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ANNUAL 
REPORT
2000

ANNUAL REPORT 2000





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REPORT

CHAIRMAN'S REPORT

THE YEAR 2000
WAS THE PERIOD OF THE
IMPLEMENTATION OF THE
SCHEDULED PROJECTS
FOR THE BANK

The year 2000 for *Ūkio bankas* was the period of the implementation of the scheduled projects. In all three policies of the strategic activity of the Bank - corporate banking, investment activity and retail banking - substantial results were achieved.

The number of the business clients of the Bank increased, as well as the scale of the services rendered to them. Traditional banking services were developed further, new attractive products were offered.

One of the most important successfully implemented projects in the field of corporate banking was the introduced Internet banking service *Eta bankas*. *Ūkio bankas* Internet banking strategy, focused on B2B system, enabled the Bank to offer a new possibility in Lithuanian market, when in the e-commerce the Bank acts as intermediary between a wholesaler and a retailer.

Moreover, the Bank became a full member of organizations *Europay International S.A.* and *MasterCard International Incorporated*. We can now offer international payment cards *Eurocard/MasterCard* and *Maestro* to our clients.

The clients were also offered the package of life insurance services rendered by the life insurance company *Bonum Publicum*, established by the Bank. The activity of the leasing company *Ūkio banko lizingas* and investment company *Ūkio banko investicinė grupė*, established by the Bank also increased. At the end of the year, in order to implement the projects of the energetic economy modernization of the country's regions the specialised leasing company *Energetinių sistemų lizingas* commenced its activity. The Bank acts as its financial partner.

Successful development of investment banking and a favorable market situation encouraged *Ūkio bankas* to consolidate its positions in a promising Balkan region. In summer 2000, *Balkan Investment Bank A.D.*, established by *Ūkio bankas* in Banja Luka, the capital of the Republic of Srpska, Bosnia and Herzegovina, began servicing of clients. This bank is licensed to perform all banking transactions and is directed towards an active participation in the capital markets of the region. *Balkan Investment Bank A.D.* is the first Lithuanian capital bank abroad and the first bank of foreign capital in the Republic of Srpska, which is a part of Bosnia and Herzegovina.

In the year 2000, the management of the Bank was improved, the efforts were exerted to make the Bank more competitive and dynamic, restructuring of the branches was further carried out aimed at concentrating business in strategic branches.

In July 2000, the international bank rating agency *Thomson Financial BankWatch* estimated the work of *Ūkio bankas* and assigned to it the senior debt rating of BB-.



The effectiveness of Bank activities is reflected by financial results. LTL 4.004 million of audited net profit were earned in 2000. The assets increased by 44 percent during the year and for 2.5 times exceeded the rate of the assets increase of the country's banking system. The net value of the loan portfolio of the Bank increased by 26.2 percent, while the net value of the loans granted by the whole banking sector augmented only by 3.7 percent. The amount of deposits held with the Bank increased by quarter compared to 1999. Such increase exceeded the average rate of the whole banking sector in 2000, which reached 23.9 percent. The dynamics of private deposits purports the growing confidence in *Ūkio bankas*. The increasing confidence in *Ūkio bankas* is shown by the dynamics of private deposits, which increased by 45 percent, while the average rate of the deposit growth in the market was 26.5 percent.

Presently institutional, organizational and technological prerequisites for expansion of strategic activities have been substantially developed. In 2001 the Bank intends to continue the investment and project financing activities and to expand the circle of the regular clients. In the future *Ūkio bankas* will focus on banking innovations, enhance efficiency of its activities, primarily by increasing income earning assets and a more active crediting. *Ūkio bankas* will strive for management perfection by employing such measures as Bank structure reforms, further restructuring of the Bank branches and staff management improvement.



Chairman of the Board
Liutauras Varanavičius

NOTE: On April 2, 2001 a new management of *Ūkio bankas* was approved. Liutauras Varanavičius, who had served as a Chairman of the Board, was elected the Chairman of the Council. Vyngantas Sliesoraitis was nominated the Chairman of the Board.



MANAGEMENT

COUNCIL OF THE BANK



LIUTAURAS VARANAVIČIUS

Chairman of the Council, *AB Ūkio bankas*

ULF LÖWENHAV

Deputy Chairman of the Council, *Zip Venture*

SERGEJUS FEDOTOVAS

Deputy Chairman of the Council, *AB Ūkio bankas*

VIKTORS ZIEMELIS

Member of the Council, *AB Ūkio bankas*

STEVAN BELOGRLIČ

Member of the Council, *ASN Moscow*

IN HWAN SONG

Member of the Council, *Jindo (UK) Limited*

OLGA GONČARUK

Member of the Council, *AB Holdinginė tekstilės korporacija*

ALA KURAUŠKIENĖ

Member of the Council, *AB Pramprojektas*

GRAŽINA JAKAVIČIENĖ

Member of the Council, *G. ir V. Jakavičių advokatų kontora*

NOTE: New Council of *Ūkio bankas* was approved on April 2, 2001. The Chairman of the Council was elected the former Chairman of the Board Liutauras Varanavičius.



BOARD OF THE BANK



**VYGANTAS
SLIESORAITIS**
Chairman
of the Board



**JONAS
SAULĖNAS**
Deputy Chairman
of the Board



**AUDRIUS
GLOBYS**
Deputy Chairman
of the Board



**EDITA
NAVICKAITĖ**
Deputy Chairwoman
of the Board



**GINTARAS
UGIANSKIS**
Deputy Chairman
of the Board

NOTE: New management of *Ūkio bankas* was approved on April 2, 2001. The Chairman of the Board was assigned to be Vyngantas Sliesoraitis.



■ ORGANIZATION STRUCTURE

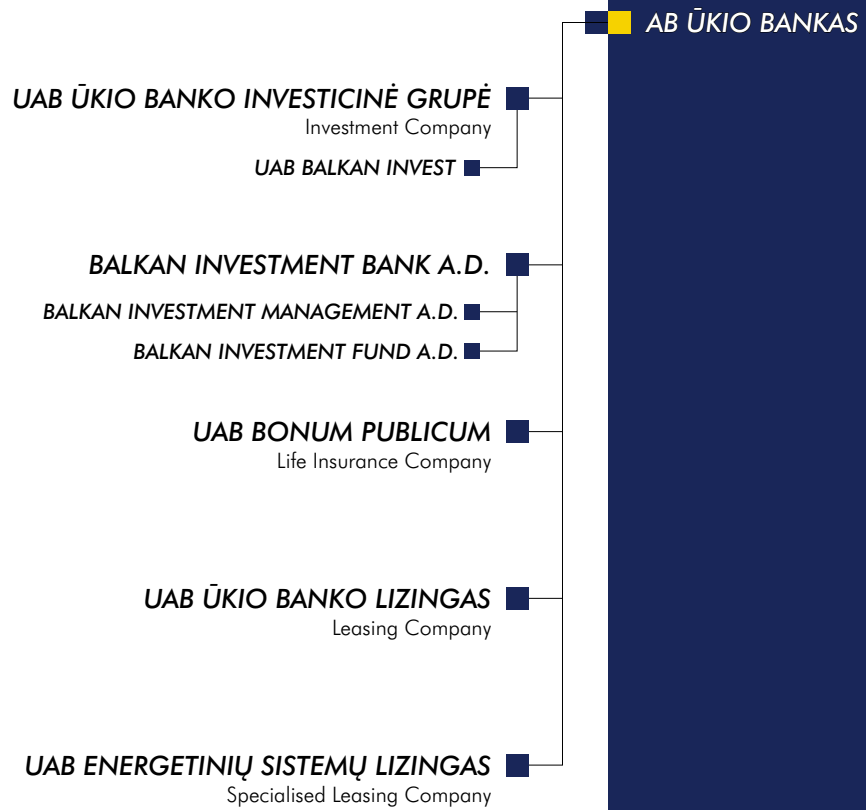
GENERAL
SHAREHOLDERS'
MEETING





GROUP

ŪKIO BANKAS GROUP





2000

■ MAJOR EVENTS OF THE YEAR

- MARCH** ■ The general meeting of shareholders approved the decision to increase the Bank's share capital by LTL 12.7 million (up to LTL 72.7 million).
- APRIL** ■ The Bank became a full member of *Europay International S.A.* and *MasterCard International Incorporated* organizations. It was conferred the right to issue international payment cards *Eurocard/MasterCard*, *Cirrus* and *Maestro* and to service these cards and Eurocheques.
- Ūkio bankas* participated in the exhibition *Business Contacts and Management'2000*, organized by Lithuanian Exhibition Center.
- MAY** ■ Bank representatives presented their report *Possibilities of the Banking System in the Baltic Countries* at the international conference *International Finance: Practical Solutions of Contemporary Business*, which took place in Budapest.
- JUNE** ■ Vilnius branch of the Bank moved to a new modern business center.
- JULY** ■ International rating agency *Thomson Financial BankWatch* assigned the following ratings to *Ūkio bankas*: local currency short term rating of LC-3, senior debt rating of BB- and intra country issuer rating of IC-C/D.
- Ūkio bankas* began to issue and distribute *Maestro* payment cards.
- Ūkio bankas* and *Ūkio banko investicinė grupė* founded the first Lithuanian capital bank abroad, *Balkan Investment Bank A.D.*, which commenced its activity in Banja Luka, the capital of the Republic of Srpska Bosnia and Herzegovina.
- The Bank began rendering the Internet banking service *Eta bankas* to its clients.
- AUGUST** ■ *Ūkio bankas* began issuing and distributing payment cards *Eurocard/MasterCard Standard*, *Business* and *Gold*.
- Ūkio bankas* and investment company *Ūkio banko investicinė grupė* founded the life insurance company *UAB Bonum Publicum*.
- SEPTEMBER** ■ One of the biggest and most promising branches of *Ūkio bankas*, Klaipėda branch, moved to new premises.
- OCTOBER** ■ *Ūkio bankas* began rendering services in WAP system.



Ūkio bankas and its partners founded the specialized leasing company *UAB Energetinių sistemų lizingas*.

■ NOVEMBER

Ūkio banko lizingas, a subsidiary company of *Ūkio bankas*, signed a cooperation contract with the company *IBM Lietuva*.

International rating agency *Fitch IBCA* affiliated the rating agency *Thomson Financial BankWatch* and harmonized short-term and long-term liability ratings determined earlier by both agencies. The *Fitch IBCA* agency evaluated long-term liabilities of *Ūkio bankas* in foreign currency by rating BB-, and short-term liabilities of the bank in foreign currency by rating B.

■ DECEMBER

A joint project of *Ūkio bankas* and one of the computer wholesale leaders in Lithuania *CHS Baltic* was commenced. It is the first e-commerce project in Lithuania when a bank becomes an intermediary between a wholesaler and a retailer by means of Internet.



SHARES

SHARE CAPITAL

IN 2000 THE CAPITAL OF THE BANK INCREASED UP TO LTL 72.7 MILLION

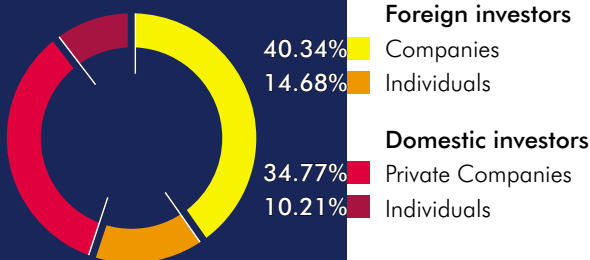
In March 2000 the general meeting of *Ūkio bankas* shareholders approved the decision to increase the share capital. After selling of LTL 12.7 million worth share emission the capital of the Bank increased from LTL 60 million up to LTL 72.7 million.

In the year 2000 important changes in the structure of the Bank shareholders took place. At the end of 1999 foreign investment funds *Citystate Investments Ltd.* and *Niaf Investments Ltd.* registered in Great Britain granted LTL 12 million worth subordinated loans to *Ūkio bankas*, which were converted to the share capital at the beginning of the year 2000.

Foreign investors own more than 50 percent of the share capital of the Bank. Domestic investors own the other part of the capital. Major shareholders collegially plan the Bank's policy and participate in its management process.

	Number of shares (pieces)	Portion in Share Capital (percent)
Bank capital, total	6,058,999	100.00
Foreign investors	3,333,565	55.02
Companies	2,444,234	40.34
Individuals	889,331	14.68
Domestic investors	2,725,434	44.98
Private Companies	2,106,883	34.77
Individuals	618,551	10.21

SHARE CAPITAL DISTRIBUTION OF ŪKIO BANKAS ACCORDING TO LEGAL STATUS AS OF DECEMBER 31, 2000



Ūkio bankas ordinary shares are traded in *National Stock Exchange of Lithuania* (NSEL). The shares are listed in the Current NSEL Trading List since June 1, 1998. The total turnover of *Ūkio bankas* shares in stock exchange amounted to LTL 6 million in 2000.



RATING

CREDIT RATING

In July 2000, the international credit rating agency Thomson Financial BankWatch evaluated the work of Ūkio bankas and assigned the following ratings to it:

- local currency short term rating of LC-3
- senior debt rating of BB-
- intracountry issuer rating of IC-C/D

Thomson Financial BankWatch reports that Ūkio bankas assets totaled USD 62.9 million and it was the fifth largest bank in Lithuania.

