



LIETUVOS BANKAS

THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

2003



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AUDITOR'S 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 2003 and the related profit (loss) statement and explanatory notes 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) and Lithuanian National Auditing Standards as set forth by the Lithuanian Chamber of Auditors. 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 2003 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.

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The audit was completed on 15 March 2004.

Balance Sheet of the Bank of Lithuania

LTL million

	Notes	31 December 2003	31 December 2002
ASSETS			
1. Gold	1	214.60	211.34
2. Claims on foreign institutions denominated in foreign currency		9,148.84	7,629.14
2.1. Receivables from the IMF	2	0.24	175.98
2.2. Deposits, securities and other investments denominated in foreign currency	3	9,148.60	7,453.16
3. Claims on domestic credit institutions denominated in foreign currency	4	9.92	15.83
4. Other assets		365.74	350.83
4.1. Fixed assets	5	162.18	167.40
4.2. Investments into equity instruments	6	13.24	13.24
4.3. Accrued income and deferred expenditure	7	173.94	154.62
4.4. Sundry	8	16.38	15.57
Total		9,739.10	8,207.14
LIABILITIES			
5. Banknotes and coins in circulation	9	5,136.75	4,221.96
6. Liabilities to domestic credit institutions denominated in litas	10	999.04	591.13
7. Liabilities to other domestic institutions denominated in litas	11	93.75	381.86
7.1. Liabilities to Government institutions		85.13	364.37
7.2. Other liabilities		8.62	17.49
8. Liabilities to foreign institutions denominated in litas		2.54	3.18
9. Liabilities to domestic institutions denominated in foreign currency	12	2,531.10	1,925.26
9.1. Liabilities to credit institutions		397.97	339.27
9.2. Liabilities to Government institutions		2,133.13	1,585.99
10. Liabilities to foreign institutions denominated in foreign currency	13	185.37	368.77
11. Items in the course of settlement	14	19.31	1.70
12. Other liabilities	15	9.95	9.79
12.1. Accrued expenditure and deferred income	15	3.97	5.21
12.2. Off-balance sheet instruments revaluation differences	15, 18	1.18	–
12.3. Sundry	15	4.80	4.58
13. Subsidies	16	29.01	28.75
14. Revaluation accounts	17	34.00	57.91
15. Capital	19	565.05	513.27
15.1. Authorised capital		100.00	100.00
15.2. Reserve capital		454.30	402.52
15.3. Reserves		10.75	10.75
16. Profit for the year	27	133.23	103.56
Total		9,739.10	8,207.14

Profit (Loss) Statement of the Bank of Lithuania

LTL million

	Notes	2003	2002
Interest income	20	205.99	272.73
Interest expense	21	(44.47)	(61.00)
1. Net interest income		161.52	211.73
Realised gains (losses) arising from financial operations	22	47.30	(17.58)
Unrealised losses from revaluation	23	(4.82)	(22.27)
2. Net result of financial operations and revaluation losses		42.48	(39.85)
Commission and fee income		7.89	6.45
Commission and fee expense		(1.06)	(0.82)
3. Net commission and fee income	24	6.83	5.63
4. Dividend income	6	1.04	0.97
5. Other income		2.77	3.47
NET INCOME		214.64	181.95
Staff costs	25	(44.44)	(42.78)
Other administrative expenses	26	(12.31)	(11.73)
Assets depreciation and amortisation	5	(14.84)	(13.16)
Banknote and coin production and circulation expenses		(10.39)	(12.17)
6. Operational expenses		(81.98)	(79.84)
7. Change in specific provisions		0.57	1.45
PROFIT FOR THE YEAR	27	133.23	103.56

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

The Annual Financial Statements of the Bank of Lithuania 2003 were approved on 25 March 2004 by Resolution No. 31 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 In 2003, the Bank of Lithuania continued the implementation of its objective of seeking price stability¹ as defined in the Law on the Bank of Lithuania, performed the functions specified in the above law and the tasks provided in the Bank of Lithuania operational guidelines.

