

THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

2007

Contents

Independent Auditor's Report / 3
Balance Sheet of the Bank of Lithuania / 4
Profit and Loss Account of the Bank of Lithuania / 5
Explanatory Notes to the Annual Financial Statements of the Bank of Lithuania / 6
Primary Objective and Functions of the Bank of Lithuania / 6
Basis for Preparation and Presentation of Annual Financial Statements / 6
Accounting Policy / 7
Financial Risk and Its Management / 11
Notes / 11

© Lietuvos bankas, 2008

Bank of Lithuania
Gedimino pr. 6, LT-01103 Vilnius, Lithuania
Tel. +370 5 268 0029
Fax +370 5 262 8124
E-mail: info@lb.lt
<http://www.lb.lt>

**INDEPENDENT AUDITOR'S REPORT
TO THE SEIMAS OF THE REPUBLIC OF LITHUANIA**

We have audited the accompanying 2007 financial statements of the Bank of Lithuania ("the Bank"), which comprise the balance sheet as at 31 December 2007, the statement of income for the year then ended and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles of the Bank of Lithuania. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank of Lithuania as of 31 December 2007, and of its financial performance 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. 001335



Jonas Akelis
Auditor's licence
No. 000003



Ramūnas Bartašius
Auditor's licence
No. 000362

The audit was completed on 15 March 2008.

BALANCE SHEET OF THE BANK OF LITHUANIA

LTL million

	Notes	31 December 2007	31 December 2006
ASSETS			
1. Gold	1	366.22	310.75
2. Claims on foreign institutions denominated in foreign currency		17,639.89	14,613.86
2.1 Receivables from IMF	2	0.39	0.40
2.2. Deposits, security and other investments denominated in foreign currency	3	17,639.50	14,613.46
3. Other assets		382.27	445.68
3.1. Tangible and intangible fixed assets	4	145.99	147.31
3.2. Investments into equity instruments	5	20.96	21.10
3.3. Off-balance sheet instruments revaluation differences	6	1.21	–
3.4. Accruals and deferred expenses	7	198.68	261.98
3.5. Sundry	8	15.43	15.29
Total		18,388.38	15,370.29
LIABILITIES			
4. Banknotes and coins in circulation	9	9,168.34	8,056.02
5. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	10	3,702.03	2,591.15
6. Liabilities to other domestic institutions denominated in litas	11	91.84	130.40
7. Liabilities to foreign institutions denominated in litas	12	38.78	8.89
8. Liabilities to domestic institutions denominated in foreign currency	13	2,986.96	3,311.75
9. Liabilities to foreign institutions denominated in foreign currency	13	1,033.20	227.49
10. Items in the course of settlement		5.96	0.74
11. Other liabilities	14, 6	23.32	17.84
11.1. Off-balance sheet instruments revaluation differences		(6.24)	–
11.2. Accruals and deferred income		24.21	13.04
11.3. Sundry		5.35	4.80
12. Revaluation accounts	15	181.91	122.90
13. Capital	16	832.21	761.32
13.1. Authorised capital		200.00	164.83
13.2. Reserve capital		632.21	596.49
14. Profit for the year	26	323.83	141.79
Total		18,388.38	15,370.29

PROFIT AND LOSS ACCOUNT OF THE BANK OF LITHUANIA

LTL million

	Notes	2007	2006
Interest income	18	631.40	350.12
Interest expense	19	(175.58)	(66.79)
1. Net interest income		455.82	283.33
Realised gains (losses) arising from financial operations	20	(19.18)	(40.11)
Unrealised losses from revaluation	21	(13.46)	(26.65)
2. Net result of financial operations and revaluation losses		(32.64)	(66.76)
Fees and commissions income		11.20	7.01
Fees and commissions expense		(2.82)	(1.70)
3. Net income from fees and commissions	22	8.38	5.31
4. Dividend income	5	2.43	2.45
5. Other income		2.29	2.01
TOTAL NET INCOME		436.28	226.34
6. Staff costs	23	(51.75)	(50.30)
7. Administrative expenses	24	(16.34)	(18.05)
8. Depreciation and amortisation of tangible and intangible fixed assets	4	(11.40)	(12.44)
9. Banknote and coin production services and circulation expenses	25	(32.96)	(3.76)
PROFIT FOR THE YEAR	26	323.83	141.79

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

The 2007 Annual Financial Statements of the Bank of Lithuania were approved on 20 March 2008 by Resolution No. 29 of the Board of the Bank of Lithuania.

