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Abbreviations and other explanations

AB	public limited liability company
CSDL	Central Securities Depository of Lithuania
EC	European Commission
ECB	European Central Bank
ERM II	Exchange Rate Mechanism II
ESCB	European System of Central Banks
EU	European Union
Eurostat	Statistical Office of the European Union
GDP	gross domestic product
GS	government securities
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LCCU	Lithuanian Central Credit Union
MFI	monetary financial institution
p.p.	percentage point
UAB	private limited liability company
USA/US	United States of America
VĮ	state enterprise

Totals/percentages in some tables and charts may not add up due to rounding (“Total” and 100%).

FOREWORD

This report provides a detailed overview of the work undertaken by the Bank of Lithuania in 2013 in implementing the objectives of the central bank of the Republic of Lithuania and performing its functions in the context of the development of the national and global economy and the financial system.

The primary objective of the Bank of Lithuania — to maintain price stability — is implemented through the fixed litas exchange rate strategy. In the context of the fixed litas exchange regime, the Bank ensures free exchange of litas into euro and vice versa, thus, it does not regulate litas market interest rates and the amount of litas in circulation, which is driven by the demand for litas. The fixed exchange rate of the litas makes an indirect contribution towards achieving the primary objective in the long term. In particular, it helps keep export and import prices stable, facilitates international trade and supports confidence in Lithuania's economic policy. The Bank of Lithuania uses monetary policy instruments to maintain the fixed exchange rate of the litas against the euro and to help ensure an appropriate amount of liquidity in the banking system.

In 2013, the growth of the global economy remained broadly unchanged from 2012 as the slowdown bottomed out. Sentiment showed strong improvements in developed countries, in particular, the United States. In the euro area, confidence improved as well, in particular as the region emerged from recession in the second quarter of 2013. The general economic situation remained challenging and the recovery was slow; however, tensions in financial markets had eased significantly, supported by numerous structural measures adopted or introduced by the EU authorities to stabilise the situation. In 2013, the region was focused on the creation of a banking union and many important agreements have already been adopted.

In 2013, Lithuania's economy grew at one of the fastest rates in the EU. It was mainly driven by domestic demand — growth was observed in both household consumption and domestic investment. Household consumption was mostly driven by growth in real disposable income, while domestic investment — by one-off factors and favourable economic conjuncture. However, the growth of exports decelerated in 2013. It was mostly hampered by more subdued external demand and unfavourable developments in prices of imported commodities and the global market for petroleum products.

As domestic demand was the main driver of economic growth, the growth of employment in activities oriented towards the domestic market picked up. The most noticeable boost to employment was provided by the recovery in the construction industry and the effects of the EU Council presidency. A decline in the unemployment rate was mostly due to a rapid decrease in the number of long-term unemployed. However, this decrease may imply withdrawal from the labour market.

In 2013, the average annual inflation rate was significantly lower than in the previous year and lower than the long-term average. The slowdown in inflation is attributed to the tendencies of administered, fuel and food prices, which are favourable for consumers. These tendencies are fuelled by external factors, i.e. the developments in energy and food commodity prices in global markets, in particular a fall in crude oil and food commodity prices in 2013. The growth in prices that are more sensitive to domestic factors (reflecting underlying inflation) decelerated only slightly in 2013 and did not contribute much to the decline in inflation.

Non-financial corporations — the main bank debtors — improved their performance, financial situation and capacity to pay back debts. On the other hand, despite these improvements, the number of initiated bankruptcy proceedings has been growing moderately since late 2012. This, coupled with slower-than-forecasted economic growth of international trade partners, made a substantial impact on business decisions and increased caution. In the short-term, corporations should step up investments in capital goods since the utilisation of existing production capacities has already reached its highest level in the entire history of observations.

The financial status of households improved in 2013, supported by decreasing unemployment, growing wages and improving expectations for the future. This enabled households to improve their debtor risk profile. Despite improvements in financial status, in 2013, as in 2012, households tended to be cautious in their financial decisions. In addition, starting from mid-2013, troubled households may file for personal bankruptcy. Slightly more than 100 individuals used this option by the end of the year.

The loan portfolio of MFIs decreased in 2013, mostly due to the exclusion of two institutions from the official statistics in the middle of the year (one institution went bankrupt and the other withdrew from the market). Nevertheless, there are increasing signs that lending to the economy may recover in the near future. Improvements in the financial status of households and non-financial corporations raise their expectations and lead to a gradual increase in leveraged consumption and investment. Gradual easing in lending terms and still low interest rates add to the growing demand for borrowing as well. Besides, low interest rates do not contribute much to the growth of deposits with MFIs. In 2013, deposits increased, but their composition changed, with more money held in current accounts.

The year 2013 was marked by the bankruptcy of one bank — *AB Ūkio bankas*. However, this event had no negative repercussions for the banking sector. The Bank of Lithuania made all efforts to resolve the problem of *AB Ūkio bankas* quickly and efficiently and to maintain confidence in the national financial system. The approach chosen for the reorganisation of *AB Ūkio bankas*, i.e. to transfer a part of its business to an existing bank and to open bankruptcy proceedings against the remaining part, proved to be effective, as customer service was restored swiftly. Moreover, this option involved the smallest financial contribution of the deposit and investment insurance company *VĮ Indėlių ir investicijų draudimas*. Improvements in the banking sector indicators demonstrate that the choice was right and confidence in the country's financial system was preserved. In 2013, the banking sector kept growing and generating profits amid improvements in the quality of banks' assets and growth of their liquid assets and capital buffers.

Supervision of credit unions continues to tighten. In 2013, the Bank drafted a number of laws governing the activities of credit unions (already endorsed by the Government of the Republic of Lithuania) as it sought to address urgent matters relating to the increase of capital and to achieve a proper balance between the development of credit unions and their ability to absorb losses arising from risk exposures. It continued the review of legislation governing the activities of credit unions and tightened the requirements applied thereto. The Bank of Lithuania prepared and published a public discussion paper on a business model of credit unions in Lithuania. It outlines a number of options and approaches to the sector's structural reform, which will allow strengthening credit unions and ensuring sustainable and long-term operations of the sector in future. Tightening of prudential requirements resulted in more sustainable growth in the credit union sector. In addition, the growth of deposits and assets slowed down in 2013.

In 2013 the Bank made arrangements for the implementation of vital EU legislation on banking supervision, i.e. the Capital Requirement Directive (CRD IV), the Capital Requirement Regulation (CRR) and Technical Standards. In addition, the Bank drafted certain legislative amendments (to the Laws on Banks, the Bank of Lithuania and the Central Credit Union) and revised the resolutions of the Board of the Bank of Lithuania substantially. The banking sector will have a rather short period of time to adjust to the requirements of this Directive and to prepare for direct application of the Regulation and the Technical Standards that are part of the CRD package. The Directive establishes additional capital buffers for banks and aligns liquidity requirements across the EU. In addition, it introduces a ratio intended to achieve a balance between banks' capital and funding. Preliminary estimates have shown that the relevant ratios of the Lithuanian banking system comply with the new standards already. Also, the Bank continued preparations for the implementation of the Solvency II Directive, which introduces a risk assessment-based approach to the management of insurance undertakings and their capital treatment. The Bank drafted legal acts of the Bank of Lithuania implementing interim Solvency II guidelines and carried out quantitative assessments, which confirmed that all insurance undertakings complied with the solvency capital requirements established in the Solvency II.

In 2013, financial education, as an important element in promotion of responsible consumption of financial products, remained a priority for the Bank of Lithuania. The Board of the Bank of Lithuania adopted a resolution approving a conception for financial education. Its main goal is to improve the financial literacy of the country's people in order to make sure that they make rational financial decisions and take a responsible approach towards management of personal finances. In addition, the Bank of Lithuania introduced its financial education initiative and the website *Pinigų bitė* (www.pinigubite.lt) to the public. This website should become a source of unbiased and reliable information about personal financial planning and management for the country's residents. In the reporting period, the Bank of Lithuania and the Ministry of Education and Science of the Republic of Lithuania signed an agreement on cooperation in financial and economic education of schoolchildren. The Steering Committee for Financial Education and the Cooperation Network on Financial Education were set up to ensure successful cooperation with the financial market participants actively involved in financial education.

The recent economic and financial crisis has demonstrated the extent to which systemic risks may negatively impact the financial sector in Lithuania, the EU and the whole world in general, and affect economic development. The Bank of Lithuania seeks to reduce the likelihood of such problems and, to this end, to enhance its existing powers to ensure financial stability with a new role of macro-prudential policy implementation. A respective amendment to the Law on the Bank of Lithuania, which was drafted and endorsed by the Republic of Lithuania Government in 2013, is currently being debated by the Seimas. The main objective of macro-prudential policy is to contribute to the safeguard of the stability of the financial system as a whole, including by strengthening its resilience and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the sector to economic growth.

The value and the amount of currency in circulation increased in 2013, regardless of the fact that the amount frontloaded and accepted by the Bank of Lithuania was smaller. Two banknote denominations — LTL 200 and LTL 20 — gained more popularity, in contrast to the popularity of all other denominations, in particular LTL 50.

The main objective of the Bank of Lithuania in managing foreign reserves is to ensure a sufficient amount of liquid financial resources to maintain smooth functioning of the currency board system. However, in 2013, the performance of foreign reserves investments was undermined by low yields in the euro area countries seen as "safe havens" in terms of credit risks. In response, the Bank updated its foreign reserves investment strategy, building upon the recommendations of the World Bank. The aim of the new strategy is to further diversify investment risks and improve the expected return on investments over a three-year investment period.

The Bank of Lithuania compiled and published monetary and financial, external sector and other financial statistics. Most of these statistics are compiled in accordance with the EU and

ECB legislation, international statistical standards and manuals. The latest financial statistics and statistical reports, providing consumers with up-to-date information on relevant economic issues, are regularly published on the Bank's website.

The Bank of Lithuania installed a new public e-services platform, which provides individuals, using e-banking or other electronic systems as a means of authentication, with convenient access to information about his or her liabilities to credit institutions stored in the Loan Risk Database.

In 2013, the operation of the payment and securities settlement systems overseen by the Bank of Lithuania was stable with no critical incidents recorded. The Bank carried out an assessment of the LITAS-RLS system in accordance with the international principles for financial market infrastructures. Taking the results of that exercise into account, the Bank drew up a set of recommendations on how to improve the efficiency and reliability of LITAS-RLS in the future.

Payment services suppliers, such as payment and electronic money institutions and credit unions, joined banks as members of the SEPA Coordination Committee in order to ensure smooth implementation of the Single Euro Payments Area (SEPA) project. A SEPA forum — a meeting of stakeholders — was organised to promote cooperation between payment services providers, software developers and payment services users, SEPA's visibility and exchanges of good practices, discussions and search for the most effective solutions so as to facilitate the task for businesses and the public sector to get ready for the implementation of SEPA requirements. Starting from January 2014, the latest relevant information about SEPA can be found on a new dedicated website (www.sepa.lt) created by the Bank of Lithuania in tandem with the Association of Lithuanian Banks.

The Bank of Lithuania has been preparing actively and across the board for the implementation of Lithuania's strategic goal to adopt the EU's single currency in 2015. Its key tasks include smooth exchange of currency, adaptation of payment systems, preparations for participation in the Single Supervisory Mechanism and participation in a relevant public awareness campaign. Much emphasis is placed on efforts to ensure smooth cooperation with other EU and Lithuanian institutions.

The Bank of Lithuania was actively involved in the activities of ESCB, other EU institutions and international organisations. International cooperation intensified in particular in the latter half of 2013, during Lithuania's presidency of the EU Council. The Bank of Lithuania made a significant contribution to the implementation of the Presidency's goals in the area of financial services, in particular as regards the creation of the banking union, tightening of the supervision of financial markets, improvement of payment infrastructure, regulation of insurance business and due representation of the EU in international financial fora.

As of 31 December 2013, the Bank of Lithuania had 596 employees (including 3 working their last day of employment and 22 employed on fixed-term contracts).[1]

The Bank of Lithuania not only formed its new mission, vision and values, but also worked hard to improve the efficiency of strategic governance. In particular, it created a clear-cut and specific link between triennial institutional goals established by the Board and individual annual goals defined for each staff member. The efficiency of the link is managed through a qualitatively new assessment of achievements relative to those goals.

The Bank of Lithuania regularly provides information about its activities and applies a wide range of means to educate the society, thus building trust in the national central bank and the country's financial system. This ensures compliance with the principle of transparency and the Bank of Lithuania's accountability to the public.

[1] *The figure excludes 15 employees on maternity/paternity leave or unpaid leave during a period work at the ECB or the IMF.*

I. REVIEW OF THE ECONOMY AND FINANCES

Global Economic Developments

In 2013 global economic development virtually did not decelerate anymore and was similar to that of the previous year. In the second half of the year the economic recovery gradually accelerated in advanced economies, but in the emerging market economies the tendencies were worse. More optimistic sentiment in advanced economies was generally caused by the better-than-expected economic development in the United States. Moreover, the year-and-a-half long recession in the euro area ended in the second quarter of 2013, and the prospects of the peripheral countries of the region became more favourable, thus the tension that the euro area could break up did not grow any more.

