



XIII The Annual Financial Statements
of the Bank of Lithuania 2001

Auditor's Report

To the Seimas of the Republic of Lithuania

1. We have audited the accompanying balance sheet of the Bank of Lithuania ("the Bank") as at 31 December 2001, the related profit and loss statement and movements of capital, reserves and revaluation accounts 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.

2. We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2001 and of 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.

4. Without qualifying our opinion, we draw attention to the part of the financial statements "Basis for preparation and presentation of financial statements", which presents information about the development of the Bank's accounting policies in the run-up to participating in the European System of Central Banks.



PricewaterhouseCoopers UAB



Irena Petruškevičienė

Audit certificate No. 000208

Vilnius, Republic of Lithuania

29 March 2002

Profit and Loss Statement of the Bank of Lithuania

LTL million

	Notes	2001	2000
Interest income	1	272.35	309.78
On foreign activities		271.94	309.13
On domestic activities		0.41	0.65
Interest expenses	2	(65.17)	(72.73)
On foreign activities		(20.46)	(28.99)
On domestic activities		(44.71)	(43.74)
Net interest income		207.18	237.05
On foreign activities		251.48	280.14
On domestic activities		(44.30)	(43.09)
Dividends on shares	11	0.87	0.90
Gains (losses) arising from sale of securities and foreign currencies	3	35.27	x
Unrealised losses from revaluation of securities and foreign currencies	3	(34.59)	(29.26)
Other income	4	14.51	9.91
Operational, administrative and asset maintenance expenses		(89.32)	(91.18)
Wages and salaries	5	(30.27)	(29.87)
Social security contributions		(9.34)	(9.33)
Operational expenses on foreign activities		(0.60)	(0.53)
Banknote and coin production and circulation expenses		(18.65)	(15.58)
Administrative and asset maintenance expenses	6	(26.95)	(29.69)
Taxes	7	(3.51)	(6.18)
Specific provision income (expenses)	8	6.49	(1.22)
Profit		140.41	126.20

The accompanying explanatory notes are an integral part of these financial statements.

Balance Sheet of the Bank of Lithuania

LTL million

	Notes	31 December 2001	31 December 2000
ASSETS			
Foreign assets		6,632.81	5,392.55
Gold and gold receivables	9	205.88	188.40
Investments and deposits in foreign currencies	10	6,426.93	5,204.15
Shares	11	13.24	13.24
Domestic assets		238.59	252.26
Cash		–	0.16
Balances of accounts with resident banks		0.05	0.04
Loans	12	20.79	26.40
Fixed assets	13	160.54	165.57
Other assets	14	57.21	60.09
Total		6,884.64	5,658.05
LIABILITIES			
Banknotes and coins in circulation	15	3,266.71	2,907.87
Foreign liabilities		462.70	313.41
Balances of accounts and loans with the International Monetary Fund (IMF)	16	255.28	312.68
Balances of accounts with non-residents		1.13	0.73
Repurchase transactions		206.29	–
Domestic liabilities		2,510.61	1,845.52
Liabilities to financial institutions	17	1,001.55	1,037.17
Liabilities to Government institutions	18	1,501.39	789.99
Other domestic liabilities	19	7.67	18.36
Subsidies	20	28.46	29.42
Revaluation accounts	21	40.86	x
Capital and reserves		575.30	561.83
Capital (authorised and reserve)		424.14	222.67
Reserves		10.75	212.96
Profit		140.41	126.20
Total		6,884.64	5,658.05

The accompanying explanatory notes are an integral part of these financial statements.

Movements of Capital, Reserves and Revaluation Accounts of the Bank of Lithuania¹

LTL million

	Authorised capital	Reserve capital	General reserve	Reserves ²	Revaluation reserves	Revaluation accounts	Profit	Total
Balance as at 31 December 1999	50.00	135.71	173.82	x	6.87	x	73.93	440.33
Profit for the year 1999 transferred to reserve capital	–	36.96	–	x	–	x	(36.96)	–
Profit for the year 1999 transferred to the state budget	–	–	–	x	–	x	(36.97)	(36.97)
Change in the value of investments	–	–	–	x	32.27	x	–	32.27
Profit for the year 2000	–	–	–	x	–	x	126.20	126.20
Balance as at 31 December 2000	50.00	172.67	173.82	x	39.14	x	126.20	561.83
Profit for the year 2000 transferred to reserve capital	12.62	15.03	–	–	–	–	(27.65)	–
Profit for the year 2000 transferred to the state budget	–	–	–	–	–	–	(98.55)	(98.55)
Change in the value of investments	–	–	–	–	5.73	–	–	5.73
Effect of changes in exchange rates	–	–	–	–	6.74	–	–	6.74
Reserves transfers	–	173.82 (173.82)	–	10.75	(51.61)	40.86	–	–
Profit for the year 2001	–	–	–	–	–	–	140.41	140.41
Balance as at 31 December 2001	62.62	361.52	x	10.75	x	40.86	140.41	616.16

The accompanying explanatory notes are an integral part of these financial statements.

The Annual Financial Statements of the Bank of Lithuania 2001 were approved on 28 March 2002 by Resolution No. 44 of the Board of the Bank of Lithuania.

Chairman of the Board



Reinoldijus Šarkinas

¹ For more information see note 21.

² Formed in 2001.

Explanatory Notes

On 13 March 2001 the Seimas (Parliament) of the Republic of Lithuania adopted a Revised Version of the Law on the Bank of Lithuania (No. IX-205) in order to create favourable conditions for the Bank of Lithuania to participate in the European System of Central Banks. The above law set seeking of price stability as the primary objective of the Bank of Lithuania.

In 2001 the Bank of Lithuania continued its efforts to ensure the stability of the national currency, stability and integrity of the credit and settlement systems and strengthening stable and reliable functioning of these systems in line with the goals and tasks provided in the Bank of Lithuania operational guidelines for 2001–2003.