The agency emphasized that the indicators of Ūkio bankas activities had been improving constantly and that the accomplishment of the investment projects of the Bank should bring high income in the future. It was also noted that in the past the Bank had some problems associated with weak lending, but during the last two years the loan quality had improved greatly.

At end-2000 the international rating agency *Fitch IBCA* affiliated *Thomson Financial BankWatch* and harmonized credit ratings for 45 banks and financial enterprises of Central and Eastern Europe, including commercial banks of Lithuania. These ratings had been established earlier by both agencies. Credit ratings given earlier by *Thomson Financial BankWatch* were harmonized according to *Fitch IBCA* rating table.

Fitch IBCA agency assigned the following ratings to Ūkio bankas: senior debt rating of BB-, foreign currency short term rating of B.

THOMSON FINANCIAL
BANKWATCH AGENCY
EMPHASIZED THAT THE
INDICATORS OF ŪKIO
BANKAS ACTIVITIES
HAD BEEN IMPROVING
CONSTANTLY



MANAGEMENT

BANK MANAGEMENT

Staff training, improvement of Bank management and gradual changing of the structure in search for the optimum formed an important part of the last year's activities. The management of the Bank is focused on the implementation of the set goals: development of institutional, organizational and technological prerequisites for expansion of strategic activities was mostly completed.

HUMAN RESOURCES

The most important task of human resources management is to achieve that personnel of the required qualification works in the Bank and that the number of employees and the structure of the staff meet the requirements of the Bank. The Personnel Division makes every effort to establish conditions under which the employees could advance their qualifications and improve their skills.

At the end of the year 2000 there were 343 Bank employees, 35 of which belonged to the executive staff. The number of the employees had decreased during the year, mainly because of the reorganization of the branch network and the decision to close down the currency exchange shops of the Bank.

DISTRIBUTION OF THE BANK EMPLOYEES BY AGE



- 26% Under 29 years
- 30% From 30 to 39 years
- 26% From 40 to 49 years
- 18% 50 years and more

DISTRIBUTION OF THE BANK EMPLOYEES BY WORK EXPERIENCE



- 18% Up to 1 year
- 35% From 1 to 3 years
- 22% From 4 to 6 years
- 25% From 7 to 10 years and more

The most important center of Ūkio bankas' staff training remains the *Lithuanian Banking, Insurance and Finance Institute (LBIFI)*, established by *Lithuanian Banking Association*. One of the founders of this association was Ūkio bankas. 40 employees of Ūkio bankas successfully completed the distance learning studies of LBIFI in 2000. More than 80 employees of the Bank extended their professional knowledge at short-term courses organized by LBIFI and other informational and advisory companies. Some employees were sent to work on probation and improve their professional skills abroad. A team of Ūkio bankas'



employees traditionally participated in *Tournament of Business Professionals* organized by the company *Cesim Corporate Empowerment*.

In 2000 the Bank invested LTL 130,000 in the professional training of its employees.

STRUCTURAL REORGANIZATION OF THE BANK AND ITS BRANCHES

The reorganization of clients' service system was executed in order to concentrate business in strategically important branches. The branches that were less significant from the point of view of business perspectives were to be restructured to clients' service departments or closed down.

In 2000 the position of Ūkio bankas in Kaunas region strengthened significantly. At the end of the year Kaunas region could boast of the biggest branch of the Bank and four clients' service departments. The business potentials of Vilnius Branch of Ūkio bankas were expanded after a new clients' service department in Naujamiestis was opened. The branch itself moved into a new business center. The office of a subsidiary company of the Bank, Bonum Publicum, was also settled in this center. Seeking to improve the clients' service facilities, Klaipėda and Marijampolė Branches were also moved into new presentable premises. Plungė Clients' Service Department was established to consolidate the forces of Klaipėda Branch.

Pursuing perfection of the Head Office of the Bank, several important changes were made in its structure. Legal Department was reorganized into Legal Division, which was assigned more functions and a wider range of activities. Trade Finance Department was established in Credit Division.

STRATEGIC BRANCHES OF THE BANK WERE MOVED INTO NEW PREMISES IN 2000



NET PROFIT OF ŪKIO BANKAS
TOTALED LTL 4.004 MILLION
THE GROSS INCOME
AMOUNTED 10.2 PERCENT
MORE THAN IN 1999

ACTIVITY REVIEW

BANK ACTIVITY REVIEW

BANK ASSETS

During the year 2000 Bank assets increased by LTL 110.3 million or by 44 percent and at the end of the year they made LTL 361.3 million. The most important sources of the assets increase were deposits and letters of credit, which rose by LTL 45.4 million, as well as due to banks and other financial institutions, which increased by LTL 57.2 million, and the Bank capital, which increased by LTL 20.1 million during the last year.

The rate of the Bank development exceeded the rate of development of the whole Lithuanian banking sector almost three times. *Ūkio bankas* occupied the fifth position among other banks of Lithuania by its assets.

Loans formed the biggest part of Bank assets. They totaled 33.8 percent. Due from Bank of Lithuania and other banks amounted to 23.8 percent of total assets. The securities portfolio comprised 10 percent of Bank assets.

In 2000 *Ūkio bankas* paid attention to the problem of non-performing assets, which had formed during the earlier period of Bank activity.

Working actively with problem loans, the Bank restructured a number of non performing loans or took over the debtors' assets. At the end of the year 2000 the value of foreclosed assets taken over from Bank's debtors totaled LTL 16.91 million. It is planned that in 2001 all these assets will be realized.

During the year 2000 the share of the income-earning assets increased from 58.2 to 61.3 percent. In 2001 we plan to complete the successful program of dealing with the non-performing assets that still form a considerable part of all Bank assets and limit the possible returns on the assets. After the problem assets are liquidated and foreclosed assets realized, the share of the Bank income-earning assets will increase and the overall quality of all the assets will improve.

INCOME STRUCTURE

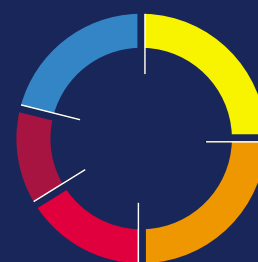
In 2000 the net profit of *Ūkio bankas* totaled LTL 4.004 million. The gross income amounted to LTL 43.9 million that is 10.2 percent more than in 1999. The net income reached LTL 30.9 million and exceeded the net income received in 1999 by 5 percent. The net interest income increased by 13.4 percent and reached LTL 3.9 million during the year. Among other sources of revenue there were fees and commissions income (LTL 8.3 million), foreign exchange profit (LTL 7.7 million) and equity securities income (LTL 4.9 million).

The increase of income in 2000 was determined by successful investment projects of the Bank as well as the active marketing policy and the clients' confidence in the Bank.



BANK INCOME STRUCTURE IN THE YEAR 2000

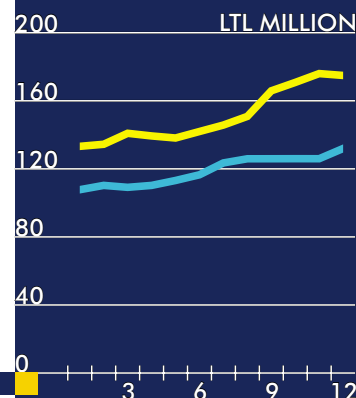
Net fees and commissions income	25%
Net foreign exchange profit	25%
Net income from investment activities	16%
Net interest income	13%
Other income	21%



DEPOSITS

Last year the number of people who entrusted their money to *Ūkio bankas* increased rapidly. On the one hand, such process could be influenced by the economic situation of the country, which forced the people to save rather than consume. On the other hand, the increasing volume of deposits was influenced by increasing clients trust in the Bank and active marketing and advertising policy of the Bank, that helped to raise funds from people and companies.

In 2000 the volume of deposits and letters of credit increased by 25.5 percent as compared with 1999. On December 31, 2000, they totaled LTL 223.52 million that made 74.6 percent of all the liabilities, which the Bank undertook last year. During the year 2000 deposits of private persons rose from LTL 87.99 million up to LTL 127.84 million, which makes a 45 percent increase. Term deposits increased by 33 percent in 2000 as compared with 1999 (on December 31, 2000, they totaled LTL 174.38 million).



TERM DEPOSITS AT ŪKIO BANKAS (LTL MILLION)

In 2000	Yellow
In 1999	Blue

After evaluating the clients' demands, in 2000 *Ūkio bankas* introduced a new kind of deposits - savings deposits. Besides, after renewal of information technologies and implementation of *BIS Forpost* clients can choose the desirable term of a deposit not only in months, but also in days. The Bank offers a number of ways how deposit terms can be extended. A client can choose any variant of term extension when depositing the money. *Ūkio bankas* appreciates the loyalty of depositors and the expanding number of Bank's clients.

The deposit structure from the point of view of terms remained stable last year. Compared with the total liabilities of the Bank, demand deposits ranged from 13 to 17 percent, and time deposits from 48 to 54 percent during the year.



ACTIVITY REVIEW

IN 2000 THE TRADE FINANCE DEPARTMENT WAS ESTABLISHED IN THE CREDIT DIVISION

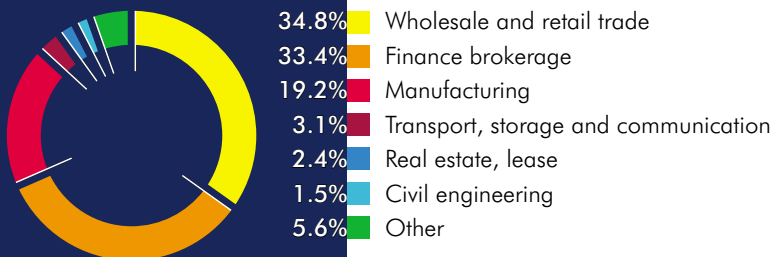
CREDIT FACILITIES

Seeking flexible cooperation with its business clients, *Ūkio bankas* offers various short-term and long-term credit facilities, such as loans, credit lines, overdrafts and factoring. *Ūkio bankas* renders guarantees and warranties, issues letters of credit and bills of exchange, finances investment projects and working capital. The Bank provides credits to residents for purchasing various property and developing small-scale business. *Ūkio bankas* maintains conservative crediting policy.

At the end of the year 2000 the Trade Finance Department was established in the Credit Division. It began to work actively in the field of short-term financing services in order to satisfy the demand of enterprises for working capital. Import, export and internal trade companies are clients of this department.

The Trade Finance Department offers its clients services of international factoring as well as other services. While performing transactions of trade financing, the Bank uses a wide network of correspondent banks, which enables it to guarantee security and effectiveness of the transactions. Cooperation with the *UAB Lietuvos eksporto ir importo draudimas* enables the Bank to offer more flexible and attractive services to its clients. At the end of the year 2000 the value of the liabilities portfolio serviced by the Trade Finance Department increased up to LTL 15.2 million.

DISTRIBUTION OF LOANS PORTFOLIO OF THE BANK ACCORDING TO ACTIVITY AREAS



Although the Bank is oriented towards financing of working capital of enterprises, it funds long-term projects as well.

In 2000 a German bank *Deutsche Genossenschaftsbank* granted a long-term credit line of EUR 10 million to *Ūkio bankas*. Due to the new credit line the possibilities of the Bank to grant loans for 2 to 5 years for small-scale and middle-scale enterprises, which purchase equipment and technology, increased. *Ūkio bankas* finances small and medium size business by means of



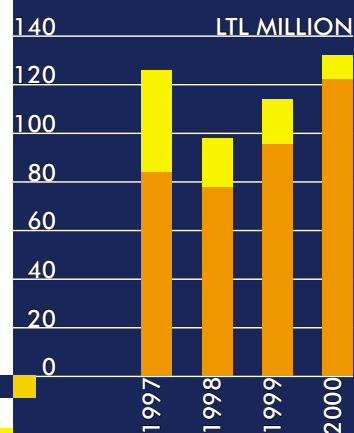
funds of another German bank as well. It is *HypoVereinsbank*, with which *Ūkio bankas* signed a contract of EUR 3.8 million for long-term financing.

At the end of the year 2000 *Ūkio bankas* signed a cooperation agreement with *Lietuvos aplinkos apsaugos investicijų fondas*. According to this agreement long-term financing of investment projects in the field of environment protection is provided under especially favorable terms.

In 2000 the par value and the net value of the portfolio of *Ūkio bankas*'s loans increased. During this year the loans portfolio increased by LTL 20 million and totaled LTL 132 million. The increase rate of the net value of the Bank loans exceeded the increase rate of the loans of the whole banking sector.

