

THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

2005

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**INDEPENDENT AUDITORS' REPORT
TO THE SEIMAS OF THE REPUBLIC OF LITHUANIA**

We have audited the accompanying balance sheet of the Bank of Lithuania (“the Bank”) as of 31 December 2005 and the related profit (loss) statement for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

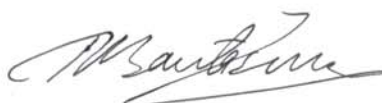
We conducted our audit in accordance with the International Standards on Auditing as set forth by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2005 and the results of its operations for the year then ended in accordance with the accounting principles adopted by the Bank of Lithuania. In our opinion, the accounting principles adopted by the Bank of Lithuania comply in all material respects with the Law on the Bank of Lithuania.

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



Jonas Akelis
Auditor’s licence
No. 000003



Ramūnas Bartašius
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Vilnius
The audit was completed on 15 March 2006.

BALANCE SHEET OF THE BANK OF LITHUANIA

LTL million

	Notes	31 December 2005	31 December 2004
ASSETS			
1. Gold	1	277.45	206.30
2. Claims on foreign institutions denominated in foreign currency		10,680.17	8,743.00
2.1. Receivables from the IMF	2	0.29	0.28
2.2. Deposits, securities and other investments denominated in foreign currency	3	10,679.88	8,742.72
3. Claims on domestic credit institutions denominated in foreign currency	4	0.04	9.93
4. Other assets		342.31	359.94
4.1. Intangible Assets and Property, plant and equipment	5	154.27	160.71
4.2. Investments into equity instruments	6	22.93	19.19
4.3. Accrued income and deferred expenditure	7	150.98	163.47
4.4. Sundry	8	14.13	16.57
Total		11,299.97	9,319.17
LIABILITIES			
5. Banknotes and coins in circulation	9	6,715.59	5,594.57
6. Liabilities to domestic credit institutions denominated in litas	10	2,211.25	891.51
7. Liabilities to other domestic institutions denominated in litas	11	120.18	108.24
7.1. Liabilities to Government institutions		110.82	94.92
7.2. Liabilities to other domestic institutions		9.36	13.32
8. Liabilities to foreign institutions denominated in litas		7.31	6.54
9. Liabilities to domestic institutions denominated in foreign currency	12	1,291.76	1,880.41
9.1. Liabilities to credit institutions		–	504.39
9.2. Liabilities to Government institutions		1,291.76	1,376.02
10. Liabilities to foreign institutions denominated in foreign currency	12	20.54	5.76
11. Items in the course of settlement		1.20	1.35
12. Other liabilities	13	15.05	7.34
12.1. Off-balance sheet instruments revaluation differences		7.93	–
12.2. Accrued expenditure and deferred income		3.26	3.78
12.3. Sundry		3.86	3.56
13. Subsidies	14	1.46	29.38
14. Revaluation accounts	15	90.72	30.29
15. Capital	17	697.72	631.66
15.1. Authorised capital		133.03	100.00
15.2. Reserve capital		564.69	531.66
16. Profit for the year	28	127.19	132.12
Total		11,299.97	9,319.17

PROFIT (LOSS) STATEMENT OF THE BANK OF LITHUANIA

LTL million

	Notes	2005	2004
Interest income	18	223.12	216.55
Interest expense	19	(29.81)	(41.19)
1. Net interest income		193.31	175.36
Realised gains (losses) arising from financial operations	20	11.97	26.53
Unrealised losses from revaluation	21	(23.20)	(2.86)
2. Net result of financial operations and revaluation losses		(11.23)	23.67
Commission and fee income		7.94	6.63
Commission and fee expense		(1.35)	(1.27)
3. Net commission and fee income	22	6.59	5.36
4. Dividend income	6	2.17	1.25
5. Other income	23	2.36	7.63
NET INCOME		193.20	213.27
6. Staff costs	24	(49.80)	(48.62)
7. Other administrative expenses	25	(15.20)	(14.46)
8. Assets depreciation and amortisation	5	(12.78)	(13.40)
9. Banknote and coin production and circulation expenses	26	(9.16)	(5.23)
10. Change in specific provisions	27	20.93	0.56
PROFIT FOR THE YEAR	28	127.19	132.12

The accompanying explanatory notes are an integral part of these Financial Statements.

The 2005 Annual Financial Statements of the Bank of Lithuania were approved on 30 March 2006 by Resolution No. 33 of the Board of the Bank of Lithuania.

Chairman of the Board



Reinoldijus Šarkinas

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

MAIN OBJECTIVE AND FUNCTIONS OF THE BANK OF LITHUANIA

The primary objective of the bank of Lithuania is to maintain price stability.

