

# THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

2004

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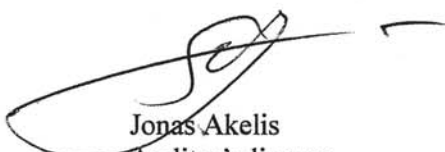
## INDEPENDENT AUDITORS' REPORT TO THE SEIMAS OF THE REPUBLIC OF LITHUANIA

We have audited the accompanying balance sheet of the Bank of Lithuania (“the Bank”) as of 31 December 2004 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 2004 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  
Nr. 000003



Ramūnas Bartašius  
Auditor’s licence  
No. 000362

Vilnius  
The audit was completed on 15 March 2005.

2004

## BALANCE SHEET OF THE BANK OF LITHUANIA

LTL million

	Notes	31 December 2004	31 December 2003
<b>ASSETS</b>			
<b>1. Gold</b>	<b>1</b>	<b>206.30</b>	<b>214.60</b>
<b>2. Claims on foreign institutions denominated in foreign currency</b>		<b>8,743.00</b>	<b>9,148.84</b>
2.1. Receivables from the IMF	2	0.28	0.24
2.2. Deposits, securities and other investments denominated in foreign currency	3	8,742.72	9,148.60
<b>3. Claims on domestic credit institutions denominated in foreign currency</b>	<b>4</b>	<b>9.93</b>	<b>9.92</b>
<b>4. Other assets</b>		<b>359.94</b>	<b>365.74</b>
4.1. Intangible assets and property, plant and equipment	5	160.71	162.18
4.2. Investments into equity instruments	6	19.19	13.24
4.3. Accrued income and deferred expenditure	7	163.47	173.94
4.4. Sundry	8	16.57	16.38
<b>Total</b>		<b>9,319.17</b>	<b>9,739.10</b>
<b>LIABILITIES</b>			
<b>5. Banknotes and coins in circulation</b>	<b>9</b>	<b>5,594.57</b>	<b>5,136.75</b>
<b>6. Liabilities to domestic credit institutions denominated in litas</b>	<b>10</b>	<b>891.51</b>	<b>999.04</b>
<b>7. Liabilities to other domestic institutions denominated in litas</b>	<b>11</b>	<b>108.24</b>	<b>93.75</b>
7.1. Liabilities to Government institutions		94.92	85.13
7.2. Liabilities to other domestic institutions		13.32	8.62
<b>8. Liabilities to foreign institutions denominated in litas</b>		<b>6.54</b>	<b>2.54</b>
<b>9. Liabilities to domestic institutions denominated in foreign currency</b>	<b>12</b>	<b>1,880.41</b>	<b>2,531.10</b>
9.1. Liabilities to credit institutions		504.39	397.97
9.2. Liabilities to Government institutions		1,376.02	2,133.13
<b>10. Liabilities to foreign institutions denominated in foreign currency</b>		<b>5.76</b>	<b>185.37</b>
<b>11. Items in the course of settlement</b>		<b>1.35</b>	<b>19.31</b>
<b>12. Other liabilities</b>	<b>13</b>	<b>7.34</b>	<b>9.95</b>
12.1. Accrued expenditure and deferred income		3.78	3.97
12.2. Off-balance sheet instruments revaluation differences		–	1.18
12.3. Sundry		3.56	4.80
<b>13. Subsidies</b>	<b>14</b>	<b>29.38</b>	<b>29.01</b>
<b>14. Revaluation accounts</b>	<b>15</b>	<b>30.29</b>	<b>34.00</b>
<b>15. Capital</b>	<b>17</b>	<b>631.66</b>	<b>565.05</b>
15.1. Authorised capital		100.00	100.00
15.2. Reserve capital		531.66	454.30
15.3. Reserves		–	10.75
<b>16. Profit for the year</b>	<b>26</b>	<b>132.12</b>	<b>133.23</b>
<b>Total</b>		<b>9,319.17</b>	<b>9,739.10</b>