QUALITY OF LOANS PORTFOLIO OF THE BANK (LTL MILLION)

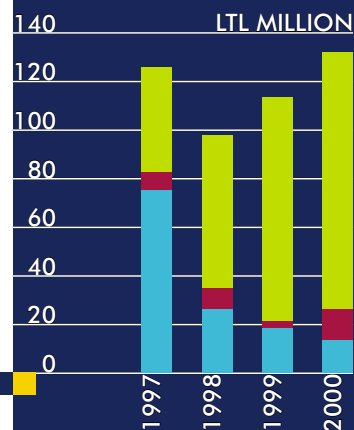
Special provisions
Loans, net



The quality of the loans portfolio improved as well. This fact is purported by a decreased number of special provisions for loans, which decreased by LTL 5.6 million (from LTL 15.2 million down to LTL 9.6 million) in 2000, and by the dynamics of the loans portfolio distribution according to risk groups. In the past few years the share of the Bank loans that belong to the 1st and the 2nd risk groups increased significantly. The volume of problem loans that are ascribed to the 4th and the 5th risk groups decreased nearly twice. At the end of the year 2000 such loans amounted to 11 percent, while at the end of 1999 they made 18 percent of the loans portfolio. The share of standard and possible risk loans in the portfolio remained the same. However, a number of standard loans that show a decreased credit risk grew substantially.

DISTRIBUTION OF LOANS PORTFOLIO OF THE BANK ACCORDING TO RISK GROUPS (LTL MILLION)

Good loans
Increased risk loans
Problem loans





ACTIVITY REVIEW

PAYMENT CARDS

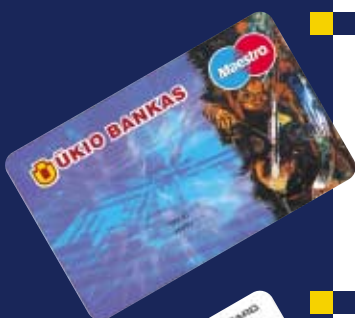
As the popularity of payment cards in Lithuania grew, in 2000 *Ūkio bankas* began distributing international payment cards *Eurocard/MasterCard* and *Maestro*, thus involving itself in the competition in this market. Till that time the Bank customers could use local *Globus* cards.

In April 2000, *Ūkio bankas* became a full member of *Europay International S.A.* and *MasterCard International Incorporated* organizations and obtained a license to issue international payment cards *Eurocard/MasterCard*, *Cirrus* and *Maestro* as well as service them and Eurocheques in its ATMs and POS terminals.

In July the Bank started distributing *Maestro* cards. In August private clients of the Bank already had the possibility to acquire *Eurocard/MasterCard Standard* and *Gold* cards, while business clients could obtain cards *Eurocard/MasterCard Business*. In less than half a year, till the end of the year 2000, almost 2 thousand *Ūkio bankas* payment cards were distributed. The popularity of *Maestro* payment cards was determined by a decision of business clients of the Bank to transfer their employees' wages to accounts of these payment cards.

Maestro cards constituted a bigger part of all the distributed international payment cards. However, *Eurocard/MasterCard* payment cards were used much more effectively than *Maestro*. In five months of the year 2000 the average turnover of one card *Eurocard/MasterCard* reached LTL 3 thousand, while the average turnover of one *Maestro* card in six months of the year 2000 amounted to LTL 1.9 thousand.

Ūkio bankas offered its cardholders especially attractive tariffs of withdrawing cash from ATMs of other banks. The clients withdrawing cash from automated teller machines of *Lietuvos taupomasis bankas*, *Lietuvos žemės ūkio bankas* and *Šiaulių bankas* paid for this service as much as withdrawing cash from *Ūkio bankas*'s ATMs.





INFORMATION SYSTEMS

In 2000 *Ūkio bankas* paid a special attention to the development of its information technologies. Informational and technical basis of the Head Office of the Bank as well as of its branches was fundamentally renewed and modernized.

Information system *BIS Forpost v. 4.0* was implemented in most branches and clients' service departments of *Ūkio bankas*. It helped to essentially improve Bank's accounting and information handling. With the implementation of this system the Bank passed to a stage of high quality Bank management.

BIS Forpost is a real time flexible system with a centralized database. It functions in *UNIX* operating system. The system was created on the basis of an advanced technology applying *ORACLE8i* and *JAVA* software and following a concept of open systems. This system presents to its users a lot of interfaces to external programs, such as *S.W.I.F.T.*, *EUROPAY* etc.

BIS Forpost is a functional software which covers the whole spectrum of banking transactions. It helps to control the accounting of the ledger as well as management of demand and savings deposits, loans and clients' commercial intercourse. This software also enables to control mechanism of risk and resources management, securities, funds, money market, phone service etc. Using this software, at any time one can get the statistics of the financial situation of the Bank of any time period. The complex of the programs is secure and confidential, which contributed to the enhancement of independence and responsibility of branches, divisions and other structural units of the Bank.

BIS Forpost system laid technological foundations for the Internet banking – this service was introduced to the clients in July 2000. While implementing this system, an integrated global computer network and a network of voice transmission on the basis of *Frame Relay* protocol was also developed. The works of system implementation should be completed in the first half of the year 2001.

In 2000 *Ūkio bankas* began implementation of new software *S.W.I.F.T. Alliance Entry*. It is software of the system for the transfer of international payment orders, *S.W.I.F.T.* The Bank acquired and installed the necessary hardware and software and performed testing works.

The Bank employs a Telephony service widely. It enables users to receive information on the main services rendered by the bank and on their accounts by phone or fax. During the year 2000 the quantity of information presented by this system had been further expanded.

WITH THE IMPLEMENTATION
OF BIS FORPOST SYSTEM
THE BANK PASSED TO
A NEW QUALITY OF BANK
ACTIVITIES MANAGEMENT



ACTIVITY REVIEW

INTERNET BANKING SERVICE ETA BANKAS WAS INTRODUCED TO THE BANK CLIENTS IN JULY 2000

In 2000 *Ūkio bankas* Internet site was essentially renewed. It can be found by address www.ub.lt. The scope of information about the Bank presented in this Web site expanded several times. On this site one can find the most important data about all the companies founded by the Bank. Functional potentials of this site have been extended: spreadsheets of currency, term deposits interest and leasing have been introduced. After implementation of these innovations a number of visits to the Web site increased noticeably: on average 650 persons per day visited this site during November and December 2000.

INTERNET BANKING

In July 2000, *Ūkio bankas* introduced Internet banking service *Eta bankas* to its clients. *Ūkio bankas* Internet banking strategy, focused on B2B system, enabled the Bank to offer a new possibility in Lithuanian market, when in the e-commerce the bank acts as intermediary between a wholesaler and a retailer.

Eta bankas can perform all usual banking transactions, such as executing payment orders in LTL and foreign currencies, buying and selling currencies, receiving information about order execution, retrieving account history and extracts, rendering information about currency rates announced by the Bank of Lithuania as well as the commercial rates of exchange of *Ūkio bankas* etc.

Eta bankas distinguishes by some exceptional advantages. This system can design a database of clients, integrate the Internet banking and an accounting system of an enterprise as well as develop a system of regular payments. Clients using *Eta bankas* can control several accounts by a single connection, transfer money from one account to another. Extracts and notices about changes of the set limit of account balance are sent to clients by e-mail or by an SMS message to a mobile phone.

If a client signs a contract with the Bank, they get some additional informational services. They can receive extracts and information about the last five debit and credit transactions as well as information about balance of their accounts by an SMS message to a mobile phone.

Since the implementation of the system in July 2000, *Eta bankas* has been operating without any technical troubles. The IBM computer equipment was employed to ensure the security of *Eta bankas*. *FireWall* security system was implemented to secure the internal network from the external one. The information transmitted from and to a computer is encoded according to the SSL 3.0 standard encoding protocol accredited by financial institutions. International center of e-mail signature certification *VeriSign Inc.* issued a certificate, which confirms that the data transmitted through the Internet is encoded by a 128-bit key.





At the end of the year 2000 a project that *Ūkio bankas* had been accomplishing together with *CHS Baltic*, one of the leaders of computer wholesale, gained momentum. This project enabled the clients of *CHS Baltic* to perform payments by the Internet on-line using *Eta Bankas*. It was the first project in Lithuania when a bank intervened between a wholesaler and a retailer by means of the Internet. *Ūkio bankas* offers short-term credits for purchasing *CHS Baltic* goods to the clients who use this project. It also seeks for opportunities to grant preferred crediting to the users of this system.

Since October 2000 users of these services, who have a mobile phone with an Internet browser, can find information about *Ūkio bankas* and its subsidiary companies as well as currency rates in a WAP site of the Bank by the address wap.ub.lt. In 2001 *Ūkio bankas* intends to substantially enlarge the package of additional promising informational services that are rendered by WAP regime and SMS messages.

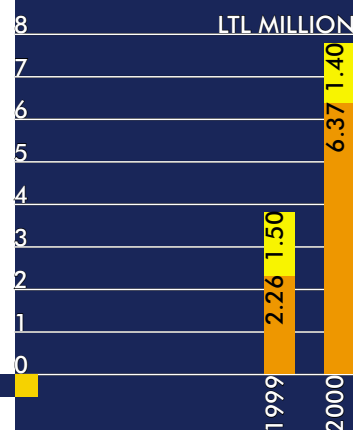
TREASURY

The Treasury Division of *Ūkio bankas* has been seeking to execute the tasks attributed to it: to ensure the liquidity of the Bank, fulfill risk-limiting ratios of Bank activities, render treasury services to clients.

Presently services provided by the Treasury Division to the Bank clients include currency exchange, forward currency exchange transactions, currency swap and repo transactions, trading in cash, granting inter-bank loans and deposits.

INCREASE OF ŪKIO BANKAS INCOME FROM FOREIGN EXCHANGE AND REVALUATION OF CURRENCY (LTL MILLION)

Cash currency exchange
Currency exchange by payment orders



In 2000 *Ūkio bankas* earned LTL 7.77 million income from foreign exchange and revaluation of currency, which exceeded the income earned from such activities in 1999 by 2.1 times. The biggest share of income (82 percent) was earned from converting currencies by payment orders. Income from cash currency exchange decreased last year, while the Bank authorities made a strategic decision to close down currency exchange shops. 93 percent of such shops that were outside the Bank premises were closed down. Cash currency exchange transactions were executed only in branches and clients' service departments of the Bank.



ACTIVITY REVIEW

NUMBER OF CORRESPONDENT
BANKS OF ŪKIO BANKAS
REACHED 250 IN THE
END OF 2000

Ūkio bankas earned LTL 549 thousand net income from money market transactions accomplished with resident banks and non-resident banks.

The year 2000 was a successful period for the Treasury Division. Several positive changes occurred. Some foreign banks resumed *Ūkio bankas's* credit limits. More active use of derivative financial instruments enabled the Bank to offer its clients wider opportunities to avoid the risk of the floating currency rates. New contacts with customers in the financial markets of Estonia, Belarus, Russia and the Ukraine were made. Large-scale business clients abroad became interested in the Bank activities. These factors enabled us to work actively in the field of treasury services. The Bank succeeded in preserving the circle of its old clients and attracting new customers as well as becoming a more active participant in money market transactions.

INTERNATIONAL PAYMENTS

In 2000 *Ūkio bankas* cooperated consistently with foreign financial institutions and successfully consolidated and extended the range of correspondent relations. The Bank was conferred international ratings, activities of the previous years brought good results. The business contacts of the Bank's clients settled and intensified. Due to all these factors at the end of the year 2000 *Ūkio bankas* had developed a wide network of correspondent banks, up to 250 banks.

When searching for potential correspondent partners, *Ūkio bankas* chooses only reliable financial institutions, which had been given the highest ratings by international rating agencies, such as *Fitch IBCA*, *Moody's Investors Service*, *Standard & Poor's* and others. The complex and quality of services rendered as well as prices offered by correspondent banks play an important role in deciding about cooperation.

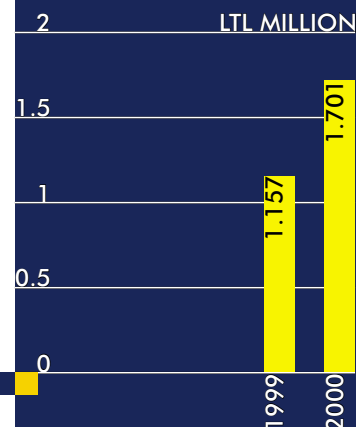
Presently *Ūkio bankas* has accounts in the largest financial institutions of the world, such as *Citibank N.A.* in the USA, *Fortis Bank* in Belgium, *Danske Bank A/S* in Denmark, *Barclays Bank PLC* in Great Britain, *Deutsche Bank AG* and *Dresdner Bank AG* in Germany, *ABN AMRO Bank* in the Netherlands and others. Therefore, *Ūkio Bankas* is able to perform international transactions in any currency required by a client.

Ūkio bankas checks fund limits in correspondent accounts and analyzes financial reports of the correspondent banks regularly in order to ensure the security of the funds in correspondent accounts.



Such supervision and care concerning the international market give tangible results. The reliance of financial institutions on the Bank is illustrated by a greatly increased number of Loro correspondent banks. Clients trust the Bank and show willingness to cooperate with it. A constant growth of the scope of international payments points to that. In 2000 the number of international payments increased by 59 percent, and the income received from the international payments augmented by 47 percent as compared to the year 1999.