Acting as the manager of the interbank funds transfer system, the Bank of Lithuania ensured its stable and smooth functioning.

In the area of monetary policy, the Bank of Lithuania applied reserve requirements to commercial banks, performed litas and anchor currency purchase and sale transactions with commercial banks without any restrictions and ensured the backing of the litas put into circulation with foreign exchange and gold reserves.

Foreign reserves of the Bank of Lithuania were invested in compliance with the requirements on currency structure and investment strategy to ensure investment security, liquidity and profitability. These reserves were invested in the securities of central governments of other countries, international financial institutions, held as deposits in foreign central and commercial banks and international financial institutions.

The Bank of Lithuania issued the national currency of the Republic of Lithuania, including gold and silver commemorative coins, and performed the functions of the State Treasury agent, carried out operations related to the organisation of issue and repurchase of Government securities, administered Treasury and Government institutions accounts, serviced the projects implemented by the Government with foreign public and international financial institutions.

Seeking to create an adequate environment for efficient and reliable functioning of the credit institutions, the whole banking system and economic development of the country, the Bank of Lithuania supervised the operations of credit institutions, carried out macroeconomic research, macroeconomic and monetary forecasting, compiled the balance of payments of the country, collected, processed and published statistical information, monitored and assessed ongoing processes, developments and trends in the financial system, developed information systems and ensured their smooth functioning.

The Bank of Lithuania updated and maintained its resource base in order to create adequate conditions for performing its main functions and developing the necessary infrastructure.

The organisational structure of the Bank of Lithuania did not change in 2001, as compared to 2000, and consisted of 9 departments and 8 independent structural divisions. At the end of 2001, the Board of the Bank of Lithuania consisted of the chairman, 2 deputy chairmen and 7

Legal Framework and Main Operations

members (at the end of 2000, it consisted of the chairman, 3 deputy chairmen and 8 members). At the end of 2001, the Bank of Lithuania had 876 employees (891 at the end of 2000).

Basis for Preparation and Presentation of Financial Statements

The financial accounting of the Bank of Lithuania has been managed and the financial statements have been prepared on the basis of the Law on the Bank of Lithuania, other laws of the Republic of Lithuania and the legal acts of the Bank of Lithuania regulating accounting policy.

The Revised Version of the Law on the Bank of Lithuania establishes that the Bank of Lithuania should manage its financial accounting and prepare its annual financial statements on the basis of the International Accounting Standards (IAS) and the recommendations of the European Central Bank (ECB).

In the run-up to participating in the European System of Central Banks (ESCB), the Board of the Bank of Lithuania has been developing the Banks' accounting policies towards meeting the recommendations to participating central banks established by the Governing Council of the ECB on 15 December 1999 (as amended on 14 December 2000) and the IAS.

The Bank of Lithuania Balance Sheet presents separately foreign and domestic assets as well as foreign and domestic liabilities.

In the view to the role of the Bank of Lithuania as a central bank, the Board of the Bank of Lithuania is of the opinion that the publication of a cash flow statement will not provide the readers of financial statements with any additional or useful information about the financial position of the Bank of Lithuania.

The Profit and Loss Statement, the Balance Sheet, and the Statement on the Movements of Capital, Reserves and Revaluation Accounts for the year 2001 have been prepared in accordance with the following accounting policies.

Accounting Policies

General Principles

In carrying out the Bank's accounting related activities and drawing up the financial statements, the Bank applies the following principles: substance over form, prudence, materiality, going concern, accrual, consistency and comparability.

The financial statements have been prepared on a historical cost basis with the exception of financial assets and liabilities ("financial items") denominated in foreign currency within foreign exchange reserves. Financial items are revalued at market prices and translated into litas at the exchange rate of the litas against the anchor currency and against other foreign currency exchange rates announced by the Bank of Lithuania ("official exchange rate"). Unrealised revaluation differences (gains or losses) of these financial items are calculated on a currency-by-currency basis for foreign exchange and code-by-code basis (according to ISIN number) for securities.

Unrealised revaluation differences related to foreign exchange rate movements from financial items denominated in foreign currencies are treated separately from unrealised revaluation differences related to their market price movements.

Financial assets and financial liabilities are recorded in the balance sheet accounts on the basis of the date on which they are settled.

Recognition of Income and Expenses

Interest income and expenses for financial assets and liabilities are accrued on a daily basis and are recorded in income or expense accounts on the last business day of each month, regardless of the date when it was received or paid. Other income and expenses are calculated and recorded in the accounts on the last business day of the financial year.

Realised gains and losses are entered in income or expense accounts on the date of settlement of transactions.

Gains and losses from securities sale are calculated by applying the FIFO method.

Realised gains and losses from foreign exchange operation are calculated using the daily net average rate method. Gains or losses are realised when the operations carried out during the day entail a decrease (in the case of asset position) or increase (in the case of liability position) of the net position of a given foreign currency.

Unrealised losses related to gold or securities (according to ISIN number) market price movements or unrealised losses related to foreign exchange rate movements are recognised as expenses at the end of the financial year. These losses may not be reversed in subsequent years against new unrealised revaluation gains.

Taxes

The Bank of Lithuania is not subject to any taxes or fees payable to the state budget, with the exception of the contribution from the profit according to the Law on the Bank of Lithuania.

The Value Added Tax for incurred services received and assets purchased is included in the cost of acquired assets and services.

Gold

Gains and losses related to the revaluation of gold held as part of foreign reserves are recorded in the gold revaluation account without splitting the results to revaluation due to changes in price and revaluation due to changes in the exchange rate.

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.

Gold swap transactions are accounted for in the same way as repurchase agreements.

Foreign Currency Transactions

Foreign currency transactions are translated into litas at the official exchange rate on the date of their recognition in the accounts.