The rise of the global economy was slow, and in 2013, i. e. for the sixth consecutive year, the world's main central banks further implemented the expansionary monetary policy. In the spring of 2013, the Bank of Japan announced a new Asset Purchase Program, to be implemented by 2015. As early as in mid-year, the ECB mentioned that low interest rates would be applied for a long time and after the decrease of the inflation rate in November it reduced the benchmark interest rate down to the lowest level ever (0.25%). The US Federal Reserve System became the world's first major central bank that started to change the direction of monetary policy: at the end of 2013 a decision was made to begin to reduce the scope of the quantitative easing programs.

Table 1. Real GDP growth and inflation in the world
(percentage)

	Real GDP growth				Average annual inflation			
	2012	2013	2014*	2015*	2012	2013	2014*	2015*
World	3.2	3.0	3.6	3.9	3.9	3.6	3.5	3.4
Advanced economies	1.4	1.3	2.2	2.3	2.0	1.4	1.5	1.6
USA	2.8	1.9	2.8	3.0	2.1	1.5	1.4	1.6
Euro area	–0.7	–0.5	1.2	1.5	2.5	1.3	0.9	1.2
Emerging market economies	5.0	4.7	4.9	5.3	6.0	5.8	5.5	5.2
Russia	3.4	1.3	1.3	2.3	5.1	6.8	5.8	5.3

Source: IMF.

** Forecasts.*

As before, in 2013 the state of the US economy was the best among the advanced economies. The economy of this country grew moderately, although at a slower pace than in 2012. Fiscal consolidation had the greatest impact on this: in the first quarter of 2013 some taxes were increased and government spending mainly decreased, as the United States Congress failed to agree on measures which would have allowed postponing of the reduction of expenditure. Nevertheless, in the second half of the year, economic growth accelerated, the situation in the labour market improved, the country's housing market went up steadily and lending conditions for the country's businesses and residents were facilitated.

In 2013 the economic situation in the euro area gradually improved, but it was just the start of the recovery, and the growth of the economy was very slow. This growth was hindered by the continued implementation of fiscal consolidation, the very high unemployment level, further rise of the general government debt level and the unstable situation in the financial sector. From March 2013 international financial assistance has already been provided to five euro area countries (Ireland, Greece, Portugal, Spain and Cyprus), but at the very end of the year Ireland became the first country to finish its economic adjustment programme. Since 2014 this country is again borrowing from only international financial markets: during the first quarter it has already borrowed more than half of the funds planned to borrow over 2014.

Confidence in the euro area economic outlook was strengthened by further important political decisions made by regional authorities to deepen financial and economic integration of the region. In 2013 the main focus was on the creation of the banking union. In October 2013 the EU Council formally approved the agreement on the first element of the banking union, i. e. the single supervisory mechanism. According to this agreement, from November 2014 the ECB will be responsible for the direct supervision of all the important banks in the euro area and in the other EU Member States that decided to join the Single Supervisory Mechanism. Other banks will continue to be supervised by national supervisory authorities, but the ECB will be able to provide instructions and, if necessary, directly take over the supervision of those banks. From the end of October 2013 intensive negotiations were being held on the second element of the banking union — the Single Resolution Mechanism — and agreed on in March 2014. Based on this agreement the single bank resolution authority and the resolution fund will be established. This was done to ensure better coordination and more efficient and easier implementation of the resolution of the troubled banks of the country participating in the single supervisory mechanism. At the end of 2013 the EU member states also agreed on the Deposit Guarantee Scheme: it was planned to adjust it, but the scheme would remain national.

In 2013 Russian economic development continued to worsen and recently the country's economy has been basically stagnating. The growth of Russia's GDP significantly decelerated, mainly because of the following cyclical effects: reduced effect of the expansionary fiscal policy implemented in this country from 2009 to 2010 and slower recovery of the global economy, compared to that of 2010–2011. However, structural effects also contributed to this poor situation: growth diminished because of the unfavourable business environment, lack of infrastructure, used up spare production capacity, as well as dependence on raw material prices. Over the last three years they have not been accelerating significantly: prices of raw materials for energy production were relatively stable, while metal prices dropped. Although it was expected that under the influence of more favourable global economic development the Russian economy will grow faster, this prospect is becoming less probable. The conflict with Ukraine, which started at the beginning of 2014, has increased the uncertainty regarding future economic trends (as Russian military actions were negatively affecting the country's financial market and the rouble exchange rate) and have led to a foreign capital flight from Russia and have increased the probability of economic sanctions from the EU and US.

After rapid growth in 2010–2011, in the following years there was a slowdown in the expansion of the economy of the Scandinavian countries, which are important for the Lithuanian financial system. Recently, the best situation has been in Sweden: its economic development accelerated quite unexpectedly in the last quarter, after a significant slowdown in mid-2013. This accelerated growth was driven by household consumption; it should continue to recover, as it will be stimulated by low inflation, the improving situation in the labour market and by the country government's plans to pursue expansionary fiscal policy. The downside risk to the economic development trends in the coming years will be the indebtedness of the private sector and the high and still-increasing housing prices. In 2013 the Norwegian economy considerably slowed down, mainly due to lower exports and significant slowdown in consumption. As in the case of Sweden, the private sector debt level poses a risk for further development of the economy of Norway. Furthermore, in the second half of 2013 housing prices started to fall — it is estimated that the adjustment of prices in the real estate market will not change much in 2014. The small and open Danish economy, which is strongly dependent on the situation in the euro area, began to recover in 2013. It is expected that the economy will continue to recover under the influence of more favourable development of the global economy, particularly of the euro area, and the slow return of higher housing prices. In 2013 Finland's GDP fell for the second consecutive year, and the country's economy is expected to recover at the slowest pace of the Scandinavian countries. Finland's economy is negatively affected by the low external and domestic demand; the purchasing power is negatively affected by the slower growth in wages, gradual increase in an unemployment level and by the fiscal consolidation measures implemented.

Development of the Economy of Lithuania

Real Sector

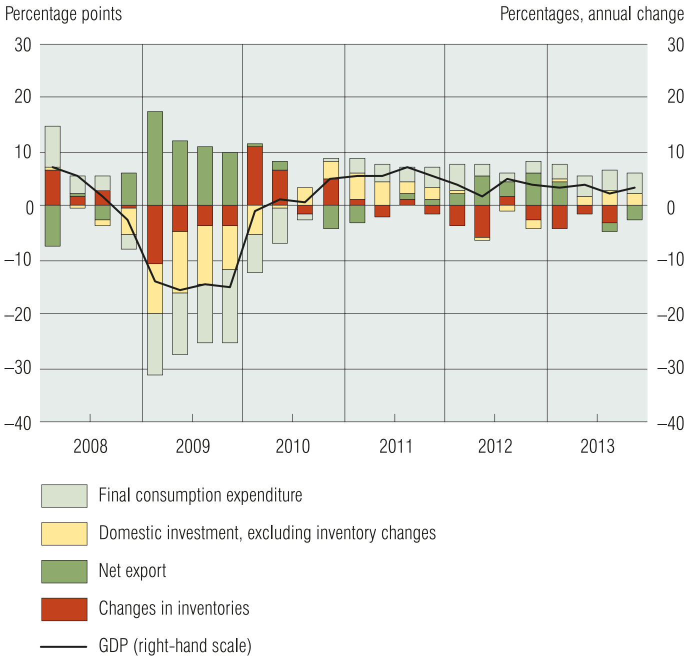
As the Lithuanian economy continues to rapidly grow, the negative GDP output gap, which had formed during the downturn, is declining. The recovered competitiveness of the tradable sector enables further growth of exports, but its development is negatively influenced by external demand, which was growing more moderately during recent years. Its slower growth is partly offset by the gradual recovery of domestic demand, as the factors which had restricted the private consumption and domestic investment during the economic recovery are gradually disappearing.

Aggregate Demand

The growth of Lithuania's economy is stable. In 2013, the real GDP increased by 3.3 per cent (3.7% in 2012). This growth was one of the fastest among the EU member states. Nevertheless, the less-favourable economic situation in countries that are major trading partners of Lithuania was one of the main reasons for the slower growth of the tradable sector of the Lithuanian economy. The decelerating growth of external demand has lessened the growth of exports. However, this slowdown of the development of export was eased by the rising market shares of Lithuanian exporters in key trading partner countries. The smaller contribution of exports to economic development in Lithuania was partially offset by the recovery of domestic demand — both in domestic investment and household consumption.

In 2013, investment was again increasing. This increase was driven both by one-off factors and reasons attributable to the economic conjuncture. The coming into effect of the emission standard Euro 6 for the new transport equipment in 2014, encouraging companies to purchase some vehicles even before the introduction of this normative ratio, should be mentioned as one of the main one-off factors. It contributed significantly to the very rapid growth of investment in vehicles. Investment in capital goods has also increased significantly. The relatively high production capacity utilisation rate, coupled with a favourable view on the global economic outlook, were most likely the key factors that encouraged companies to invest in production capacity upgrade and modernization. The public sector has also contributed to the growth in investment. After a pause in 2012, investment into infrastructure was again being increased, particularly in roads, streets and railways.

Chart 1. Contributions to real GDP growth (expenditure approach)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

The growth of household consumption was largely stimulated by the increase in the real disposable income of households. It grew because of the favourable changes in employment and wages (it should be noted that slightly more than one-third of wage growth was driven by the increase in the minimum monthly wage) and the decline in inflation. Other factors that had a significant impact on household consumption trends were better household sentiment (the consumer confidence indicator almost reached its highest value since the start of the collection of this data) and a slower reduction of the financial liabilities to MFI. This factor is important for private consumption, because slower reduction of households' financial liabilities allows them to allocate a greater part of the disposable income for consumption.

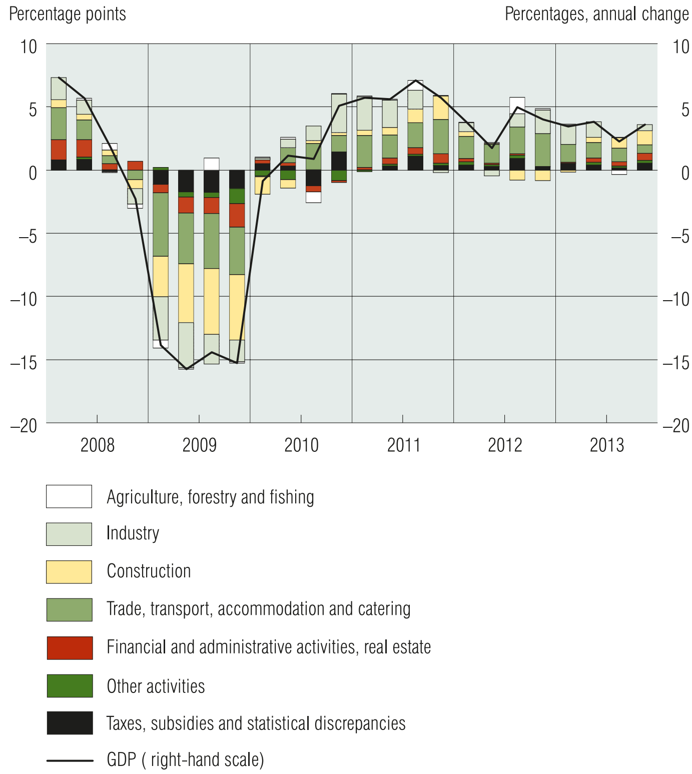
Aggregate Supply

When assessing by the production approach, it should be noted that the value added was growing in both the tradable and non-tradable sectors in 2013. However, the growth trends in those sectors were different. After rapid growth in the first half of 2013, the value added in the tradable sector grew very slowly in the second half of the year, while the growth of the value added in the non-tradable sector was faster in the second half of the year.

The value added in the tradable sector grew in manufacturing, but declined in agriculture because of the smaller harvests compared to the previous year. The growth of manufacturing was slower than a year ago, mainly because of the slower growth of the external demand. Unfavourable developments of the prices of the imported raw materials and of the global market for petroleum products also contributed to the lower manufacturing activity in the second half of the year.

The largest increase of value added in the non-tradable sector was observed in construction and trade activities. The former activity increased due to the recovery of domestic investments, particularly in transport infrastructure, industrial buildings and warehouses, while the latter activity rose because of the increase in household consumption. The value added in other non-tradable sector activities was also growing, but their effect on GDP development was relatively small. Transport and storage activity should be distinguished as an exception from this trend; it is expected that its activity was significantly lower than usual. Most likely, the less favourable demand for the international transportation of goods contributed to the poor development of transport and storage activity.