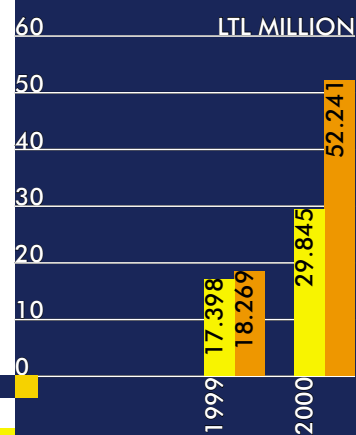
INCOME RECEIVED FROM THE INTERNATIONAL PAYMENTS (LTL MILLION)



The number of documentary payments increased especially greatly. *Ūkio bankas* received export letters of credit almost three-times more, and issued import letters of credit 1.7 times more as compared to the year 1999. The Bank earned 4 times more income from these transactions than in 1999. The number of import and export bills for collection rose a little as well.

LETTERS OF CREDIT (LTL MILLION)

Export letters of credit
Import letters of credit



After the euro was introduced, the number of international payments in this currency and in the currencies of EU countries increased in the year 2000. Previously most of international transactions were carried out in USD. While Lithuania seeks integration into European Union and is developing business contacts with EU countries, it is natural that payments in euros and the currencies of EU countries will become even more popular.



ACTIVITY REVIEW

MAIN CORRESPONDENT BANKS

Country	Bank	S.W.I.F.T. code
Austria	Creditanstalt AG	CABVATWW
Belarus	Priorbank JS CB	PJCBBY2X
Belgium	Fortis Bank	GEBABEBB
Czech Republic	Československa Obchodni Banka A.S.	CEKOCZPP
Denmark	Danske Bank A/S	DABADKKK
	Unibank A/S	UNIBDKKK
Great Britain	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.	BOTKJPJT
USA	Citibank N.A.	CITIUS33
	Harris Bank International	HATRUS33
Canada	Canadian Imperial Bank of Commerce	CIBCCATT
Kazakhstan	Kazkommertsbank	KZKOKZKX
Poland	Kredyt Bank S.A.	KRDBPLPW
Lithuania	Vilniaus Bankas	CBVILT2X
Norway	Den Norske Bank	DNBANOKK
Holland	ABN AMRO Bank	ABNANL2A
France	Banque Nationale de Paris	BNPAFRPP
Russia	Bank Austria Creditanstalt (Russia) LLC	BACXRUMM
	Savings Bank of Russian Federation	SABRRUMM
Finland	Merita Bank PLC	MRITFIHH
Sweden	Swedbank	SWEDSESS
Switzerland	Union Bank of Switzerland	UBSWCHZH
Ukraine	Privat bank CB	PBANUA2X
Hungary	Budapest Bank	BUDAHUHB
Germany	Commerzbank	COBADEFF
	Deutsche Bank AG	DEUTDEFF
	DG Bank	GENODEFF
	Dresdner Bank AG	DRESDEFF
	Vereins-und Westbank AG	VUWBDEHH



SPONSORSHIP PROGRAMS

Ūkio bankas is not only a business institution, supplier of financial services and an employer, but also an active participant in social and cultural life of Lithuania. The Bank focuses its sponsorship programs in two priority fields: culture and sport events.

The Bank is proud of its significant contribution to organization of international sport dance competition *Gintarinė Pora*, which regularly takes place in Kaunas. Due to the close cooperation of the Bank with the coordinators of the competition, sport dance lovers from all over Lithuania can enjoy the marvelous festival. Another large-scale supporting project was accomplished in Kaunas, where the headquarters of the Bank are presently established. In 2000 *Ūkio bankas* partook in organization of the most important festival of Kaunas City, *Kauno Dienos*, which is gradually becoming a nice tradition.

Branches of *Ūkio bankas* established in various regions also participate in social events. Šilutė Town Festival, the 10th Anniversary of Alytus Town Theater are just a couple of regional events, the success of which was supported by *Ūkio bankas* contributions.

The Bank supports the young generation as well. It sponsored children's camp of wood carving *Igliauka '2000*, organized by the World Lithuanian Culture, Science and Education Center, as well as an action of civic education *Gimtinė*, coordinated by Lithuanian Museum of Pedagogy. The latter encourages schoolchildren to take pride in the native land, study its history and uphold the national culture and arts.

In the premises of the Head Office of the Bank in Kaunas the works of well known and of less famous artists are regularly exhibited, vernissages are organized.

The Bank budgets a considerable amount of funds for the support of Lithuanian sports and organization of sport events. The Bank is especially concerned with football and motor sports. *Kaunas County Football Sponsorship Fund* and *Kaunas Football and Baseball Club* are supported by *Ūkio bankas* regularly. Cooperating with *Kaunas Automobile Club* of Lithuanian Automobile Association, the Bank organizes *Ūkio Bankas* prize competition of rolling downhill with cars. In 2000 *Ūkio bankas* helped the members of Lithuanian Boxing Federation to make preparations for Sidney Olympic Games, sponsored a pool competition *Trys kampai*, which took place in Kaunas, and rendered financial support to other events.

By supporting sports and culture the Bank hopes to stay in touch with Lithuanian cultural and social life. On the other hand, the employees of the Bank enjoy participating in the events sponsored by it. These events infuse the employees with new energy and add variety to the daily rounds of the Bank life.

TWO PRIORITY FIELDS OF SPONSORSHIP PROGRAMS OF THE BANK ARE CULTURE AND SPORT EVENTS



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www.ub.lt

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JONAVA BRANCH ■ Sodų str. 19, LT-5000 Jonava,..... phone (370 19) 53494, fax (370 19) 59969

JURBARKAS BRANCH ■ Dariaus ir Girėno str. 37, LT-4430 Jurbarkas, phone (370 48) 71101, fax (370 48) 71102

KAUNAS BRANCH ■ J. Gruodžio str. 9, LT-3000 Kaunas,..... phone (370 7) 301401, fax (370 7) 301404
Dainava Clients' Service Department
Pramonės str. 16e, LT-3031 Kaunas,..... phone (370 7) 452809, fax (370 7) 452809
Kalniečiai Clients' Service Department
Savanorių str. 352, LT-3042 Kaunas,..... phone (370 7) 313287, fax (370 7) 313067
Palemonas Clients' Service Department
Palemono str. 171, LT-3023 Kaunas,..... phone (370 7) 407130, fax (370 7) 407130
Vilijampolė Clients' Service Department
Raudondvario str. 70, LT-3026 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 ■ Žvejų str. 2, LT-5800 Klaipėda,..... phone (370 6) 397921, fax (370 6) 397923
Plungė Clients' Service Department
Telšių str. 2, LT-5640 Plungė,..... phone (370 18) 71011, fax (370 18) 71011

MARIJAMPOLĖ BRANCH ■ Bažnyčios str. 28, LT-4520 Marijampolė,..... phone (370 43) 91878, fax (370 43) 91965
Kazlų Rūda Clients' Service Department
Gedimino str. 1, LT-4500 Kazlų Rūda,.. phone (370 43) 98016, fax (370 43) 98016

PANEVĖŽYS BRANCH ■ Laisvės sq. 15, LT-5319 Panevėžys,..... phone (370 5) 439369, fax (370 5) 438747

RASEINIAI BRANCH ■ Dubysos str. 2, LT-4400 Raseiniai,..... phone (370 28) 70411, fax (370 28) 70412

ŠIAULIAI BRANCH ■ Vilniaus str. 130, LT-5400 Šiauliai,..... phone (370 1) 598131, fax (370 1) 598130

ŠILUTĖ BRANCH ■ Lietuvininkų str. 45, LT-5730 Šilutė,..... phone (370 41) 77337, fax (370 41) 77390

UKMERGĖ BRANCH ■ Kęstučio sq. 7, LT-4120 Ukmergė,..... phone (370 11) 63608, fax (370 11) 63928

VILNIUS BRANCH ■ A. Goštauto str. 40, LT-2001 Vilnius,..... phone (370 2) 362730, fax (370 2) 362735
Naujamiestis Clients' Service Department
Vytenio str. 20, LT-2006 Vilnius,..... phone (370 2) 262811, fax (370 2) 262808



ENTERPRISES

BANK ACTIVITIES PERFORMED VIA ESTABLISHED ENTERPRISES

In pursue of strategic purposes, *Ūkio bankas* has founded 6 subsidiary or associated companies in Lithuania and abroad. Four of them were established in 2000. These companies in close cooperation with the Bank implement investment projects, corporate clients' servicing and retail banking.

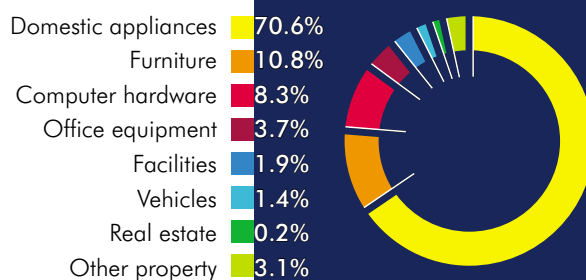
LEASING SERVICES

Since 1997 *Ūkio banko lizingas*, a subsidiary enterprise of *Ūkio bankas*, has been rendering leasing services to customers. At the end of the year 2000 another specialized leasing enterprise *Energetinių sistemų lizingas* was established. Its activities are oriented towards realization of projects related to energy economy renovation.

UAB Ūkio banko lizingas is a subsidiary enterprise of *Ūkio bankas*, registered in 1997. This company renders services of leasing and activity lease to private and business clients. The Head Office of the company is located in Kaunas city and the services are integrated into the market via its representative offices in Vilnius and Klaipėda as well as via *Ūkio bankas* branches network.

The company is expanding the scope of its activities very quickly. The number of contracts signed during the year 2000 increased by 141 percent. The value of property under leasing rose by 77 percent. Since the beginning of its activities the company has contracted 9.1 thousand agreements of installment selling. The total value of these agreements exceeds LTL 42.5 million. The biggest part of the leasing portfolio is formed of domestic appliances (70.6 percent), furniture (10.8 percent) and computer hardware (8.3 percent). Customers can also acquire office equipment, vehicles and real estate by means of leasing.

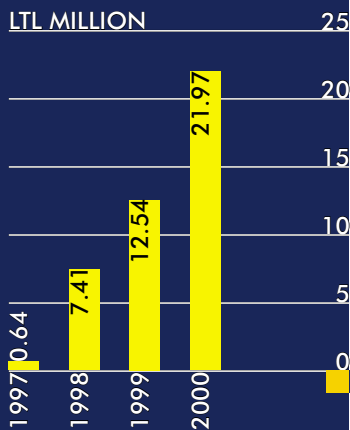
STRUCTURE OF LEASING PORTFOLIO OF *ŪKIO BANKO LIZINGAS* ACCORDING TO A KIND OF PROPERTY ACQUIRED (PERCENT)





ENTERPRISES

LTL MILLION



In 2000 one of the most successful projects that *Ūkio banko lizingas* offered to its clients was a contract with the company *IBM Lietuva*. This contract devised very advantageous terms of leasing of *IBM* computer hardware with an initial installment of only 15 percent of the purchase value.

INCREASE OF LEASING PORTFOLIO OF ŪKIO BANKO LIZINGAS (LTL MILLION)

At the end of the year 2000 the Bank and its partners founded *UAB Energetinių sistemų lizingas*. The share capital of the company amounts to LTL 1 million. *Ūkio bankas* holds 50 percent of the share capital of the enterprise. The company was established with a purpose of contributing to the implementation of the projects of regional energy economy modernization and of supplying customers with cheaper electric power and heat energy.

SHARE CAPITAL DISTRIBUTION OF ENERGETINIŲ SISTEMŲ LIZINGAS AS OF DECEMBER 31, 2000



- 50% ■ Ūkio bankas
- 50% ■ Other investors

Energetinių sistemų lizingas finances purchase and mounting of steam-driven dynamos. Till now *UAB Energetikos tiekimo bazė* had been providing the enterprises involved in energy business with such devices in Lithuania. When the demand for these devices grew, the company began looking for a strategic partner who could finance such projects. Therefore, a partnership with *Ūkio bankas* commenced and a joint enterprise was established.

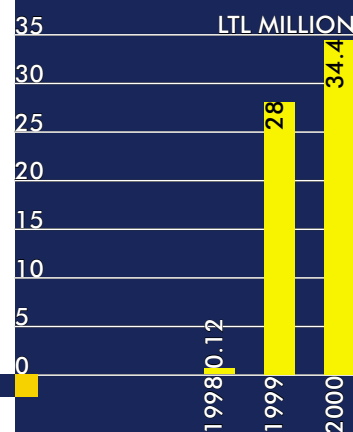


INVESTMENT PROJECTS

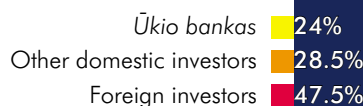
Ūkio bankas founded three companies, Ūkio banko investicinė grupė, Balkan Invest and Balkan Investment Bank A.D., which accomplish investment projects of the Bank.

UAB Ūkio banko investicinė grupė was founded in 1998. The Head Office of the company is established in Kaunas. In the past few years the share capital of the company increased up to LTL 34.4 million. Ūkio bankas is the largest shareholder of the company, holding 24 percent of the company shares.