Financial items in foreign currencies are revalued on each business day at the official exchange rate of that day, and the revaluation gain or loss in each foreign currency (including Special Drawing Rights – SDRs) is recorded in the corresponding foreign currency revaluation account.

The average rate of net foreign currency position is recalculated on a daily basis if the operations carried out during the day entail an increase (in the case of asset position) or decrease (in the case of liability position) of the net position of a given currency.

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 into litas at the official exchange rate at the time of the transaction.

Official Exchange Rates of the Litās and the Main Foreign Currencies

Litas (LTL) per unit

Currency	Code	31 December 2001	31 December 2000
US dollar	USD	4.0000	4.0000
Euro	EUR	3.5272	3.7212
100 Japanese yen	JPY	3.0412	3.4930
Special Drawing Rights	XDR	5.0179	5.2188
Great Britain pounds sterling	GBP	5.7944	5.9804

Securities

Securities are recognised in the accounts at cost. Securities held as part of foreign reserves are revalued on the last business day of each month at market price. Unrealised revaluation gains or losses from discount securities are recorded in the income or expense accounts. Unrealised revaluation gains or losses from coupon bearing securities are recorded in the revaluation account. Unrealised revaluation losses at the end of the financial year are recorded as expenses.

Unrealised revaluation gains and losses from securities price movements for each securities issue (according to ISIN number) are treated separately.

The acquisition cost for the given securities issue (according to ISIN number) is reduced by unrealised revaluation losses recognised as expenses at year-end.

Long-term equity investments are recorded at cost.

Non-interest bearing debt securities (denominated in the national currency) acquired as loan collateral are recorded at discounted value.

Repurchase Agreements

Repurchase agreements are recorded as collateralised deposits at the selling price of the financial asset used as collateral. The assets used as collateral are recorded in the Balance Sheet of the Bank of Lithuania for the agreement period. The difference between the selling and repurchase prices of any given asset is recognised as an expense over the period of the agreement.

Reverse repurchase agreements are recorded as collateralised loans for the amount of the loan. The financial assets acquired as collateral under such agreement are not recorded and are not revalued in the Balance Sheet of the Bank of Lithuania. The difference between the selling and repurchase prices of the asset determined by the agreement is recognised as income over the period of the agreement.

Loans

Loans are recorded at their nominal value and their balances are presented at net value, i.e. less specific provisions.

Loans are classified and specific provisions are made each quarter. Specific provisions are recorded as expenses. These expenses are adjusted in line with the changes in the need for specific provisions. Specific provision expenses (income) representing changes in the loan portfolio quality during the accounting year are recorded in the profit and loss statement.

A loan whose net value is zero and whose status has not improved for over a year is written off the balance sheet, including accrued interest and other related receivables.

Tangible and Intangible Fixed Assets

Tangible fixed assets include such assets whose acquisition cost is LTL 500 and above and whose useful life is longer than one year. Tangible and intangible fixed assets are recognised in the accounts at cost and reported in the Balance Sheet at cost less accumulated depreciation. Depreciation is calculated on a straight-line method over the expected useful life of assets.

The net book value of the fixed assets acquired before 1994 was indexed in accordance with the resolutions of the Government.

Depreciation (Amortisation) Rates of Tangible and Intangible Fixed Assets'

Fixed asset	Annual depreciation rate, %
Buildings	1–10
Computer equipment	10–50
Software	25–100
Vehicles	20
Furniture, office equipment and other inventory	3–50

Banknotes and Coins in Circulation

Banknotes and coins in circulation are represented 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 currency into circulation are recorded as expenses and are not matched with the issue of currency into circulation.

Events After the Balance Sheet Date

Assets, liabilities and equity are adjusted for the events that occur between the annual Balance Sheet date and the date on which the Board of the Bank of Lithuania approves the financial statements if such events materially effects the condition of assets, liabilities or equity at the balance sheet date.

No adjustment shall be made for assets, liabilities and equity, but disclosure shall be made of those events occurring after the Balance Sheet date that do not affect the condition of assets, liabilities and equity at the Balance Sheet date. Such events, if they are significant, are disclosed in explanatory notes to the financial statements.

Significant Changes in the Accounting Policy of the Bank of Lithuania in 2001

Unrealised gains and losses from revaluation of gold, securities and foreign currencies during the financial year are accounted in separate gold, each foreign currency and coupon bearing securities issue (according to ISIN number) revaluation accounts. During the previous accounting periods (before 2001) unrealised revaluation gains and losses from all securities price movements were netted all and the net result was recorded in the securities revaluation reserve account. Unrealised revaluation gains and losses from all foreign currencies exchange rate movements were netted all and the net result recorded in the foreign currency revaluation reserve account.

Unrealised revaluation losses are recognised as expenses at the end of the financial year on a currency-by-currency basis for foreign exchange and code-by-code basis (according to ISIN number) for securities. The 2000 profit and loss statement recorded a total negative revaluation result from all foreign currencies.

Realised gains and losses arising from sale of securities and foreign currencies are calculated and booked to income and expense accounts. Until 2001 these realised gains and losses were recorded in the revaluation reserve accounts. The breakdown of realised gains and losses accumulated in 2001 is disclosed in Note 3.

Gold holdings that are part of the foreign reserves are revalued at market price. Until 2001 gold was revalued at market price only if the latter was lower than the price applied during the previous revaluation.

Note 26 shows the impact of the changes in the accounting policy of the Bank of Lithuania in 2001 on some items in the Profit and Loss Statement and the Balance Sheet.

Risk and Risk Management

In conducting financial activities, the Bank of Lithuania assumes certain financial (interest rate, foreign exchange, credit, liquidity and operational) risks. The Bank of Lithuania risk management policy focuses on the assessment of specific banking risks that cannot be avoided and risks that can be minimised. The organisational structure of the Bank of Lithuania was streamlined to implement the statutory objectives of the Bank of Lithuania, to develop an adequate control environment, assess the internal control system and determine the possible risk of loss of assets and reputation of the Bank of Lithuania.