Chart 2. Contributions to real GDP growth (production approach)



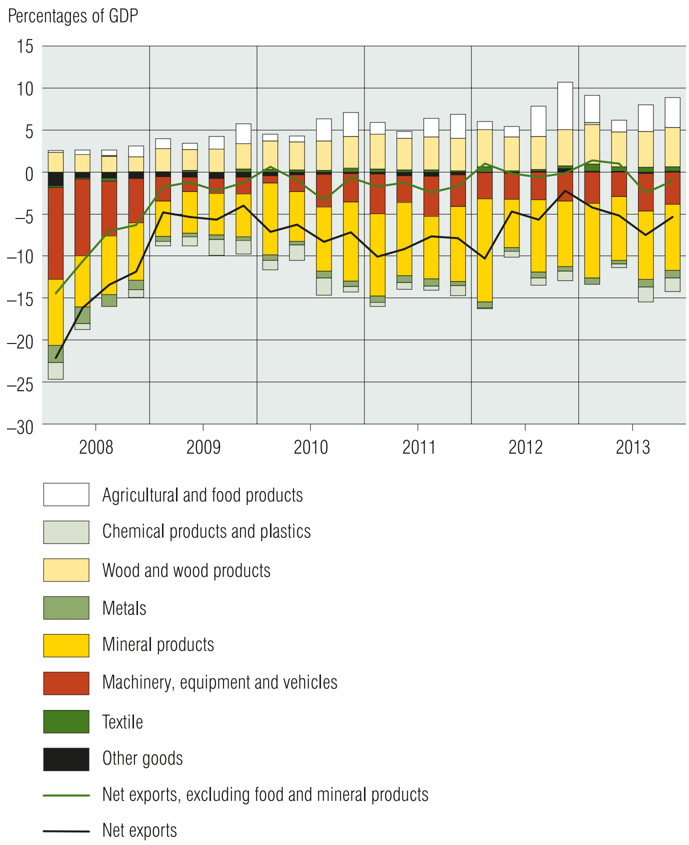
Sources: Statistics Lithuania and Bank of Lithuania calculations.

External Sector

After a very aggressive development of the export of goods in 2010–2012, last year exports grew slightly less rapidly, but quite significantly (annual change in the nominal value of exports amounted to 6.5%). In the first half of the year, a particularly strong driver for the development of exports was the exclusively large grain harvest in 2012 (together with high grain prices in the global market), as well as intensive exports of petroleum products. In the first half of 2013 grain and petroleum products accounted for more than a half of the exports of goods growth. When the effect of the above factors disappeared, the development of export was increasingly more and more driven by foreign demand which was weak both in Western and Eastern markets; therefore, in the second half of the year, export was growing more and more slowly. In the period mentioned the situation in the global fertilizer and petroleum product markets and high prices of some raw materials imported also had a negative effect on exports. Because of the fall in prices of fertilizer products in the global market and the expensiveness of the raw materials imported, some Lithuanian manufacturers not only received less income from exports, but also reduced their volume of production. Due to these reasons, in the second half of 2013 Lithuanian nominal exports of fertilizers almost halved, compared to the same period a year ago. The development of exports was even more affected by the annual downfall in export of petroleum products. Due to unfavourable market factors, low petroleum refining profit margins in particular, *AB ORLEN Lietuva* revenues from exports in the second half of the year were lower by almost one fifth than in the previous year.

In 2013 the growth of the nominal imports of goods practically was the same as for exports. Slightly slower growth of imports, as compared to 2012, was a result of the decline in the oil refinery's demand for raw materials. Nevertheless, due to higher domestic demand, imports of investment and consumption goods grew faster than during the previous year and this significantly offset the factors that slow down the growth of imports.

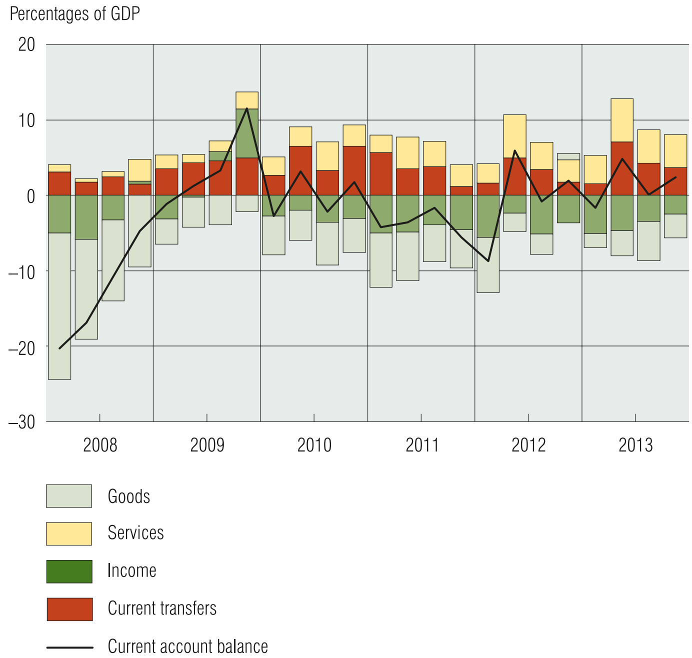
Chart 3. Foreign trade balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

In 2013 the current account was excessive (1.5% of GDP). Compared to 2012, its balance was adjusted by a larger surplus of services and current transfers, and the balances of those parts of the current account which are traditionally in deficit, i. e. the foreign trade in goods and the revenues were similar to those of the previous year. It should be noted that at the beginning of the year development of the current account was quite uneven: deficit that formed in the first quarter changed to a surplus, which was one of the highest in two decades. This was particularly caused by uneven flows of the EU funds (these funds together with remittances of emigrants form a current transfer balance, see red column in Chart 4): in the second quarter these transfers were 2.5 times larger than in the first quarter. Slightly less contribution to the current account adjustment was attributable to the growth of the surplus of services related with the incoming tourist flows. The deficit of the external trade in goods and the revenue deficit, which is in particular influenced by the profit earned by foreign capital enterprises, developed in a more moderate manner. In the second half of the year the combined current account surplus was smaller, and the development was more balanced. Fluctuations were mostly contributed to by foreign trade in goods due to the already discussed factors of the development of petroleum products and fertilizer production.

Chart 4. Components of the current account balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

The current account surplus accumulated in 2013 allowed Lithuania to increase foreign investments and reduce its external liabilities, as shown by the net financial flow from Lithuania. The government's active borrowing in the domestic market contributed significantly to the reduction of external liabilities, i. e. reduction of the external liabilities foreseen in the government's borrowing programme of 2013 increased the negative flow of the portfolio investments. The liabilities of banks continued to decrease, though at a slower pace than a year ago. But the net direct investment flow was positive and bigger in 2012 by more than a third, mainly because of the reinvestments accumulated in Lithuania by foreign capital companies and the lower net foreign investment flow of Lithuanian companies. A considerable part of the negative flows in the financial account was also covered by the positive flow in the capital account and by the decrease in official reserves. Capital flows consisted mainly of capital transfers from the EU structural funds and official international reserves have been significantly reduced due to the change in the government's deposit in the Bank of Lithuania.

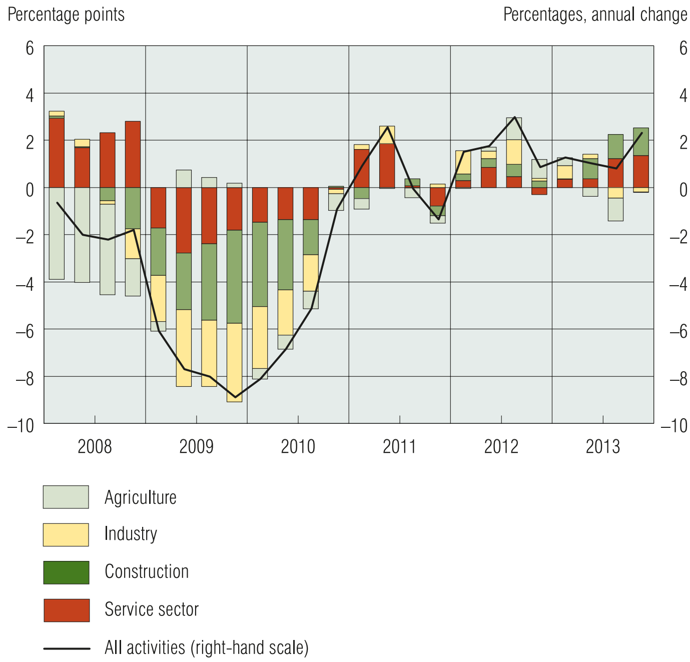
Labour Market

Employment and Unemployment

Due to the weaker growth of the tradable sector and the fact that economic development has been increasingly driven by domestic demand, the number of employed persons grew more rapidly in activities related to the domestic market. In 2013 employment increased by 1.3 per cent, i. e. slightly less than in 2012 (1.8%). The strong growth of the tradable sector, observed during the period of the economic recovery, slowed down and the number of employed persons in this sector was lower than a year ago. Nevertheless, the faster-than-before increase in domestic demand led to a more rapid increase in employment in activities related to the domestic market. The recovery of the construction sector had the strongest effect on employment: the number of employed persons in this sector was one-tenth higher than a year ago and the number of unemployed persons who worked in the construction sector earlier has significantly decreased. After a slow rise at the beginning of the recovery, employment in the services sector started to grow faster. However, a significant part of this faster growth was the result of a one-off factor, i. e. the Presidency of the EU Council in the second half of the year.

The level of unemployment decreased mainly because of the significant reduction in the number of persons in long-term unemployment. In 2013 the level of unemployment was 11.8 per cent, i. e. 1.6 percentage points lower than a year ago. There was a significant decrease in the number of persons in long-term unemployment, i. e. unemployment lasting for one year or more. However, this decrease might be associated with a withdrawal from the labour market, as long-term unemployed persons face more difficulties in finding a job. Level of unemployment in rural areas decreased significantly after a rather slow decline since the start of the economic recovery. Furthermore, the level of unemployment of people with lower education and of youth also decreased significantly. However, the levels of unemployment of these groups of persons are still high, with more than 20 per cent, and the level of unemployment in rural areas is almost twice as high as in urban areas.

Chart 5. Employed persons by economic activity



Sources: Statistics Lithuania and Bank of Lithuania calculations.

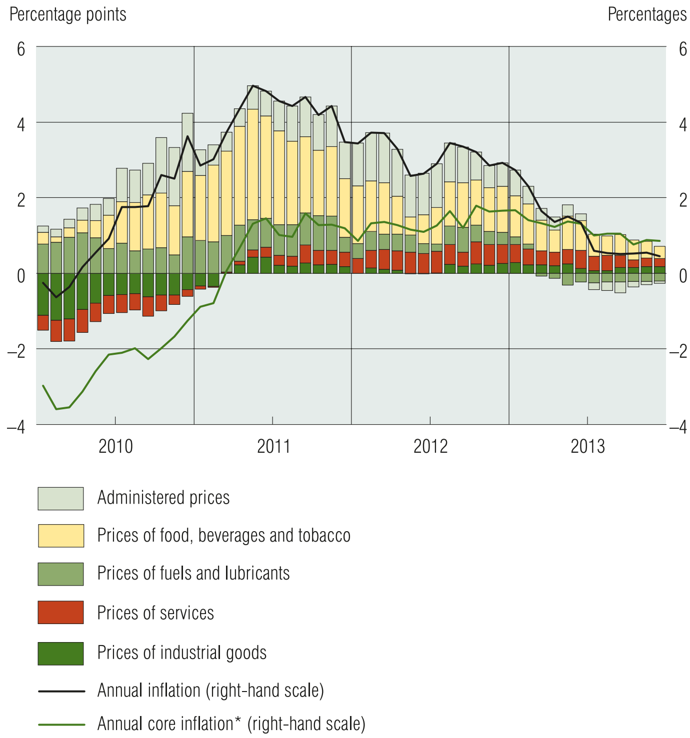
Wages

The increase of the minimum wage resulted in the fastest rise of wages after the start of the economic recovery. In 2013 wages increased by 5 per cent, i. e. almost twice as fast as in the period of 2011–2012. This rapid rise was also driven by the increase of minimum wage by 17.6 per cent (from LTL 850 to LTL 1,000) in January 2013. As one-fifth of persons employed in the private sector earned LTL 1,000 or less before the increase of minimum wage, the growth of wages in this sector more than doubled. The number of such workers in the public sector was half of that, so the impact on wages was lower. The faster growth of wages in the private sector was also significantly driven by construction activity. In 2013, wages in this sector increased by more than 10 per cent after an annual growth of 2 per cent since the start of the economic recovery. This acceleration cannot be explained on the grounds of the increased minimum wage alone, so it is likely that a large part of the fast increase of wages in the construction sector was caused by the recovery of this sector.