The main functions of the Bank of Lithuania are the following:

- issuing the currency of the Republic of Lithuania, formulating and implementing monetary policy, determining the litas exchange rate regulation system and announcing the official exchange rate of the litas;
- managing, using and disposing of the foreign reserves of the Bank of Lithuania;
- acting as a State Treasury agent;
- issuing and revoking licenses of Lithuanian credit institutions and branches of foreign credit institutions and supervising their activities;
- encouraging stable and efficient operation of payment and securities settlement systems;
- collecting monetary, banking and balance of payments statistics, as well as Lithuanian financial and related statistical data, implementing standards for the collection, reporting and publishing of said statistics and compiling the Balance of Payments of the Republic of Lithuania.

Subsequent to Lithuania's accession to the European Union as of 1 May 2004, the Bank of Lithuania became a member of the European System of Central Banks (ESCB). Starting from 28 June 2004 Lithuania is a participant in the Exchange Rate Mechanism II.

BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The Bank of Lithuania prepares its Annual Financial Statements pursuant to Article 49 of the Law on the Bank of Lithuania.

The financial accounting of the Bank of Lithuania is managed and the Annual Financial Statements are prepared in accordance with the Law on the Bank of Lithuania, other legislation of the Republic of Lithuania applicable to the Bank of Lithuania and in accordance with the provisions set forth in the Bank's internal accounting policies being in line with the accounting and financial reporting rules of the European System of Central Banks (ESCB)¹, to the extent that such rules are applicable within a national central bank of the Member State which has not yet adopted the euro. The Bank of Lithuania follows the International Financial Reporting Standards in those areas of accounting and financial reporting that are not regulated by the ECB and takes into account the ECB recommendations concerning the application of these standards.

Following the principles of consistency and comparability, the respective comparative financial data for 2004 has been presented.

¹ Guideline of the ECB of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).

ACCOUNTING POLICY

GENERAL PRINCIPLES

In managing financial accounting and drawing up the financial statements, the Bank of Lithuania observes the following accounting principles: economic reality, transparency, prudence, materiality, going concern, accrual, consistency, and comparability.

Gold, debt securities and other foreign reserves assets on-balance sheet and (or) off-balance sheet and liabilities denominated in foreign currency ("financial items") are recorded in the Financial Statements at market prices.

Official exchange rates of the litas and the main foreign currencies quoted by the Bank of Lithuania

Litas (LTL) per unit

Currency	Code	31 December 2005	31 December 2004
Euro	EUR	3.4528	3.4528
US Dollar	USD	2.9102	2.5345
100 Japanese Yen	JPY	2.4698	2.4421
Special Drawing Rights (SDR)	XDR	4.1753	3.9260

Transactions in financial assets and financial liabilities are recorded in the on-balance sheet and off-balance sheet accounts at acquisition cost on the transaction settlement date.

Revaluation results arising from revaluation of gold holdings, every security issue (on an item-by-item basis according to the same ISIN number) and any foreign currency (on a currency-by-currency basis) are accounted for separately. Unrealised revaluation losses (arising at the year-end from the revaluation of gold, every security issue or any foreign currency at market price and the official exchange rate when exceeding previous corresponding revaluation gains) are taken to the profit and loss account and cannot be reversed in subsequent years against new revaluation gains relating to the same financial item or netted against unrealised revaluation gains related to another individual financial item.

GOLD

Gold holdings are revalued on the last business day of each month at market price at the London bullion market. Gold revaluation gains or losses are calculated on the basis of the gold mid-market price in US dollars per one Troy ounce, translated into litas at the exchange rate of the litas against the US dollar on the revaluation day.

No distinction is made between price and currency revaluation differences recorded in the revaluation account for gold, which is held as part of foreign reserves.

In the event of recognition of unrealised revaluation losses on gold at year-end, the gold average price is correspondingly adjusted to the gold market price prevailing on the last business day of the financial year.

FOREIGN CURRENCY TRANSACTIONS

On-balance sheet and off-balance sheet foreign currency financial items are revalued on a currency-by-currency basis on each business day at the official exchange rate of that day, and the revaluation gains or losses related to the respective foreign currency (including SDRs) are recorded in separate revaluation accounts.

Revaluation of accrued interest income and expenses adjusts the respective balance sheet and income/expense accounts.

The average rate of the net foreign currency position is recalculated if the operations carried out during the day (including the ones shown in off-balance sheet accounts) increase the net position of that currency (in the case of the net asset position) or reduce it (in the case of the net liability position).

The realised result of foreign currency is calculated if the operations carried out during the day in a certain foreign currency decrease or have no impact to the net position of that currency (in the case of a net asset position) or increase it (in the case of a net liability position).

In the event of recognition of unrealised revaluation losses on any foreign currency at year-end, the average rate of that currency position is correspondingly adjusted to the official exchange rate on the last business day of the financial year.

Income and expenses in foreign currencies are translated at the official exchange rate on the date on which they were recorded in the accounts.