Chairman of the Board



Reinoldijus Šarkinas

EXPLANATORY NOTES TO THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

PRIMARY OBJECTIVE AND FUNCTIONS OF THE BANK OF LITHUANIA

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

The functions of the Bank of Lithuania are the following:

- to issue the currency of the Republic of Lithuania; formulate and implement monetary policy; determine the litas exchange rate regulation system and announce the official exchange rate of the litas;
- to manage, use and dispose of the foreign reserves of the Bank of Lithuania;
- to act as a State Treasury agent;
- in the manner and cases established by laws and other legal acts, to issue and revoke licenses of credit institutions of the Republic of Lithuania as well as branches of credit institutions of foreign states, and supervise the activities thereof; it shall also perform other functions related to the activities of credit institutions established by laws;
- to establish principles and procedures for financial accounting and reporting of credit institutions of the Republic of Lithuania and branches of credit institutions of foreign states operating in the Republic of Lithuania;
- to encourage stable and efficient operation of payment and securities settlement systems;
- to collect monetary, banking and balance of payments, statistics, as well as data on Lithuanian financial and related statistics, implement standards on the collection, reporting and dissemination of the said statistics and compile the Balance of Payments of the Republic of Lithuania.

After Lithuania's joining the European Union (EU) on 1 May 2004, the Bank of Lithuania became a part of the European System of Central Banks (ESCB). Lithuania has been participating in the Exchange Rate Mechanism II from 28 June 2004.

BASIS FOR PREPARATION AND PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The Bank of Lithuania prepares its Annual Financial Statements pursuant to the requirements of 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 the Accounting Policy approved by the Board of the Bank of Lithuania being in line with the accounting and financial reporting guidelines established by the European Central Bank (ECB)¹ to the extent that such requirements are applicable to a national central bank of the Member State which has not yet adopted the euro. If a specific accounting treatment is not laid down in the Bank of Lithuania Accounting Policy and in the absence of the decisions and instructions to the contrary by the ECB, the Bank of Lithuania shall follow valuation principles in accordance with international accounting standards as adopted by the European Union relevant to the activities and accounts of the Bank of Lithuania.

Following the principles of consistency and comparability, the respective comparative financial data for 2006 have been presented.

¹ Guideline of the ECB of 10 November 2006 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2006/16) ("Guideline of the ECB on accounting and financial reporting").

ACCOUNTING POLICY

GENERAL PRINCIPLES

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

Gold, debt securities and other on-balance sheet and off-balance sheet foreign reserves assets and liabilities denominated in foreign currency (“financial items”) are recorded in financial accounting at transaction cost, and in the Annual Financial Statements are presented at the balance sheet compilation date market price and official exchange rate.

Revaluation takes place on a currency-by-currency basis for foreign exchange and on a code-by-code basis (i.e. same ISIN number) for securities. Results arising from revaluation of gold holding, foreign currency and securities are accounted for separately. Unrealised revaluation losses arising at the end of the financial year from the revaluation of financial items at market price and official exchange rate, exceeding previous unrealised revaluation gains registered in corresponding revaluation account, are recognised as expense of the current financial year. Unrealised losses taken to profit and loss account cannot be reversed in subsequent years against new revaluation gains of the same financial item due to market price and official exchange rate changes or covered by the revaluation gains of another type of the financial item.

With effect from 1 January 2007, the amendments to the Accounting Policy approved by the Board of the Bank of Lithuania, ensuring the implementation of the requirements of the Guideline of the ECB on accounting and financial reporting that have become valid from the same date, were introduced:

- foreign currency purchases and sales affect a respective foreign currency position on the trade date;
- accrued income and expense denominated in foreign currency are recorded in financial accounts and simultaneously affect the respective foreign currency position on a daily basis;
- realised foreign exchange results (gains or losses) are calculated and booked on a trade date.