SHARE CAPITAL INCREASE OF ŪKIO BANKO INVESTICINĖ GRUPĖ (LTL MILLION)



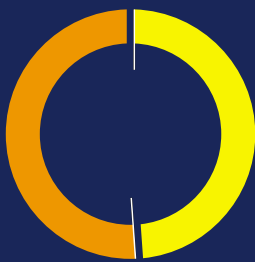
SHARE CAPITAL DISTRIBUTION OF ŪKIO BANKO INVESTICINĖ GRUPĖ AS OF DECEMBER 31, 2000



Ūkio banko investicinė grupė renders professional services of investment portfolio management, consults and implements large-scale privatization and investment projects. The company prepares international investment projects for large-scale and middle-scale customers.

Last year the assets of the company increased by 9.2 percent and reached LTL 75.7 million. The investment portfolio expanded by 17 percent and totaled LTL 32.6 million. At the end of the year 2000 the company had earned LTL 6.25 million profit.

In the middle of the year 1998 Ūkio banko investicinė grupė and Ūkio bankas began investment and financial activities in the Balkan region, namely, in the Republic of Srpska that belongs to Bosnia and Herzegovina. After two years of successful work in the capital of the Republic of Srpska, Banja Luka, Balkan Investment Bank A.D. was founded, which became the first Lithuanian capital bank abroad and the first bank of foreign capital in the Serbian Republic. The share capital of the Bank totals 5 million Bosnian marks. 49 percent of the shares belong to Ūkio bankas.



49% Ükio bankas
51% Ükio banko investicinè grupè

SHARE CAPITAL DISTRIBUTION OF BALKAN INVESTMENT BANK A.D. AS OF DECEMBER 31, 2000

Balkan Investment Bank A.D. received the grand banking license, which permits to perform all banking transactions. The Bank is a member of international payment system S.W.I.F.T. However, the activities of the Bank is investment banking. We hope that *Balkan Investment Bank A.D.* will become a leader of the capital market in the Balkan region. In future the scope of the Bank's activities will be expanded establishing its branches in other cities of the Republic of Srpska and the Federation.

During the first year of functioning *Balkan Investment Bank A.D.* was developing its internal structure by establishing specialized companies. The Bank founded a privatization voucher fund *Balkan Investment Fund* and a company of voucher fund management, *Balkan Investment Management A.D.*, which operate at present.

An investment fund, *UAB Balkan Invest*, was founded on purpose to raise long-term investments for realization of large-scale investment projects in the Balkan region, foremost in Bosnia and Herzegovina, where privatization processes are to take place in 2001. *Ükio bankas* owns 21 percent of the share capital of this enterprise. The main partner of the investment projects of the enterprise, *Ükio banko investicinè grupè*, *Balkan Investment Bank A.D.* and other companies are founders of the company.

Beside the Balkan region, *Ükio banko investicinè grupè* also functions in the markets of CIS, Asia and Eastern Europe countries.

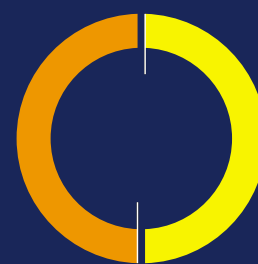


ACTIVITIES IN INSURANCE MARKET

In 2000 life insurance *UAB Bonum Publicum* was founded. It forces its way hard into a promising market of life and health insurance. The Bank decided to establish a new company while the number of clients wishing for quality services of life and health insurance was increasing constantly. Half of the shares of *Bonum Publicum* belong to *Ūkio bankas*, while *Ūkio banko investicinė grupė* owns another half.

SHARE CAPITAL DISTRIBUTION OF BONUM PUBLICUM AS OF DECEMBER 31, 2000

Ūkio bankas 50%
Ūkio banko investicinė grupė 50%



Considering the requirements of the Insurance Law of the Republic of Lithuania, the funds of the authorized capital of *Bonum Publicum* were invested into the most secure fields, such as real estate, state securities and term deposits of the banks which fulfill the requirements established by the Bank of Lithuania. While the liabilities of the company are expanding, there are intentions to increase the authorized capital.

The range of activities of *Bonum Publicum* is quite wide. The company renders services of life risk insurance with a receding insurance coverage and of savings life insurance in case of survival, as well as study insurance, pension insurance, life risk insurance, insurance of medical expenses in foreign country and accident insurance services.

At the end of the year 2000 *Bonum Publicum* was one of the fastest-growing life insurance companies in Lithuania.



ENTERPRISES

ENTERPRISES ESTABLISHED BY ŪKIO BANKAS

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**UAB ENERGETINIŲ
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ECONOMIC ENVIRONMENT IN LITHUANIA IN 2000

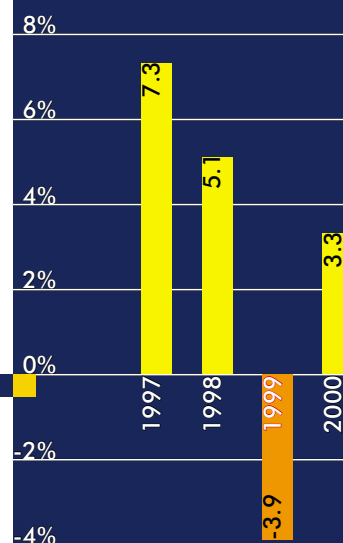
The International Monetary Fund positively evaluated structural reforms performed in Lithuania in the year 2000 as well as the strict fiscal policy. The IMF noticed that such reforms helped to overcome the economic decline that lasted for more than a year.

In 2000 the economics of Lithuania began to recover. The inflation level remained low. The deficit of the current account decreased quicker than it was anticipated and constituted 5 percent of the gross domestic product. However, during the last year the level of unemployment grew substantially: it reached 12.6 percent in December. The demand for labor force increases much slower than it was expected.

GROSS DOMESTIC PRODUCT

In 2000 the gross domestic product (GDP) augmented by 3.3 percent as compared to 1999 and totaled LTL 44.93 billion at current prices. The average share of GDP per capita amounted to LTL 12.16 thousand. The growth of the gross domestic product of Lithuania was determined mainly by the rise in export.

GROSS DOMESTIC PRODUCT



The analysis of the GDP structure illustrates the fact that more and more areas of Lithuanian economy are recovering. In 2000 development was noticed in economy areas that created about 75 percent of the added value that year. Manufacturing, extractive industry, transport, communication, storage, trade and financial brokerage were the sectors of economy the development of which rose to a new high.

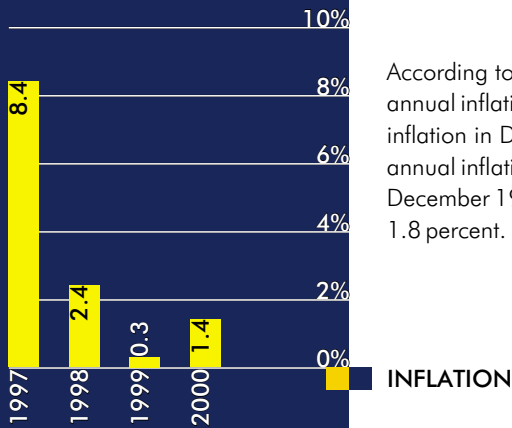
The positive changes in Lithuania's GDP are expected to occur in the year 2001 as well. The Bank of Lithuania forecasts that in 2001 the GDP of Lithuania will rise by 4 to 5 percent, while the European Bank for Reconstruction and Development prognosticates the rise of GDP by 3.4 percent and the International Monetary Fund by 2.3 percent.



ECONOMICS

INFLATION

According to the data rendered by the Department of Statistics, in 2000 the annual inflation in Lithuania reached 1.4 percent (the data displays the level of inflation in December 2000 as compared to December 1999). In 1999 the annual inflation was 0.3 percent (the data in December 1999 as compared to December 1998). It is expected that in 2001 the annual inflation will rise up to 1.8 percent.



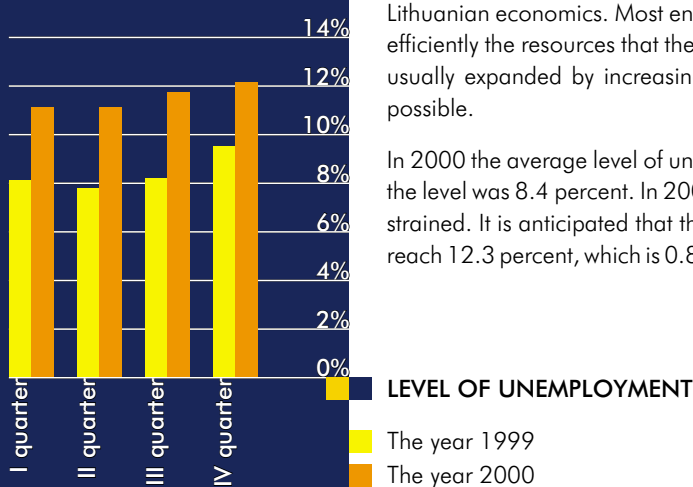
INFLATION

The low level of inflation was determined by a strict monetary policy, slender consumption, increasing competition in the country and stagnation of economic development. The economic environment in Lithuania is essentially anti-inflationary. The inflation increase was mostly influenced by the rise in prices of accommodation, oil products, transport, communication and education.

EMPLOYMENT

The employment of population is one of the most burning problems of Lithuanian economics. Most enterprises develop their activities by using more efficiently the resources that they already have and the scope of production is usually expanded by increasing the number of employees as minimally as possible.

In 2000 the average level of unemployment rose up to 11.5 percent; in 1999 the level was 8.4 percent. In 2001 the situation in the labor market will remain strained. It is anticipated that the average annual level of unemployment will reach 12.3 percent, which is 0.8 point more than in 2000.



LEVEL OF UNEMPLOYMENT

- The year 1999
- The year 2000

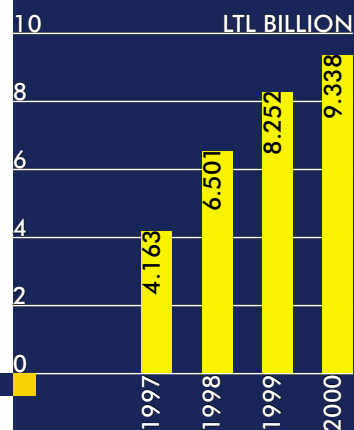


FOREIGN DIRECT INVESTMENT

On January 1, 2001, the foreign direct investment in Lithuania totaled LTL 9.34 billion or USD 2.33 billion. LTL 1.68 billion or USD 0.42 billion of them were formed by short-term and long-term loans of foreign investors. In Lithuania per capita foreign direct investment was LTL 2,528 or USD 632.

The leading investing countries were Denmark (LTL 1.7 billion or 18.2 percent of all FDI), Sweden (LTL 1.62 billion or 17.3 percent), the USA (LTL 0.92 billion or 9.8 percent), Germany (LTL 0.69 billion or 7.4 percent) and the United Kingdom (LTL 0.62 billion or 6.7 percent).

FOREIGN DIRECT INVESTMENT (LTL BILLION)



According to economic areas the biggest share of the foreign direct investment accrued to manufacturing: 28.8 percent. 22.7 percent of the FDI fell on trade, 17 percent on communication and 16.2 percent on financial brokerage enterprises.

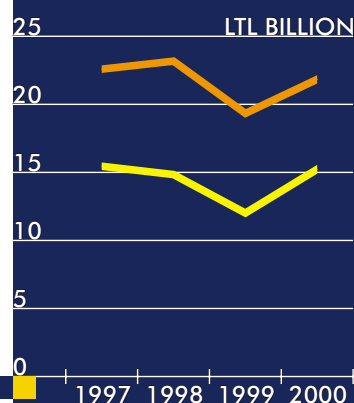
FOREIGN TRADE

Based on data received from Customs declarations, in 2000 Lithuanian enterprises exported goods for LTL 15.24 billion. The export of the goods processed in Lithuania reached LTL 3.57 billion or 23.4 percent of the gross export. The value of the goods exported from customs warehouses totaled LTL 1.04 billion or 6.9 percent of the gross export. The import to Lithuania amounted to LTL 21.82 billion. The value of the goods imported to customs warehouses reached LTL 1.55 billion or 7.1 percent of the gross import. Total foreign trade balance of Lithuania was negative and amounted to LTL 6.59 billion. In 2000 export increased by 26.8 percent or LTL 3.22 billion, and import by 12.9 percent or LTL 2.49 billion as compared to 1999.

The leading export partners of Lithuania are Latvia (15 percent), Germany (14.3 percent), the United Kingdom (7.8 percent) and Russia (7.1 percent). The prime import partners of Lithuania became Russia (27.4 percent), Germany (15.1 percent), Poland (4.9 percent) and the United Kingdom (4.5 percent).

FOREIGN TRADE (LTL BILLION)

Goods exported
Goods imported





In 2000 most goods were exported to EU countries: 47.9 percent of the gross export of Lithuania. Export to CIS amounted to 16.3 percent. Import from EU countries formed the biggest share of import as well: 43.3 percent of the gross import of Lithuania. Import from CIS reached 31.7 percent. Export to CIS and EU countries increased by 13.3 and 21.2 percent correspondingly as compared to 1999. During the same time the import augmented as well: from EU by 5 percent, and from CIS by 46.2 percent.