SECURITIES

Debt securities are recognised in the accounts at acquisition cost. Coupon income purchased is treated as a separate item and is not included in the cost of the asset.

Securities held as part of foreign reserves are revalued at market price on the last business day on a monthly basis.

Revaluation gains or losses arising from securities price movements are accounted for separately on an item-by-item basis (according to the same ISIN number).

The difference between the security acquisition cost and its nominal value – premium or discount – is recognised as income or expenses over the remaining maturity of the securities.

Discounts or premiums arising on zero-coupon securities are amortised according to the Internal Rate of Return method, on coupon securities, according to the straight-line method.

Unrealised revaluation losses of a particular securities issue, when exceeding previous corresponding revaluation gains at the end of the financial year, are recorded as expenses.

If unrealised revaluation losses from revaluation of a particular securities issue are recognised as expenses at the end of the financial year, the average price of such securities is adjusted according to their market price on the last business day of the financial year.

Long-term investments in equities held for the Bank's specific purpose are recorded at acquisition cost.

The value of zero-coupon debt securities taken over as foreclosed assets is adjusted by making specific provisions.

REPURCHASE AGREEMENTS

Repurchase agreements are recorded as collateralised inward deposits: the commitment to repay funds is recorded on the liabilities side of the balance sheet, while the financial asset that has been given as collateral (sold and repurchased under this agreement) remains on the asset side of the balance sheet for the period of the transaction.

Reverse repurchase agreements are recorded as a collateralised outward loan to the other party of the agreement on the asset side of the balance sheet. The collateral acquired under this type of agreement for the transaction period is not shown in the balance sheet and is not revalued.

The difference in the value between the purchase and repurchase price of the collateral acquired under repurchase and reverse repurchase agreements is recognised as interest income or expense on a straight-line basis over the transaction period.

LOANS

Loans granted by the Bank are recorded at their nominal value and their balances are presented at net value, i.e. less specific provisions. These expenses are adjusted for changes in the need for specific provisions.

The value of loans overtaken for satisfying part of claims and issued to the Bank employees is adjusted for the year-end situation on a yearly basis.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets and property, plant and equipment include such assets whose acquisition cost (including VAT) is not less than LTL 500 and whose useful life is longer than one year. Intangible assets and property, plant and equipment are recorded in the balance sheet at cost less accumulated depreciation (amortisation). Depreciation (amortisation) is calculated on a straight-line basis over the expected useful life of assets.

Depreciation (amortisation) rates of intangible assets and property, plant and equipment

Assets	Annual rate, %
Buildings and structures	2.5–10
Cash calculation and computer equipment	10–50
Software	33–100
Vehicles	20
Furniture, office equipment and other inventory	5–50

If there are signals that the market value of real estate is declining more rapidly than expected when estimating the useful life of the asset, then at the end of the financial year the value of such assets is adjusted for recognised losses arising because of their significant impairment.

BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation are presented at nominal value as liabilities in the balance sheet. The cost of printing banknotes and minting coins, as well as other expenses associated with the issue of the national currency into circulation, are recorded as expenses when incurred, irrespective of when the coins and banknotes were put into circulation.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Foreign currency forward sales and purchases accounted in off-balance sheet accounts under foreign exchange swap contracts are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses. The change in value arising from the difference in spot and forward rates is recognised as interest payable or interest receivable on a straight-line basis over the transaction period.

Interest rate futures are revalued on an item-by-item basis. Daily changes in the variation margin of interest rate futures are considered realised and are recorded in the respective income or expense accounts.

RECOGNITION OF INCOME AND EXPENSES

Interest income and expenses (including premiums and discounts of securities) related to financial assets and liabilities are accrued on a daily basis and are recorded in profit and loss accounts on the last business day of each month, regardless of the date when it was received or incurred. Other income earned and expenses incurred within the current year are recorded in the accounts on an annual basis.

Realised income and expenses are taken to the profit and loss accounts on the date on which they are settled.

Unrealised gains are not recognised as income. Unrealised losses are recognised as an expense at year-end when exceeding previous revaluation gains are registered in the corresponding revaluation account.

The average price and (or) average rate method is used in order to compute the acquisition costs for gold, securities and foreign currency instruments. Such acquisition costs are used for the purpose of calculating of realised and unrealised results.

POST-BALANCE SHEET EVENTS

Annual financial statements are adjusted for post-balance sheet events that occur between the annual balance sheet date (i.e. the last day of the reporting year) and the date on which financial statements are approved by the Board of the Bank of Lithuania, if these events depend on circumstances that occurred before the balance sheet day (i.e. the last day of the financial year) and therefore should have affected the data presented in the financial statements at the balance sheet date.