These changes in the Accounting Policy have not been applied retrospectively.

GOLD

Gold holdings are revalued on the last business day of each month on the basis of the gold market price in US dollars per Troy ounce of gold. This price is translated into litas at the official exchange rate of the litas against the US dollar on the revaluation day.

No distinction is made between the gold market price and US dollar revaluation differences for gold, but a single gold revaluation gain or loss is recorded in the gold revaluation account.

In the event of recognition of unrealised revaluation loss on gold at year-end, the average cost of gold is correspondingly adjusted 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

On-balance sheet and off-balance sheet foreign currency financial items are revalued on each business day at the official exchange rate prevailing on that day.

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

Litas (LTL) per unit

Currency	Code	31 December 2007	31 December 2006
Euro	EUR	3.4528	3.4528
US dollar	USD	2.3572	2.6304
100 Japanese yen	JPY	2.0842	2.2153
Special Drawing Rights	XDR	3.6943	3.9557

The average rate of foreign currency is recalculated on a daily basis in case of an increase of a respective foreign currency position (if the position is long – in case of the net inflows of the day, if the position is negative – in case of net outflows of the day).

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

SECURITIES

Securities are recorded at cost on the settlement date. Security's coupon income purchased is treated as a separate item and is not included in the acquisition cost of the security.

Securities are valued on a monthly basis at market price prevailing at the time of the revaluation date.

The average cost of security holding is recalculated at the end of a business day taking into consideration all purchases made during the day and their costs. Realised gains (losses) for the same day sales of these securities are calculated on the basis of a new weighted average cost.

The difference between the security acquisition cost and its par value – discount or premium – is recognised on a straight-line basis as income or expense daily from the purchase settlement date to the maturity date or sale settlement date.

Discount or premium on coupon securities are amortised according to the straight-line method. The Internal Rate of Return method however, is used for discount securities.

If at the end of financial year unrealised revaluation losses on valuation of any one security are recognised as expenses, the average cost of such security is adjusted according to its market price prevailing on the last business day of the financial year.

Investments into equity instruments held for the Bank's specific purposes (investments into equities in order to participate in the activities of a specific enterprise whose equity instruments are non-marketable and their price is not quoted in the market) are recorded at cost.

REVERSE TRANSACTIONS

A repurchase agreement is recorded as collateralised inward deposit: 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.

A reverse repurchase agreement is recorded as a collateralised outward loan on the asset side of the balance sheet. The collateral acquired during the transaction period is not shown in the balance sheet and is not revalued.

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

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. The Museum stocks, pieces of art and tangible assets included into the list of cultural valuables are also treated as tangible assets with no regard to their acquisition cost. 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
Intangible assets	33–100
Vehicles	20
Furniture, office equipment and other inventory	5–50

If there are signs 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.

FOREIGN EXCHANGE TRANSACTIONS

Foreign currency to be received or paid under the foreign exchange spot, forward and swap transactions affects a respective foreign currency position on a trade day and is recorded in off-balance sheet accounts from the trade date to the settlement date. The difference in the value at the spot and forward rates of the transaction is recognised as interest income or expense and are accrued daily on a straight – line basis over the transaction period.

FORWARD TRANSACTIONS IN SECURITIES

Forward purchases or sales of securities are recognised in off-balance sheet accounts from the trade date to the settlement date. The revaluation results on purchased and sold securities under such type of transactions are recorded in respective on-balance sheet assets or liabilities accounts.

On the settlement date of forward transactions in securities the difference between the actual market price and the transaction price is recognised as realised income or expense.

INTEREST RATE FUTURES

Interest rate futures are recorded in off-balance sheet accounts at the nominal value of contracts from the trade date to the closing or maturity date. Daily changes in the variation margins of interest rate futures are recognised as realised income or expense.

RECOGNITION OF INCOME AND EXPENSES

Interest income and expense related to financial items denominated in foreign currency (including premiums and discounts of securities) are calculated and booked daily in profit and loss account, regardless of the date when it was received or incurred.