The main subject for risks is the Bank of Lithuania foreign reserves, which on 31 December 2001 accounted for 96.34 per cent of total assets of the Bank of Lithuania.

In the management of the Bank of Lithuania foreign reserves, prime consideration is given to minimising credit, liquidity, market (exchange rate and interest rate), settlement and operational risks. These risks are managed under a broad system of prudential requirements. The Analysis and Risk Control Division (middle office), which is not involved in investment decision-making performs foreign reserve management control.

Foreign reserve credit risk is managed by establishing financial reliability (rating) requirements to the issuers and counterparties, individual limits and volume restrictions on the investments in certain financial instruments. Liquidity risk is managed by setting requirements on investment liquidity and cash flows. Exchange rate risk is managed on the basis of the following principles: the major part of foreign reserves not related to liabilities in foreign currencies is held in the anchor currency; the part of reserves related to liabilities is held in the currency of the liabilities. Interest rate risk management is based on restrictions

on the modified duration (MD) of the portfolio. Tolerable deviations of investment portfolio MD are estimated on the basis of the "value-at-risk" (VAR) method. It should be noted that while the Bank of Lithuania does not apply the VAR methodology as the main risk management method, VAR indicator is calculated for all foreign reserves, and this information may be used in taking management decisions.

Assessment of portfolio management and risk control is based on the system of benchmarks (notional portfolios) developed by the Bank of Lithuania on the basis of its own methodology. These benchmarks represent sets of financial instruments actually available in the market and they are realistic investment alternatives for investment portfolio managers. Settlement risk management is based on various correspondent account management measures (queuing, co-ordination of debit and credit turnovers) that allow minimising the negative effects on Bank of Lithuania settlements caused by defaulting counterparties. Operational risks are managed on the basis of clear procedural regulations.

Pursuant to Article 23 of the Law on the Bank of Lithuania, the profit of the Bank of Lithuania is allocated to the authorised capital (until it amounts to LTL 100 million) and reserve capital (until it amounts to 10 per cent of Bank of Lithuania liabilities in litas). The remaining part of the profit is paid to the state budget. Under the above requirements, part of the 2001 profit, LTL 37.38 million, is allocated to the authorised capital, LTL 41.00 million – to the reserve capital, and the remaining part of the profit (LTL 62.03 million) is paid to the state budget.

Other Issues

Note 1. Interest Income

Notes

Income from Foreign Activities

LTL million

	2001	2000
Interest on:		
Investment in debt securities	207.92	210.83
Deposits with non-resident banks	27.15	43.72
Reverse repurchase transactions	32.44	50.71
Balances of accounts with non-resident banks	2.60	1.02
Gold deposits	1.42	2.47
Balances of accounts with the IMF	0.41	0.38
Total	271.94	309.13

In 2001, compared to 2000, the Bank of Lithuania earned 12.03 per cent less interest income from foreign assets. This was influenced by a lower average interest rate on investments (4.59 % in 2001, 5.72 % in 2000), although the average amount of investments³ in 2001 was higher (USD 1,480.05 million in 2001, and USD 1,351.75 million in 2000).

Most interest income (88.39 %) was generated from securities operations, i.e. interest on debt securities and reverse repurchase transactions. In 2001, interest income earned on securities was 8.10 per cent lower than in 2000 due to the lower average interest rate on these investments (in 2001 the average interest rate on debt securities was 5.01 % and

³ Average amount is calculated on the basis of the daily investment amount.

4.10 % on reverse repurchase transactions, in 2000, 6.09 % and 5.70 %, respectively). In 2001, the average portfolio of investment in debt securities was USD 1,037.39 million (in 2000 USD 864.9 million), and the amount of investment in reverse repurchase transactions – USD 197.58 million (in 2000 USD 218.40 million).

The interest earned on gold deposits was 42.51 per cent lower due to the fact that in 2001 the average interest rate on gold deposits and the average amount of investment in gold deposits were lower compared to 2000. In 2001, the average interest rate on gold deposits was 1.09 per cent (1.16 % in 2000). The average amount of investment in gold deposits declined due to the changes in gold investment policy (USD 31.71 million in 2001, USD 52.48 million in 2000).

Income from Domestic Activities

LTL million

	2001	2000
Interest on:		
Balances of accounts with resident banks	–	0.01
Loans to banks	0.22	0.44
Loans to the Bank's employees	0.19	0.20
Total	0.41	0.65

In 2001, compared to 2000, the interest earned on loans to banks was lower due to the decreasing outstanding amount of these loans (see Note 12) and due to a decline of the euro exchange rate.

Note 2. Interest Expenses

Expenses on Foreign Activities

LTL million

	2001	2000
Interest on:		
IMF loans	12.35	18.05
Repurchase transactions	8.07	10.94
Other interest expenses	0.04	–
Total	20.46	28.99

In 2001, compared to 2000, the amount of interest paid on IMF loans was lower by 31.58 per cent, as in 2001 the average interest rate payable was approximately 1.5 percentage points lower than in 2000. In addition, part of the annual commitment fee for the possibility to use IMF funds was also recorded as interest expenses (LTL 0.54 million in 2001, LTL 0.57 million in 2000).

The amount of interest paid on liabilities under repurchase transactions was 26.23 per cent lower, as in 2001 the average interest rate on these transactions was lower compared to 2000.

Expenses on Domestic Activities*LTL million*

	2001	2000
Interest on		
Time deposits of the Ministry of Finance	31.56	27.04
Balances of accounts of the Ministry of Finance	13.15	14.76
Time deposits of banks	–	1.65
Other	–	0.29
Total	44.71	43.74

In 2001, the amount of interest paid to the Ministry of Finance for time deposits exceeded the amount paid in 2000 by 6.59 per cent due to a higher average amount of these deposits (the average amount of time deposits of the Ministry of Finance in 2001 was USD 169.70 million, in 2000 USD – 139.20 million). In 2001, the average interest rate on time deposits of the Ministry of Finance was 4.84 per cent (5.44 % in 2000).