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 permissions for the establishment and operation of branches and representative offices 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.

Basis for Preparation and Presentation of Financial Statements The Bank of Lithuania is committed to prepare 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 Financial Statements are prepared in accordance with the Law on the Bank of Lithuania, other legislation of the Republic of Lithuania applicable for the Bank of Lithuania and in accordance with the provisions set forth in Bank's internal accounting policies being in line with the accounting and financial reporting rules of the European System of Central Banks (ESCB)² as much as such rules can be applicable within a national central bank (NCB) 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.

The format of the Annual Financial Statements of the Bank of Lithuania for the year 2003 has been changed: new liabilities item "Items in the course of settlement" was inserted to the balance sheet; there is a relinquish of the Statement on Movements of Capital and Revaluation accounts, all data from this statement is presented in explanatory notes 17, 19 and 27.

To ensure the consistency of information, the respective comparative financial data for 2002 has been presented.

The figures in the Annual Financial Statements are stated in the national currency – litas.

¹ See the comment in section "Other information" of the Explanatory Notes.

² Accounting and financial reporting rules of the ESCB are laid down in the Decision of the Governing Council of the ECB of 5 December 2002 (ECB/2002/10).

The Balance Sheet and the Profit (Loss) Statement for the year 2003 were prepared on the basis of the provisions of the accounting policy presented below.

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 and transparency, prudence, materiality, going concern, accrual, consistency and comparability.

Gold held as part of foreign reserves, debt securities, other on-balance sheet and (or) off-balance sheet assets and (or) liabilities denominated in foreign currency ("financial items") are recorded in the Financial Statements as at 31 December 2003 market prices and translated into litas using the litas and foreign currency official exchange rates ("official exchange rate") quoted by the Bank of Lithuania on that date.

Official exchange rates of the litas and the main foreign currencies

Litas (LTL) per unit

Currency	Code	31 December 2003	31 December 2002
Euro	EUR	3.4528	3.4528
US Dollar	USD	2.7621	3.3114
100 Japanese Yen	JPY	2.5823	2.7736
Special Drawing Rights (SDR)	XDR	4.0888	4.4751
Great Britain Pounds Sterling	GBP	4.9032	5.3123

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 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 cannot be reversed in subsequent years against new revaluation gain 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 London Bullion Market. Gold revaluation gains or losses are calculated on the basis of 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 adjusted correspondingly to the gold market price prevailing on the last business day of the financial year.

Transactions related to gold swaps are accounted for in the same way as repurchase agreements.

Foreign Currency Transactions

On-balance sheet and off-balance sheet foreign currency financial items other than interest accruals 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, except for revaluation of accrued interest income and expenses, when the respective income and expenses accounts are adjusted by the revaluation differences.

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 case of net asset position) or reduce it (in case of net liability position).

In the event of recognition of unrealised revaluation losses on any foreign currency at the year-end, the average rate of that currency position is adjusted correspondingly 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 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 (IRR) method, on coupon securities – according to the straight-line method.

Unrealised revaluation losses of 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 needs are recorded at 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 a 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 of the value between the purchase and repurchase price of the collateral acquired under repurchase and reverse repurchase agreements is recognised as 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.

Loans to legal entities are classified and specific provisions are made each quarter. A loan whose net value is zero and whose status has not improved for over a year is written-off from the balance sheet, including accrued interest and other receivables.

The value of loans to individuals is adjusted for the year-end situation on a yearly basis.

Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets include such assets whose acquisition cost (including VAT) is not less than LTL 500 and whose useful life is longer than one year. Tangible and intangible fixed assets 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 tangible and intangible fixed assets

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 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 national currency into circulation are recorded as expenses as incurred irrespectively when the coins and banknotes are 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 into the net foreign currency position for the purpose of calculating foreign exchange gains and losses. The foreign currency forward position is revalued together with the respective on-balance sheet foreign currency position.