Realised gains and losses arising from financial operations denominated in foreign currency are taken to the profit and loss account on the trade date, except for the gains and losses on securities which are recognised on the settlement date.

Unrealised revaluation gains are not recognised as income. Unrealised revaluation losses are taken to the profit and loss account at the year-end if they exceed previous revaluation gains related to the corresponding financial item.

The average cost and (or) average rate method is used in order to compute the acquisition costs for gold, securities and foreign currency. 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 balance sheet date and the date on which the Annual Financial Statements are approved by the Board of the Bank of Lithuania, if those events provide evidence of conditions that existed on balance sheet date and therefore that amounts reported in the Annual Financial Statements have to be adjusted.

No adjustment is made for the data amounts of the Annual Financial Statements of post-balance sheet events that are indicative of conditions that arose after the balance sheet date. Events which are such material that their non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements are disclosed in Explanatory Notes to the Annual Financial Statements.

FINANCIAL RISK AND ITS MANAGEMENT

The main object of the Bank of Lithuania financial risk is foreign reserves that as at 31 December 2007 accounted for about 98 per cent of the total assets of the Bank of Lithuania.

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 to reduce 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.

Exchange rate risk is eliminated – practically all foreign reserves not related to liabilities in foreign currencies are invested in the anchor currency. The part of foreign reserves corresponding to liabilities is invested in the currency of the liabilities (see Note 27).

The Bank of Lithuania uses the indicator of the 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” 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 a minimal amount of highly liquid financial instruments in foreign reserves.

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

NOTES

Note 1. Gold

	31 December 2007	31 December 2006
Gold holdings in:		
Troy ounces	186,339.052	185,840.531
Kilograms	5,795.79	5,780.29
Price of one Troy ounce, USD	833.75	635.70
Value of gold, LTL million	366.22	310.75

Gold holdings in 2007, compared to 2006, changed due to differences in the weight of gold bars arising on settlements of gold transactions.

The gold held at 31 December 2007 is invested into gold deposits (154.449 ounces) and gold swaps (31.890 ounces, see Note 13). All gold as at 31 December 2006 was held as non-invested gold reserve.

Note 2. Receivables from the International Monetary Fund

The net reserve position in the International Monetary Fund (IMF) holdings 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 the residual part was paid in non-marketable and non-interest bearing Government promissory notes denominated in national currency. The value of these Government securities issued in favour of the IMF as at 31 December 2007 amounted to SDR 143.65 million.

Net Reserve Position in the IMF

SDR million

	31 December 2007	31 December 2006
State Quota of the IMF membership (total value)	144.20	144.20
IMF claims corresponding to Government promissory notes in litas	(143.65)	(143.67)
IMF funds in accounts with the Bank of Lithuania in litas	(0.52)	(0.50)
Net reserve position in the IMF	0.03	0.03

Funds Receivable from the IMF

LTL million

	31 December 2007	31 December 2006
Net reserve position in the IMF	0.13	0.14
Balance in SDR account with the IMF	0.26	0.26
Total	0.39	0.40

Note 3. Deposits, Securities and Other Foreign Currency Investments

LTL million

	31 December 2007	31 December 2006
Correspondent accounts with foreign banks	26.91	45.90
Claims to ECB in respect of TARGET2 ²	22.09	–
Fixed-term deposits with foreign banks	1,677.02	2,038.55
Debt securities	15,450.72	11,743.78
Reverse repurchase agreements	462.76	785.23
Total	17,639.50	14,613.46

The breakdown of deposits, securities and other investments by currency is shown in Note 27.

On 19 November 2007, the Bank of Lithuania joined TARGET2. The Bank of Lithuania claims to ECB arose due to operations performed via the system TARGET2 and correspond with the Bank of Lithuania liabilities to participants of this system – domestic commercial banks (see Note 13).

² System TARGET2 is a new generation real-time gross settlements in euro system TARGET (Trans-European Automated Real-time Gross Settlements Express Transfer system) created by the Eurosystem, operating on the basis of single platform and providing harmonised services under a unified price system.