## PROFIT (LOSS) STATEMENT OF THE BANK OF LITHUANIA

LTL million

	Notes	2004	2003
Interest income	<b>18</b>	216.55	205.99
Interest expense	<b>19</b>	(41.19)	(44.47)
<b>1. Net interest income</b>		<b>175.36</b>	<b>161.52</b>
Realised gains (losses) arising from financial operations	<b>20</b>	26.53	47.30
Unrealised losses from revaluation	<b>21</b>	(2.86)	(4.82)
<b>2. Net result of financial operations and revaluation losses</b>		<b>23.67</b>	<b>42.48</b>
Commission and fee income		6.63	7.89
Commission and fee expense		(1.27)	(1.06)
<b>3. Net commission and fee income</b>	<b>22</b>	<b>5.36</b>	<b>6.83</b>
<b>4. Dividend income</b>	<b>6</b>	<b>1.25</b>	<b>1.04</b>
<b>5. Other income</b>	<b>23</b>	<b>7.63</b>	<b>2.77</b>
<b>NET INCOME</b>		<b>213.27</b>	<b>214.64</b>
<b>6. Staff costs</b>	<b>24</b>	<b>(48.62)</b>	<b>(44.44)</b>
<b>7. Other administrative expenses</b>	<b>25</b>	<b>(14.46)</b>	<b>(12.31)</b>
<b>8. Assets depreciation and amortisation</b>	<b>5</b>	<b>(13.40)</b>	<b>(14.84)</b>
<b>9. Banknote and coin production and circulation expenses</b>		<b>(5.23)</b>	<b>(10.39)</b>
<b>10. Change in specific provisions</b>		<b>0.56</b>	<b>0.57</b>
<b>PROFIT FOR THE YEAR</b>	<b>26</b>	<b>132.12</b>	<b>133.23</b>

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

The Annual Financial Statements of the Bank of Lithuania 2004 were approved on 24 March 2005 by Resolution No. 43 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 accordance with the Law Amending and Supplementing the Law on the Bank of Lithuania, which came into effect on 1 May 2004, the main objective of the Bank of Lithuania is to seek 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 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.

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).

Pursuant to respective decisions passed by European Commission, European Central Bank (ECB), the Government of the Republic of Lithuania and the Bank of Lithuania, 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 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)<sup>1</sup>, 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.

For information consistency purposes, the respective comparative financial data for 2003 has been presented.

<sup>1</sup> 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).

**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 2004 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 Litās and the Main Foreign Currencies**

Litas (LTL) per unit

Currency	Code	31 December 2004	31 December 2003
Euro	EUR	3.4528	3.4528
US Dollar	USD	2.5345	2.7621
100 Japanese Yen	JPY	2.4421	2.5823
Special Drawing Rights (SDR)	XDR	3.9260	4.0888

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 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/expenses 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 a net asset position) or reduce it (in the case of a 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 the net position of that currency (in the case of a net asset position) or reduce 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 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 an 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 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 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 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.

Loans to credit institutions 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 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 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 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 realised and unrealised income from gold, securities and foreign currency instruments in order to compute the acquisition cost of items sold.

### ***Relations with the Budget of the Republic of Lithuania***

The Bank of Lithuania transfers a part of the profit established by the Law of the Republic of Lithuania on the Bank of Lithuania to the state budget (see Note 26).

Pursuant to the amendments to the Law on the Bank of Lithuania that came into effect on 1 May 2004, the Bank of Lithuania has registered as a VAT payer as of 1 July 2004.

Furthermore, starting from 2004, the Bank of Lithuania became a payer of the state land rent tax.

### ***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 a 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. 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 2004 accounted for more than 96 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 27).

The Bank of Lithuania uses the indicator of 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.

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.