Interest rate derivative financial instruments are revalued on item-by-item basis. Daily changes in the variation margin of interest rate futures are considered realised and 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 expense at the year-end when exceeding previous revaluation gains registered in the corresponding revaluation account.

The average price and (or) average rate method is used on a daily basis for gold, securities and foreign currency instruments to compute the acquisition cost of items sold.

Taxes

The Bank of Lithuania is not subject to any taxes or fees, with the exception of the contribution from the profit as required under the Law on the Bank of Lithuania, remaining after the allocation of the profit to the authorised and/or reserve capital.

Post-Balance-Sheet Events

Annual financial statements are adjusted for post-balance-sheet events that occur between the annual balance sheet date (i.e., 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 that affect the condition of the data of annual financial statements at the later than the balance sheet day. These events are disclosed in the Explanatory Notes to the Annual Financial Statements, 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.

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. An appropriate organisational and internal control system was established at the Bank of Lithuania in order to implement the foregoing tasks.

The main object of risk are the foreign reserves of the Bank of Lithuania, that as at 31 December 2003 accounted for more than 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 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 28).

The Bank of Lithuania uses the indicator of the modified duration (MD) as the main tool for managing interest rate risk. In order to reduce interest rate risk, allowed deviations from MD of the benchmarks are established to portfolios. The "value-at-risk" (VAR) method is used as an additional risk management instrument.

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 financial instruments, issuers, counterparties and their groups.

Foreign reserve liquidity risk is managed by setting liquidity ratios and liquidity requirements for financial instruments. Liquidity ratios guarantee that a certain portion of foreign reserves is always held in a very liquid form.

Various correspondent account management techniques are applied for managing settlement risks, such as payment queuing, matching of debit and credit turnovers. These means help to reduce the risk of loss due to settlement defaults by counterparties.

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

Other Information On 5 February 2004 the Seimas of the Republic of Lithuania adopted the Law on the Amendment of the Law on the Bank of Lithuania due in effect as of 1 May 2004 to implement the requirements of the legal acts of the European Union related to the activity of the Bank of Lithuania. In addition to other requirements, below are the requirements imposed by the amended Law on the Bank of Lithuania:

- establishment of the main objective of the Bank of Lithuania – that of maintaining price stability;
- increasing the amount of the authorised capital of the Bank of Lithuania to LTL 200 million;
- abolishing restrictions on the amount of reserve capital;
- a new procedure for distributing the profit of the Bank of Lithuania, which provides for the allocation of profit earned during the financial year or any portion thereof remaining upon the allocation of profit for covering the losses for the prior financial year as follows: 50 percent are paid to the budget of the Republic of Lithuania and the remaining profit is used to increase the capital (authorised and/or reserve) of the Bank of Lithuania.

Notes Note 1. Gold

	31 December 2003	31 December 2002
Gold holdings in		
Troy ounces	186,205.23	186,205.36
Kilograms	5,791.63	5,791.63
Price of one Troy ounce, USD	417.25	342.75
Value of gold, LTL million	214.60	211.34

Gold holdings changed due to differences in the weight of gold bars arising on settlements of gold lending transactions. All gold holdings as at 31 December 2003 are related to swap transactions, which mature in 2004.

Note 2. Receivables from the International Monetary Fund (IMF)

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

The Bank of Lithuania performs the function of depository of the IMF funds.

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 another 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 2003 amounted to SDR 173.89 million.

Net Reserve Position in the IMF

SDR million

	31 December 2003	31 December 2002
State Quota of IMF membership (total value)	144.20	144.20
IMF claims corresponding to Government Securities in litas	(173.89)	(233.02)
IMF funds in accounts with the Bank of Lithuania in litas	(0.48)	(0.43)
Disposition of the IMF loans	30.19	89.27
Net reserve position in the IMF	0.02	0.02

At the beginning of 2003, the Bank of Lithuania repaid a remaining part of the loan under IMF Extended Fund Facility managed by the Bank of Lithuania. The Government of the Republic of Lithuania manages the remaining part of this Extended Fund Facility (SDR 28.03 million as at 31 December 2003) and the loan under the Systematic Transformation Facility granted by the IMF to the Republic of Lithuania, the balance of which made SDR 2.16 million on 31 December 2003. Interest accrued on these loans managed by the Government of the Republic of Lithuania amounted to SDR 0.12 million on 31 December 2003.

