,610
Total current and term deposit accounts	154,227	156,912
The maturity of current and term deposits is as follows:		
Current accounts due on demand	49,394	58,302
Term deposits:		
Due within 3 months	40,887	41,449
Due within 3 to 6 months	19,939	18,386
Due within 6 months to one year	8,801	4,123
More than one year	35,206	34,652
Total current and term deposit accounts	154,227	156,912

For the period ended 31 December 1998, the average interest rate on term deposits in Litas was 8.66% and in foreign currency 5.44%. The average interest rate for demand deposits in Litas was 1.53% and in foreign currency 0.73%. Typically, term deposits are renewed at maturity.

11. Share capital

Issued share capital as of 31 December 1998 and 31 December 1997 consisted of 5 million ordinary shares with a par value of LTL 12 each. All shares are outstanding and fully paid.

In December 1997, the Bank issued an additional 1.5 million shares for a total increase in share capital of Litas 18 million. The transaction was officially registered on 18 December 1997.

12. Interest income

Interest income is composed as follows:

	1998 LTL'000	1997 LTL'000
Placements with other banks	456	1,047
Loans and advances to customers	12,548	11,559
Debt securities	348	678
Leasing interest income	473	-
Total	13,825	13,284

For the periods ended 31 December 1998 and 1997, the average interest rates were approximately 13% and 16% for short-term lending, and 11% and 13% for long-term loans.

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

13. Interest expense

Interest expense is composed as follows:

	1998 LTL'000	1997 LTL'000
Bank of Lithuania	360	380
Current and term deposit accounts	4,685	6,233
Deposits from other banks	3,930	4,633
Total	8,975	11,246

14. Fees and commission income, net

Fees and commission income, net, is composed as follows:

	1998 LTL'000	1997 LTL'000
Fees and commission income	5,979	6,453
Fees and commission expense	(1,072)	(857)
Total	4,907	5,596

15. Loss from investment activities, net

Income (loss) from investment activities is composed as follows:

	1998 LTL'000	1997 LTL'000
Gain on sales of securities	275	2
Unrealized gain (loss) of securities	(493)	(19)
Income from securities	4	-
Total	(214)	(17)

16. Provisions

Activity in the provision for loan losses, foreclosed assets, other assets and due from other banks for the years ended 31 December 1998 and 1997, is as follows:

	Loan loss provision LTL'000	Foreclosed, other assets, guarantees and due from other banks LTL'000	Total LTL'000
Balance as of 31 December 1996	41,623	2,414	44,037
Reversal of provisions	(6,804)	(264)	(7,068)
Reclassification of provisions	(4,671)	4,671	-
Write off of loans fully provided for	(9,628)	-	(9,628)
Provision charged	21,043	4,917	25,960
Balance as of 31 December 1997	41,563	11,738	53,301
Reversal of provisions	(20,035)	(12,671)	(32,706)
Write off of loans fully provided for	(23,856)	(1,473)	(25,329)
Exchange rate and other adjustments	-	250	250
Provision charged	21,432	5,100	26,532
Balance as of 31 December 1998	19,104	2,944	22,048

17. Salary and related social expenses

Salaries and related social expenses include compensation of employees and related social security and other benefits. Salaries and related social expenses for the years ended 31 December 1998 and 1997 were LTL'000 10,148 and 9,431, respectively. At the years ended 31 December 1998 and 1997, the Group employed 399 and 459 personnel, respectively.

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

18. Other administrative expenses

Other administrative expenses are composed as follows:

	1998 LTL'000	1997 LTL'000
Transport, post and communications	1,311	1,096
Housing and other costs related to premises	1,436	1,121
Payments for services	866	1,199
Advertising	477	475
Training and travelling	201	188
Minor constructions, maintenance and other	4,346	4,227
Total	8,637	8,306

19. Restructuring charges

In 1997, the Bank initiated an organizational review of the Bank's business activities and management structure and approved a plan to improve efficiency, reduce operating costs and restore the Bank's asset and depositor base. As a result of this review, the Bank recorded restructuring provision related to expected severance charges, social costs, and other estimated liabilities. During the period ended 30 September 1998, based on costs incurred to date and changes in management's reorganization plan, management has determined that these specific provisions are no longer required and accordingly, management has reversed these provisions.

20. Taxation

Since 1997, more than USD 2 million of the share capital of the Bank has been owned by foreign shareholders. Pursuant to the provision of then existing corporate profit tax legislation, the Bank became eligible for a three year relief from profit tax payments followed by a three year 50% reduction in profit tax payments. Accordingly, no tax liability has been recognised.