NATIONAL DEBT

At the end of December 2000 Lithuanian national debt reached LTL 12.73 billion, which constituted 28 percent of the gross domestic product of the year 2000 (LTL 44.93 billion).

During the year 2000 the national debt augmented by LTL 660 million: from LTL 12.07 billion up to LTL 12.73 billion. The net borrowings of the state amounted to LTL 782.2 million during the year.

On December 31, 2000, the direct state liabilities assumed on behalf of the state increased by LTL 139 million in a month and totaled LTL 10.54 billion or 82.8 percent of the whole national debt. The indirect liabilities of the state (loans secured by the state) augmented by LTL 19 million and reached LTL 2.19 billion or 17.2 percent of the national debt.

The whole long-term debt including the guarantees assumed by the state amounted to LTL 11.58 billion (91 percent), and short-term debt reached LTL 1.15 billion (9 percent). The long-term debt augmented by LTL 245 million, while the short-term debt decreased by LTL 87 million.

At the end of December the gross national foreign debt totaled LTL 9.90 billion and formed 77.8 percent of the whole national debt. In a month the foreign debt increased by LTL 279 million. The mere factor of the rise of euro rate with regard to LTL contributed to the increase of the direct foreign debt by LTL 326 million in December. The direct debt constituted 61.1 percent and the indirect debt 16.7 percent of the whole national debt.

In December 2000, the state directly borrowed LTL 7 million and repaid LTL 73 million to foreign creditors. The state repaid LTL 41.8 million (DEM 21.96 million) by retiring the bonds distributed in foreign markets.

At the end of December 2000, Lithuania owed LTL 1.94 billion to the World Bank, the European Bank for Reconstruction and Development, the Eurobank, the Bank of Northern Investment and other international organizations. The debt to foreign governmental institutions reached LTL 1.004 billion. The country also owed LTL 768 million to the International Monetary Fund and LTL 6.2 billion to other creditors.



BANKING ACTIVITIES

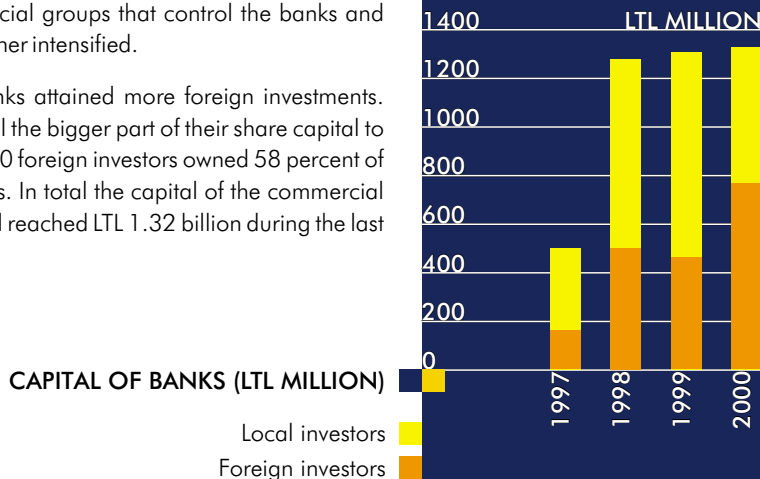
BANKING ACTIVITIES IN LITHUANIA IN 2000

At the end of December 2000, ten commercial banks were functioning in Lithuania: *Ūkio bankas*, *Vilniaus bankas*, *Šiaulių bankas*, *Bank Snoras*, *Medicinos bankas*, *Parex bankas*, *Sampo bankas*, *Bank Hansabankas* as well as two state banks *Lietuvos žemės ūkio bankas* and *Lietuvos taupomasis bankas*. Other banking institutions operating in Lithuania were the specialized bank *Turto bankas*, the *Polish Kredyt Bank S.A.*, Vilnius branches of the German bank *Norddeutsche Landesbank Girozentrale* and of the Finnish bank *Merita Bank Plc*, as well as 5 representative offices of foreign banks.

Last year several substantial changes occurred in the market of Lithuanian banking. At the beginning of the year *Vilniaus bankas* and *Bank Hermis* finally merged. Vilnius branch of the French bank *Societe Generale* terminated its functioning in Lithuania. The German bank *Vereins-und Westbank AG* was permitted to establish a division in Vilnius. The Finnish company *Sampo Insurance Company plc.* acquired *Lietuvos Vystymo Bankas*.

In 2000 the competition for the regional market among the banks operating in Lithuania as well as among the financial groups that control the banks and have interest in the Baltic countries further intensified.

The capital market of Lithuanian banks attained more foreign investments. Most banks sold or were seeking to sell the bigger part of their share capital to strategic foreign investors. At end-2000 foreign investors owned 58 percent of the share capital of the working banks. In total the capital of the commercial banks increased by LTL 3.3 million and reached LTL 1.32 billion during the last year.



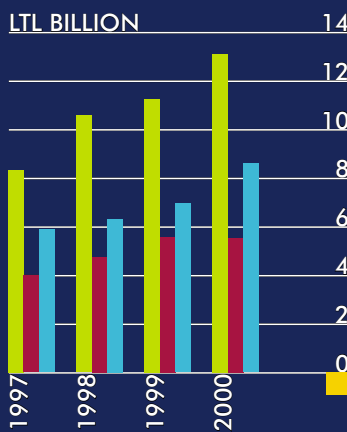
BANKING ACTIVITIES IN LITHUANIA IN 2000



BANKING ACTIVITIES

In 2000 most indicators of banking activities improved patently. The net profit of all banks operating in Lithuania totaled LTL 52.7 million. The activities of eight commercial banks and divisions of foreign banks out of the thirteen such institutions operating in Lithuania were profitable in 2000.

Name of the bank	Audited profit in 2000, LTL million
1. <i>AB Vilniaus bankas</i>	82,2
2. <i>AB Lietuvos žemės ūkio bankas</i>	7,3
3. <i>Polish Kredyt Bank S.A. Vilnius branch</i>	6,2
4. <i>AB Ūkio bankas</i>	4,0
5. <i>Bank Snoras</i>	3,9
6. <i>AB Šiaulių bankas</i>	1,9
7. <i>UAB Medicinos bankas</i>	1,4
8. <i>UAB Sampo bankas</i>	1,3
9. <i>Merita Bank Plc Vilnius branch</i>	- 3,3
10. <i>Bank Hansabankas</i>	- 3,7
11. <i>AB Parex bankas</i>	- 4,6
12. <i>NORD/LB Vilnius branch</i>	- 11,3
13. <i>AB Lietuvos taupomasis bankas</i>	- 32,6



The assets of the commercial banks augmented by 16.4 percent and amounted to LTL 13.09 billion. The volume of deposits and letters of credit in Lithuanian commercial banks increased by 23.9 percent during the year and at the end of the year totaled LTL 8.6 billion.

The loan portfolio of Lithuanian commercial banks decreased by LTL 49.2 million (0.9 percent) and amounted to LTL 5.52 billion in 2000.

THE MAIN INDICATORS OF THE ACTIVITIES OF COMMERCIAL BANKS (LTL BILLION)

- Assets
- Loans
- Deposits and letters of credit

The development of the banking sector in the year 2000 essentially reflected the general trends of the economic development of the country. It is worth noticing that the bank system has remained one of the most stable fields of Lithuanian economy.

FINANCIAL ■
STATEMENTS
2000

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of *AB Ūkio bankas*:

We have audited the accompanying consolidated balance sheets of the *AB Ūkio bankas* (the „Bank”) and subsidiaries (the „Group”) as of 31 December 2000 and 1999 and the related consolidated statements of profit and loss, shareholders' investment and cash flows for the years 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 audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform our 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2000 and 1999 and the results of operations and cash flows for the years then ended in accordance with International Accounting Standards.

Deloitte & Touche

Deloitte & Touche
Vilnius, Lithuania
15 February 2001

**Deloitte
Touche
Tohmatsu**

CONSOLIDATED BALANCE SHEETS

AS OF 31 DECEMBER 2000 AND 1999

	NOTES	2000 LTL '000	1999 LTL '000
ASSETS			
Cash		8,532	10,015
Due from central banks	2	23,375	15,930
Due from other banks and financial institutions	3	87,187	33,347
Loans and advances to customers, net	4	83,362	91,494
Investments	5	30,208	14,901
Other assets, net	6	85,221	52,947
Fixed assets	7	49,903	32,945
Total assets		367,788	251,579
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' INVESTMENT			
LIABILITIES			
Due to central banks	8	2,635	5,121
Due to other banks	9	51,840	10,929
Subordinated loans	10	-	12,000
Current and term deposit accounts	11	238,586	178,121
Other liabilities		6,246	4,000
Total liabilities		299,307	210,171
SHAREHOLDERS' INVESTMENT			
Share capital	12	72,708	60,000
Accumulated deficit		(11,071)	(17,170)
Currency translation reserve		(113)	-
Total shareholders' investment		61,524	42,830
Less: treasury shares		-	(1,422)
Total shareholders' investment, net		61,524	41,408
Minority interest		6,957	-
Total liabilities, minority interest and shareholders' investment		367,788	251,579

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

The financial statements were approved by the Management Board on 15 February 2000 and signed on its behalf by:


Chairman of the
Management Board


Chief
Accountant

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	NOTES	2000 LTL '000	1999 LTL '000
Interest income	13	18,275	13,460
Interest expense	14	(15,131)	(9,523)
NET INTEREST INCOME		3,144	3,937
Fees and commission income, net	15	10,325	15,798
Foreign exchange profit, net		7,236	3,755
Income (loss) from investment activities, net	16	4,395	143
Income from operations with derivative financial instruments, net		-	1,165
Other operating income		8,455	5,118
TOTAL INCOME		33,555	29,916
Provisions for losses	17	(2,162)	(1,652)
NET INCOME AFTER PROVISION		31,393	28,264
Salaries and related social expenses	18	12,408	10,734
Depreciation expense	7	2,099	1,779
Other administrative expenses	19	13,286	10,218
		27,793	22,731
NET INCOME BEFORE TAXES AND MINORITY INTEREST		3,600	5,533
Income tax	20	-	-
Minority interest		404	-
NET INCOME		4,004	5,533
Basic Earnings Per Share (in LTL)		0.72	1.15

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

The financial statements were approved by the Management Board on 15 February 2000 and signed on its behalf by:


 Chairman of the
Management Board


 Chief
Accountant

■ CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	Share Capital LTL '000	Accumulated Deficit LTL '000	Currency Translation Reserve LTL '000	Treasury Shares LTL '000	Total LTL '000
31 December 1998	60,000	(22,703)	-	-	37,297
Net income	-	5,533	-	-	5,533
Purchase of treasury shares	-	-	-	(1,422)	(1,422)
31 December 1999	60,000	(17,170)	-	(1,422)	41,408
Sale of treasury shares	-	2,095	-	1,422	3,517
Issuance of shares (Note 12)	12,708	-	-	-	12,708
Currency translation adjustment	-	-	(113)	-	(113)
Net income	-	4,004	-	-	4,004
31 December 2000	72,708	(11,071)	(113)	-	61,524

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	2000 LTL '000	1999 LTL '000
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	17,969	13,591
Interest paid	(15,131)	(8,910)
Repayment of previously written off loans		3,820
Net receipts from operations with foreign currency	7,703	3,640
Net receipts from operations with securities	2,878	1,167
Net receipts for services and commission	10,325	7,461
Cash payments of salaries and associated payments	(12,408)	(10,734)
Other payments	(7,681)	(9,008)
Net cash provided by operating activities before change in operating assets	3,655	1,027
Changes in operating assets and liabilities:		
Due from central banks	(7,445)	(3,007)
Loans and advances to customers	8,132	(15,142)
Due from other banks and financial institutions	(15,405)	-
Other assets	(31,968)	(5,325)
Due to central banks	(2,486)	(844)
Due to other banks	40,911	6,533
Current and term deposits	60,465	23,894
Other liabilities	2,246	(1,419)
Net cash provided by operating activities	58,105	5,717
CASH FLOW FROM INVESTING ACTIVITIES		
Additions of fixed assets, net of disposals	(16,958)	(1,418)
Investments in non-trading securities	(10,194)	(1,285)
Investment in associate and subsidiary	-	(1,464)
Net treasury share sale (purchase)	3,517	(1,422)
Net cash used in investing activities	(23,635)	(5,589)
CASH FLOW FROM FINANCING ACTIVITIES		
Subordinated loans	-	12,000
Issuance of shares	708	-
Net cash provided by financing activities	708	12,000
Net increase in cash and cash equivalents	35,178	12,128
Cash and cash equivalents at the beginning of year	47,216	35,088
Cash and cash equivalents at the end of year	82,394	47,216
Cash and cash equivalents consist of:		
Cash on hand	8,532	10,015
Demand deposits from other banks due within 3 month	71,782	33,347
T-bills with maturity equal or less than 3 month	2,080	3,854

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2000 AND 1999

1. ACCOUNTING POLICIES

GENERAL INFORMATION

AB Ūkio bankas (the Bank) was established in June 1989 as Commercial Industry Bank. The Bank's main office is located in Kaunas, J.Gruodžio str. 9. The Bank has 14 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 subsidiaries UAB Ūkio banko lizingas, Balkan Investment Bank A.D. and Life Insurance UAB Bonum Publicum (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 summarizes 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 2000 the consolidated financial statements include the accounts of the Bank, its wholly owned subsidiary UAB Ūkio banko lizingas, 50% owned Life Insurance UAB Bonum Publicum and 49% minority owned, but controlled subsidiary Balkan Investment Bank A.D. (the "Subsidiary Bank"). All significant intercompany balances, transactions unrealized surpluses and deficits on transactions between Group enterprises have been eliminated.