Funds Receivable from the IMF

LTL million

	31 December 2003	31 December 2002
Net reserve position in the IMF	0.07	0.07
Balance in SDR account with the IMF	0.17	175.91
Total	0.24	175.98

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

LTL million

	31 December 2003	31 December 2002
Correspondent accounts with foreign banks	509.22	361.11
Fixed-term deposits with foreign banks	167.98	274.27
Debt securities	7,190.42	4,973.04
Reverse repurchase agreements	1,280.98	1,844.74
Total	9,148.60	7,453.16

Breakdown of deposits, securities and other investments by currencies is shown in Note 28.

Breakdown of Correspondent Accounts, Fixed-Term Deposits and Reverse Repurchase Transactions by Counterparties

LTL million

	31 December 2003	31 December 2002
By sector		
Central banks	335.97	26.71
International financial institutions	168.28	342.01
Other financial institutions	1,453.93	2,111.40
Total	1,958.18	2,480.12
By country		
European Union member states	1,442.17	2,110.73
Japan	313.50	6.45
Switzerland	168.28	341.75
USA	34.23	21.19
Total	1,958.18	2,480.12

Investments denominated in euro comprise the major part of these investments (77.17%).

Breakdown of Debt Securities by Issuer and Issuer's Country

LTL million

	31 December 2003	31 December 2002
Debt securities of central Governments and Government agencies	6,597.35	4,802.09
European Union member states	6,193.75	4,750.32
USA	210.02	51.77
Iceland	116.52	–
Japan	77.06	–
Securities of international financial institutions	417.90	170.95
European Investment Bank	219.37	30.90
Eurofima	141.27	84.10
International Bank for Reconstruction and Development (World Bank)	41.93	40.10
Other institutions	15.33	15.85
Credit institutions	175.17	–
Total	7,190.42	4,973.04

Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Maturity³

LTL million

	Demand	Within 1 year	1–5 years	More than 5 years	Total
Deposits, securities and other investments denominated in foreign currency	509.22	5,707.11	2,917.01	15.26	9,148.60

The amount of deposits, securities and other investments denominated in foreign currency and related to the variable interest rate is not significant.

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

LTL million

	31 December 2003	31 December 2002
Loans to commercial banks	9.86	15.77
Accounts with commercial banks	0.06	0.06
Total	9.92	15.83

Loans to banks are related to the implementation of the Small and Medium Size Enterprise Financing Programme of the Republic of Lithuania.

Note 5. Fixed Assets

LTL million

	Intangible assets	Tangible assets				Total
		Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled items)	Vehicles	Other tangible assets	
Acquisition value as at 31 December 2002	10.69	143.50	56.26	6.42	38.29	255.16
Additions in 2003	1.14	2.99	4.39	0.79	0.59	9.90
Disposals in 2003	(0.30)	–	(1.62)	(0.62)	(5.12)	(7.66)
Acquisition value as at 31 December 2003	11.53	146.49	59.03	6.59	33.76	257.40
Accrued depreciation as at 31 December 2002	(8.73)	(10.80)	(35.52)	(5.52)	(27.19)	(87.76)
Depreciation in 2003	(2.20)	(3.24)	(6.41)	(0.25)	(2.74)	(14.84)
Written-off depreciation in 2003	0.30	–	1.58	0.62	4.88	7.38
Accrued depreciation as at 31 December 2003	(10.63)	(14.04)	(40.35)	(5.15)	(25.05)	(95.22)
Net book value as at 31 December 2003	0.90	132.45	18.68	1.44	8.71	162.18
Net book value as at 31 December 2002	1.96	132.70	20.74	0.90	11.10	167.40

The net balance of LTL 9.57 million for the increase in value of fixed assets indexed prior to 1995 according to the resolutions of the Government of the Republic of Lithuania recorded in the Tangible fixed assets reserve (see Note 19).