Note 3. Gains (Losses) Arising from Sale of Securities and Foreign Currencies and Unrealised Losses from Revaluation of Securities and Foreign Currencies

In 2001, the Bank of Lithuania earned LTL 36.47 million gains from sale of securities, and had LTL 1.20 million losses from sale of foreign currencies.

Unrealised Revaluation Losses*LTL million*

	2001	2000
Unrealised revaluation losses from debt securities	(7.66)	–
Unrealised revaluation losses from foreign currencies	(26.93)	(29.26)
Total	(34.59)	(29.26)

(see Note 26.)

Note 4. Other Income*LTL million*

	2001	2000
Income from		
Trade in anchor currency	1.23	1.47
Trade in numismatic products	0.33	1.07
Rent of property	1.03	1.03
Auctions of securities	0.21	0.35
Settlement services	3.97	3.62
Management of the World Bank loan	0.62	0.91
Adjustment of specific provisions on assets pledged for loans	4.97	–
Other income	2.15	1.46
Total	14.51	9.91

Note 5. Expenses on Wages and Salaries*LTL million*

	2001	2000
Expenses on wages and salaries:	30.27	29.87
to the members of the Board	0.54	0.55
to the heads of structural divisions	1.55	1.47

Note 6. Administrative and Asset Maintenance Expenses

Administrative expenses (LTL 4.69 million) include subscription expenses (LTL 1.38 million), mail and communication (LTL 0.98 million), training of the staff (LTL 0.80 million), business trips (LTL 0.69 million), acquisition of publications for the library, press subscription (LTL 0.22 million) and miscellaneous expenses (LTL 0.62 million), i.e. expenses on stationery, representation and royalties. Administrative expenses include various one-off items, which do not have a significant effect on the financial statement and are not disclosed separately.

Asset maintenance expenses include depreciation of assets (LTL 15.35 million) and expenses for the maintenance of assets (LTL 6.91 million). The largest portion of asset maintenance expenses consisted of expenses on cash and computer equipment and other tangible asset repair and maintenance (LTL 3.84 million) as well expenses on heating, electricity and other types of maintenance of premises (LTL 2.10 million).

Note 7. Taxes

In 2001, the amount of taxes paid was 43.20 per cent lower than that in 2000.

With the Revised Version of the Law on the Bank of Lithuania coming into effect, on 25 July 2001 the Bank of Lithuania was removed from the register of VAT payers. As from 26 July 2001 the VAT paid by the Bank of Lithuania for acquired services and assets is included in their cost. The Bank of Lithuania was released from the obligation to pay other taxes (real estate, rent of land, road fund taxes) and state fees on 31 March 2001.

Note 8. Specific Provisions Income and Expenses

In 2001, the reduction of specific provisions was recognised as income due to repaid loans, for which specific provision were allocated during the previous accounting periods, and due to the improved condition of the loan portfolio.

Note 9. Gold

	31 December 2001	31 December 2000
Gold holdings in		
Troy ounces	186,146.03	186,308.97
Kilograms	5,789.79	5,794.86
Price of 1 Troy ounce, USD	276.50	252.80
Value of gold, LTL million	205.88	188.40

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

Note 10. Investments and Deposits in Foreign Currency*LTL million*

	31 December 2001	31 December 2000
Balance of correspondent accounts with foreign banks	255.15	59.58
Balance of account with the IMF (see Note 16)	73.59	5.28
Deposits with foreign banks	244.82	588.57
Debt Securities	5,566.17	3,476.23
Reverse repurchase transactions	287.20	1,074.49
Total	6,426.93	5,204.15

As at 31 December 2001, investments in debt securities were LTL 2,089.94 million higher compared to 31 December 2000.

Breakdown of Debt Securities by Issuer and the Issuer's Country*LTL million*

	31 December 2001	31 December 2000
Securities of central governments and governmental agencies	4,649.81	2,327.96
EU states	3,348.23	1,128.32
USA	1,120.38	1,117.91
Other states	181.20	81.73
Securities of international financial institutions	916.36	1,148.27
Council of Europe Development Bank	435.41	213.64
European Investment Bank	259.42	247.41
International Bank for Reconstruction and Development (World Bank)	28.35	487.48
Other institutions	193.18	199.74
Total	5,566.17	3,476.23

Note 11. Shares

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with representation and voting rights equal to 1,000 shares, the value of each share amounting to 2,500 gold francs. The Bank of Lithuania has paid up 25 per cent of the BIS shares. In 2001, the Bank of Lithuania received dividends for the BIS shares amounting to LTL 0.80 million (LTL 0.84 million in 2000).

The Bank of Lithuania holds one SWIFT share and one Euroclear share, which do not yield dividends.

The Bank of Lithuania owns 36,318 shares of the Central Securities Depository of Lithuania (60% of the total amount of shares) which yield dividends.

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

Note 12. Loans*LTL million*

	31 December 2001	31 December 2000
Loans	21.74	29.25
To banks	15.34	23.71
To the Bank's employees	6.40	5.54
Specific provisions	(0.95)	(2.85)
Net value of loans	20.79	26.40

As at 31 December 2001, as compared to 31 December 2000, the balance of loans to the Small and Medium Size Enterprise Financing Programme of the Republic of Lithuania decreased by LTL 8.37 million, as during the reporting period the banks repaid LTL 7.85 million of loans and the exchange rate of the euro declined. In 2001, additional loans of LTL 0.93 million were granted.

In the period from 1996 to 2000 loans to the Bank's employees were not granted. According to the provisions of the Law on the Bank of Lithuania, granting of loans to the Bank's employees was resumed as from October 2001. As at 31 December 2001 the stock of newly granted loans made up LTL 1.49 million, including the stock of consumer loans of LTL 0.77 million, and housing loans of LTL 0.72 million.