In accordance with the Law Amending and Supplementing the Law on the Bank of Lithuania (No IX-1998, 2004-02-05, Official Gazette, 2004, No 28-869) the profit for the year is distributed in accordance with the following sequence:

- 1) to cover the losses of the previous fiscal year;
- 2) a profit contribution of 50 per cent of the profit for the fiscal year or the part remaining after the allocation of a part based on the provisions of Paragraph 1 is paid to the state budget;
- 3) the part of the profit remaining after the allocation based on Paragraphs 1 and 2 above is allocated in equal shares to the authorised and/or reserve capital.

## **Other Information**

**Notes Note 1. Gold**

	31 December 2004	31 December 2003
Gold holdings in		
Troy ounces	185,840.53	186,205.23
Kilograms	5,780.29	5,791.63
Price of one Troy ounce, USD	438.00	417.25
Value of gold, LTL million	206.30	214.60

Gold holdings in 2004, compared to 2003, decreased due to differences in the weight of gold bars arising on settlements of gold lending transactions.

All gold as at 31 December 2004 was held as non-invested gold reserve in the Bank of England. As of 31 December 2003 all gold holdings were invested in swap transactions represented under the item "Liabilities to foreign institutions denominated in foreign currency".

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

The Bank of Lithuania performs the function of depository of 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 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 2004 amounted to SDR 160.51 million.

**Net Reserve Position in the IMF**

SDR million

	31 December 2004	31 December 2003
State Quota of IMF membership (total value)	144.20	144.20
IMF claims corresponding to Government		
Securities in litas	(160.51)	(173.89)
IMF funds in accounts with the		
Bank of Lithuania in litas	(0.49)	(0.48)
Disposition of IMF loans	16.82	30.19
<b>Net reserve position in the IMF</b>	<b>0.02</b>	<b>0.02</b>

The IMF loan consists of the remaining part of this Extended Fund Facility with the value of SDR 16.82 million as of 31 December 2004 (the Ministry of Finance of the Republic of Lithuania repayed the remaining balance of the Extended Fund Facility at the beginning of 2005). The accrued interest on this state-administered loan equalled SDR 0.10 million as of 31 December 2004.

### **Funds Receivable from the IMF**

LTL million

	31 December 2004	31 December 2003
Net reserve position in the IMF	0.06	0.07
Balance in SDR account with the IMF	0.22	0.17
<b>Total</b>	<b>0.28</b>	<b>0.24</b>

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

LTL million

	31 December 2004	31 December 2003
Correspondent accounts with foreign banks	57.93	509.22
Fixed-term deposits with foreign banks	469.36	167.98
Debt securities	7,485.91	7,190.42
Reverse repurchase agreements	729.52	1,280.98
<b>Total</b>	<b>8,742.72</b>	<b>9,148.60</b>

Breakdown of deposits, securities and other investments by currencies is shown in Note 27.

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

LTL million

	31 December 2004	31 December 2003
European Union Member States	7,894.65	7,811.09
USA	330.54	244.25
International financial institutions	481.40	586.18
Other countries	36.13	507.08
<b>Total</b>	<b>8,742.72</b>	<b>9,148.60</b>

#### **Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Maturity <sup>2</sup>**

LTL million

	Demand	Up to 1 year	1–5 years	Over 5 years	Total
Deposits, securities and other investments denominated in foreign currency	57.93	6,301.80	2,355.61	27.38	8,742.72

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

<sup>2</sup> Contractual maturity is presented.

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

LTL million

	31 December 2004	31 December 2003
Loans to commercial banks	9.86	9.86
Accounts with commercial banks	0.07	0.06
<b>Total</b>	<b>9.93</b>	<b>9.92</b>