³ Maturity is presented on the basis of the remaining period to the repayment date.

Note 6. Investments into Equity Instruments

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with representation and voting rights equal to 1,000 shares with an acquisition cost of LTL 7.77 million and the nominal value of 2,500 gold francs per share. The Bank of Lithuania has paid up 25 per cent of the value of these shares. The Bank of Lithuania received dividends of LTL 0.89 million for these BIS shares in 2003 same as in 2002.

One SWIFT share, the acquisition value of which is LTL 3,249, held by the Bank of Lithuania does not yield dividends.

The Bank of Lithuania owns 60 per cent of shares of the Central Securities Depository of Lithuania with an acquisition cost of LTL 3.63 million. In 2003 the Bank of Lithuania received dividends of LTL 0.15 million for them (LTL 0.08 million in 2002).

As from 1995 the Bank of Lithuania was granted the rights of the founder of the Public Company Lithuanian Mint. In 1998, the Bank of Lithuania made a LTL 1.83 million property contribution to increase the authorised capital of this company.

Note 7. Accrued Income and Deferred Expenditure

LTL million

	31 December 2003	31 December 2002
Debt securities coupon payment purchased	81.81	84.82
Accrued interest income	89.19	66.81
Accrued debt securities coupon	87.77	65.09
Interest on reverse repurchase agreements	0.49	0.92
Interest from derivative financial instruments	0.86	–
Other income	0.07	0.80
Other accrued income	0.75	0.62
Deferred expenses	2.19	2.37
Total	173.94	154.62

Note 8. Sundry

LTL million

	31 December 2003	31 December 2002
Loans to the staff of the Bank of Lithuania	9.39	7.64
Foreclosed assets	5.56	6.95
Specific provisions	(0.99)	(1.45)
Other assets	2.42	2.43
Total	16.38	15.57

Mortgage loans issued to the staff of the Bank of Lithuania as at 31 December 2003 amounted to LTL 8.35 million, and the balance of consumer loans was LTL 1.04 million.

Foreclosed assets consist of non-interest bearing Lithuanian Government debt securities denominated in the national currency of four issues with various maturities (LTL 5.40 million) and the balance of the rights of claim to the debts of individuals taken over for satisfying part of claims on loans granted by the Bank of Lithuania (LTL 0.16 million). Redemption of securities taken over is planned to take place in proportionally equal shares until 2007 (LTL 1.35 million was already redeemed in 2003).

The major portion of specific provisions related to sundry items as at 31 December 2003 (LTL 0.96 million) is against the foreclosed assets (LTL 1.45 million as at 31 December 2002).

Other assets consist of inventories amounting to LTL 2.07 million (LTL 2.05 million in 2002) and amounts receivable amounting to LTL 0.35 million (LTL 0.38 million in 2002).

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 2003, the amount of cash put into circulation amounted to LTL 2,252.16 million (LTL 2,091.97 million in 2002) and the amount withdrawn from circulation made up to LTL 1,337.37 million (LTL 1,136.72 million in 2002).

Banknotes and Coins in Circulation

LTL million

	31 December 2003	31 December 2002
Banknotes	5,028.50	4,121.41
Coins	108.25	100.55
Total	5,136.75	4,221.96

The Bank of Lithuania issues commemorative (of which golden and silver) coins.

Note 10. Liabilities to Domestic Credit Institutions Denominated in Lit

This item compose the holdings of required reserves held by domestic banks in their correspondent accounts with the Bank of Lithuania. Interest on balances on these accounts is not paid.