21. Contingencies and commitments

Contingencies and commitments are as follows:

	1998 LTL'000	1997 LTL'000
Foreign exchange contracts	27,267	5,379
Issued guarantees	4,217	5,203
Letters of credit	1,404	3,434
Bills of exchange	-	97
Credit commitments	322	-
Other commitments	9,877	-
Total	43,087	14,113

Finance leases - The Group has outstanding finance lease obligations of approximately LTL'000 98 in connection with lease agreements to acquire vehicles. The net book value of fixed assets under finance lease obligations at 31 December 1998 is approximately LTL'000 122. The minimum lease payment obligations are included in lease liabilities. Included in depreciation expense are charges related to finance leases.

Operating leases - The Group has outstanding commitments of LTL'000 1,410 in connection with the rental of premises.

At 31 December 1998 the future annual minimum commitments under financial leases of fixed assets are as follows:

Year Ending December 31,	Financial Lease LTL'000	Operating Leases LTL'000
1999	60	482
2000	38	279
2001	-	260
2002	-	208
2003	-	134
Thereafter	-	47
Minimum lease payments	98	1,410
Less amount representing interest	(11)	
Present value of minimum lease payments	87	

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

It is expected that in the normal course of business, expiring leases will be renewed or replaced by leases on other fixed assets.

Litigation and claims - The Group was not involved in any legal proceedings as of 31 December 1998 and 1997 except for those related to loan loss recovery.

22. Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of International Accounting Standard 32, Financial Instruments: Disclosure and Presentation. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The fair value estimates presented herein are based on pertinent information available to the Group as of 31 December 1998 and 1997. Although the Group is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The carrying amount and the estimated fair value of the financial instruments for the years ended 31 December 1998 and 31 December 1997 are as follows:

	1998		1997	
	Carrying Amount LTL'000	Estimated Fair Value LTL'000	Carrying Amount LTL'000	Estimated Fair Value LTL'000
Financial Assets:				
Cash and cash equivalents	10,382	10,382	11,792	11,792
Due from Bank of Lithuania	12,923	12,923	30,643	30,643
Due from other banks	22,131	22,131	23,491	23,491
Loans receivables, net	76,589	75,412	84,596	86,796
Government bonds	2,261	2,261	7,184	7,184
Trading equity shares	3,134	3,134	1,061	1,061
Long term investments	5,478	5,478	441	441
Accrued interest income, net	339	339	1,110	1,110
Financial Liabilities:				
Due to Bank of Lithuania	5,965	5,965	5,582	5,582
Due to other banks	4,430	4,430	14,105	14,105
Current and term deposit accounts	154,227	155,409	156,912	159,912
Accrued interest expense	20	20	103	103
Off-balancesheet instruments:				
Foreign exchange contracts:				
Options	4,000	4,000	5,379	5,379
Forwards	22,000	22,000	-	-
Currency purchase	1,267	1,267	-	-
Currency sale	1,270	1,270	-	-
Issued guaranties	4,209	2,461	5,203	5,203
Letters of credit	1,726	1,024	3,434	3,434
Bills of exchange	8	8	97	97
Shares purchase commitments	9,877	9,877	-	-

The methods and assumptions used in estimating the fair value of financial instruments are as follows:

Financial Instruments with book value equal to fair value. The fair value of financial instruments that are short-term or re-priced frequently and have a history of negligible credit losses is considered to approximate their carrying value. Those instruments include balances recorded in the following captions:

Assets	Liabilities
Cash and cash equivalents	Current deposits
Short-term receivables	Accounts payable and other short-term liabilities
Prepayments	Short-term debt
Long-term investments	

AB ŪKIO BANKAS NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1998 AND 1997

Loans Receivable. The fair value of loans is estimated by discounting the expected future cash flows using the current market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Investments. The fair value of investments are based on quoted market prices if available, or on quoted market price for similar investments.

Time Deposits. The fair value of term deposits is estimated by discounting expected future cash flows using the current market rates of deposits with similar characteristics and remaining maturities.

Foreign Exchange Contracts, Options, Futures, Interest rate Swaps. The fair value of these instruments is based on quoted market prices or dealer quotes.

Guarantees, letters of credit. The fair value of guarantees and letters of credit is based on the estimated cost to terminate them or otherwise settle the obligations with counterparties at the reporting date.

23. Related party transactions

Related parties are defined as shareholders, members of the council, members of the management board, their close relatives and companies in which they have a controlling interest.