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

LTL million

	31 December 2007	31 December 2006
EU Member States	16,411.78	13,439.34
Japan	631.83	1.57
International financial institutions	445.65	752.35
USA	124.85	254.15
Canada	25.39	–
Swiss Confederation	–	166.05
Total	17,639.50	14,613.46

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

LTL million

	31 December 2007	31 December 2006
Demand	49.00	66.65
Up to 1 year	13,338.81	11,795.55
1–5 years	4,025.05	2,710.19
Over 5 years	226.64	41.07
Total	17,639.50	14,613.46

Note 4. Tangible and Intangible Fixed Assets

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 cost as at						
31 December 2006	13.25	152.28	61.52	5.84	33.55	266.44
Additions in 2007	0.74	1.04	6.45	0.78	1.08	10.09
Disposals in 2007	(0.19)	–	(0.06)	(0.33)	(1.52)	(2.10)
Acquisition cost as at						
31 December 2007	13.80	153.32	67.91	6.29	33.11	274.43
Accrued depreciation as at						
31 December 2006	(12.83)	(24.37)	(49.90)	(4.77)	(27.26)	(119.13)
Depreciation in 2007	(0.66)	(3.57)	(5.21)	(0.51)	(1.45)	(11.40)
Written-off depreciation in 2007	0.19	–	0.06	0.33	1.51	2.09
Accrued depreciation as at						
31 December 2007	(13.30)	(27.94)	(55.05)	(4.95)	(27.20)	(128.44)
Net book value as at						
31 December 2007	0.50	125.38	12.86	1.34	5.91	145.99
Net book value as at						
31 December 2006	0.42	127.91	11.62	1.07	6.29	147.31

³ Residual maturity is presented.

Note 5. Investments into Equity Instruments

On 1 May 2004 Lithuania joined the EU and consequently the Bank of Lithuania became a member of the ESCB. 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. The Bank of Lithuania balance sheet 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 the ECB must be adjusted every five years.

After Bulgaria and Romania's becoming the EU Member States, the ECB key for capital subscription was recalculated. The share of the Bank of Lithuania in the ECB's capital is 0.4178 per cent (0.4425% until the recalculation). This share is calculated in accordance with Article 29 of the Statute of the ESCB and the ECB, on the basis of population and GDP data of EU Member States provided by the European Commission. As Lithuania does not participate in the euro area, the transitional provisions of Article 48 of the Statute of the ESCB and the ECB are applied. Consequently, the Bank of Lithuania was required to pay-up a minimal 1.72 million euro contribution of 7 per cent of its subscribed capital to the ECB upon entry to the ESCB on 1 May 2004. After the recalculation of the ECB capital key as from 1 January 2007, the Bank of Lithuania minimal contribution was specified and a contribution part of 0.04 million euros was returned to the Bank of Lithuania.

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 the acquisition cost of LTL 11.51 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. In 2007 the Bank of Lithuania received dividends of LTL 1.06 million for these BIS shares (LTL 1.05 million in 2006).

The Bank of Lithuania owns 60 per cent of the shares of the Central Securities Depository of Lithuania (CSDL) with the acquisition cost of LTL 3.63 million. In 2007 the Bank of Lithuania received dividends of LTL 1.37 million for them (LTL 1.40 million in 2006).

The Bank of Lithuania holds one SWIFT share with an acquisition cost of LTL 3,249.

Investments into Equity Instruments

LTL million

	31 December 2007	31 December 2006
ECB	5.82	5.96
BIS	11.51	11.51
CSDL	3.63	3.63
SWIFT	0.00	0.00
Total	20.96	21.10

Note 6. Off-balance Sheet Instruments Revaluation Differences

Off-balance sheet instruments revaluation differences represent the revaluation by the official exchange rate results from foreign exchange transactions shown in the off-balance sheet accounts (see Note 17). The revaluation difference from foreign currency receivables is recognised in the asset item of the balance sheet, while revaluation difference from foreign currency payable is shown in the balance sheet liabilities item (see Note 14).