Note 11. Liabilities to Other Domestic Institutions Denominated in Lit

LTL million

	31 December 2003	31 December 2002
Liabilities to Government institutions	85.13	364.37
Balances of accounts of the Ministry of Finance	83.65	356.37
Balances of accounts of other Government institutions	1.48	8.00
Other liabilities	8.62	17.49
Total	93.75	381.86

Note 12. Liabilities to Domestic Institutions Denominated in Foreign Currency

LTL million

	31 December 2003	31 December 2002
Liabilities to credit institutions	397.97	339.27
Liabilities to Government institutions	2,133.13	1,585.99
Balances of accounts of the Ministry of Finance	811.49	353.53
Fixed-term deposits of the Ministry of Finance	1,321.43	1,232.44
Balances of accounts of other Government institutions	0.21	0.02
Total	2,531.10	1,925.26

Liabilities to credit institutions consist of the holdings of required reserves of domestic banks in foreign currency held in accounts with the Bank of Lithuania.

Breakdown of Liabilities to Domestic Institutions Denominated in Foreign Currency by Maturity

LTL million

	Demand	Within 1 year	Without term	Total
Liabilities in foreign currency	811.64	1,321.43	398.03	2,531.10

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

Note 13. Liabilities to Foreign Institutions Denominated in Foreign Currency

LTL million

	31 December 2003	31 December 2002
IMF loan	–	175.62
Liabilities related to gold swap operations	185.37	193.15
Total	185.37	368.77

Note 14. Items in the Course of Settlement

This liability item shows advance transfers of the commercial banks for litas banknotes and coins.

Note 15. Other Liabilities

Accrued Expenditure and Deferred Income

LTL million

	31 December 2003	31 December 2002
Accrued interest expenses	1.66	3.36
Interest on the IMF loan	0.00	0.77
Other expenses	1.66	2.59
Other accrued expenses	2.00	1.68
Deferred income	0.31	0.17
Total	3.97	5.21

Off-balance Sheet Instruments Revaluation Differences

This item includes the unrealised revaluation loss as at 31 December 2003 (LTL 1.18 million) related to foreign currency forward sales and purchases accounted in off-balance sheet accounts (see Note 18) under foreign exchange swap transactions introduced by the Bank of Lithuania in 2003.

Sundry

LTL million

	31 December 2003	31 December 2002
Balances of accounts	2.65	2.31
Other amounts payable	2.15	2.27
Total	4.80	4.58

Note 16. Subsidies*LTL million*

	31 December 2003	31 December 2002
Subsidies for financing small and medium size enterprises	29.01	28.52
Fixed tangible assets	–	0.23
Total	29.01	28.75

According to trilateral agreements of 1993 and 1995 between the European Commission, the Government of the Republic of Lithuania and the Bank of Lithuania, the Bank of Lithuania administers non-repayable subsidies allocated to the Republic of Lithuania through commercial banks for pursuing the Small and Medium Size Enterprise Financing Programme of the Republic of Lithuania. The part of interest received, which is specified in agreements, is allocated for refinancing of credits.

Implementation of PHARE I programme of the European Commission was completed in 2003. The banks involved in the Programme repaid the loans to the Bank of Lithuania. The European Commission is considering further possibilities of using the funds. PHARE II programme is being further implemented, and the commercial banks participating in the programme will continue using the funds until 15 June 2005.

Note 17. Revaluation Accounts*LTL million*

Revaluation accounts	31 December 2003	31 December 2002
Gold	26.30	23.04
Securities	7.69	34.87
Foreign currency	0.01	0.00
Total	34.00	57.91

The balance accounted for in revaluation accounts shows unrealised gains arising from revaluation of gold, every securities issue and any one foreign currency at market price and/or the official exchange rate as at 31 December 2003. Whereas unrealised revaluation losses when exceeding previous revaluation gains registered in corresponding revaluation accounts of 31 December 2003 were recognised as expenses (see Note 23).

Note 18. Derivative Financial Instruments

In 2003 for the purpose of managing foreign reserves the Bank of Lithuania introduced derivative financial instruments – currency swap contracts and interest rate futures. These instruments are accounted for in the off-balance sheet accounts.