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

**Note 5. Intangible Assets and Property, Plant and Equipment**

LTL million

	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 2003	11.53	146.49	59.03	6.59	33.76	257.40
Additions in 2004	1.25	4.31	4.53	0.75	1.26	12.10
Disposals in 2004	(0.43)	(0.28)	(4.70)	(0.46)	(0.33)	(6.20)
Redistribution in 2004	–	–	(0.03)	–	0.03	–
Acquisition value as at 31 December 2004	12.35	150.52	58.83	6.88	34.72	263.30
Accrued depreciation as at 31 December 2003	(10.63)	(14.04)	(40.35)	(5.15)	(25.05)	(95.22)
Depreciation in 2004	(1.16)	(3.41)	(6.13)	(0.38)	(2.32)	(13.40)
Written-off depreciation in 2004	0.43	0.12	4.72	0.46	0.30	6.03
Accrued depreciation as at 31 December 2004	(11.36)	(17.33)	(41.76)	(5.07)	(27.07)	(102.59)
<b>Net book value as at 31 December 2004</b>	<b>0.99</b>	<b>133.19</b>	<b>17.07</b>	<b>1.81</b>	<b>7.65</b>	<b>160.71</b>
<b>Net book value as at 31 December 2003</b>	<b>0.90</b>	<b>132.45</b>	<b>18.68</b>	<b>1.44</b>	<b>8.71</b>	<b>162.18</b>

**Note 6. Investments into Equity Instruments**

LTL million

	31 December 2004	31 December 2003
European Central Bank	5.95	–
Bank for International Settlements	7.77	7.77
Central Securities Depository of Lithuania	3.63	3.63
Lithuanian Mint	1.83	1.83
SWIFT	0.01	0.01
<b>Total</b>	<b>19.19</b>	<b>13.24</b>

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 ESCB Statute 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 1,000 shares with an acquisition cost of LTL 7.77 million and the nominal value of SDR 5,000 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 0.94 million for these BIS shares in 2004 (LTL 0.89 million in 2003).

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 2004 the Bank of Lithuania received dividends of LTL 0.31 million for them (LTL 0.15 million in 2003).

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.

The Bank of Lithuania holds one SWIFT share.

#### **Note 7. Accrued Income and Deferred Expenditure**

LTL million

	31 December 2004	31 December 2003
Debt securities coupon payment purchased	65.61	81.81
Accrued interest income	94.87	89.19
Accrued debt securities coupon	94.24	87.77
Interest on reverse repurchase agreements	0.39	0.49
Interest from derivative financial instruments	–	0.86
Other income	0.24	0.07
Other accrued income	0.89	0.75
Deferred expenses	2.10	2.19
<b>Total</b>	<b>163.47</b>	<b>173.94</b>

#### **Note 8. Sundry**

LTL million

	31 December 2004	31 December 2003
Loans to the staff of the Bank of Lithuania	10.54	9.39
Foreclosed assets	4.39	5.56
Specific provisions	(0.70)	(0.99)
Other assets	2.34	2.42
<b>Total</b>	<b>16.57</b>	<b>16.38</b>

Mortgage loans issued to the staff of the Bank of Lithuania amounted to LTL 9.50 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 three issues with various maturities (LTL 4.05 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 0.34 million). Redemption of securities taken over is planned to take place in proportionally equal shares until 2007 (LTL 1.35 million was redeemed in 2004).

The major portion of specific provisions related to sundry items as at 31 December 2004 (LTL 0.65 million) is against the foreclosed assets (LTL 0.96 million as at 31 December 2003).

Other assets consist of inventories amounting to LTL 2.03 million (LTL 2.07 million in 2003) and amounts receivable amounting to LTL 0.31 million (LTL 0.35 million in 2003).

**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 2004, the amount of cash put into circulation amounted to LTL 2,018.78 million (LTL 2,252.16 million in 2003), and the amount withdrawn from circulation made up LTL 1,560.96 million (LTL 1,337.37 million in 2003).

**Banknotes and Coins in Circulation**

LTL million

	31 December 2004	31 December 2003
Banknotes	5,475.97	5,028.50
Coins	118.60	108.25
<b>Total</b>	<b>5,594.57</b>	<b>5,136.75</b>

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 domestic banks in their correspondent accounts with the Bank of Lithuania. Interest on the balances on these accounts is not paid.