Note 7. Accruals and Deferred Expenses

LTL million

	31 December 2007	31 December 2006
Coupon purchased with a security	73.23	123.21
Accrued interest income	123.35	136.45
Accrued coupon on securities	116.01	135.07
Interest on fixed-term deposits	4.76	0.90
Interest on reverse repurchase transactions	0.17	0.48
Interest on financial derivatives	2.30	–
Other accrued interest	0.11	0.00
Other accruals	0.69	0.94
Deferred expenses	1.41	1.38
Total	198.68	261.98

Note 8. Sundry

The largest share of this item – LTL 9.95 million (LTL 8.45 million in 2006) – represents loans issued to the staff of the Bank of Lithuania, out of which loans to the staff for house purchase or repairs amounted to LTL 9.50 million (LTL 7.94 million in 2006), and the balance of consumer loans was LTL 0.45 million (LTL 0.51 million in 2006).

Note 9. Banknotes and Coins in Circulation

This balance sheet item shows the nominal value of litas banknotes and coins in circulation. In 2007 the Bank of Lithuania put into circulation LTL 3,122.15 million (LTL 3,005.33 million in 2006) and withdrew from circulation LTL 2,009.83 million (LTL 1,664.90 million in 2006) banknotes and coins.

Banknotes and Coins in Circulation

LTL million

	31 December 2007	31 December 2006
Banknotes	8,990.42	7,902.95
Coins (including commemorative coins)	177.92	153.07
Total	9,168.34	8,056.02

Note 10. Liabilities to Domestic Credit Institutions Related to Monetary Policy Operations Denominated in Lit

This item consists of the holdings of required minimum reserves held by commercial banks in their current accounts with the Bank of Lithuania. The Bank of Lithuania pays interest for a part of minimum reserves held by commercial banks not exceeding the minimum reserves ratio required by the ECB for that period (see Note 19), by applying marginal interest rates of the main Eurosystem refinancing operations set by the ECB.

Note 11. Liabilities to Other Domestic Institutions Denominated in Litas

LTL million

	31 December 2007	31 December 2006
Liabilities to Government institutions	82.08	121.15
Liabilities to other domestic institutions	9.76	9.25
Total	91.84	130.40

Note 12. Liabilities to Foreign Institutions Denominated in Litas

LTL million

	31 December 2007	31 December 2006
Balances in current accounts of international organisations	38.67	8.75
Balances in current accounts of foreign banks	0.11	0.14
Total	38.78	8.89

Note 13. Liabilities Denominated in Foreign Currency

Liabilities to Domestic Institutions Denominated in Foreign Currency

LTL million

	31 December 2007	31 December 2006
Fixed-term deposits of Government institutions	2,661.50	2,799.48
Balances in current accounts of Government institutions	303.88	512.27
Balances in current accounts of TARGET2 participants	21.58	–
Total	2,986.96	3,311.75

Liabilities to Foreign Institutions Denominated in Foreign Currency

LTL million

	31 December 2007	31 December 2006
Balances in current accounts	112.76	227.49
Repurchase agreements	868.35	–
Gold swaps	52.09	–
Total	1,033.20	227.49

Breakdown of Liabilities to Foreign Institutions Denominated in Foreign Currency by Counterparties

LTL million

	31 December 2007	31 December 2006
EU Member States	920.44	–
International organisations	112.76	227.49
Total	1,033.20	227.49

Breakdown of Liabilities Denominated in Foreign Currency by Maturity

LTL million

	31 December 2007	31 December 2006
Demand	438.09	739.62
Up to 1 year	3,581.94	2,799.48
Without term	0.13	0.14
Total	4,020.16	3,539.24

Note 14. Other Liabilities

LTL million

	31 December 2007	31 December 2006
Off-balance sheet Instruments		
Revaluation Differences (see Note 17)	(6.24)	–
Accruals and deferred income	24.21	13.04
Accrued interest expenses	20.64	9.69
Other accruals	3.37	3.15
Deferred income	0.20	0.20
Sundry	5.35	4.80
Balances in current accounts	3.95	3.91
Subsidies	0.73	0.73
Other amounts payable	0.67	0.16
Total	23.32	17.84

Note 15. Revaluation Accounts

LTL million

	31 December 2007	31 December 2006
Revaluation accounts		
Gold	177.39	122.82
Securities	4.51	0.05
Foreign currency	0.01	0.03
Total	181.91	122.90

Revaluation accounts represent unrealised gains arising from revaluation of gold, securities and foreign currency.