Prices and Costs

In 2013 average annual HICP inflation amounted to 1.2 per cent. It was significantly lower than in 2012 when it amounted to 3.2 per cent and significantly lower than the average long-term inflation of 3.4 per cent. These favourable consumer trends were fostered by prices related to external factors, i. e. the situation in the global markets of raw materials: compared to 2012, average annual inflation was mainly decreased by changes in administered, fuel and food prices.

Chart 6. Contributions to the annual HICP inflation



Sources: Statistics Lithuania and Bank of Lithuania calculations.
**Change in HICP, excluding food, fuels and lubricants, and administered prices.*

Of these three groups, the first two groups had the largest impact on decrease of inflation: about three quarters of the total decline in inflation can be connected to a slower rise of administered prices compared to 2012 and to the fall in fuel prices. These changes are associated with the global prices of energy resources: after a rise by almost one-tenth in 2012, Brent crude oil prices in litas declined in 2013, as well as the prices of natural gas imported from Russia (which were rising before also), which is an important driver of Lithuanian administered prices. The rise of the latter prices in 2013 slowed down mainly due to the price of heat energy, i.e. the component with the biggest weight in the consumer basket. After the rise in price by more than one-tenth in 2012, it became cheaper by 8 per cent in 2013. The even greater slowdown of the rise of administered prices was hindered by the rise of electricity prices. In 2013 the price of electricity went up almost by one-tenth due to the support for new biofuel plants (electricity generated by these plants is purchased at a higher price) and bigger support to combined heat and power plants.

While in 2013 food (including beverages and tobacco) prices increased less than in 2012, it was not such an important factor influencing lower inflation as the development of prices related to raw materials for energy production. According to the data of the United Nations Food and Agriculture Organisation, in 2013 global food commodity prices in US dollars were lower than a year ago, but their drop was not as significant as in 2012.

Contrary to the prices dependant on external factors, the prices which were more related to the domestic situation (included in calculation of net inflation rate and covering industrial goods and market services prices) had little effect on the decline in inflation. Although in 2013 market service prices were apparently increasing slower than in 2012, especially because of cheaper telephony services, industrial goods prices were increasing faster than in 2012 (due to the solid fuel prices).

Trends of the indicators related to consumer prices were very favourable to low inflation in 2013. In 2013 producer prices in the domestic market and import prices were lower than in 2012. So there was no pressure emerging from the chain of production and foreign countries, which could have increased the consumer prices. Although the minimum monthly wage was significantly raised at the beginning of 2013, the unit labour cost increase calculated as the difference in gross wage growth and labour productivity growth was not significant.

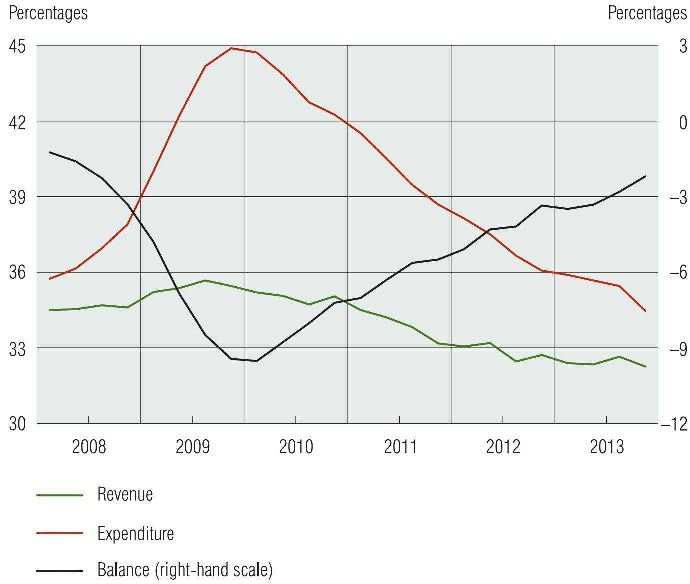
Decisions on taxes also had some impact on inflation in 2013. Prices were slightly reduced due to some of the new VAT rate exemptions (for passenger transport, press etc.) that came into force at the beginning of the year, but they increased as a result of the increase in some important excise duties (for gas oil from January, as the transitional period applied to Lithuania has ended, and for cigarettes from March with the aim to gradually reach by 2018 the level of excise set by the EU).

General Government Finances

Revenue, Expenditure and Deficit

In 2013 the general government sector's financial position continued to improve: the general government deficit-to-GDP ratio was 2.2 per cent, which means an annual decrease by 1.1 percentage points. The continued restriction of general government spending had the strongest effect on the decrease in deficit: general government's expenditure-to-GDP ratio continued to decline in 2013. Faster reduction of the deficit was hindered by the general government revenue-to-GDP ratio in 2013 which was lower than a year ago. From the perspective of institutional sectors it is clear that three quarters of the reduction of the total general government deficit are related to a significant decrease in state budget deficit, compared to 2012, and the rest is related to the lower social security fund deficit. The state budget deficit has largely decreased due to one-tenth more than planned budget revenue from direct taxes, especially from profit tax. In 2013 state budget expenditure also reduced the general government deficit as this expenditure was LTL 1.3 billion (4.8%) lower than planned due to lower expenditure for wages, purchase of assets and other goods. The social security funds deficit declined due to the excessive revenue collected as a result of a better labour market position and lower-than-expected expenditure.

Chart 7. General government revenue, expenditure and balance
(four-quarter moving sums, compared to GDP)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

In 2013 general government revenue-to-GDP ratio fell to 32.3 per cent, compared to 2012. The nominal value of the general government revenue grew by 3.6 per cent in 2013, largely due to social contributions, direct and indirect taxes. The main sources of the increase in income were: greater wage fund; an increase by nearly one tenth in taxable profit in 2012, compared to 2011; a slightly bigger number of profitable enterprises; due to improved profitability expectations a smaller number of advance profit tax payers in 2013 who pay this tax based on the projected amount of the profit tax. A greater wage fund had a positive impact on other macroeconomic indicators as well: there was an increase in household consumption expenditure and in retail trade turnover, which resulted in the increase in revenue from indirect taxes. It should be noted that the increase in the rates of excise duty on diesel and tobacco products also had a positive impact on this income in 2013.

In 2013 the general government expenditure-to-GDP ratio fell more than 1.5 percentage points and amounted to 34.4 per cent. This lower ratio was a result of greater GDP and nominal expenditure increased by 0.3 per cent during the year. Compensation to employees, as well as increases in current and capital transfers, had the greatest effect on general government spending. The current transfers increased due to larger allocations to medical institutions and higher general government (mainly municipal) credit liabilities. Funds for the payment of wages increased due to the premiums for the labour length of service and due to the restoration of civil servant salary coefficients and premiums for qualification from October to the level of 2009, based on the Constitutional Court's ruling. It is probable that the compensation for employees could have increased because of Lithuanian Presidency of the EU Council.

Debt

After a four-year growth, general government debt decreased by 1.0 percentage point and stood at 39.4 per cent in 2013. This decrease was driven by a negative difference between the average interest rate paid for the debt and the economic growth rate, and the primary balance of the general government was still negative. During the previous year the level of debt in national currency increased by more than LTL 1 billion, i. e. up to LTL 47.1 billion.

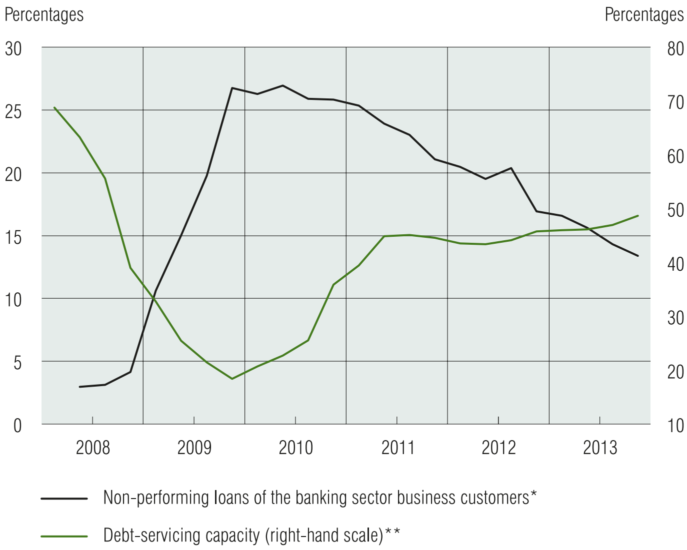
The largest increase was in the debt of central government and social security funds. Most of the funds received in 2013, after the government securities of LTL 5.1 billion were distributed in domestic market and the bond emission of LTL 1.4 billion was distributed in international market in February, were dedicated to fulfil the obligations assumed, so the debt of central government and social security funds grew mainly because of the inflows of loans from local commercial banks. According to the data of the Lithuanian Ministry of Finance, in 2013 the Government of the Republic of Lithuania borrowed a total of LTL 7.5 billion, LTL 6.7 billion of which was used to fulfil earlier commitments; therefore, the change of government net financial liabilities was significantly less than foreseen in the National Budget Law of 2013 (LTL 1.9 billion).

Financial State of the Private Sector

Activities of Non-Financial Corporations

In 2013 more than 56.5 thousands companies were active in Lithuania.[2] The value of their assets was more than two times higher than the nominal GDP created during that year, and the average number of employees amounted to 1.0 million. Performance, financial situation and credit repayment capacity of the largest groups of the bank debtors — non-financial corporations whose loans granted amounted to 44.8 per cent per cent of the total loan portfolio — were improving. During 2013 the profitability of businesses continued to rise moderately (almost two-thirds of the businesses were profitable, and return on equity reached the level observed before the recession, i.e. 9.2%), and in 2013 the profit of non-financial corporations was 11.1 per cent bigger than that earned in the corresponding period a year ago. These results were obtained due to the sales revenue outgrowing the sales and operating expenses (2.7% and 5.9% respectively).

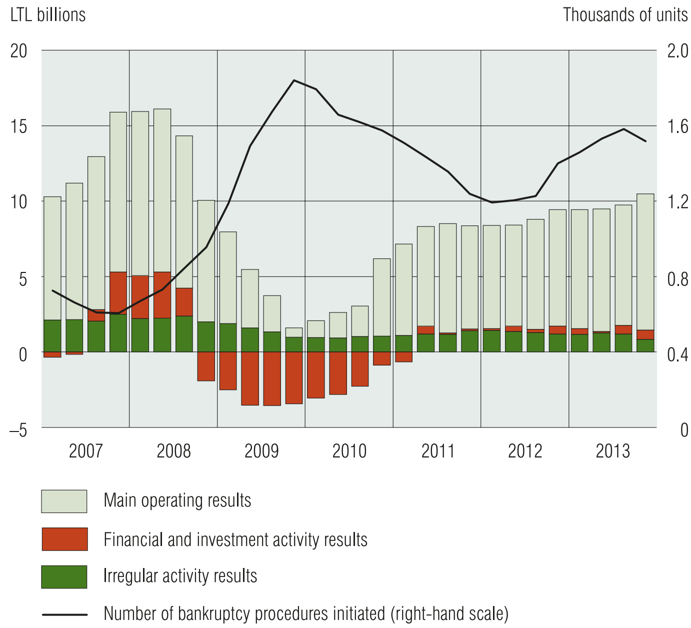
Chart 8. Capacity of non-financial corporations to return debt



Sources: Statistics Lithuania and Bank of Lithuania calculations.
**Compared to the total loan portfolio.*
***Profit before taxes, amortisation and depreciation, compared to financial liabilities.*

[2] *Joint-stock companies (lit. AB and UAB), state and municipal corporations, branches of foreign corporations, agricultural companies and cooperative societies and public institutions.*

Chart 9. Contributions determining operating results of non-financial corporations and the number of initiated bankruptcy proceedings per year



Sources: Statistics Lithuania, Enterprise Bankruptcy Management Department under the Ministry of Economy of the Republic of Lithuania and Bank of Lithuania calculations.

Despite the improvement in enterprise performance and their increased capacity to cover the debt, the number of bankruptcy proceedings initiated increased moderately since the end of 2012 (the increase was close to the rate of growth of the active enterprises). A higher increase in the number of bankruptcy proceedings initiated was characteristic to trade and transport enterprises. It is likely that the increased minimum monthly wage had the greatest impact on the rise of the bankruptcy level.

In 2013 the sales revenue of manufacturing did not change essentially, but the earned profit before taxes was lower by one-third, compared to a year ago, due to high losses from financial and investment activities. On the other hand, manufacturing activity does not show any significant change in the short-run, indicating that the sector should further acquire financial strength. Production demand is considered sufficient by an increasing number of enterprises, and production export forecasts were slightly more optimistic than in the same period a year ago.

As future expectations and the financial position of households and non-financial corporations improved, consumer spending and the revenue of sales companies increased. The profits of distribution businesses, before taxes, increased significantly: at the end of 2013 it was 1.5 times higher than a year ago. This almost doubled the capacity of those businesses to cover their financial liabilities. Although the performance of distribution businesses improved, the number of bankruptcy procedures initiated in the trade sector increased by 14.3 per cent in 2013.