Specific provisions in 2001 decreased by LTL 1.90 million and as at 31 December 2001 accounted to 4.37 per cent of the nominal amount of bank loans. The reduction of specific provisions was influenced by changes in loans risk category, loans repayment and a decline of the exchange rate of the euro.

Note 13. Fixed Assets*LTL million*

	Intangible assets (software)	Tangible assets				Total
		Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled items)	Vehicles tangible assets	Other	
Acquisition value at 31 December 2000	5.32	136.08	44.17	6.60	37.10	229.27
Gain in 2001	2.66	1.78	4.21	0.28	1.40	10.33
Reduction in 2001	(0.14)	(0.06)	(1.02)	(0.71)	(0.42)	(2.35)
Redistribution in 2001	–	–	(0.01)	–	0.01	–
Acquisition value at 31 December 2001	7.84	137.80	47.35	6.17	38.09	237.25
Accrued depreciation on 31 December 2000	(4.71)	(7.15)	(26.04)	(5.72)	(20.08)	(63.70)
Depreciation in 2001	(1.81)	(1.84)	(6.49)	(0.45)	(4.76)	(15.35)
Written-off depreciation in 2001	0.14	0.05	1.02	0.71	0.42	2.34
Residual value at 31 December 2001	1.46	128.86	15.84	0.71	13.67	160.54
Residual value at 31 December 2000	0.61	128.93	18.13	0.88	17.02	165.57

The Bank of Lithuania uses its fixed assets for the implementation of its objectives and functions, as determined by the Law on the Bank of Lithuania and for the establishment and maintenance of the necessary infrastructure. The residual value of fixed assets (buildings), which were acquired and indexed according to the resolutions of the Government of Lithuania prior to 1994, made up LTL 65.35 million (as at 31 December 2001).

In 2001, premises of the Bank of Lithuania were reconstructed (LTL 1.77 million), computer hardware, computer network and software was purchased (LTL 6.40 million), cash equipment (LTL 1.01 million), security systems (LTL 0.75 million) and other fixed assets (LTL 0.41 million) were acquired.

In 2001, the Bank of Lithuania recognised some of its buildings (residual value LTL 1.82 million) as a surplus to requirements and those buildings will be sold.

Note 14. Other Assets

LTL million

	31 December 2001	31 December 2000
Accrued interest income	45.38	55.53
Advances for services	3.70	0.82
Assets taken over for loans	6.75	6.75
Provisions on assets taken over for loans	(1.78)	(6.75)
Other assets	3.16	3.74
Total	57.21	60.09

The majority of accrued interest income (LTL 43.98 million on 31 December 2001, and LTL 49.23 million on 31 December 2000) is accrued income from interest on operations with coupons bearing securities.

The majority of advances for services (LTL 3.21 million) are advances to the Public Company Mint of Lithuania for minting of coins.

The assets taken over for loans consist of non-interest bearing Government debt securities in national currency of five issues with maturity ranging from 3 to 7 years.

Note 15. Banknotes and Coins in Circulation

This item represents banknotes and coins placed in circulation by the Bank of Lithuania. In 2001, the amount of cash put into circulation amounted to LTL 2,173.77 million (LTL 4,963.45 million in 2000), and the amount withdrawn from circulation made up LTL 1,814.93 million (LTL 5,030.20 million in 2000).

Banknotes and Coins in Circulation

LTL million

	31 December 2001	31 December 2000
Banknotes	3,172.12	2,822.08
Coins	90.71	82.15
Commemorative coins	3.88	3.64
Total	3,266.71	2,907.87

Note 16. Relations with the IMF*LTL million*

	31 December 2001	31 December 2000
ASSETS		
Balances of accounts with the IMF (see Note 10)	73.59	5.28
Accrued interest income	0.18	0.06
Total	73.77	5.34
LIABILITIES		
Balances of accounts with the IMF No. 1 and No. 2	2.09	2.09
Part of the IMF Extended Fund Facility	253.19	310.59
Total liabilities	255.28	312.68
Accrued interest expenses	1.18	2.91
Total	256.46	315.59

The Republic of Lithuania has been a member of the IMF since 1992.

The Republic of Lithuania's Quota is its membership subscription, 25 per cent of which was paid in SDR, and the balance secured by non-marketable and non-interest bearing Government of Lithuania securities denominated in national currency. At the end of 2001 and 2000 the Republic of Lithuania's Quota was SDR 144.20 million. The value of securities issued by the Government of Lithuania in favour of the IMF as at 31 December 2001 amounted to SDR 264.09 million.

As at 31 December 2001, compared to 31 December 2000, the part of the IMF Extended Fund Facility administered by the Bank of Lithuania decreased by LTL 57.40 million due to the repayment of LTL 46.04 million (SDR 9.06 million) of the loan and the changes in exchange rates. The Government of Lithuania holds and administers the remaining part of the IMF loan, which totals SDR 50.45 million as at 31 December 2001, and a Systemic Transformation Facility granted to the Government of Lithuania, which amounts to SDR 19.41 million as at 31 December 2001. As at 31 December 2001, compared to 31 December 2000, the liability of the Government of Lithuania to the IMF for the loans decreased by SDR 17.68 million due to the repayment of a part of the loan.

Note 17. Liabilities to Financial Institutions*LTL million*

	31 December 2001	31 December 2000
Liabilities to banks	583.51	620.63
Banks' required reserves in foreign currency	416.74	416.02
Liabilities to securities brokers	1.25	0.51
Liabilities to the Deposit Insurance Fund	0.05	0.01
Total	1,001.55	1,037.17

Banks' required reserves in national currency are held in banks' correspondent accounts, while required reserves in foreign currency – in separate banks' accounts with the Bank of Lithuania. These are non-interest bearing liabilities of the Bank of Lithuania. In 2001, the reserve requirement rate in litas and foreign currency was 8 per cent.