Unrealised revaluation losses of separate securities and foreign currencies, when exceeding previous corresponding revaluation gains, at the end of 2007 were recognised as expenses (see Note 21).

Note 16. Capital

LTL million

	31 December 2006	Increase	31 December 2007
Capital			
Authorised capital	164.83	35.17	200.00
Reserve capital	596.49	35.72	632.21
Total	761.32	70.89	832.21

Note 17. Off-balance sheet Instruments

Foreign Exchange Transactions

LTL million

		Value on a trade date	Value on 31 December 2007	Value adjustment differences
Swaps	Receivables	644.62	645.83	1.21
	Payables	644.62	638.39	(6.23)
Forward agreements	Receivables	1.25	1.25	–
	Payables	1.25	1.24	(0.01)
Spot transactions	Receivables	880.46	880.46	–
	Payables	880.46	880.46	–
Total by foreign exchange transactions	Receivables	1,526.33	1,527.54	1.21
	Payables	1,526.33	1,520.09	(6.24)

For the purposes of foreign reserve management, the Bank of Lithuania used interest rate futures and forward transactions in securities in 2007.

As at 31 December 2007, interest rate futures at their nominal value accounted for: LTL 8,852.98 million of notional sales and LTL 241.70 million of notional purchases.

As at 31 December 2007, the Bank of Lithuania did not have any forward transactions in securities.

The impact of interest rate futures and forward transactions in securities on the Bank of Lithuania financial results is disclosed in Note 20.

Note 18. Interest Income

LTL million

	2007	2006
Interest income on:		
Investments in securities	567.85	299.83
Fixed-term deposits with foreign banks	50.17	28.59
Reverse repurchase agreements	8.19	9.83
Financial derivatives	2.40	9.46
Balances of accounts with foreign banks	2.31	2.08
Other interest income	0.48	0.33
Total	631.40	350.12

Note 19. Interest Expense

LTL million

	2007	2006
Interest expense on:		
Fixed-term deposits of Government institutions	107.53	39.94
Balances in current accounts of Government institutions	9.23	5.62
Interest on required minimum reserves of credit institutions	33.08	19.72
Liabilities related to repurchase agreements	24.25	1.51
Other interest expense	1.49	–
Total	175.58	66.79

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

LTL million

	2007	2006
Realised gains (losses) arising from:		
Sale of securities	(6.47)	(46.24)
Sale of foreign currency	0.08	0.21
Interest rate futures	(14.36)	5.92
Forward transactions in securities	1.57	–
Total	(19.18)	(40.11)

Note 21. Unrealised Losses from Revaluation

LTL million

	2007	2006
Unrealised revaluation losses on:		
Securities	13.43	26.65
Foreign currency	0.03	0.00
Total	13.46	26.65

Note 22. Net Income from Fees and Commissions

LTL million

	2007	2006
Income from:		
Settlement services	6.95	5.90
Sales of numismatic valuables	3.51	0.39
Usage of the Loan Risk Database	0.35	0.30
Auctions of securities	0.13	0.16
Other services	0.26	0.26
Total	11.20	7.01
Expenses relating to fees and commissions	(2.82)	(1.70)
Net income from fees and commissions	8.38	5.31

Note 23. Staff Costs

LTL million

	2007	2006
Expenses on wages and salaries	39.55	38.45
to the members of the Board	1.14	1.02
to the heads of structural divisions	2.31	2.20
to other staff of the Bank of Lithuania	36.10	35.23
Contributions to State Social Insurance Fund	12.20	11.85
Total	51.75	50.30

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 2007, eleven departments, six independent divisions and two branches carried out activities at the Bank. The total number of employees was 842 (837 employees in 2006).