**Note 11. Liabilities to Other Domestic Institutions Denominated in Lit**

LTL million

	31 December 2004	31 December 2003
Liabilities to Government institutions	94.92	85.13
Balances of accounts of the Ministry of Finance	94.29	83.65
Balances of accounts of other Government institutions	0.63	1.48
Other liabilities	13.32	8.62
<b>Total</b>	<b>108.24</b>	<b>93.75</b>



**Note 12. Liabilities to Domestic Institutions Denominated in Foreign Currency**

LTL million

	31 December 2004	31 December 2003
Liabilities to credit institutions	504.39	397.97
Liabilities to Government institutions	1,376.02	2,133.13
Balances of accounts of the Ministry of Finance	210.91	811.49
Fixed-term deposits of the Ministry of Finance	1,164.90	1,321.43
Balances of accounts of other Government institutions	0.21	0.21
<b>Total</b>	<b>1,880.41</b>	<b>2,531.10</b>

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	Up to 1 year	Without term	Total
Liabilities in foreign currency	211.06	1,164.90	504.45	1,880.41

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

**Note 13. Other Liabilities**

LTL million

	31 December 2004	31 December 2003
Accrued expenses and deferred income	3.78	3.97
Accrued interest expenses	0.78	1.66
Other accrued expenses	2.75	2.00
Deferred income	0.25	0.31
Change in the value of off-balance sheet instruments	–	1.18
Other miscellaneous liabilities	3.56	4.80
Account balances	3.00	2.65
Other payables	0.56	2.15
<b>Total</b>	<b>7.34</b>	<b>9.95</b>

**Note 14. Subsidies**

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 the refinancing of credits.

Implementation of PHARE I programme of the European Commission is completed. 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 commercial banks participating in the programme will continue using the funds until 15 June 2005.

**Note 15. Revaluation Accounts**

LTL million

	31 December 2004	31 December 2003
Revaluation accounts		
Gold	18.37	26.30
Securities	11.46	7.69
Foreign currency	0.46	0.01
<b>Total</b>	<b>30.29</b>	<b>34.00</b>

The balance accounted for in revaluation accounts shows unrealised gains arising from revaluation of gold, every securities issue and each position of one foreign currency at market price and/or the official exchange rate as at 31 December 2004.

Whereas unrealised revaluation losses when exceeding previous revaluation gains registered in corresponding revaluation accounts of 31 December 2004 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 2004 the Bank of Lithuania had no open currency swap transactions. During 2004 the Bank of Lithuania earned income of LTL 13.08 million on currency swap transactions (see Note 18). The income is generated from the difference between the spot currency rate and the expected future currency rate (forward) accrued gradually during the transaction validity term.

As of 31 December 2004 the Bank of Lithuania had not conducted any interest rate future contracts. The result of the change in the value of the daily interest rate of futures is presented in Note 20.

**Note 17. Capital**

LTL million

	31 December 2003	Increase	Decrease	31 December 2004
Capital				
Authorised capital	100.00	–	–	100.00
Reserve capital	454.30	77.36	–	531.66
Other reserves	10.75	–	(10.75)	–
<b>Total</b>	<b>565.05</b>	<b>77.36</b>	<b>(10.75)</b>	<b>631.66</b>

The capital of the Bank of Lithuania consists of the authorised capital and the reserve capital. The authorised capital provided for in the Law on the Bank of Lithuania is LTL 200 million. It is formed of Lithuanian state funds and/or the profit if the Bank of Lithuania (see Note 26).

The reserve capital was increased by the portion of profit for the year 2003 (LTL 66.615 million) (see Note 26) as well as the amounts from the reserves of the Bank of Lithuania: LTL 1.18 million from the general reserve and LTL 9.57 million from the tangible non-current assets revaluation reserve, which were transferred to the reserve capital pursuant to the requirements of the Law Amending and Supplementing the Law on the Bank of Lithuania (No IX-1998, 05/02/2004, Official Gazette, 2004, No 28-869).