Note 18. Liabilities to Government Institutions*LTL million*

	31 December 2001	31 December 2000
Liabilities to the Ministry of Finance for:	1,477.31	749.37
Accounts balances	1,477.31	209.37
Deposits	–	540.00
Liabilities to other government institutions	24.08	40.62
Total	1,501.39	789.99

Until 30 June 2001, the Ministry of Finance held some accounts of reserves and special funds with the Bank of Lithuania. Pursuant to the provisions of the Law on the State Treasury, the State Treasury accounts were opened in the Bank of Lithuania at 30 June 2001. The balances of Treasury accounts were transferred from the commercial banks to the Bank of Lithuania.

Note 19. Other Domestic Liabilities*LTL million*

	31 December 2001	31 December 2000
Balances of accounts	2.06	3.00
Accrued expenses and deferred income	4.44	5.71
Other amounts payable	1.17	9.65
Total	7.67	18.36

Note 20. Subsidies*LTL million*

	31 December 2001	31 December 2000
For small and medium-size enterprises	28.23	29.16
Tangible fixed assets	0.23	0.26
Total	28.46	29.42

According to a trilateral agreement between the European Commission, the Republic of Lithuania and the Bank of Lithuania made in 1993, the Bank of Lithuania administers the subsidy allocated to the Republic of Lithuania to finance small and medium-size business. Under the terms of this agreement, the purpose of the subsidy may be revised in 2003. Since 1995 the contractual portion of interest received has been available for re-financing loans. At the end of 2001, the balance of the subsidy in litas decreased due to the decrease of the euro exchange rate.

Note 21. Capital, Reserves and Revaluation Accounts*LTL million*

	31 December 2000	Change	Reserve transfers	31 December 2001
Capital	222.67	27.65	173.82	424.14
Authorised	50.00	12.62	–	62.62
Reserve	172.67	15.03	173.82	361.52
General reserves	173.82	–	(173.82)	x
Revaluation reserves	39.14	12.47	(51.61)	x
Securities	32.27	(11.94)	(20.33)	x
Foreign currency	–	6.74	(6.74)	x
Other	6.87	17.67	(24.54)	x
Revaluation accounts	x	–	40.86	40.86
Gold	x	–	17.65	17.65
Securities	x	–	16.47	16.47
Foreign currencies	x	–	6.74	6.74
Reserves	x	–	10.75	10.75
General	x	–	0.84	0.84
Tangible fixed assets	x	–	9.91	9.91
Profit (loss)	126.20	x	x	140.41
Total	561.83	x	x	616.16

Revaluation accounts include unrealised revaluation gain calculated in relation to the market value and (or) the official exchange rate movements as at 31 December 2001 of gold, securities and foreign currencies. Unrealised revaluation losses related to securities price and foreign exchange rate movements were calculated on code-by-code (according to ISIN number) and currency-by-currency basis and were recognised as expenses at the end of the financial year (see Note 3).

The largest portion of unrealised revaluation gains from foreign exchange (LTL 6.73 million) is attributed to the SDR.

In 2001, compared to 2000, the composition of reserves of the Bank of Lithuania changed. The General Reserve (LTL 173.82 million), pursuant to Article 56 of the Law on the Bank of Lithuania, was transferred to Reserve Capital in 2001. In addition, pursuant to the resolution of the Board of the Bank of Lithuania, Gold, Securities, Foreign Currency and Fixed Assets reserves were closed and new reserves were established: the General Reserve and Tangible Fixed Assets Reserve.

The Tangible Fixed Assets Reserve is formed by transferring part of Fixed Assets Revaluation Reserve, which is attributed to the residual value of indexed tangible fixed assets as at 31 December 2001. That part of the reserve attributable to fixed assets written off and (or) fully depreciated during the calendar year should be transferred to the General Reserve on the last business day of the year.

The General Reserve is formed by transferring part of the Fixed Assets Revaluation Reserve, which is attributed to the fixed assets written off and (or) depreciated to its liquidation value by 31 December 2001, part of Securities Revaluation Reserve, which is attributed to securities sold by 31 December 2000, and Gold Revaluation Reserve balance. The General Reserve may be used to cover losses from the activities of the Bank of Lithuania.

Note 22. Assets and Liabilities of the Bank of Lithuania by Currencies

LTL million

	LTL	USD	EUR	XDR	GBP	JPY	XAU	Other	Total
31 12 2001									
ASSETS									
Gold	–	–	–	–	–	–	205.88	–	205.88
Investments and deposits in foreign currencies:	–	5,668.28	627.56	73.59	20.36	37.07	–	0.07	6,426.93
Balances of accounts with foreign banks and international organisations	–	195.05	45.57	73.59	0.03	14.43	–	0.07	328.74
Deposits with foreign banks	–	148.34	53.51	–	20.33	22.64	–	–	244.82
Reverse repurchase transactions	–	287.20	–	–	–	–	–	–	287.20
Securities	–	5,037.69	528.48	–	–	–	–	–	5,566.17
Shares	13.24	–	–	–	–	–	–	–	13.24
Balances of accounts with resident banks	–	0.05	–	–	–	–	–	–	0.05
Loans	5.45	–	15.34	–	–	–	–	–	20.79
Fixed assets	160.54	–	–	–	–	–	–	–	160.54
Other assets	11.87	26.53	18.50	0.18	0.13	–	–	–	57.21
Total assets	191.10	5,694.86	661.40	73.77	20.49	37.07	205.88	0.07	6,884.64
LIABILITIES									
Banknotes and coins in circulation	3,266.71	–	–	–	–	–	–	–	3,266.71
Balances of accounts and loans with IMF	2.09	–	–	253.19	–	–	–	–	255.28
Balances of accounts with non-residents	1.13	–	–	–	–	–	–	–	1.13
Repurchase transactions	–	206.29	–	–	–	–	–	–	206.29
Liabilities to financial institutions	584.81	376.15	40.59	–	–	–	–	–	1,001.55
Liabilities to government institutions	165.52	1,181.70	139.74	0.10	–	14.33	–	–	1,501.39
Other domestic liabilities	4.91	1.55	0.03	1.18	–	–	–	–	7.67
Subsidies	0.23	–	28.23	–	–	–	–	–	28.46
Revaluation accounts	24.39	13.08	3.39	–	–	–	–	–	40.86
Capital and reserves	575.30	–	–	–	–	–	–	–	575.30
Total liabilities, capital and reserves	4,625.09	1,778.77	211.98	254.47	–	14.33	–	–	6,884.64
NET BALANCE POSITION	(4,433.99)	3,916.09	449.42	(180.70)	20.49	22.74	205.88	0.07	0.00
31 December 2000									
Total assets	186.84	4,338.85	842.91	5.34	37.55	58.00	188.40	0.16	5,658.05
Total liabilities, capital and reserves	4,177.28	784.06	377.90	314.94	–	3.80	–	0.07	5,658.05
NET BALANCE POSITION	(3,990.44)	3,554.79	465.01	(309.60)	37.55	54.20	188.40	0.09	0.00