The currency purchased on the basis of currency swap contracts amounted to LTL 383.68 million, and the currency sold amounted to LTL 384.86 million as at 31 December 2003. A breakdown of foreign currency receivables and payables related to foreign currency swap contracts is shown in Note 28.

Sales under interest rate future contracts at nominal value amounted to LTL 6.91 million as at 31 December 2003. Result of the change (LTL 0.29 million of losses) in value of the daily interest rate of futures is presented in Note 22.

Note 19. Capital*LTL million*

	31 December 2002	Increase	Decrease	31 December 2003
Capital				
Authorised capital	100.00	–	–	100.00
Reserve capital	402.52	51.78	–	454.30
General reserve	1.14	0.04	–	1.18
Tangible fixed asset reserve	9.61	–	(0.04)	9.57
Total	513.27	51.82	(0.04)	565.05

Reserve Capital was increased by the portion of profit for the year 2002 (see note 27).

Part of the Tangible Fixed Asset Reserve attributable to tangible fixed assets written off and (or) fully depreciated in 2003 is transferred to the General Reserve on 31 December 2003.

Note 20. Interest Income*LTL million*

	2003	2002
Interest on:		
Investment in debt securities	175.65	225.68
Reverse repurchase agreements	20.42	26.77
Balances of correspondent accounts with foreign banks	4.75	9.85
Fixed-term deposits in foreign banks	3.26	5.56
Derivative transactions	1.38	–
Other interest income	0.53	4.87
Total	205.99	272.73

Due to overall decrease of interest rate level in international financial markets, the average interest rate on investments was 2.51 per cent (3.69% in 2002). The average amount of foreign investments⁴ amounted to LTL 8,173.35 million in 2003 (LTL 7,383.35 million in 2002).

Note 21. Interest Expense*LTL million*

	2003	2002
Interest on:		
Fixed-term deposits of the Ministry of Finance	(32.89)	(37.55)
Balances of accounts of the Ministry of Finance	(6.09)	(11.13)
Liabilities to the IMF	(0.24)	(6.64)
Liabilities related to repurchase agreements	(5.25)	(5.68)
Total	(44.47)	(61.00)

Average interest rate paid on liabilities was 1.93 per cent in 2003 (2.63% in 2002). The average volume of interest bearing liabilities in 2003 amounted to LTL 2,287.05 million and to LTL 2,318.62 million in 2002.

⁴ The average amount is calculated on the basis of the daily investment amount.

Note 22. Realised Gains (Losses) Arising from Financial Operations*LTL million*

	2003	2002
Realised gains (losses) from realisation of		
Securities	48.12	(16.20)
Foreign currency	(0.53)	(1.38)
Derivative financial instruments	(0.29)	–
Total	47.30	(17.58)

Note 23. Unrealised Losses from Revaluation*LTL million*

	2003	2002
Unrealised losses from revaluation of		
Securities	(4.73)	(0.01)
Foreign currency	(0.09)	(22.26)
Total	(4.82)	(22.27)

Note 24. Net Commission and Fee Income*LTL million*

	2003	2002
Income from:		
Trade in anchor currency	0.70	0.79
Sales of numismatic valuables	0.96	0.27
Auctions of securities	0.25	0.24
Settlement services	5.71	4.84
Management of the World Bank loan	0.18	0.24
Other services	0.09	0.07
Total	7.89	6.45
Fee expense for international banking operations	(1.06)	(0.82)
Net commission and fee income	6.83	5.63

Note 25. Staff Costs*LTL million*

	2003	2002
Expenses on wages and salaries	(33.95)	(32.68)
to the members of the Board	(0.67)	(0.62)
to the heads of structural divisions	(1.66)	(1.65)
to other staff of the Bank of Lithuania	(31.62)	(30.41)
Contributions to State Social Insurance Fund	(10.49)	(10.10)
Total	(44.44)	(42.78)

At the end of 2003 same as in 2002, the Board of the Bank of Lithuania was comprised of the Chairman, three Deputy Chairmen and seven Members of the Board. Ten departments, five independent divisions and two branches carried out their activities at the Bank and the Bank employed 856 employees (865 employees in 2002).