#### **Note 18. Interest Income**

LTL million

	2004	2003
Interest on:		
Investment in debt securities	187.26	175.65
Derivative transactions	13.08	1.38
Reverse repurchase agreements	8.22	20.42
Balances of correspondent accounts with foreign banks	3.84	4.75
Fixed-term deposits in foreign banks	3.57	3.26
Other interest income	0.58	0.53
<b>Total</b>	<b>216.55</b>	<b>205.99</b>

Due to an overall decrease of the interest rate level in international financial markets, the average interest rate on investments was 2.17 per cent (2.51 per cent in 2003).

#### **Note 19. Interest Expense**

LTL million

	2004	2003
Interest on:		
Fixed-term deposits of the Ministry of Finance	33.16	32.89
Balances of accounts of the Ministry of Finance	5.43	6.09
Liabilities to the IMF	–	0.24
Liabilities related to repurchase agreements	2.60	5.25
<b>Total</b>	<b>41.19</b>	<b>44.47</b>

The average interest rate paid on liabilities was 1.64 per cent in 2004 (1.93 per cent in 2003).

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

LTL million

	2004	2003
Realised gains (losses) from realisation of:		
Securities	26.59	48.12
Foreign currency	1.28	(0.53)
Gold	0.04	–
Derivative financial instruments	(1.38)	(0.29)
<b>Total</b>	<b>26.53</b>	<b>47.30</b>

**Note 21. Unrealised Losses from Revaluation**

LTL million

	2004	2003
Unrealised losses from revaluation of		
Securities	0.96	4.73
Foreign currency	1.90	0.09
<b>Total</b>	<b>2.86</b>	<b>4.82</b>

**Note 22. Net Commission and Fee Income**

LTL Million

	2004	2003
Income from:		
Settlement services	5.83	5.71
Sales of numismatic valuables	0.28	0.96
Auctions of securities	0.16	0.25
Trade in anchor currency	0.13	0.70
Other services	0.12	0.09
Management of the World Bank loan	0.11	0.18
<b>Total</b>	<b>6.63</b>	<b>7.89</b>
Fee expense for international banking operations	(1.27)	(1.06)
<b>Net commission and fee income</b>	<b>5.36</b>	<b>6.83</b>

**Note 23. Other Income**

LTL million

	2004	2003
Income for rent of assets	1.19	1.04
Other income	6.44	1.73
<b>Total</b>	<b>7.63</b>	<b>2.77</b>

The major part of other income consists of the compensation received from the US Banknote Corporation in the amount of LTL 5.05 million for bad quality litas banknotes of 1991 issue.

**Note 24. Staff Costs**

LTL million

	2004	2003
Expenses on wages and salaries	37.15	33.95
to the members of the Board	0.83	0.67
to the heads of structural divisions	1.85	1.66
to other staff of the Bank of Lithuania	34.47	31.62
Contributions to State Social Insurance Fund	11.47	10.49
<b>Total</b>	<b>48.62</b>	<b>44.44</b>

Pursuant to the requirements of the Law Amending and Supplementing the Law on the Bank of Lithuania (No IX-1998, 05/02/2004, Official Gazette, 2004, No 28-869), as of 1 May 2004 the Board of the Bank of Lithuania was changed. It currently consists of 1 Chairman, 2 Deputy Chairmen and 2 Board Members. Ten departments, five independent divisions and two branches carried out their activities at the Bank. The total number of employees was 855 (856 employees in 2003).