Transport and storage companies, quite closely related to the activities of distribution businesses, did not show any particular signs of rapid growth in 2013. Sales income received have increased; it was the highest since the start of the collection of this data in 1998, but this increase was offset by the increase in all categories of costs, thus the overall result has not changed since 2012. Capacity of transport companies to fulfil their financial liabilities decreased, but it was still higher than before the economic downturn.

On the other hand, the number of initiated bankruptcy proceedings in the sector jumped by almost 1.5 times, compared to 2012.

Table 2. Key performance indicators of non-financial corporations
(per cent)

Type of economic activity*	Profitability**		Financial leverage***		Capacity to return debt****		Probability of bankruptcy*****	
	2012	2013	2012	2013	2012	2013	2012	2013
Forestry and fishing	6.8	11.6	29.0	27.0	334.1	371.3	4.7	4.4
Mining and quarrying	16.5	18.0	88.1	62.8	60.6	79.5	0.0	1.1
Manufacturing	3.3	2.3	95.4	96.5	55.2	44.7	3.3	2.8
Energy supply	3.1	3.5	51.4	52.5	59.9	71.2	0.3	1.3
Water supply	3.2	2.4	35.5	37.1	83.9	75.7	2.7	2.6
Construction	2.9	3.4	121.2	129.5	35.5	39.9	4.6	4.3
Wholesale and retail trade	2.7	3.9	145.3	137.2	45.8	63.5	2.4	2.7
Transport and storage	5.7	5.1	55.4	66.6	94.5	77.7	2.2	3.1
Accommodation and catering	3.1	3.9	213.9	195.3	15.3	20.2	4.5	4.6
Information and communication	9.3	10.0	69.9	67.4	77.1	82.6	1.0	1.2
Real estate operations	21.5	23.0	133.3	113.6	12.2	14.8	1.8	0.6
Professional, scientific and technical activities	35.0	33.1	15.0	14.6	90.7	73.2	1.2	4.4
Education	7.4	5.1	16.4	28.9	73.6	70.9	1.4	1.0
Total	4.3	4.5	74.9	72.4	46.2	49.6	2.6	2.7

Sources: Enterprise Bankruptcy Management Department under the Ministry of Economy, Statistics Lithuania and Bank of Lithuania calculations.
* *Names of some economic activities are abbreviated.*
** *Ratio of profit before taxes to sales over the period.*
*** *Ratio of liabilities to own capital; end-of-period.*
**** *Ratio of profit before taxes, amortisation and depreciation over the period to end-of-period financial debts.*
***** *Ratio of the number of initiated bankruptcy proceedings during the year to the end-of-period number of corporations.*

Improvement of the private sector's financial position and stable real estate market recovery had a positive impact on the results of construction and real estate business. The number of real estate transactions, the number of construction permissions and the number of finished buildings, both residential and non-residential, was increasing. This allowed almost two-thirds of construction and real estate companies to operate profitably and to significantly increase annual profits before taxes by 30.7 per cent and 12.7 per cent, respectively.

Although the improving performance of non-financial corporations contributes to a greater willingness of banks to finance business, companies were careful in making borrowing decisions (as in 2012). Lower-than-expected domestic and export market recovery rates had the strongest impact on this. Moreover, insufficient demand continued to be one of the main factors limiting the activities of businesses, thus limiting investment, as this factor was the most important (e.g., for industry) when making investment decisions. Non-financial corporations have accumulated large internal reserves, which are primarily used to finance the development of the intended activities (in 2009 there was a change in their borrowing behaviour, as they ceased to be net borrowers and became net lenders in the economy).

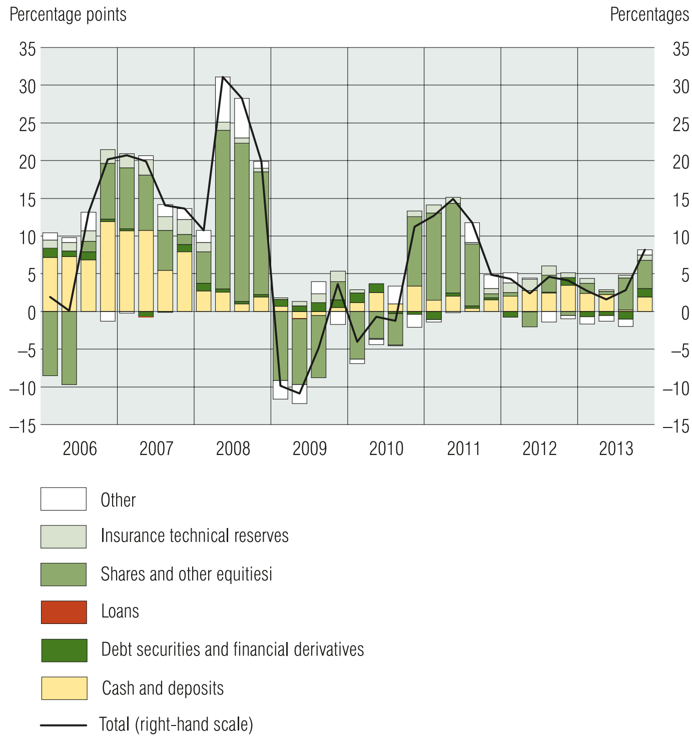
On the other hand, the capacity utilisation rate is at the highest level ever reached, and the share of businesses having insufficient production capacities is moderately growing. This creates pressure on companies to increase investment in the near future.

Household Finances

In 2013 the financial position of households improved: the unemployment level decreased, wages increased, future expectations improved. Average wage growth was influenced by the increase in the minimum monthly wage, but it was also driven by rapid economic growth. In 2013 average gross monthly earnings increased by 4.8 per cent in Lithuania. Taking into account the low rise of the price level, this was an exceptional year, as it was the first year after 2008 when annual real wage growth was recorded. At the end of 2013 the real net wage was 4.1 per cent higher than a year ago. The seasonally adjusted unemployment rate was 11 per cent in the fourth quarter of 2013, i.e. 2 percentage points lower than a year ago, but still 0.2 percentage points higher than the EU average. The consumer confidence indicator (CCI) was still negative (–9.0%) at the end of 2013. This value of the indicator demonstrates that the population still remains more pessimistic rather than optimistic. The comparison of the CCI value versus its historical average reveals that this indicator was 7.3 percentage points higher in 2013. This means that the population's sentiment on the economic outlook is better than the typical average.

As usual, at the end of the third quarter of 2013 the most significant share of total household financial assets was composed of equities and other equity securities (44% of financial assets) and cash and deposits (37% of financial assets. During this period the total value of household financial assets was LTL 99 billion, i.e. LTL 9 billion more than a year ago. This change was mainly determined by the largest group of household financial assets, i. e. equities and other equity securities. Its growth was largely driven by the increase in the value of unquoted equity in non-financial corporations. Household assets in pension funds grew due to the increasing number of participants and the increased market value resulting from the rapid recovery of financial markets.

Chart 10. Annual contributions to household financial assets



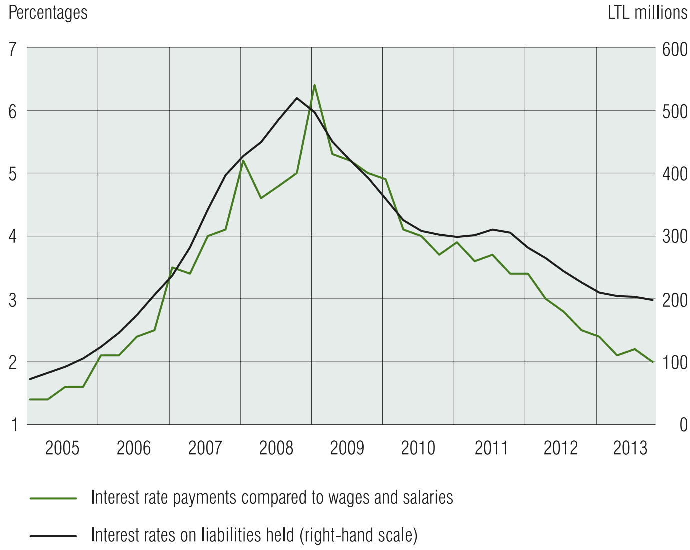
Source: Bank of Lithuania calculations.

Although the financial situation of households was improving, households were inclined to make their decisions with care, as in 2012. This was influenced by the continued decrease in debt after the financial crisis of 2008–2009. At the end of 2013 loans formed the main share (81%) of the household financial liabilities, most of which consisted of liabilities to monetary financial institutions (93%). At the end of 2013 the value of loans attributable to household financial obligations amounted to LTL 27.1 billion, compared to LTL 27.5 billion during the corresponding period of the previous year.

Since the middle of 2013 personal bankruptcy law is helping households cope with excessive indebtedness. From June till the end of 2013, 113 individuals filed for the initiation of the bankruptcy proceedings. A significant part of them were spouses (hence, the number of households willing to declare bankruptcy was lower). During this period 16 persons on average initiated bankruptcy proceedings every month. Preliminary estimates indicate that the declaration of bankruptcy by individuals does not have any significant impact on the stability of the banking sector.

Due to the improving financial situation of households, in 2013 they became less-risky borrowers. Besides the fact that the interest rates of the majority of housing loans granted in Lithuania are variable, debt payment burden was also reduced because of the low interest rate environment. In its guidelines for the future the ECB indicates that it has no intention of changing the interest rate for some time, and this factor will continue to have a positive impact on the solvency of borrowers. Basically, this was the reason for the improvement of the quality of household loans in 2013 (non-performing loans decreased and amounted to 11% of the total loan portfolio).

Chart 11. Households interest rate payment burden



Sources: Statistics Lithuania and Bank of Lithuania calculations.

In 2014 the financial situation of the residents should continue to improve due to the predicted decrease in the unemployment rate and the increase in wages. However, weak economic growth in Europe and geopolitical risk in the large export market might have a negative impact on the Lithuanian economy, particularly through the tradable sector's businesses and the employed population. In the case of materialisation of these risks, reduction of unemployment and growth of wages would be less expected. Household credit risk would also increase accordingly.

Development of the Credit and Deposit Market[3]

In 2013 the other MFI[4] loan portfolio decreased in the EU. The decrease of 1.1 per cent could have been driven by less rapid economic growth in the region for more than two years, still-negative consumer confidence index (which, however, increased significantly in 2013) or the fact that the economic sentiment indicator of companies recovered only in the middle of the year. The MFI loan portfolio development over the year shows that, as in the previous period, the euro area EU countries experience a more significant decrease in the loan portfolio. In addition to the above factors, this may be influenced by the continued difficulties in tackling structural economic problems in some of the southern euro area countries. ECB surveys show that the majority of the respondent banks in the euro area do not expect any increase in demand for loans in 2013, especially from non-financial corporations. On the other hand, due to the implementation of expansionary monetary policy, loan interest rates are still low and this, combined with still eased lending conditions, may contribute to increased lending. Deposits in the EU MFIs decreased by 2.4 per cent in 2013, largely due to their significant reduction in the euro area countries.

In 2013 the portfolio of loans granted by MFIs (mainly commercial banks and branches of foreign banks), shrunk by 1.8 per cent, or LTL 1.1 billion, in Lithuania. At the beginning of the year the loan portfolio increased (due to the growth of lending to central government and financial intermediaries), but after the Bank of Lithuania announced the insolvency of *AB Ūkio bankas* and the Lithuanian branch of *AS Unicredit Bank* left the market, the MFI loan portfolio decreased as these institutions were not included in official statistics. However, the granting of new loans[5] to the private sector, especially to non-financial corporations, increased in 2013 due to both the improving financial situation in the private sector and the increasingly improving borrowing conditions. Furthermore, with the recovery of the economy, the future expectations of households and non-financial corporations improved in 2013 and were higher than the long-term average.

Table 3. Change of the total value of monetary financial institution loan portfolios
(change excluding *AB bankas SNORAS* is provided in parentheses, per cent)

	2011	2012	2013
Total loan portfolio	–5.3 (–0.9)	1.1	–1.8
Portfolio of loans to financial intermediaries	–23.3 (–5.9)	38.5	–24.1
Portfolio of loans to government	31.7 (34.1)	5.5	26.0
Portfolio of loans to non-financial corporations	–7.3 (–2.6)	0.3	–4.0
Portfolio of loans to households	–4.5 (–1.9)	–1.9	–0.4
Housing loans	–0.8 (–0.1)	–1.0	0.3
Consumer and other loans	–15.9 (–7.9)	–5.1	–3.3

Source: Bank of Lithuania calculations.