At 31 December 1999 the consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary UAB Ūkio banko lizingas. All significant intercompany accounts and transactions have been eliminated.

INTEREST, FEES AND COMMISSIONS

Interest income is recognized 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 recognized 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 reporting date were as follows:

	2000	1999
■ USD	4.0000	4.0000
■ EUR	3.7212	4.0260

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 realizable 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.

DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring new and renewal business for insurance operations, principally commissions, policy issuance and underwriting expenses, have been deferred and are being amortized over the anticipated premium paying period of the related policies.

TECHNICAL RESERVES

Technical reserves are computed in accordance with Lithuanian Statutory regulations and are based on estimates, the adequacy of which is evaluated based on observations of historical and current data and the use of projection methods that consider developing trends in experience and that adjust for changes in circumstances.

Other technical provisions are established for specific insurance risks, if they are anticipated, on the basis of information available at the year end, that unearned premiums will be insufficient to meet future claims of policies in force at the year end.

TECHNICAL PROVISION FOR UNEARNED PREMIUMS

Technical provision for unearned premiums are determined by pro-rating direct policy premiums over the terms of the policies.

TECHNICAL PROVISION FOR CLAIMS OUTSTANDING

The liability for unpaid claims and claim expenses represents the estimated liability on all direct claims outstanding, plus a liability for losses incurred but not reported as of the statement date less estimated recoveries. Such liabilities are necessary by based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. In accordance with industry practices, adjustments of estimates and differences between estimates and amounts subsequently paid are recorded in operations as they occur.

TECHNICAL PROVISION FOR LOSS EQUALISATION

Technical provision for loss equalization is determined in accordance with the method established by the Insurance Supervision Authority by the Ministry of Finance and aims to equalize the loss among insurance types and periods.

PREMIUMS, COMMISSION INCOME AND COMMISSION EXPENSES

Premium income is recognized on the accrual basis over the period of the underlying insurance policy. Commission income and expenses associated with the policy are recognized when earned over the same period as the premium of the underlying policy.

EARNINGS PER SHARE

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during year 2000 and 1999 was 5,593,351 and 4,817,553, respectively. At 31 December 2000 the Group had no dilutive shares outstanding.

TREASURY SHARES

Treasury shares are accounted for under the par value method.

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 recognized 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 there is a permanent decrease in value at which investment is written down to market value.

Investment in associate, *UAB Ūkio banko investicinė grupė*, is accounted for under the equity method.

FIXED ASSETS

Fixed assets are stated at historical cost or related amounts, less accumulated depreciation and amortization and impairment loss. Depreciation is provided in equal monthly installments 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 capitalized. Gains and losses on disposal of fixed assets are recognized 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.

The consolidated subsidiary *Life Insurance UAB Bonum Publicum* is subject to the regulatory requirements of the Ministry of Finance of the Republic of Lithuania and the Insurance Supervisory Authority. These requirements include minimum capital, restricted investments and accounting and reserve setting policies.

The consolidated subsidiary *Balkan Investment Bank A.D.* is required to operate and maintain certain ratios with respect to its activities in compliance with the Republic of Srpska accounting regulations and regulations prescribed by the Agency for Banking of the Republic of Srpska, as a supervision body of the banking sector in the Republic of Srpska.

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 2000 and 1999.

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

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.

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.

2. DUE FROM CENTRAL BANKS

Due from central banks as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Obligatory reserves	15,885	14,845
Other deposits	7,490	1,085
Total due from central banks	23,375	15,930

In accordance with Bank of Lithuania regulations, the Bank maintains 8% (calculated monthly) of the average monthly balance of:

- resident and non-resident Litas and foreign currencies liabilities
- non-resident banks and credit institutions liabilities and other liabilities

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 2000 and 1999.

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

In accordance with the Agency for Banking of the Republic of Srpska regulations, the consolidated subsidiary *Balkan Investment Bank A.D.* maintains an obligatory reserve of 10% of the average balance of the non-banking customer deposits (calculated on a ten-day average basis). This deposit is available for liquidity purposes. The consolidated subsidiary *Balkan Investment Bank A.D.* was in compliance with this regulation as of 31 December 2000.

3. DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

Due from other banks and financial institutions as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Due from Lithuanian banks and financial institutions	29,700	2,028
Due from foreign banks	57,487	31,319
Total due from banks and other financial institutions	87,187	33,347

4. LOANS AND ADVANCES TO CUSTOMERS, NET

Loans and advances to customers, by maturity, as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Due within one year	70,649	60,147
Due after one year	22,480	46,515
Total loans and advances to customers	93,129	106,662
Provision for loan losses	(9,767)	(15,168)
Total loans and advances to customers, net	83,362	91,494

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

	2000 LTL '000	1999 LTL '000
Wholesale and retail trade	45,805	32,927
Manufacturing	26,548	26,023
Transportation	4,096	2,227
Real Estate	3,110	2,237
Construction	1,976	2,372
Hotel and restaurant	850	687
Agriculture	527	797
Other (including individuals)	10,217	39,392
Total loans and advances to customers	93,129	106,662

5. INVESTMENTS

Investments as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Trading:		
Lithuanian government bonds	11,491	3,052
Equity shares:		
<i>Balkan Investment Management A.D.</i>	515	-
<i>AB Pramprojektas</i>	126	-
<i>UAB Balkan Invest</i>	41	-
<i>Dirbtinis pluoštas</i>	-	3,052
<i>Vilniaus bankas</i>	-	76
Sub-total	682	3,128
Investment securities:		
Equity shares:		
<i>ZAO TK MGZ</i>	6,846	-
<i>AB Šiaulių bankas</i>	500	-
<i>AB Lietuvos telekomas</i>	412	-
<i>AB Ekranas</i>	68	-
<i>AB Rokiškio sūris</i>	21	11
<i>NVPB</i>	15	15
<i>AB Linas</i>	14	-
<i>SWIFT</i>	8	-
<i>UAB Šiaulių LEZ valdymo bendrovė</i>	6	7
<i>AB Mažeikių nafta</i>	4	4
Sub-total	7,894	37
Investments in associates		
<i>UAB Ūkio banko investicinė grupė</i>	10,141	7,057
Investments in share purchase options	-	1,627
Total investments	30,208	14,901

Lithuanian government bonds (treasury bills) have maturities ranging up to three years with an average yield of approximately 3.5% to 10.5%.

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 Bank has a 100% investment in *UAB Ūkio banko lizingas*. The subsidiary is engaged in leasing activities. The subsidiary commenced its operations in September 1997. For the years ended 31 December 2000 and 1999 this subsidiary has been consolidated.

The Bank has a 50% investment in Life Insurance *UAB Bonum Publicum*. The subsidiary is engaged in providing wide range of life and non-life insurance services. The subsidiary commenced its operations in August 2000. For the year ended 31 December 2000 the subsidiary has been consolidated.

The Bank has a 49% investment in *Balkan Investment Bank A.D.* The subsidiary is engaged in commercial banking activities. The subsidiary commenced its operations in April 2000 and is located in Banja Luka, Republic Srpska. The subsidiary is minority owned, but controlled. For the year ended 31 December 2000 the subsidiary has been consolidated.

The Bank has a 24.8 % interest in an associate, *UAB Ūkio banko investicinė grupė.* 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 2000 and 1999 the Bank was in compliance with this requirement. For the investments in to subsidiary, as investment into financial institution, *UAB Ūkio banko investicinė grupė,* mentioned investment restrictions are not applied.

6. OTHER ASSETS, NET

Net other assets as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Foreclosed assets held for resale, net	16,906	22,758
<i>UAB Ūkio banko lizingas</i> lease receivables, net	8,169	6,095
Deferred expenses	1,096	645
Interest receivable, net	956	360
Other receivables, net	58,094	23,089
Total other assets, net	85,221	52,947

Foreclosed assets held for resale consist of the following:

	2000 LTL '000	1999 LTL '000
Premises	12,178	16,574
Equipment	5,739	7,170
Houses and apartments	136	290
Constructions	122	2,564
Materials	39	47
Securities	2	2
Total foreclosed assets	18,216	26,647
Less: provisions for losses	(1,310)	(3,889)
Total foreclosed assets, net	16,906	22,758

Other receivables consist of the following:

	2000 LTL '000	1999 LTL '000
Receivables from clients for guarantees paid	-	44
Other receivables	60,401	23,342
Total other receivables	60,401	23,386
Less: Provision for losses	(2,307)	(297)
Total other receivables, net	58,094	23,089

7. FIXED ASSETS

Fixed assets as of 31 December are composed as follows:

LTL'000	Building	Office equipment	Vehicles	Construction in progress	Intangible assets	Total
Historical cost						
31 December 1998	18,587	8,528	1,755	335	333	29,538
Additions	12,109	1,407	411	2,478	101	16,506
Disposals and transfers	(617)	(1,233)	(391)	(2,470)	(29)	(4,740)
31 December 1999	30,079	8,702	1,775	343	405	41,304
Additions	13,612	2,392	380	306	3,301	19,991
Disposals and transfers	(478)	(875)	-	(297)	-	(1,650)
31 December 2000	43,213	10,219	2,155	352	3,706	59,645
Accumulated depreciation						
31 December 1998	1,099	4,823	964	-	319	7,205
Charge for period	243	1,179	266	-	91	1,779
Disposals	-	(491)	(105)	-	(29)	(625)
31 December 1999	1,342	5,511	1,125	-	381	8,359
Charge for period	391	1,098	213	-	397	2,099
Disposals	(33)	(683)	-	-	-	(716)
31 December 2000	1,700	5,926	1,338	-	778	9,742
Net book value						
31 December 1999	28,737	3,191	650	343	24	32,945
31 December 2000	41,513	4,293	817	352	2,928	49,903

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

8. DUE TO CENTRAL BANK

Due to Bank of Lithuania represent long-term loans in DEM.

As of 31 December 2000 loans denominated in DEM account for LTL'000 2,635 (in year 1999 3,108 LTL'000) and mature in 2005 with annual interest rate of 4-6%.

As of 31 December 1999 the loan in EURO accounted for LTL'000 2,013 and matured in 27 July 2000 with annual interest rate of 7.62%.

9. DUE TO OTHER BANKS

Due to other banks as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Due to Lithuanian banks	16,916	2
Due to foreign banks	34,924	10,927
Total due to other banks	51,840	10,929

10. SUBORDINATED LOANS

The Bank had two subordinated loan agreements in total amount of 12,000 LTL'000 as of 31 December 1999.

At 17 December 1999 the subordinated loan agreement in amount of 2,000 USD'000 (8,000 LTL'000) was signed with *Citystate Investments Ltd.* The Bank shall pay 8% interests per year. The Bank shall start repayment of the loan as at 30 June 2005 with 250 USD'000 (1,000 LTL'000) semi-annual installments.

At 1 December 1999 the subordinated loan agreement in amount of 1,000 USD'000 (4,000 LTL'000) was signed *NIAF Investments Limited.* The Bank shall pay 8% interests per year. The Bank shall start repayment of the loan as at 30 June 2005 with 250 USD'000 (1,000 LTL'000) semi-annual installments.

On 16 March 2000 the grantors of subordinated debts mentioned above exercised their right and converted their subordinated convertible borrowings to Bank into the new emission shares.

11. CURRENT AND TERM DEPOSIT ACCOUNTS

Current and term deposit accounts as of 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Current accounts		
Private companies	39,876	41,223
Individuals	5,637	3,919
State enterprises	1,246	665
Non-profit organizations	1,210	816
Local authorities	943	443
National authorities	641	13
Deposits of contracts	-	90
Total current accounts	49,553	47,169
Term deposit accounts		
Individuals	137,850	84,073
National authorities	32,000	34,416
Private companies	16,065	11,409
Non-profit organizations	2,381	1,033
State enterprises	711	21
Deposits under custody agreements	26	-
Total term deposit accounts	189,033	130,952
Total current and term deposit accounts	238,586	178,121

The maturity of current and term deposits is as follows:

	2000 LTL '000	1999 LTL '000
Current accounts due on demand	49,553	47,169
Term deposits:		
Due within 3 months	70,230	47,006
Due within 3 to 6 months	40,606	29,814
Due within 6 months to one year	58,933	18,503
More than one year	19,264	35,629
Total current and term deposit accounts	238,586	178,121

For the year ended 31 December 2000 the average interest rate on term deposits in Litas was 8.8% and in foreign currency 5.8%. The average interest rate for demand deposits in Litas was 1.6% and in foreign currency 1.3%. Typically, term deposits are renewed at maturity.