No adjustment is made for the data of annual financial statements of post-balance sheet events that depend on circumstances which affect the condition of the data of annual financial statements later than the balance sheet day. Events which are of such importance that their non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions are disclosed in the Explanatory Notes to the Annual Financial Statements.

RISK AND RISK MANAGEMENT

The main risk management tasks of the Bank of Lithuania are to ensure uninterrupted risk assessment and monitoring, to provide adequate information on risks to respective bank divisions and management chains and constantly assess the suitability of the accepted risk level for implementing the objectives of the Bank of Lithuania. The organisational and internal control systems of the Bank of Lithuania ensure appropriate and timely implementations of the objectives of the Bank of Lithuania. In 2005, in order to introduce an integrated unified risk management system and in co-operation with external consultants, the Bank of Lithuania started the project of implementing an integrated risk management system containing three mutually integrated chains: decentralised management of each operational process, centralised risk management and adoption of strategic decisions by the Board of the Bank of Lithuania. The integrated risk management process will allow managing operational risks in a structured way.

The main object of risk are the foreign reserves of the Bank of Lithuania, that as at 31 December 2005 accounted for about 97 per cent of the total assets of the Bank.

In managing foreign reserves the Bank of Lithuania is exposed to market, credit, liquidity, settlement and operational risks. These risks are managed by an established broad system of limits for risk exposures and other means aimed at reducing risks.

The main risk faced by the Bank of Lithuania in foreign reserve management that has the strongest influence on financial results is market risk. Market risk consists of exchange rate risk and interest rate risk.

In order to reduce the exchange rate risk, the major part of foreign reserves not related to liabilities in foreign currencies is invested in the anchor currency. The part of foreign reserves related to liabilities is invested in the currency of the liabilities (see Note 29).

The Bank of Lithuania uses the indicator of modified duration (MD) as the main tool for managing interest rate risk. Interest rate risk is managed by setting benchmarks to each portfolio of foreign reserves, its MD and allowed deviations of portfolio real investment MD from the MD of the benchmarks. The “value-at-risk” (VAR) method is also used as an instrument for interest rate risk management.

Credit risk is managed by establishing strict financial reliability requirements to issuers and counterparties. In order to reduce credit risk, investment limits are established for issuers, counterparties and their groups.

Foreign reserve liquidity risk is managed by setting liquidity ratios and liquidity requirements for financial instruments.

Various correspondent account management techniques are applied for managing settlement risks, such as payment queuing, matching of debit and credit turnovers. These measures facilitate reduction of loss due to settlement defaults by counterparties.

Operational risks are managed on the basis of clear procedural regulations.

NOTES

Note 1. Gold

	31 December 2005	31 December 2004
Gold holdings in		
Troy ounces	185,840.53	185,840.53
Kilograms	5,780.29	5,780.29
Price of one Troy ounce, USD	513.00	438.00
Value of gold, LTL million	277.45	206.30

All gold as at 31 December 2005 was held as non-invested gold reserve.

Note 2. Receivables from the International Monetary Fund

The Bank of Lithuania performs the function of depository of International Monetary Fund (IMF) funds.

The net reserve position in the IMF belongs to the Republic of Lithuania, which has been a member of the IMF since 1992.

The Republic of Lithuania’s Quota (SDR 144.20 million) has not changed since 1999. A part of this Quota (25%) was paid in SDR and residual part was paid in non-marketable and non-interest bearing Government securities denominated in the national currency. The value of these Government securities issued in favour of the IMF as at 31 December 2005 amounted to SDR 143.67 million.

Net Reserve Position in the IMF

SDR million

	31 December 2005	31 December 2004
State Quota of IMF membership (total value)	144.20	144.20
IMF claims corresponding to Government Securities in litas	(143.67)	(160.51)
IMF funds in accounts with the Bank of Lithuania in litas	(0.51)	(0.49)
Disposition of IMF loans	–	16.82
Net reserve position in the IMF	0.02	0.02

The Ministry of Finance of the Republic of Lithuania repayed the full balance of the Extended Fund Facility at the beginning of 2005.

Funds Receivable from the IMF

LTL million

	31 December 2005	31 December 2004
Net reserve position in the IMF	0.06	0.06
Balance in SDR account with the IMF	0.23	0.22
Total	0.29	0.28

Note 3. Deposits, Securities and Other Investments Denominated in Foreign Currency

LTL million

	31 December 2005	31 December 2004
Correspondent accounts with foreign banks	67.41	57.93
Fixed-term deposits with foreign banks	946.30	469.36
Debt securities	8,520.71	7,485.91
Reverse repurchase agreements	1,145.46	729.52
Total	10,679.88	8,742.72

Breakdown of deposits, securities and other investments by currencies is shown in Note 29.

Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Counterparties

LTL million

	31 December 2005	31 December 2004
European Union Member States	9,389.59	7,894.65
Japan	1,040.33	0.72
USA	180.78	330.54
International financial institutions	69.18	481.40
Iceland	–	35.41
Total	10,679.88	8,742.72

Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Maturity²

LTL million

	Demand	Up to 1 year	1–5 years	Over 5 years	Total
Deposits, securities and other investments denominated in foreign currency	67.41	7,805.51	2,551.93	255.03	10,679.88

There are no deposits, securities and other investments denominated in foreign currency and related to the variable interest rate.

² Contractual maturity is presented.

Note 4. Claims on Domestic Credit Institutions Denominated in Foreign Currency

LTL million

	31 December 2005	31 December 2004
Accounts with commercial banks	0.04	0.07
Loans to commercial banks	–	9.86
Total	0.04	9.93

Loans to commercial banks related to the implementation of the Small and Medium Size Enterprise Financing Programme of the Republic of Lithuania were repaid before the expiry of the EU PHARE II Programme (see Note 14).

Note 5. Intangible Assets and Property, Plant and Equipment

	Intangible assets	Property, plant and equipment				Total
		Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled items)	Vehicles	Other property, plant and equipment	
Acquisition value as at 31 December 2004	12.35	150.52	58.83	6.88	34.72	263.30
Additions in 2005	0.72	1.68	2.44	0.16	1.35	6.35
Disposals in 2005	(0.34)	–	(2.65)	(0.96)	(0.64)	(4.59)
Redistribution in 2005	0.02	–	0.03	–	(0.05)	–
Acquisition value as at 31 December 2005	12.75	152.20	58.65	6.08	35.38	265.06
Accrued depreciation as at 31 December 2004	(11.36)	(17.33)	(41.76)	(5.07)	(27.07)	(102.59)
Depreciation in 2005	(0.92)	(3.47)	(5.90)	(0.50)	(1.99)	(12.78)
Written-off depreciation in 2005	0.34	–	2.61	0.95	0.68	4.58
Accrued depreciation as at 31 December 2005	(11.94)	(20.80)	(45.05)	(4.62)	(28.38)	(110.79)
Net book value as at 31 December 2005	0.81	131.40	13.60	1.46	7.00	154.27
Net book value as at 31 December 2004	0.99	133.19	17.07	1.81	7.65	160.71

Note 6. Investments into Equity Instruments

LTL million

	31 December 2005	31 December 2004
European Central Bank	5.95	5.95
Bank for International Settlements	11.51	7.77
Central Securities Depository of Lithuania	3.63	3.63
Lithuanian Mint	1.83	1.83
SWIFT	0.01	0.01
Total	22.93	19.19

On 1 May 2004 Lithuania joined the European Union and consequently the Bank of Lithuania became a member of the ESCB (European System of Central Banks). In accordance with Article 28 of the Statute of the ESCB and the ECB the Bank of Lithuania became the subscriber of the capital of the ECB. Sub-item "Investments into equity instruments" represents the

Bank of Lithuania participating interest in the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the Statute of the ESCB and which must be adjusted every five years. The share of Lithuania in the ECB's capital is 0.4425 percent and was calculated in accordance with Article 29 of the Statute of the ESCB, on the basis of population and GDP data provided by the European Commission. As Lithuania does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Consequently, the Bank of Lithuania was required to pay-up a minimal contribution of 7 percent of its subscribed capital to the ECB upon entry to the ESCB on 1 May 2004 amounting to EUR 1.72 million.

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with representation and voting rights equal to 1,070 shares with an acquisition cost of LTL 11.51 million and the nominal value of SDR 5,000 per share. Following the decision of the Board of the Bank of Lithuania, in 2005 the Bank acquired additional 70 shares in the BIS. The Bank of Lithuania has paid up 25 per cent of the value of these shares. The Bank of Lithuania received dividends of LTL 0.98 million for these BIS shares in 2005 (LTL 0.94 million in 2004).

The Bank of Lithuania owns 60 per cent of the shares of the Central Securities Depository of Lithuania with an acquisition cost of LTL 3.63 million. In 2005 the Bank of Lithuania received dividends of LTL 1.19 million for them (LTL 0.31 million in 2004).

As from 1995 the Bank of Lithuania was granted the rights of the founder of the Public Company Lithuanian Mint. In early 2006 the Company was reorganised into a private limited company. All shares in the company are owned by the State. The Bank of Lithuania acts as the manager of these shares.

The Bank of Lithuania holds one SWIFT share.