3 *The statistical reporting data prepared by the Bank of Lithuania and used in this part of the Annual Report, assessing the loan and deposit development in Lithuania, can differ from the data collected for supervision purposes.*

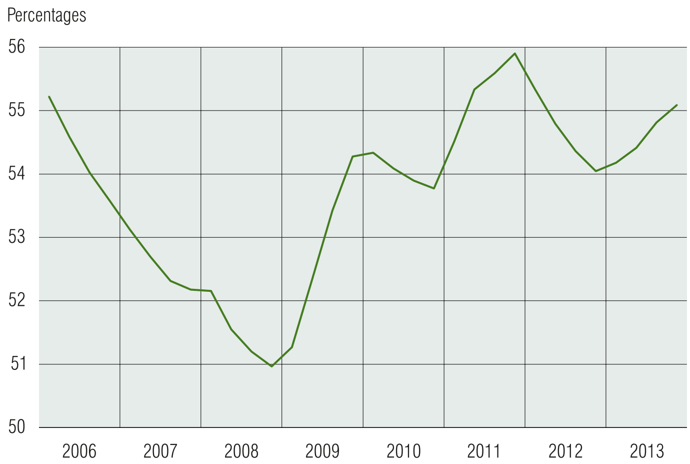
4 *Excluding the central bank.*

5 *New agreements have been concluded: all financial agreements or their conditions, when the interest rate of the loan is being fixed for the first time, and all new agreements on existing loans. Extension of the existing loan agreement without active participation of the household or non-financial corporation and without a new negotiation of the conditions of the agreement shall not be considered new; change of interest rate according to the conditions set in advance when concluding the agreement shall not be considered a new agreement as well.*

In 2013, the financial situation of non-financial corporations was improving, but they did not rush to fund activities and investments using the borrowed funds. In 2013, sales income of non-financial corporations was the largest since the first announcement of this indicator, and the level of profit earned that year was the highest from the outbreak of the economic downturn. Profitable enterprises accounted for nearly two-thirds of non-financial corporations, and the results of the assessment of the non-financial corporations' perspective in the second and third quarters of 2013 were positive and better than the long-term average. Due to improvement in the performance of non-financial corporations, their capacity to repay the debt increased. All this contributed to the decline of the share of non-performing loans to business in the portfolio of such loans. Banks eased their lending conditions for businesses[6] and maintained low interest rates, but businesses did not hurry to increase their financial liabilities. More than half of the total assets of non-financial corporations was financed from own funds and this share slightly increased in 2013. During this period, about 50 per cent of material investments of non-financial corporations were financed from own funds. In 2013 the portfolio of loans granted by MFIs to non-financial corporations shrunk by 4.0 per cent, or LTL 1.1 billion.

Due to the rapid development of the activities of non-financial corporations, some of them began to experience a lack of duly qualified staff. The number of employed persons in Lithuania increased by 2.3 per cent in 2013 while the average monthly gross wage rose by 4.8 per cent. As the financial situation of households was improving, the consumer confidence index in 2013 was the highest since the start of the economic downturn and higher than the long-term average. Due to this fact, the population's assessment of future prospects became more courageous, and the share of people who were going to buy commodities (house, car) or build a home next year increased. The portfolio of the MFI household loans for house purchase increased by 0.3 per cent or LTL 62.2 million in 2013 (this was the first time after 2008 when the annual portfolio increase was recorded. Consumer loans also recovered slightly, but the total portfolio of household loans decreased by 0.4 per cent or LTL 87.0 million during 2013 (due to the decrease in other loans).

Chart 12. Development of the share of assets financed from the non-financial corporations own funds

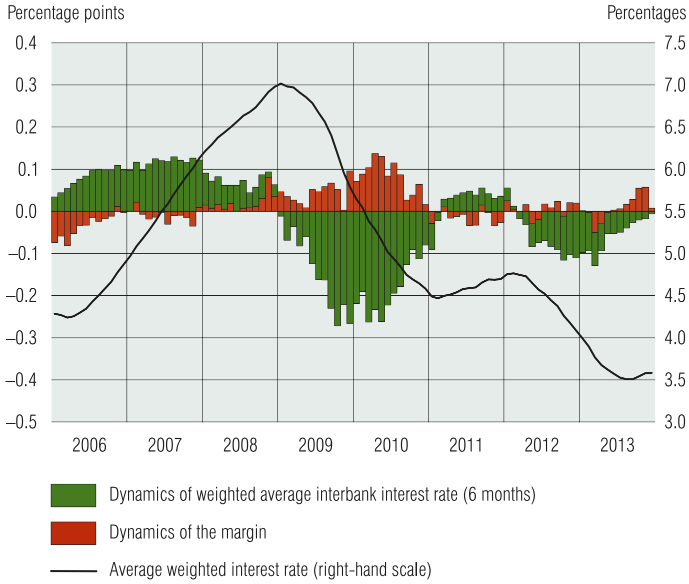


Sources: Statistics Lithuania and Bank of Lithuania calculations.

[6] *Bank of Lithuania lending surveys of commercial banks.*

The trend of the development of the interest rates applied to new MFI loans to the private sector changed in mid-2013 and they began to rise slowly, but still were low compared to the average of the past few years. The majority of interest rates for new loans are fixed for a period of less than one year, so interest rates remained low, mainly due to the expansionary monetary policy in the euro area and low (compared to earlier values) interbank interest rates. In the second half of 2013, however, the situation began to change, and banks increased the margins of new loans to households and non-financial corporations. At the end of 2013 the interest rates applied to new loans to the private sector amounted to 3.7 per cent and have not changed over the year.

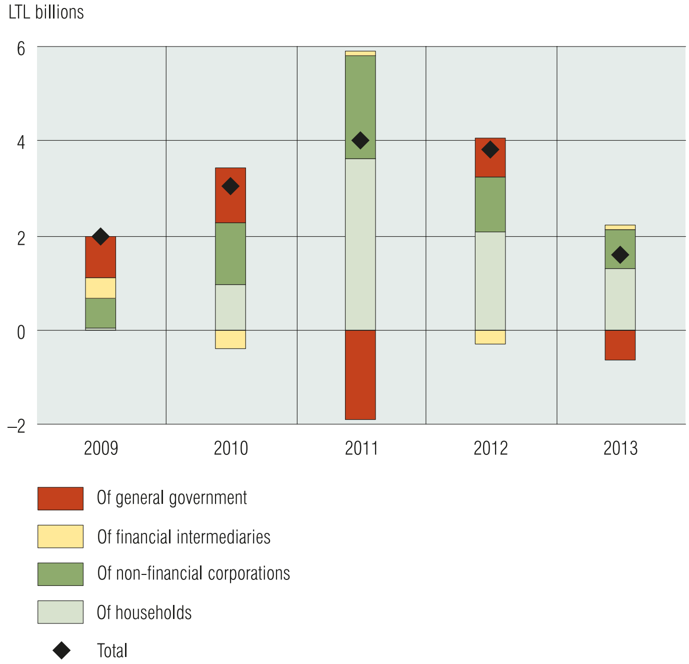
Chart 13. Contributions to interest rates on new loans to the private sector
(12-month moving average)



Sources: www.euribor-ebf.eu and Bank of Lithuania calculations.

Just as before, deposits to MFIs decreased in the beginning of 2013. This could have been influenced by seasonal factors (especially in the case of household deposits): start of the heating season and higher need for financial resources after spending during the festive period. However, deposits increased during next months (with the exception of the middle of the year when the official statistics did not include two institutions), and annual growth of deposits was 3.3 per cent or LTL 1.5 billion. Deposits to MFIs were largely increased by the private sector, but were reduced by the central government. Partial reduction of deposits by the central government in both MFIs and the Bank of Lithuania probably had some impact on the increase in the private sector deposits to MFIs in December 2013: during this period, the private sector deposits to MFIs increased by LTL 1.7 billion, while the central government deposits to MFIs and the Bank of Lithuania decreased by LTL 1.8 billion. This change in financial resources could be a result of the central government payments to the private sector for goods and services at the end of the year. However, an increase in household deposits could occur because of the household conservatism and avoidance to take on the additional risk by investing in alternative instruments.

Chart 14. Annual contributions of deposits with MFIs (excluding *AB bankas SNORAS*)



Source: Bank of Lithuania calculations.

As lending activity was moderately recovering, the need of MFIs to attract new deposits was low, so in mid-2013 new (starting from 1 month term) private sector deposit interest rates were the lowest in nine years (at 0.5%). In the second quarter MFI began to offer slightly higher interest rates for private sector deposits, and at the end of the year they amounted to 0.6 per cent, i. e. 0.1 percentage points lower than a year ago. Deposit structure by currency did not change substantially over the year, but the deposit structure by duration has changed. As the difference between interest rates paid for overnight deposits and for deposits with agreed maturity was decreasing (at the end of the year it amounted to 0.5 percentage points), the private sector continued to reduce deposits with agreed maturity and held its financial resources in bank accounts. The private sector's overnight deposits increased by LTL 3.4 billion and deposits with agreed maturity decreased by LTL 1.1 billion in 2013.

II. KEY FUNCTIONS OF THE BANK OF LITHUANIA

Exchange Rate and Monetary Policy

The primary objective of the Bank of Lithuania — to maintain price stability — is implemented by the fixed litas exchange rate strategy. The Law of the Republic of Lithuania on the Credibility of the Litas, which came into effect on 1 April 1994, provides legal grounds for the fixed litas exchange rate. It sets an obligation for the Bank of Lithuania to ensure that the litas amount in circulation is fully (no less than 100%) backed by gold and convertible foreign currency reserves, and the anchor currency is exchanged into litas at a fixed exchange rate. Following these principles, the fixed exchange rate of the litas is maintained. From 2 February 2002, the euro is the anchor currency in Lithuania.

Exchange Rate Policy

In the conditions of the fixed litas exchange rate, the Bank of Lithuania ensures free exchange of litas into euro and vice versa; thus, it cannot directly regulate litas market interest rates and the amount of litas in circulation, as the latter is driven by changing litas demand. For these reasons, the Bank of Lithuania is unable to directly regulate aggregate demand and the price level. However, the fixed exchange rate of the litas means that the primary objective is pursued indirectly, i.e. it helps to keep export and import prices stable and encourages international trade, forms low inflation expectations and supports confidence in Lithuania's economic policy. This helps to maintain relative price stability in the long term perspective. In general, such a strategy has been applied successfully since 1994, supported by inherent openness of Lithuania's economy and the relative flexibility of prices and wages.

Price developments in the short- and medium-term perspective may deviate from the level which may be perceived as relative price stability. This is driven by a number of reasons related to external and internal factors, such as significant changes in global commodities markets, in particular in food and energy prices, which account for a relatively large share of Lithuania's consumer price index and cost structure; administrative decisions (change of consumption taxes and administered prices); structural processes (differences in labour productivity in tradable and non-tradable sectors affecting price convergence, trade developments), as well as cyclical upswings and downturns, which sometimes are exacerbated by the country's inadequate economic and fiscal policies.

When acceding to the EU, Lithuania undertook to adopt the Union's single currency, the euro. Lithuania will be able to join the euro area once it complies with the Maastricht convergence criteria. After adoption of the single currency Lithuania will be able to enjoy all the benefits it can offer, such as no risks of exchange between national currency and the euro, lower interest rates in the domestic market, no currency exchange costs, cheaper settlement with the key trade partners in the euro area.

One of the conditions for the adoption of the euro is the country's participation in the ERM II. Lithuania joined the ERM II on 28 June 2004; since then it has maintained the fixed exchange rate regime and a stable exchange rate of the litas against the euro, which is LTL 3.4528 for EUR 1. In its convergence programmes, the Government of the Republic of Lithuania repeatedly reaffirmed the country's plans to continue participation in the ERM II and maintain the fixed exchange rate of the litas against the euro at the current rate. The Bank of Lithuania continues to maintain institutional readiness for a smooth and rapid currency changeover in case the EU Council adopts a decision to introduce the euro in the country.

Monetary Policy Instruments

The Bank of Lithuania uses monetary policy instruments to maintain the fixed exchange rate of the litas against the euro and to help ensure an appropriate amount of liquidity in the banking sector. The Bank of Lithuania, at the request of commercial banks and foreign bank branches (hereinafter — the banks) operating in the country, exchanges litas into euros and euros into litas without restriction, applies reserve requirements, provides overnight facility.

In implementing the fixed litas exchange rate regime, the Bank of Lithuania remains committed in respect to the banks subject to reserve requirements to buy and sell anchor currency at the official exchange rate without restriction. The net result (the amount of euros purchased or sold by the Bank of Lithuania over a certain period of time) depends directly on the change in the autonomous factors[7] of the banking sector's reserves in litas, required reserves and excess reserves.

The Bank of Lithuania has at its disposal a rather wide range of monetary policy instruments, which, however, are of limited effect (see Table 4). Of these, the required reserves and standing facilities for transactions with the Bank of Lithuania are used on a regular basis.