Note 26. Other Administrative Expenses*LTL million*

	2003	2002
Expenses		
Maintenance expenses	(6.10)	(6.37)
Information subscriptions expenses	(1.37)	(1.44)
Business trips	(1.26)	(0.82)
Mail and communication	(1.04)	(1.05)
Training of staff	(1.03)	(0.96)
Library acquisitions and press subscriptions	(0.15)	(0.20)
Other expenses	(1.36)	(0.89)
Total	(12.31)	(11.73)

Note 27. Distribution of the Profit of the Bank of Lithuania*LTL million*

	2003	2002	2001
Profit for the year	133.23	103.56	140.41
Allocation to the authorised capital	–	–	(37.38)
Allocation to the reserve capital	(66.615)	(51.78)	(41.00)
Transfer to the state budget	(66.615)	(51.78)	(62.03)

Note 28. Assets and Liabilities of the Bank of Lithuania by Currencies

LTL million

	LTL	EUR	USD	JPY	XDR	XAU	Other	Total
31 December 2003								
ASSETS								
Gold	–	–	–	–	–	214.60	–	214.60
Claims on foreign institutions denominated in foreign currency	–	8,313.66	442.87	391.37	0.24	–	0.70	9,148.84
<i>Receivables from the IMF</i>	–	–	–	–	0.24	–	–	0.24
<i>Debt securities</i>	–	6,802.45	310.91	77.06	–	–	–	7,190.42
<i>Deposits and other investments</i>	–	1,511.21	131.96	314.31	–	–	0.70	1,958.18
Claims on domestic credit institutions denominated in foreign currency	–	9.86	0.06	0.00	–	–	0.00	9.92
Other assets	194.74	167.75	2.81	0.44	0.00	–	0.00	365.74
Total assets	194.74	8,491.27	445.74	391.81	0.24	214.60	0.70	9,739.10
LIABILITIES								
Banknotes and coins in circulation	5,136.75	–	–	–	–	–	–	5,136.75
Liabilities to domestic credit institutions denominated in litas	999.04	–	–	–	–	–	–	999.04
Liabilities to other domestic institutions denominated in litas	93.75	–	–	–	–	–	–	93.75
Liabilities to foreign institutions denominated in litas	2.54	–	–	–	–	–	–	2.54
Liabilities to domestic institutions denominated in foreign currency	–	2,137.83	385.70	6.91	0.08	–	0.58	2,531.10
Liabilities to foreign institutions denominated in foreign currency	–	–	185.37	–	–	–	–	185.37
Items in the course of settlement	19.31	–	–	–	–	–	–	19.31
Other liabilities	7.21	0.79	1.95	–	–	–	–	9.95
Subsidies	–	29.01	–	–	–	–	–	29.01
Revaluation accounts	26.31	7.65	0.03	0.01	–	–	–	34.00
Capital	565.05	–	–	–	–	–	–	565.05
Profit	133.23	–	–	–	–	–	–	133.23
Total liabilities, capital and profit	6,983.19	2,175.28	573.05	6.92	0.08	–	0.58	9,739.10
NET BALANCE POSITION	(6,788.45)	6,315.99	(127.31)	384.89	0.16	214.60	0.12	0.00
NET OFF-BALANCE SHEET FINANCIAL INSTRUMENTS' POSITION	–	255.97	127.71	(384.86)	–	–	–	(1.18)
31 December 2002								
Total assets	198.98	6,931.58	679.21	9.13	176.58	211.34	0.32	8,207.14
Total liabilities, capital and profit	5,846.33	1,633.19	541.83	9.10	176.49	–	0.20	8,207.14
NET BALANCE POSITION	(5,647.35)	5,298.39	137.38	0.03	0.09	211.34	0.12	0.00