The net SDR liability position exists due to the fact that part of assets denominated in SDR is invested in time deposits by different foreign currencies – SDR components.

Note 23. Assets and Liabilities of the Bank of Lithuania by Maturity*LTL million*

	Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Undetermined maturity	Total
31 December 2001								
ASSETS								
Gold	–	–	35.67	170.21	–	–	–	205.88
Investment and deposits in foreign currencies	328.74	3,778.55	466.36	555.21	1,007.48	290.59	–	6,426.93
Shares	–	–	–	–	–	–	13.24	13.24
Balances of accounts with resident banks	0.05	–	–	–	–	–	–	0.05
Loans	–	–	–	0.08	15.22	5.49	–	20.79
Fixed assets	–	–	–	–	–	–	160.54	160.54
Other assets	–	20.53	14.86	14.72	4.15	0.81	2.14	57.21
Total assets	328.79	3,799.08	516.89	740.22	1,026.85	296.89	175.92	6,884.64
LIABILITIES								
Banknotes and coins in circulation	–	–	–	–	–	–	3,266.71	3,266.71
Balances of accounts and loans with IMF	2.09	4.33	6.49	45.45	186.10	10.82	–	255.28
Balances of accounts with non-residents	1.13	–	–	–	–	–	–	1.13
Repurchase transactions	–	–	34.55	171.74	–	–	–	206.29
Liabilities to financial institutions	584.80	–	–	–	–	–	416.75	1,001.55
Liabilities to government institutions	1,501.39	–	–	–	–	–	–	1,501.39
Other domestic liabilities	2.07	1.68	1.59	2.23	–	–	0.10	7.67
Subsidies	–	–	–	–	28.23	–	0.23	28.46
Revaluation accounts	–	–	–	–	13.26	3.20	24.40	40.86
Capital and reserves	–	–	–	–	–	–	575.30	575.30
Total liabilities, capital and reserves	2,091.48	6.01	42.63	219.42	227.59	14.02	4,283.49	6,884.64
LIQUIDITY EXCESS (SHORTAGE)	(1,762.69)	3,793.07	474.26	520.80	799.26	282.87	(4,107.57)	0.00
31 December 2000								
Total assets	65.06	2,022.30	936.31	1,172.29	961.63	317.09	183.37	5,658.05
Total liabilities, capital and reserves	876.96	174.38	7.74	420.34	249.72	42.77	3,886.14	5,658.05
LIQUIDITY EXCESS (SHORTAGE)	(811.90)	1,847.92	928.57	751.95	711.91	274.32	(3,702.77)	0.00

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

Note 24. Average Interest Rates on Financial Assets and Financial Liabilities

In 2001, the average interest rate on financial assets of the Bank of Lithuania (calculated on the basis of interest received and average interest bearing assets held) was 4.59 per cent, whereas the average interest rate on financial liabilities – 3.92 per cent.

The amounts of assets and liabilities, related to floating rates of interest were not significant.

Note 25. Events After the Balance Sheet Date

Pursuant to the Law on the Credibility of Litas, prior to 1 February 2002 the national currency of the Republic of Lithuania was pegged to the US dollar as the anchor currency (at the exchange rate of LTL 4 to USD 1), whereas as of 1 February 2002 the euro was set as the anchor currency, with the official exchange rate of LTL 3.4528 to EUR 1.

This decision determined the change of the composition of the Bank of Lithuania assets in anchor currency. On 28 February 2002, as compared to 31 December 2001, the portfolio of assets of the Bank of Lithuania in US dollars declined from 83 to 22 per cent, whereas the portfolio of assets in euro increased from 10 to 69 per cent.

Note 26. Effect of Changes in Accounting Policies in 2001 on Certain Profit and Loss Statement and Balance Sheet Items

Below are disclosed profit and loss and balance sheet items as they would have been if the 2001 accounting policies for gold, securities and foreign currencies had been applied in 2000:

LTL million

	31 December 2001	31 December 2000
PROFIT AND LOSS		
Gains (losses) arising from sale of securities	39.87	3.86
Gains (losses) arising from sale of foreign currencies	(1.20)	1.78
Unrealised losses from revaluation of securities	(7.57)	(3.59)
Unrealised losses from revaluation of foreign currencies	(26.52)	(46.96)

LTL million

	31 December 2001	31 December 2000
ASSETS		
Gold	205.88	203.41
REVALUATION ACCOUNTS		
Gold revaluation account	17.65	15.02
Securities revaluation account	16.57	32.00
Foreign currency revaluation account	22.25	15.92