Note 7. Accrued Income and Deferred Expenditure

LTL million

	31 December 2005	31 December 2004
Debt securities coupon payment purchased	73.34	65.61
Accrued interest income	75.00	94.87
Accrued debt securities coupon	73.93	94.24
Interest on reverse repurchase agreements	0.01	0.39
Interest from derivative financial instruments	0.87	–
Other income	0.19	0.24
Other accrued income	0.82	0.89
Deferred expenses	1.82	2.10
Total	150.98	163.47

Note 8. Sundry

LTL million

	31 December 2005	31 December 2004
Loans to the staff of the Bank of Lithuania	9.39	10.50
Foreclosed assets	2.60	3.73
Other assets	2.14	2.34
Total	14.13	16.57

Loans issued to the staff of the Bank of Lithuania for house purchase or repairs amounted to LTL 8.76 million (LTL 9.46 million in 2004), and the balance of consumer loans was LTL 0.63 million (LTL 1.04 million in 2004).

Foreclosed assets consist of non-interest bearing Lithuanian Government debt securities denominated in the national currency of two issues with various maturities (net value of LTL 2.50 million) and the balance of the rights of claim to the debts of natural and legal persons taken over for satisfying part of claims on loans granted by the Bank of Lithuania (LTL 0.10 million). Redemption of securities taken over is planned to take place in proportionally equal shares in 2006 and 2007 (LTL 1.35 million was redeemed in 2005).

Other assets consist of inventories amounting to LTL 2.09 million (LTL 2.03 million in 2004) and amounts receivable amounting to LTL 0.05 million (LTL 0.31 million in 2004).

Note 9. Banknotes and Coins in Circulation

Banknotes and coins in circulation are litas and centas put into circulation by the Bank of Lithuania. In 2005, the amount of cash put into circulation amounted to LTL 2,851.37 million (LTL 2,018.78 million in 2004), and the amount withdrawn from circulation made up LTL 1,730.35 million (LTL 1,560.96 million in 2004).

Banknotes and Coins in Circulation

LTL million

	31 December 2005	31 December 2004
Banknotes	6,581.06	5,475.97
Coins	134.53	118.60
Total	6,715.59	5,594.57

The Bank of Lithuania issues commemorative (including gold and silver) coins.

Note 10. Liabilities to Domestic Credit Institutions Denominated in Lit

This item consists of the holdings of required reserves held by commercial banks in their correspondent accounts with the Bank of Lithuania. After the Bank of Lithuania changed the regulations relating to the holdings of required reserves, starting from 24 September 2005 all holdings of required reserves are held by commercial banks in their correspondent accounts calculated under the updated regulations and are subject to remuneration at a fixed interest rate.

Note 11. Liabilities to Other Domestic Institutions Denominated in Lit

LTL million

	31 December 2005	31 December 2004
Liabilities to Government institutions	110.82	94.92
Balances of accounts of the Ministry of Finance	110.26	94.29
Balances of accounts of other Government institutions	0.56	0.63
Liabilities to other domestic institutions	9.36	13.32
Total	120.18	108.24

Note 12. Liabilities Denominated in Foreign Currency

Liabilities to Domestic Institutions Denominated in Foreign Currency

LTL million

	31 December 2005	31 December 2004
Liabilities to credit institutions	–	504.39
Liabilities to Government institutions	1,291.76	1,376.02
Balances of accounts of the Ministry of Finance	729.55	210.91
Fixed-term deposits of the Ministry of Finance	562.03	1,164.90
Balances of accounts of other Government institutions	0.18	0.21
Total	1,291.76	1,880.41

Until 24 September 2005 the part of required reserves of credit institutions were held in foreign currencies.

Liabilities to Foreign Institutions Denominated in Foreign Currency

On 31 December 2005 liabilities to foreign institutions denominated in foreign currency consisted of a balance on the account of the European Commission of LTL 20.54 million (LTL 5.76 million in 2004).

Breakdown of Liabilities Denominated in Foreign Currency by Maturity

LTL million

	Demand	Up to 1 year	Without term	Total
Liabilities denominated in foreign currency	750.20	562.03	0.07	1,312.30

The amount of liabilities in foreign currency with a variable interest rate is not significant.

Note 13. Other Liabilities

LTL million

	31 December 2005	31 December 2004
Off-balance sheet instruments revaluation differences	7.93	–
Accrued expenditure and deferred income	3.26	3.78
Accrued interest expenses	0.43	0.78
Other accrued expenses	2.62	2.75
Deferred income	0.21	0.25
Sundry	3.86	3.56
Account balances	3.67	3.00
Other payables	0.19	0.56
Total	15.05	7.34

The item relating to off-balance sheet instruments revaluation differences records the impact of revaluation of receivable or payable foreign currency included in the off-balance sheet accounts under the forward leg of currency swap contracts on the revaluation result of a relevant currency position (see Note 16).