Table 4. Monetary policy instruments of the Bank of Lithuania

Liquidity provision	Liquidity absorption	Maturity	Frequency	Procedure
Standing facilities for banks in transactions with the Bank of Lithuania				
Anchor currency sale to the Bank of Lithuania	Anchor currency purchase from the Bank of Lithuania	–	Access at the discretion of counterparties	Bilateral transactions: the Bank of Lithuania purchases euros and settles on trade date or the second day following trade date and sells euros and settles on the second day following trade date.
Overnight repurchase agreements	–	24 hours	Access at the discretion of counterparties	Bilateral transactions
Reserve requirements				
Banking sector liquidity stabilisation	The required reserve base consists of liabilities of the banks established in Lithuania and foreign bank branches, excluding liabilities to the Bank of Lithuania and other banks, which are subject to reserve requirements applied by the Bank of Lithuania. Zero reserve requirement ratio is applied to the following: 1) deposits with an initial maturity of more than two years or with a longer than two years period of the redemption notice specified in a relevant agreement; 2) debt securities issued with an initial maturity of more than two years; 3) repurchase agreements. Other liabilities of the base are subject to a 4 per cent reserve requirement ratio. Required reserves are held in litas on the banks' settlement accounts with the Bank of Lithuania. Compliance with the reserve requirement is assessed on the basis of the method of average.			

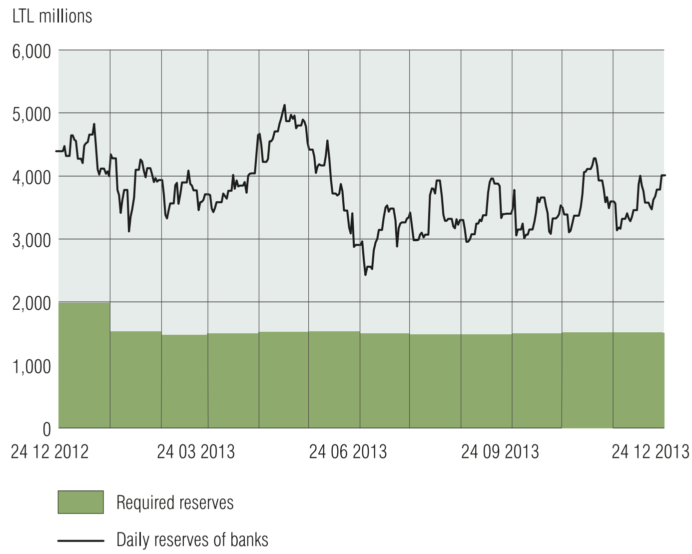
[7] *Autonomous factors for these reserves are the operations of the Bank of Lithuania, which have an impact on the amount of reserves in litas of the banking sector, but are conducted to satisfy needs other than bank liquidity management. The main autonomous factors include the amount of currency in circulation and the transfer of general government funds form the banking sector to the Bank of Lithuania or from the Bank of Lithuania to the banking sector.*

Required Reserves and Banking Sector Liquidity Development Factors

In January 2013, the Bank of Lithuania reduced the reserve requirement ratio of 4 per cent, which was applied from October 2008, to 3 per cent. This change freed up almost LTL 0.5 billion in the banking sector. The purpose of that measure was to gradually approximate to the 1 per cent required reserve ratio applied in the euro area. In 2013, after the reduction of the reserve requirement ratio, the volume of required reserves decreased by meagre LTL 21 million, or 1.4 per cent. The exit of the Lithuanian branch of *AS UniCredit Bank* and the suspension of operations of *AB Ūkio bankas* had a minor effect on the level of required reserves — the volume of required reserves decreased by less than 3 per cent.

Similar to previous years, the autonomous factors of the banking sector's reserves in litas contributed to the growth in the surplus of its reserves in litas, whereas the amount of euros purchased by banks from the Bank of Lithuania in the context of the fixed exchange rate of litas and self-regulation of money supply was higher than the amount of euros they sold to the Bank of Lithuania. Autonomous factors boosted the supply of bank reserves by LTL 2.6 billion in the reporting period (between 24 December 2012 and 24 December 2013). By exchanging the EU structural funds and the funds borrowed in foreign currencies into litas and using them in the domestic market, the Government of the Republic of Lithuania augmented the supply of bank reserves in litas by LTL 3.0 billion. The demand for cash litas, driven by the recovery of the economy, increased by LTL 0.5 billion, which reduced, accordingly, the surplus of the banks' required reserves in litas. The reduction of the reserve requirement ratio boosted bank reserves by LTL 0.5 billion.

Chart 15. Bank reserves in litas held at the Bank of Lithuania



Source: Bank of Lithuania.
Note: a reserve maintenance period established by the Bank of Lithuania starts on the 24th day of a month and ends on the 23rd day of the consecutive month.

In 2013, similar to 2012, the banking sector's reserves in litas remained unusually high (LTL 4.0 billion). Despite a decrease of LTL 0.6 billion over the year, they exceeded the required reserves two and a half times. With interest rates staying at all-time lows, the banks face difficulties earning on short-term, liquid and safe investments. As a result, some of them decided to hold litas on settlement accounts with the Bank of Lithuania until new acceptable risk investment opportunities are found.

Foreign Exchange Operations

In 2013, contrary to 2012, the amount of foreign currency in net terms purchased by the Bank of Lithuania was by LTL 0.3 billion higher than sold. Last year the sale of foreign currency (mainly euros) in net terms to the Bank of Lithuania by the Ministry of Finance of the Republic of Lithuania and other depositors amounted to LTL 2.7 billion, while the purchase of euros by domestic banks in net terms amounted to LTL 2.4 billion. With the insured liabilities and good assets of *AB Ūkio bankas*, whose operations were suspended in the beginning of 2013, taken over by *AB Šiaulių bankas*, transfers from the state enterprise *Indėlių ir investicijų draudimas* were much smaller compared with the bankruptcy of *AB bankas SNORAS*. Therefore, the amount of funds within the banking sector did not change substantially.

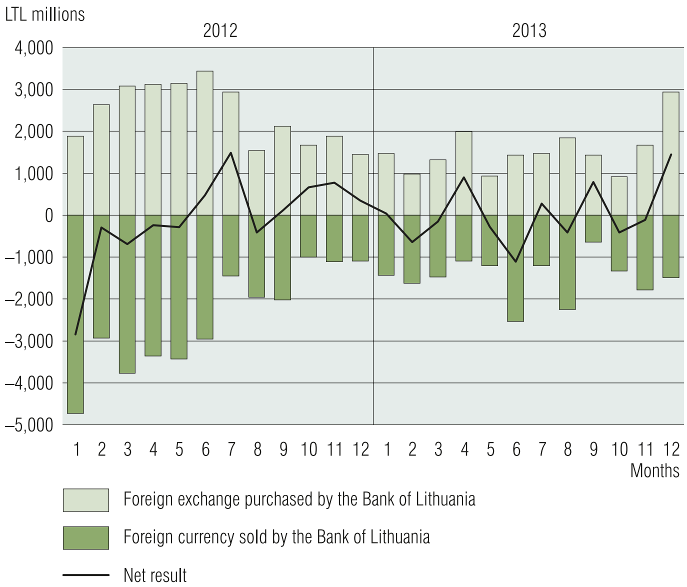
Table 5. Net purchase of foreign currency from the Bank of Lithuania (–) or net sale to the Bank of Lithuania
(LTL millions)

	2012	2013				
		Q1	Q2	Q3	Q4	Q1–Q4
Domestic banks	–4,231.7	–594.9	–2,033.8	181.0	53.3	–2,394.4
Other depositors of the Bank of Lithuania	3,336.0	–155.2	1,551.3	471.2	875.4	2,742.7
Total	**–895.7**	**–750.1**	**–482.5**	**652.2**	**928.7**	**–348.3**

Source: Bank of Lithuania.

In 2013, the amount of foreign exchange transactions between the Bank of Lithuania and domestic banks and its other depositors totalled LTL 36.5 billion, which is more than one-third less than in 2012 (LTL 58.7 billion).

Chart 16. Foreign exchange trade of the Bank of Lithuania with banks and other depositors



Source: Bank of Lithuania.

Financial Market Supervision

Trends and Results of Supervision

Following the merger of three individual supervisory authorities for particular sectors of the financial market in early 2012, the Bank of Lithuania became responsible for the supervision of the entire financial market. The purpose of prudential supervision of its participants and the provision of financial services is to ensure reliable and effective functioning of the financial market and its sustainable development, responsible behaviour of market participants and rational decision-making by consumers.

Supervision of market participants is forward looking and focused on identification of problems and solutions at an early stage before the problems turn chronic. Systemically important and riskiest participants of each sector are subject to the closest supervision. In addition, the Bank of Lithuania is engaged in more intensive dialogue with market participants and foreign supervisory authorities and seeks to become a consultant for the entities being supervised while being a demanding supervisor. The development of a supervisory model and improvement of efficiency through the increased use of new IT solutions remains one of the top priorities.

The primary aim of the supervision of financial market participants was to ensure their ability to cover the losses incurred due to the last crisis and their resilience to new shocks. They were required to build additional capital and liquidity buffers and strengthen the management of the risks assumed and the governance of the entire financial institution. In addition, the banks had to develop individual recovery plans pursuant to new European requirements.

Bankruptcies of several financial market participants emphasised the importance of reliability and responsibility of property valuers and external auditors. The Bank of Lithuania enhanced cooperation with the supervisory authorities in charge of respective companies, which are kept informed about the deficiencies in the provision of external audit or property valuation services identified in the course of on-site inspections. Those authorities initiated investigations towards the quality of audit or property valuation performed on the basis of the information provided. A cooperation agreement on the exchange of information pertaining to the take-up of European structural funds was signed with the National Paying Agency for cases where these projects are financed by credit institutions.

The licencing process was further improved to make sure that the participants entering the market are transparent and financially sound, and their executives and other persons in charge are competent and of good repute. The Bank of Lithuania refused to issue licences to those credit institutions, which, although intended to be established, were not ready to ensure adequate provision of financial services and were not able to carry out safe and sound operations. The Bank of Lithuania adopted the requirements facilitating the assessment of the suitability of executives of the financial institutions supervised in order to ensure that the persons appointed to governing bodies in the organisations of financial market participants are duly qualified and experienced and to promote the autonomy and responsibility of market participants. Those provisions entered into force on 1 May 2014.

With continuing integration into the EU single market continuing, in 2013, the Bank of Lithuania made arrangements for the implementation of fundamental EU legislation, including the Capital Requirement Directive (CRD IV), the Capital Requirement Regulation (CRR) and Technical Standards, and drafted amendments to legislation, such as the Law on the Bank of Lithuania, the Law on Banks, and the Law on the Central Credit

Union. Given that the CRR and the technical standards shall be directly applicable, the resolutions of the Board of the Bank of Lithuania underwent a substantial revision, and the resolutions with provisions falling in the scope of the Regulation were repealed. As part of its new obligations to adopt decisions on the application of certain provisions of the Regulation, the Bank of Lithuania adopted a list of national exemptions. Much emphasis was put on communication with market participants in order to discuss the most relevant aspects of CRD IV and CRR implementation, and to adjust a new financial and supervisory reporting package.

The banking sector will have a rather short period of time to adjust to those capital and liquidity requirements. The Capital Requirements Directive establishes additional capital buffers, including an additional capital conservation buffer (of 2.5%), which, as planned, will be applied to all banks in Lithuania from 1 January 2015. In the future, the Bank of Lithuania will be able to set a specific countercyclical capital buffer rate (of 0–2.5% of risk weighted assets) for a specific bank or a banking group and therefore attenuate the risk of pro-cyclicality and protect the banking sector and the economy against the build-up of a credit boom. The Bank of Lithuania will have the option to set a systemic risk buffer as well as an additional capital buffer for systemically important institutions in order to eliminate economic imbalances. Implementation of some of the provisions of this document in Lithuania will also result in a release of capital. Capital requirement for foreign exchange risk, which, as estimated, until now has been rather significant, should decrease following the coming into effect of the technical standards, which will enable Lithuania, as a country participating in the second stage of the Economic and Monetary Union (since 2004), to apply lower capital charges to positions in foreign exchange. Capital requirement will also decrease due to a reduced SME risk weight and, with SMEs being the backbone of Lithuania's economy; it is fair to assume that this will provide an additional impetus for growth in lending to small and medium-sized business. Two new liquidity ratios are being introduced in order to harmonise liquidity requirements across the EU: a liquidity coverage ratio to measure short-term liquidity risk and a net stable funding ratio to measure long-term liquidity risk. In addition, a leverage ratio is being established in order to strike a balance between banks' capital and funding. Banks operating in Lithuania are sufficiently well capitalised and maintain sufficient liquidity levels, thus, according to preliminary estimates, they already comply with the new standards, although certain new requirements will be introduced gradually until 2018.