12. SHARE CAPITAL

Issued share capital as of 31 December 2000 and 1999 consisted of 6,059,000 and 5,000,000 ordinary shares, respectively, with a par value of LTL 12 each. All shares are outstanding and fully paid.

As of 16 March 2000, the Bank of Lithuania approved 12,708 LTL'000 share capital emission. The grantors of subordinated debts in total amount of 12,000 LTL'000 exercised their right and converted their subordinated convertible borrowings to the Bank into the new emission of shares. The share capital contributions of 708 LTL'000 were fully paid.

13. INTEREST INCOME

Interest income for the years ended 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Loans and advances to customers	14,923	11,401
Leasing interest income	1,904	1,014
Placements with other banks	1,179	643
Debt securities	269	402
Total interest income	18,275	13,460

For the years ended 31 December 2000, the average interest rates were approximately respectively for Litas and currency loans 13.9% (18.7% in 1999) and 12.3% (12.9% in 1999) for short-term lending, and 12.04% (19.0% in 1999) and 9.7% (13.0% in 1999) for long-term loans.

14. INTEREST EXPENSE

Interest expense for the years ended 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Current and term deposit accounts	11,036	8,874
Deposits from other banks	3,712	318
Subordinated loans	198	11
Central banks	185	320
Total interest expense	15,131	9,523

15. FEES AND COMMISSION INCOME, NET

Fees and commission income, net, for the years ended 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Fees and commission income	12,221	16,755
Fees and commission expense	(1,896)	(957)
Total fees and commission income, net	10,325	15,798

16. INCOME (LOSS) FROM INVESTMENT ACTIVITIES, NET

Income (loss) from investment activities for the years ended 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Gain on sales of securities	2,878	6
Unrealized securities gain (loss)	(779)	135
Other income on securities	2,296	2
Total income (loss) from investment activities, net	4,395	143

17. PROVISIONS

Activity in the provision for loan losses, foreclosed assets, other assets and due from other banks for the years ended 31 December are 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 1998	19,104	2,944	22,048
Reversal of provisions	(7,554)	(620)	(8,174)
Write off of loans fully provided for	(3,820)	(151)	(3,971)
Exchange rate and other adjustments	(353)	(21)	(374)
Provision charged	7,791	2,035	9,826
Balance as of 31 December 1999	15,168	4,187	19,355
Reversal of provisions	(4,608)	(4,816)	(9,424)
Write off loans fully provided for	(7,817)	(129)	(7,946)
Exchange rate and other adjustments	(108)	(4)	(112)
Provision charged	7,132	4,454	11,586
Balance as of 31 December 2000	9,767	3,692	13,459

18. 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 2000 and 31 December 1999 were 12,408 and 10,734 LTL'000, respectively. As of 31 December 2000 and 1999 the Group employed 343 and 427, respectively.

19. OTHER ADMINISTRATIVE EXPENSES

Other administrative expenses for the years ended 31 December are composed as follows:

	2000 LTL '000	1999 LTL '000
Minor construction, maintenance and other	7,300	5,367
Housing and other costs related to premises	2,057	1,053
Transport, post and communications	1,395	1,317
Advertising	1,311	961
Payments for services	838	847
Training and travel	385	673
Total other administrative expenses	13,286	10,218

20. TAXATION

Since the beginning of 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 is eligible for a three year relief from profit tax payments followed by a three year 50% reduction in profit tax payments. Accordingly, in the year ended 31 December 2000 no corporate tax liability has been recognized.

21. CONTINGENCIES AND COMMITMENTS

Contingencies and commitments as of 31 December are as follows:

	2000 LTL '000	1999 LTL '000
Foreign exchange contracts	70,838	29,893
Issued guarantees	1,991	3,113
Letters of credit	2,976	6,379
Credit commitments	6,509	5,945
Other commitments	1,136	623
Total	83,450	45,953

Finance leases - The Group has outstanding finance lease obligations of approximately LTL'000 1,296 in connection with lease agreements to acquire vehicles. The net book value of fixed assets under finance lease obligations at 31 December 2000 is approximately 1,396 LTL'000. 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 1,347 in connection with the rental of premises.

At 31 December 2000 the future annual minimum commitments under financial leases of fixed assets are as follows:

	Financial Lease LTL '000	Operating Leases LTL '000
2001	474	274
2002	374	202
2003	246	202
2004	183	192
2005	100	142
Thereafter	-	335
Minimum lease payments	1,377	1,347
Less amount representing interest	(82)	
Present value of minimum lease payments	1,295	

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 2000 and 1999 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 2000 and 31 December 1999. 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 are as follows:

	2000 Carrying Amount LTL '000	2000 Estimated Fair Value LTL '000	1999 Carrying Amount LTL '000	1999 Estimated Fair Value LTL '000
Financial Assets:				
Cash and cash equivalents	8,532	8,532	10,015	10,015
Due from central bank	23,375	23,375	15,930	15,930
Due from other banks and financial institutions	87,187	87,187	33,347	33,347
Loans receivable, net	83,362	83,988	91,494	83,094
Government bonds	11,491	11,491	3,052	3,052
Trading equity shares	7,894	7,894	3,128	3,128
Long term investments	10,823	10,823	8,614	8,614
Accrued interest income, net	956	956	202	202
Financial Liabilities:				
Due to central banks	2,635	2,635	5,121	5,121
Due to other banks	51,840	51,840	10,929	10,929
Current and term deposit accounts	238,586	239,154	178,121	174,516
Accrued interest expense	2,531	2,531	1,883	1,883
Off-balance sheet instruments:				
Foreign exchange contracts:				
Options and forwards	22,207	22,207	20,054	20,054
Currency sale	48,595	48,595	9,839	9,839
Issued guaranties	1,991	1,991	5,945	5,945
Letters of credit	2,976	2,976	6,379	6,379
Credit commitments	6,509	6,509	5,945	5,945

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	

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 counter parties 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
Loans	
Management, board and council members	1,708
Department directors	113
Main shareholders	17,797
Deposits and bank accounts	
Management, board and council members	15
Department directors	180
Main shareholders	303

In the opinion of management, all transactions entered into between the Group 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 assets and liabilities denominated in foreign currencies as of 31 December 2000 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	184,147	(169,610)	(8,970)	5,567	9.08
EUR	3.7212	32,981	(23,519)	(11,164)	(1,702)	2.78
RUR	0.1404	2,857	(2,540)	-	317	0.52
GBP	5,9804	532	(464)	-	68	0.11
DKK	0.4990	337	(60)	-	277	0.45
Other	various	1,657	(528)	(6,255)	5,126	8.33
Total		222,511	(196,721)	(26,389)	 13,057 	 21.27

Bank of Lithuania regulations require the Bank to maintain its aggregate open position in foreign currencies at less than 25% of bank capital, and its single currency open position at less than 15% of bank capital. As of 31 December 2000, the Bank's actual ratios were 21.27% - aggregate open position and 9.08% - 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 2000, the Bank's actual ratio was 16.55%.

Additionally, under the guidelines set forth by the Basle Agreement, the Bank's capital adequacy as of 31 December 2000 is as follows; Tier I Capital to Risk Weighted Assets 18.56%; Total Capital to Risk Weighted Assets 19.75%. Basle committee confirms that the target standard ratio of capital to risk weighted assets should be set at 8%, of which the Tier I capital element will be at least 4%.

The consolidated subsidiary *Balkan Investment Bank A.D.* (the "Subsidiary Bank") is required to operate and maintain certain ratios with respect to its activities in compliance with the Republic of Srpska accounting regulations and regulations prescribed by the Agency for Banking of the Republic of Srpska, as a supervision body of the banking sector in the Republic of Srpska.

As of 31 December 2000, the following requirements of the Agency for Banking of the Republic of Srpska regulations were not within the prescribed limits:

- As of 31 December 2000 the net equity in the amount of 6,537 LTL'000 was lower than prescribed minimum of 9,513 LTL'000 thousand, as defined by the Decision on minimum standards related to managing of banks' equity, issued by the Agency for Banking of the Republic of Srpska;
- As of 31 December 2000, the Subsidiary Bank did not provide the general provision for the time deposits with the Subsidiary Bank's shareholder *AB Ūkio bankas*, Kaunas, Lithuania, as prescribed by the Decision on minimum standards related to managing of banks' loan risk exposure and categorization of assets issued by the Agency for Banking of the Republic of Srpska, on the ground that these deposits were collected in 2001;

- "Individual overnight positions" for DEM (long) of 39.54%, was higher than the prescribed maximum of 20% of the Subsidiary Bank's core capital. An overall currency position of 54.82% (long) was higher than prescribed maximum of 30% of the Subsidiary Bank's core capital;
- The Subsidiary Bank's total individual loan risk exposures to *AB Ūkio bankas*, Kaunas, Lithuania and the Government of the Republic of Srpska amounted 40.68% and 171.58% of the core capital, respectively (allowed maximum of 40%). The loan risk exposure to the Government of the Republic of Srpska is not secured by collateral;
- The Subsidiary Bank's total loan risk exposure to *Balkan Investment Management A.D.*, Banja Luka that was not secured by any collateral amounted 15.50% of the core capital (allowed maximum of 5%);
- The Subsidiary Bank's total individual loan risk exposures to related parties exceeded the allowed 40% of the core capital of the Subsidiary Bank;
- The total amount of approved transactions with natural persons who represent the related party was over 1% of the core capital (allowed maximum of 1%).

Lithuanian State Insurance Authority requires insurance companies to maintain minimum solvency reserves, that should exceed a certain solvency minimum. These reserve amounts are based on prescribed requirements and calculated for each insurance company individually. As of 31 December 2000, the consolidated subsidiary's Life Insurance *UAB Bonum Publicum* solvency minimum was 1,763 LTL, the total of solvency reserve elements was 4,839,907 LTL.

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 that do not have a contracted maturity date are grouped together in the "greater than 5 years" category and such liabilities are grouped in "within 1 year" category. The remaining period to maturity of assets and liabilities at of 31 December 2000 is as follows:

	Within 1 year LTL '000	1-5 years LTL '000	Greater than 5 years LTL '000	Total LTL '000
Assets				
Cash	8,532	-	-	8,532
Due from central banks	14,488	-	8,887	23,375
Due from other banks	83,661	2,650	876	87,187
Loans and advances to customers, net	67,954	8,622	6,786	83,362
Investments	3,387	5,600	21,221	30,208
Other assets, net	44,555	3,132	37,534	85,221
Fixed assets, net	-	-	49,903	49,903
Total assets	222,577	20,004	125,207	367,788
Liabilities, minority interest and shareholders' equity				
Due to central banks	-	2,635	-	2,635
Due to other banks	45,112	5,223	1,505	51,840
Current and term deposit accounts	234,192	4,371	23	238,586
Other liabilities -	5,028	639	579	6,246
Minority interest and shareholders' investment	-	-	68,481	68,481
Total liabilities, minority interest and shareholders' investment	284,332	12,868	70,588	367,788
Off-balance sheet liabilities	18,474	203	92	18,769
Total liabilities, minority interest, shareholders' investment and off-balance sheet liabilities	302,806	13,071	70,680	386,557
Liquidity risk and interest rate risk	(80,229)	(6,933)	(54,527)	

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 2000, the Bank's actual ratio was 49.61%.

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. PARENT COMPANY INFORMATION

Parent condensed balance sheets as of 31 December are as follows:

	2000 LTL '000	1999 LTL '000
ASSETS		
Cash	8,165	10,014
Due from Bank of Lithuania	23,350	15,930
Due from other banks, net	106,775	33,347
Loans and advances to customers, net	78,304	96,891
Investments	36,238	15,923
Other assets, net	64,036	46,024
Fixed assets	44,415	32,827
Total assets	361,283	250,956
LIABILITIES		
Due to Bank of Lithuania	2,635	5,121
Due to other banks	68,202	10,977
Subordinated loans	-	12,000
Current and term deposit accounts	223,516	178,121
Other liabilities	5,377	3,329
Total liabilities	299,730	209,548
SHAREHOLDERS' INVESTMENT		
Share capital	72,708	60,000
Accumulated deficit	(11,071)	(17,170)
Currency translation adjustment	(84)	-
Total shareholders' investment	61,553	42,830
Less: treasury shares	-	(1,422)
Total shareholders' investment, net	61,553	41,408
Total liabilities and shareholders' investment	361,283	250,956

Parent condensed statements of profit (loss) for the years ended 31 December are as follows:

	2000 LTL '000	1999 LTL '000
Interest income	16,395	12,934
Interest expense	(12,527)	(9,523)
NET INTEREST INCOME	3,868	3,411
Fees and commission income, net	7,789	15,731
Foreign exchange profit, net	7,766	3,756
Income (loss) from investment activities, net	4,853	175
Income on operations with other financial instruments	-	1,165
Other operating income	6,581	5,155
TOTAL INCOME	30,857	29,393
Provisions for losses	(2,036)	(1,652)
NET INCOME AFTER PROVISION	28,821	28,264
Salaries and related social expenses	(11,836)	(10,385)
Depreciation and amortization expense	(1,995)	(1,752)
Other administrative expenses	(10,986)	(10,071)
	24,817	22,208
NET INCOME	4,004	5,533
Basic Earnings Per Share (in LTL)	0.72	1.15



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