Note 24. Administrative Expenses

LTL million

	2007	2006
Expenses		
Maintenance expenses	6.56	6.11
Information subscription expenses	1.66	1.67
Business trips	2.14	1.76
Mail and communication	1.72	1.63
Training of the staff	1.42	1.35
Public relations	0.96	0.85
Library acquisitions and press subscriptions	0.18	0.18
Other	1.70	4.50
Total	16.34	18.05

Note 25. Banknote and Coin Production Services and Circulation Expenses

LTL million

	2007	2006
Banknote production expenses	18.36	–
Coin minting expenses	14.14	3.45
Cash circulation expenses	0.46	0.31
Total	32.96	3.76

Note 26. 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 2007 is allocated by paying 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 is allocated to the reserve capital. In 2007 the authorised capital formation was completed.

LTL

	2007	2006	2005
Transfer to the state budget	161,914,094	70,895,684	63,596,173
Allocation to the authorised capital of the Bank of Lithuania	–	35,171,028	31,798,087
Allocation to the reserve capital of the Bank of Lithuania	161,914,094	35,724,656	31,798,087

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

LTL million

	LTL	EUR	USD	JPY	XDR	XAU	Other	Total
31 December 2007								
ASSETS								
Gold	–	–	–	–	–	366.22	–	366.22
Claims to foreign institutions denominated in foreign currency	–	16,941.41	64.63	632.60	0.39	–	0.86	17,639.89
Receivables from the IMF	–	–	–	–	0.39	–	–	0.39
Debt securities	–	14,765.70	53.23	631.79	–	–	–	15,450.72
Deposits and other investments	–	2,175.71	11.40	0.81	–	–	0.86	2,188.78
Other assets	175.11	206.76	0.35	0.00	–	–	0.05	382.27
Total assets	175.11	17,148.17	64.98	632.60	0.39	366.22	0.91	18,388.38
LIABILITIES								
Banknotes and coins in circulation	9,168.34	–	–	–	–	–	–	9,168.34
Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	3,702.03	–	–	–	–	–	–	3,702.03
Liabilities to other domestic institutions denominated in litas	91.84	–	–	–	–	–	–	91.84
Liabilities to foreign institutions denominated in litas	38.78	–	–	–	–	–	–	38.78
Liabilities to domestic institutions denominated in foreign currency	–	2,981.04	4.38	0.87	0.15	–	0.52	2,986.96
Liabilities to foreign institutions denominated in foreign currency	–	981.11	52.09	–	–	–	–	1,033.20
Items in the course of settlement	5.96	–	–	–	–	–	–	5.96
Other liabilities	7.85	20.90	0.86	(6.29)	–	–	–	23.32
Revaluation accounts	177.40	4.22	0.24	0.05	–	–	–	181.91
Capital	832.21	–	–	–	–	–	–	832.21
Profit	323.83	–	–	–	–	–	–	323.83
Total liabilities	14,348.24	3,987.27	57.57	(5.37)	0.15	–	0.52	18,388.38
NET ON-BALANCE SHEET								
ASSETS (LIABILITIES)	(14,173.13)	13,160.90	7.41	637.97	0.24	366.22	0.39	0.00
OFF-BALANCE SHEET								
ASSETS INCLUDED								
INTO CURRENCY POSITION								
Receivables under foreign exchange transactions	353.91	1,172.42	–	–	–	–	–	1,526.33
OFF-BALANCE SHEET								
LIABILITIES INCLUDED								
INTO CURRENCY POSITION								
Payables under foreign exchange transactions	526.55	353.91	7.03	638.84	–	–	–	1,526.33
OFF-BALANCE SHEET ASSETS								
(LIABILITIES) INCLUDED								
INTO CURRENCY POSITION	(172.64)	818.51	(7.03)	(638.84)	–	–	–	0.00
NET ASSETS (LIABILITIES)	(14,345.77)	13,979.41	0.38	(0.87)	0.24	366.22	0.39	0.00
31 December 2006								
Total assets	176.81	12,619.55	2,260.88	1.63	0.40	310.75	0.27	15,370.29
Total liabilities	11,820.53	1,286.58	2,261.38	1.63	0.16	–	0.01	15,370.29
NET ASSETS (LIABILITIES)	(11,643.72)	11,332.97	(0.50)	0.00	0.24	310.75	0.26	0.00