	Amount LTL'000	Interest %
Deposits of related parties:		
Current accounts of management and directors	5	1%
Current accounts of shareholders	240	1%
Total deposits of related parties	245	
Lending to related parties:		
Loans to management and directors	885	1-15%
Total lending to related parties	885	

In the opinion of management, all transactions entered into between the Bank and such related parties have been made on the same terms and conditions as similar transactions with unaffiliated persons

24. Foreign exchange exposure

The analysis of foreign denominated assets and liabilities as of 31 December 1998 according to the currencies in which they are denominated is as follows:

	Exchange rate	Assets LTL'000	Liabilities LTL'000	Off balance-sheet instruments LTL'000	Net exposure LTL'000	% of Regulatory Capital
USD	4.0000	61,115	91,393	26,922	(3,355)	9.00%
DEM	2.3951	14,378	11,407	2,601	370	0.99%
DKK	0.6289	187	19	-	167	0.45%
Other	various	6,029	5,977	73	125	0.34%
Total		81,709	108,796	29,596	 4,017 	 10.78

Bank of Lithuania regulations require the Bank to maintain its aggregate open position in foreign currencies at less than 30% of bank capital, and its single currency open position at less than 20% of bank capital. As of 31 December 1998, the Bank's actual ratios were 11.13% - aggregate open position and 10.47% - single currency open position.

25. Capital adequacy and regulatory matters

The Bank of Lithuania requires banks to maintain a capital adequacy ratio of 10.00% based on specific capital adequacy calculations. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by the regulators that if undertaking could have a direct material effect on the Bank's financial statements. As of 31 December 1998, the Bank's actual ratio was 19.13%.

Additionally, under the guidelines set forth by the Basle Agreement, the Bank's capital adequacy as of 31 December 1998 is as follows; Tier I Capital to Risk Weighted Assets 19.50%; Total Capital to Risk Weighted Assets 19.46% and Total Capital to Total Assets 18.04%.

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26. Liquidity risk and interest rate risk

The table below provides an analysis of assets and liabilities into relevant maturity rankings based on the remaining period from the balance sheet date to the contractual maturity date. Those assets and liabilities that do not have a contracted maturity date are Banked together in the „greater than 5 years” category. The remaining period to maturity of assets and liabilities at 30 September 1998 was as follows:

Assets	Within 1 year LTL'000	1 - 5 years LTL'000	Greater than 5 years LTL'000	Total LTL'000
Cash	10,382	-	-	10,382
Due from Bank of Lithuania	12,923	-	-	12,923
Due from other banks	22,131	-	-	22,131
Loans and advances to customers, net	49,014	20,765	6,810	76,589
Investments	5,397	-	5,476	10,873
Other assets, net	152	-	51,308	51,460
Fixed assets, net	-	-	22,333	22,333
Total assets	99,999	20,765	85,927	206,691
Liabilities and shareholders' investment				
Due to Bank of Lithuania	-	5,965	-	5,965
Due to other banks	2,839	1,591	-	4,430
Current and term deposit accounts	119,021	35,206	-	154,227
Other liabilities	1,500	3	3,269	4,772
Shareholders' investment	-	-	37,297	37,297
Total liabilities and shareholders' investment	123,360	42,765	40,566	206,691
Off-balance sheet liabilities	3,568	2,367	9,877	15,812
Total liabilities, shareholders' investment and off-balance sheet liabilities	126,928	45,132	50,443	222,503
Liquidity risk and interest rate risk	(26,929)	(24,367)	35,484	(15,812)

The Bank of Lithuania requires banks to maintain a liquidity ratio not less than 30.00% based on specific liquidity calculations. As of 31 December 1998, the Bank's actual ratio was 53.44%.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. Due to the nature of the Lithuanian banking system, the interval at which interest is re-priced to market is the same as the contractual maturity date of most financial instruments, as provided in the above relevant maturity rankings.

27. Uncertainties

Year 2000. The Group heavily relies on automated processing of financial data. Considering the effect the year 2000 issue might have on the successful operations of the Group, the Group has developed a Year 2000 Plan and has assigned individuals with the responsibility to assess the Group's exposure to these problems and correct them.

During 1998 the Group has completed 50 - 75 % of the Plan and anticipates completion by 1 November 1999. Although the sufficiency of these actions can not be predicted with absolute certainty, management is of the opinion that these measures will sufficiently enable the Group to continue operations.

Crisis in CIS. The CIS is experiencing serious economic instability as a result of an unbudgeted fiscal deficit, high levels of government interest rate, debt and default, low rates of tax collection, lack of liquidity on the part of the CIS to obtain sufficient funds to remedy the situation has caused a significant devaluation of the currency, increased instability of the banking system and other serious economic and political consequences. The return to economic stability and the effect on the region is dependent to a large extent on the efficiency of the fiscal measures taken by the CIS governments and other actions beyond the Group's control. All these matters present a pervasive uncertainty as to their ultimate effect on the accompanying financial statements, financial condition and future operations of the Group.

The management of the Group has made its best estimate on recoverability and classification of recorded assets and liabilities. While management of the Group believes that adjusted amounts represent their net realizable value and that any further deterioration in the economy or political stability of these countries will not have a material effect on the operations of the Group, the recoverability of Group's assets exposed to CIS countries can not be predicted with absolute certainty and the future operations of the Group may continue to be affected by these economic difficulties of CIS economies.