**Note 25. Other Administrative Expenses**

LTL million

	2004	2003
Expenses		
Maintenance expenses	6.78	6.10
Business trips	1.67	1.26
Mail and communication	1.49	1.04
Information subscriptions expenses	1.44	1.37
Training of staff	1.17	1.03
Library acquisitions and press subscriptions	0.18	0.15
Other	1.73	1.36
<b>Total</b>	<b>14.46</b>	<b>12.31</b>

**Note 26. Distribution of the Profit of the Bank of Lithuania**

LTL million

	2004	2003	2002
Transfer to the state budget	(66.06)	(66.615)	(51.78)
Allocation to the authorised capital	(33.03)	–	–
Allocation to the reserve capital	(33.03)	(66.615)	(51.78)

2004

**Note 27. Assets and Liabilities of the Bank of Lithuania by Currencies**

LTL million

	LTL	EUR	USD	JPY	XDR	XAU	Other	Total
<b>31 December 2004</b>								
<b>ASSETS</b>								
Gold	–	–	–	–	–	206.30	–	206.30
Claims on foreign institutions denominated in foreign currency	–	8,442.35	297.53	2.15	0.28	–	0.69	8,743.00
Receivables from the IMF	–	–	–	–	0.28	–	–	0.28
Debt securities	–	7,218.68	267.23	–	–	–	–	7,485.91
Deposits and other investments	–	1,223.67	30.30	2.15	–	–	0.69	1,256.81
Claims on domestic credit institutions denominated in foreign currency	–	9.87	0.06	0.00	–	–	0.00	9.93
Other assets	193.41	163.81	2.72	0.00	0.00	–	0.00	359.94
<b>Total assets</b>	<b>193.41</b>	<b>8,616.03</b>	<b>300.31</b>	<b>2.15</b>	<b>0.28</b>	<b>206.30</b>	<b>0.69</b>	<b>9,319.17</b>
<b>LIABILITIES</b>								
Banknotes and coins in circulation	5,594.57	–	–	–	–	–	–	5,594.57
Liabilities to domestic credit institutions denominated in litas	891.51	–	–	–	–	–	–	891.51
Liabilities to other domestic institutions denominated in litas	108.24	–	–	–	–	–	–	108.24
Liabilities to foreign institutions denominated in litas	6.54	–	–	–	–	–	–	6.54
Liabilities to domestic institutions denominated in foreign currency	–	1,577.87	299.61	2.11	0.13	–	0.69	1,880.41
Liabilities to foreign institutions denominated in foreign currency	–	5.76	–	–	–	–	–	5.76
Items in the course of settlement	1.35	–	–	–	–	–	–	1.35
Other liabilities	6.44	0.90	0.00	–	–	–	–	7.34
Subsidies	–	29.38	–	–	–	–	–	29.38
Revaluation accounts	18.83	11.46	0.00	–	–	–	–	30.29
Capital	631.66	–	–	–	–	–	–	631.66
Profit for the year	132.12	–	–	–	–	–	–	132.12
<b>Total liabilities</b>	<b>7,391.26</b>	<b>1,625.37</b>	<b>299.61</b>	<b>2.11</b>	<b>0.13</b>	<b>–</b>	<b>0.69</b>	<b>9,319.17</b>
<b>NET BALANCE POSITION</b>	<b>(7,197.85)</b>	<b>6,990.66</b>	<b>0.70</b>	<b>0.04</b>	<b>0.15</b>	<b>206.30</b>	<b>0.00</b>	<b>0.00</b>
<b>31 December 2003</b>								
<b>Total assets</b>	<b>194.74</b>	<b>8,491.27</b>	<b>445.74</b>	<b>391.81</b>	<b>0.24</b>	<b>214.60</b>	<b>0.70</b>	<b>9,739.10</b>
<b>Total liabilities</b>	<b>6,983.19</b>	<b>2,175.28</b>	<b>573.05</b>	<b>6.92</b>	<b>0.08</b>	<b>–</b>	<b>0.58</b>	<b>9,739.10</b>
<b>NET BALANCE POSITION</b>	<b>(6,788.45)</b>	<b>6,315.99</b>	<b>(127.31)</b>	<b>384.89</b>	<b>0.16</b>	<b>214.60</b>	<b>0.12</b>	<b>0.00</b>