Note 14. Subsidies

On 15 June 2005 the European Union PHARE II Programme was successfully completed. According to the trilateral agreement of 1995 between the European Commission, the Government of the Republic of Lithuania and the Bank of Lithuania, the Bank of Lithuania administered non-repayable subsidies allocated to the Republic of Lithuania. These funds were used through commercial banks for pursuing the Small and Medium Size Enterprise Financing Programme of the Republic of Lithuania. Lithuanian commercial banks participating in the Programme repaid all loans and interest in time. In accordance with the Resolution No 974 of the Government of the Republic of Lithuania dated 5 September 2005 on the use of non-returnable PHARE support funds, on 12 September 2005 the funds under PHARE I and II programmes accumulated in the Bank of Lithuania were transferred to a State Treasury account of the Republic of Lithuania.

Note 15. Revaluation Accounts

LTL million

Revaluation accounts	31 December 2005	31 December 2004
Gold	89.51	18.37
Securities	1.16	11.46
Foreign currency	0.05	0.46
Total	90.72	30.29

The balance accounted for in revaluation accounts represents unrealised gains arising from revaluation of gold, securities and foreign currency.

Unrealised revaluation losses when exceeding previous revaluation gains registered in corresponding revaluation accounts at the end of the year 2005 were recognised as expenses (see Note 21).

Note 16. Derivative Financial Instruments

For the purpose of managing foreign reserves the Bank of Lithuania applies derivative financial instruments – currency swap contracts and interest rate futures. These instruments are accounted for in the off-balance sheet accounts.

As of 31 December 2005 foreign currency swap contracts in off-balance sheet accounts recorded foreign currency payables (LTL 1,040.32 million) and foreign currency receivables (LTL 1,032.39 million). Unrealised losses of foreign currency receivables and payables (LTL 7.93 million) are reported in the balance sheet under Off-balance sheet instruments revaluation differences item. In 2005 the Bank of Lithuania earned an income of LTL 15.72 million on currency swap transactions (see Note 18).

As of 31 December 2005 interest rate future contracts at nominal value amounted to: notional sales under contracts made up LTL 155.38 million, notional acquisitions under contracts were LTL 20.72 million. The result of daily changes in the variation margin is presented in Note 20.

As of 31 December 2004 the Bank of Lithuania had not conducted any currency swap and interest rate future contracts.

Note 17. Capital

LTL million

	31 December 2004	Increase	Decrease	31 December 2005
Capital				
Authorised capital	100.00	33.03	–	133.03
Reserve capital	531.66	33.03	–	564.69
Total	631.66	66.06	–	697.72

Note 18. Interest Income

LTL million

	2005	2004
Interest income on:		
Investment in debt securities	195.22	187.26
Derivative transactions	15.72	13.08
Fixed-term deposits in foreign banks	7.40	3.57
Reverse repurchase agreements	2.75	8.22
Balances of correspondent accounts with foreign banks	1.55	3.84
Other interest income	0.48	0.58
Total	223.12	216.55

The average interest rate on investments was 1.99 per cent in 2005 (2.17 per cent in 2004).

Note 19. Interest Expense

LTL million

	2005	2004
Interest expense on:		
Fixed-term deposits of the Ministry of Finance	21.99	33.16
Balances of accounts of the Ministry of Finance	4.21	5.43
Interest on required reserves of credit institutions	3.22	–
Liabilities related to repurchase agreements	0.39	2.60
Total	29.81	41.19

The average interest rate on liabilities was 1.76 per cent in 2005 (1.64 per cent in 2004).

Note 20. Realised Gains (Losses) Arising from Financial Operations

LTL million

	2005	2004
Realised gains (losses) from realisation of:		
Securities	16.25	26.59
Foreign currency	0.56	1.28
Gold	–	0.04
Derivative financial instruments	(4.84)	(1.38)
Total	11.97	26.53

Note 21. Unrealised Losses from Revaluation

LTL million

	2005	2004
Unrealised losses from revaluation of		
Securities	23.03	0.96
Foreign currency	0.17	1.90
Total	23.20	2.86

Note 22. Net Commission and Fee Income

LTL million

	2005	2004
Income from:		
Settlement services	5.85	5.83
Sales of numismatic valuables	1.62	0.28
Auctions of securities	0.20	0.16
Trade in anchor currency	0.02	0.13
Other services	0.14	0.12
Management of the World Bank loan	0.11	0.11
Total	7.94	6.63
Fee expense for international banking operations	(1.35)	(1.27)
Net commission and fee income	6.59	5.36

Note 23. Other Income

LTL million

	2005	2004
Income for rent of assets	1.35	1.19
Other miscellaneous income	1.01	6.44
Total	2.36	7.63

Note 24. Staff Costs

LTL million

	2005	2004
Expenses on wages and salaries	38.06	37.15
to the members of the Board	0.94	0.83
to the heads of structural divisions	2.21	1.85
to other staff of the Bank of Lithuania	34.91	34.47
Contributions to State Social Insurance Fund	11.74	11.47
Total	49.80	48.62

The Board of the Bank of Lithuania consists of Chairman of the Board of the Bank of Lithuania, two Deputy Chairmen and two Board Members. At the end of 2005 eleven departments, five independent divisions and two branches carried out their activities at the Bank. The total number of employees was 842 (855 employees in 2004).

Note 25. Other Administrative Expenses

LTL million

	2005	2004
Expenses		
Maintenance expenses	6.47	6.78
Business trips	1.75	1.67
Mail and communication	1.77	1.49
Information subscriptions expenses	2.48	1.44
Training of staff	1.22	1.17
Library acquisitions and press subscriptions	0.17	0.18
Other	1.34	1.73
Total	15.20	14.46

Note 26. Banknote and Coin Production and Circulation Expenses

LTL million

	2005	2004
Banknote production expenses	–	1.26
Coin production expenses	8.59	3.46
Cash circulation expenses	0.57	0.51
Total	9.16	5.23

Note 27. Change in Specific Provisions

In 2005 AB LITIMPEKS Bank under liquidation covered a debt liability of LTL 20.59 million in relation to the loans granted to AB LITIMPEKS Bank in 1997. Specific provisions for those loans were formed in 1999.

The other part of the changes in specific provisions (LTL 0.34 million) was related to the change in the value of foreclosed assets.

Note 28. Distribution of the Profit of the Bank of Lithuania

In accordance with the requirements of Article 23 of the Law on the Bank of Lithuania on the allocation of the profit of the Bank of Lithuania, the profit for the financial year of 2005 is allocated by paying a 50 per cent contribution of the profit for the financial year to the state budget, the remaining part of the profit for the financial year being allocated in equal parts to the authorised capital of the Bank of Lithuania (until it reaches LTL 200 million provided for in the Law on the Bank of Lithuania) and the reserve capital.

LTL

	2005	2004	2003
Transfer to the state budget	(63,596,173)	(66,061,771)	(66,616,948)
Allocation to the authorised capital	(31,798,087)	(33,030,885)	–
Allocation to the reserve capital	(31,798,087)	(33,030,885)	(66,616,948)

Note 29. Assets and Liabilities of the Bank of Lithuania by Currencies

LTL million

	LTL	EUR	USD	JPY	XDR	XAU	Other	Total
31 December 2005								
ASSETS								
Gold	–	–	–	–	–	277.45	–	277.45
Claims on foreign institutions denominated in foreign currency	–	9,632.64	4.45	1,042.34	0.29	–	0.45	10,680.17
Receivables from the IMF	–	–	–	–	0.29	–	–	0.29
Debt securities	–	8,520.71	–	–	–	–	–	8,520.71
Deposits and other investments	–	1,111.93	4.45	1,042.34	–	–	0.45	2,159.17
Claims on domestic credit institutions denominated in foreign currency	–	0.03	0.01	0.00	–	–	0.00	0.04
Other assets	187.86	154.45	0.00	0.00	0.00	–	0.00	342.31
Total assets	187.86	9,787.12	4.46	1,042.34	0.29	277.45	0.45	11,299.97
LIABILITIES								
Banknotes and coins in circulation	6,715.59	–	–	–	–	–	–	6,715.59
Liabilities to domestic credit institutions denominated in litas	2,211.25	–	–	–	–	–	–	2,211.25
Liabilities to other domestic institutions denominated in litas	120.18	–	–	–	–	–	–	120.18
Liabilities to foreign institutions denominated in litas	7.31	–	–	–	–	–	–	7.31
Liabilities to domestic institutions denominated in foreign currency	–	1,282.93	6.49	2.01	0.15	–	0.18	1,291.76
Liabilities to foreign institutions denominated in foreign currency	–	20.54	–	–	–	–	–	20.54
Items in the course of settlement	1.20	–	–	–	–	–	–	1.20
Other liabilities	14.47	0.57	0.00	–	–	–	0.01	15.05
Subsidies	–	1.46	–	–	–	–	–	1.46
Revaluation accounts	89.56	1.16	–	–	–	–	–	90.72
Capital	697.72	–	–	–	–	–	–	697.72
Profit for the year	127.19	–	–	–	–	–	–	127.19
Total liabilities	9,984.47	1,306.66	6.49	2.01	0.15	–	0.19	11,299.97
NET BALANCE POSITION	(9,796.61)	8,480.46	(2.03)	1,040.33	0.14	277.45	0.26	0.00
NET BALANCE POSITION OF OFF-BALANCE SHEET INSTRUMENTS								
	–	1,032.39	–	(1,040.32)	–	–	–	(7.93)
31 December 2004								
Total assets	193.41	8,616.03	300.31	2.15	0.28	206.30	0.69	9,319.17
Total liabilities	7,391.26	1,625.37	299.61	2.11	0.13	–	0.69	9,319.17
NET BALANCE POSITION	(7,197.85)	6,990.66	0.70	0.04	0.15	206.30	0.00	0.00

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