The country's accession to the euro area (anticipated in 2015) implies Lithuania's entry into the banking union. With Lithuania being part of this union (initially, of the Single Supervisory Mechanism, SSM, which is one of the pillars of the banking union), the ECB would take over responsibility for supervising three biggest and systemically important commercial banks registered in Lithuania, i.e. *AB SEB bankas*, *Swedbank AB* and *AB DNB bankas*. The Bank of Lithuania is making preparations for a comprehensive assessment of operations and balance sheets of those banks, which will be performed in accordance with the methodology developed by the ECB. Supervision of smaller commercial banks will be delegated by the ECB to the Bank of Lithuania. However, the ECB will have the power to take over their supervision at any time and will have to be duly informed about material supervisory decisions made by the Bank of Lithuania. In 2014, the Bank of Lithuania is making preparations for entry into the banking union, which include the development of an accession action plan, legal framework review, alignment of the banking supervisory process with the ECB's requirements, and introduction of the required IT solutions.

In 2013, the Bank of Lithuania continued preparations for the implementation of Directive 2009/138/EC on the taking-up and pursuit of the activities of Insurance and

Reinsurance (Solvency II). A risk assessment-based approach to the management of insurance undertakings and their capital treatment introduced by this directive will trigger major changes in operations of insurance undertakings and their supervision as well as the transition to International Financial Reporting Standards. A political agreement on the Second "Quick Fix" Directive (Omnibus II) was reached during the Lithuanian EU Council Presidency. It will pave the way for the introduction of operational and supervisory requirements of the Solvency II Directive, which will be applied to insurance undertakings, in effect as of 1 January 2016. In addition, the European Insurance and Occupational Pension Authority (EIOPA) approved the interim Solvency II guidelines. As part of preparations for the implementation of these guidelines (which are intended to prepare for the application of certain Solvency II requirements from 2014 onward), the Bank of Lithuania organised a series of meetings and discussions with insurance market participants and drafted legal acts of the Bank of Lithuania implementing these provisions. Since 2009, the Bank of Lithuania has carried out several quantitative assessments. Their aim is to calculate solvency capital requirements for insurance undertakings according to the specifications developed pursuant to the Solvency II draft directive. Recent assessments have shown that all insurance undertakings comply with the solvency capital requirements established in Solvency II, as well as with the requirements for sound and prudent management.

Important changes in the supervision of credit unions were implemented. In particular, the Bank of Lithuania initiated amendments to the Law on Credit Unions. For this purpose, it took an active part in the activities of a working group established by the Minister of Finance for the improvement of legislation governing the activities of credit unions. The task force produced a set of harmonised proposals (amendments to the Law on Credit Unions) on measures to be taken to improve the safety and reliability of this sector's operations. Identification of a supervision credit union operation and supervision model, which would best fit Lithuania's national situation and would mitigate the threat posed by this sector to the interest of the society, remained a priority. The Bank of Lithuania prepared and published a public discussion paper on the credit union operation model in Lithuania. It outlines a number of options and approaches to the sector's structural reform, which will allow strengthening of credit unions and ensuring sustainable and long-term operations of the sector in future. The IMF provided technical assistance in this field in November 2013.

The Bank of Lithuania tightened prudential requirements, introduced more detailed and conservative requirements for loan classification and assessment, internal control and risk management, and stepped up supervision of credit unions as it sought to ensure their sustainable development and adequate management of the risks assumed. The Banks also made improvements to the sector's licencing process. In particular, it introduced requirements for credit unions' business outlines and business plans and launched on-site examinations on the readiness of the credit unions being established to provide financial services. Testing of the executives of credit unions began and the results of those tests confirmed doubts about the competence of some of those individuals.

In order to ensure high quality and legal clarity of regulation in financial services and markets, the Bank of Lithuania approved legal acts implementing the Republic of Lithuania Law on Collective Investment Undertakings Intended for Informed Investors, introduced the provisions governing the legal relationships arising from liquidation of pension funds, and approved the rules on the right to pre-emptive subscription for the acquisition of shares or bonds convertible into shares of a private limited company or the transfer thereof.

The Bank of Lithuania approved the rules on the handling of complaints received by financial market participants in order to develop a common framework to be followed by all financial market participants, subject to supervision by the Bank of Lithuania, in the acceptance, registration and handling of client complaints about their services. In addition, the Bank of Lithuania approved the guidelines for the management of debts arising from defaulted credit agreements, which define the rights and duties of credit institutions towards defaulted clients and the rights and duties of such clients to cooperate with the credit institution in order to avoid, where possible, the termination of the credit agreement.

As part of supervision of financial services and markets, the Bank of Lithuania conducted a survey of insurance undertakings providing unit-linked life assurance services. In particular, it assessed the procedures, applied by insurance undertakings for the conclusion of agreements (evaluation of client needs, selection of a suitable product and disclosure of material information), for compliance with legislative requirements. In addition, it carried out a desk survey of the policies of remuneration of staff members providing investment services in order to evaluate the process of staff remuneration in the companies providing investment services and the related management of the conflicts of interests and risks for compliance with legislative requirements and good market practices. Furthermore, the Bank of Lithuania carried out a survey of investment products, i.e. unit-linked life assurance products, 3rd pillar pension funds and the collective investment undertakings registered in Lithuania, in order to disclose and compare the fees and charges applied to such products and measure their effects on the pool of capital.

A strong emphasis was placed on supervision of consumer credit lenders. In particular, the Bank of Lithuania performed inspections of the activities of such entities, carried out the procedures related to violations of the Law on Consumer Credit, and conducted a survey of advertising on the websites of consumer credit lenders, which showed that nearly one-third of such lenders failed to include the minimum standard information in their consumer credit advertisements.

Financial Market Participants and Their Supervision

Banks

At the end of 2013, the banking sector comprised of seven banks and eight foreign bank branches. 2013 was a year of changes in the number of market participants and the ensuing redistribution of the market. In the course of the year, the number of banking sector participants decreased due to the initiation of bankruptcy proceedings against *AB Ūkio bankas* and the discontinuation of operations of the Lithuanian branch of *AS UniCredit Bank* in Lithuania. At the same time, a new participant — a branch of Finland's *Pohjola Bank Plc*, which has been actively operating in Lithuania — entered the market.

Ceased operations of *AB Ūkio bankas* had the biggest impact on the banking sector and the redistribution of market shares, in particular on *AB Šiaulių bankas*, mainly due to the transfer of a sizeable portion of *AB Ūkio bankas'* assets and liabilities. Following this reorganisation, *AB Šiaulių bankas* has significantly consolidated its positions in the segments of SME and household clients. The effects of the withdrawal of the Lithuanian branch of *UniCredit Bank* were less apparent. Firstly, the branch had a smaller number of clients (mostly larger business enterprises) and, secondly, its market share was insignificant.

Certain organisational changes are also under way within the *Nordea* group, which operates in Lithuania through the Lithuanian branch of *Nordea Bank Finland Plc*. Last year, the group took decisions to centralise its business in Sweden and to transfer all branches, including the Lithuanian branch of *Nordea Bank Finland Plc*, to the *Nordea* bank established in Sweden. Following this reorganisation (scheduled for Q2 2014), supervision of the Lithuanian branch of *Nordea Bank Finland Plc* will be taken over by the

Swedish Financial Supervisory Authority and the deposits will be covered in the deposit insurance system in place in Sweden.

The year 2013 saw changes in the structure of banking groups operating in Lithuania. Early in the year, *Swedbank AB* sold its life insurance undertaking to the *Swedbank* group's bank in Estonia and *AB SEB bankas* integrated its leasing subsidiary in the fourth quarter.

Banking Supervision

As far as banking supervision is concerned, most of the efforts last year had (and still have) to be concentrated on the resolution of *AB Ūkio bankas*. The bankruptcy of this bank required new measures to preserve confidence in the banking system. Moreover, the Bank of Lithuania worked more closely with *AB Šiaulių bankas*, which increased up the scale of its operations and, simultaneously, the risks undertaken. Looking back, it may be said that the situation following the moratorium of *AB Ūkio bankas'* activities and the ensuing declaration of bankruptcy was brought under control successfully. The majority of *AB Ūkio bankas'* clients were then transferred to *AB Šiaulių bankas*, which successfully coped with that increase thanks to enhanced capacities (increased branch network, staff and capital). It is important to mention that the approach chosen for the resolution of *AB Ūkio bankas* involved the smallest contribution of *VĮ Indėlių ir investicijų draudimas* (state company *Deposit and Investment Insurance*). All in all, *VĮ Indėlių ir investicijų draudimas* has transferred approximately LTL 0.9 billion to *AB Šiaulių bankas* (this amount results from a gap between the amounts of insured deposits and assets transferred to *AB Šiaulių bankas*). The effects of the suspension of *AB Ūkio bankas'* operations on other banks were minor since the banks had no related interbank liabilities. As far as confidence in the banking sector and the stability of deposits is concerned, this event passed almost unnoticed. This is further supported by the fact that the volume of deposits held by households and privately-owned companies within the banking sector reached all-time high at the end of 2013. The deposit insurance system in the country plays a key role in building confidence in the banking sector. In the past three years, it has proved its reliability on many occasions. Unfortunately the deposit insurance system discourages people from assessing risks and choosing a credit institution in a responsible manner. In some cases, it even encourages them to choose the credit institutions offering the highest interest rates (which often entails higher risks). A large number of new instruments, which will at least mitigate the consequences of bank bankruptcies (safeguard against the use of public funds to bail out banks), if not prevent them altogether, have now been agreed EU-wide. Of these, particularly worth mentioning are the Bank Recovery and Resolution Directive, new capital and liquidity requirements and the creation of the banking union.

In 2013, the Bank of Lithuania undertook supervisory review and evaluation processes in respect to all the banks. They involved a comprehensive assessment of each bank, including the evaluation of business plans, financial status, sustainability of capital and resilience to adverse shocks, risk profile and risk management capacity as well as the capital set aside against particular risks. This was followed by notification of banks of the deficiencies that should be eliminated. In the absence of other effective measures, the Bank of Lithuania may introduce individual prudential requirements or take enforcement measures against a bank. Pursuant to the European Union's legislation, supervisory review and evaluation process of the banks that are part of cross-border banking groups with subsidiaries in other countries shall be undertaken in cooperation with financial supervisory authorities of those other countries and decisions on supervisory measures that should be applied to the group or its individual subsidiaries shall be taken jointly. Last year, the Bank of Lithuania took such decisions in respect to SEB, *Swedbank*, DNB and *Citadele* groups.

Moreover, in 2013, the Bank of Lithuania, acting in line with its pre-arranged plan of supervisory activities, carried out inspections of *AB SEB bankas*, *AB Citadele bankas* and *UAB Medicinos bankas*, which were followed up by measures to control the elimination of deficiencies identified during the inspections. In addition, the Bank of Lithuania took part in a joint inspection of *Danske* group, which focused on liquidity risk management measures. Joint inspections are also planned in other banks and this practice is expected to grow in the future. The Bank of Lithuania, in cooperation with supervisory authorities from other countries, assesses requests from banks relating to application or replacement of internal approaches for credit and operational risk. Such changes are now relevant for *AB SEB bankas* and *Swedbank AB*, which are making improvements to their approaches regarding credit risk.

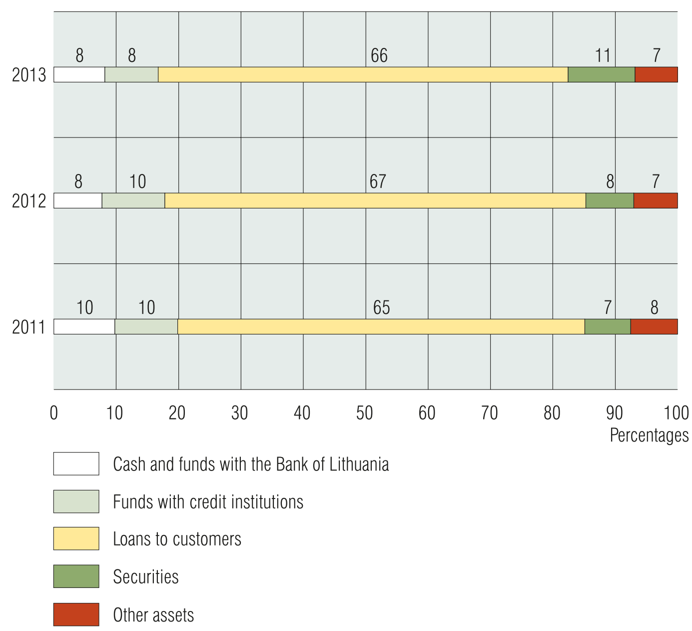
At the time being, the Bank of Lithuania has issued permission for one buyer, Estonia-registered *AS LHV Group*, acting together with other individuals, to acquire a shareholding in *AB bankas FINASTA* as well as shareholdings in the management company *UAB Finasta Asset Management* and *AB FMĮ FINASTA*, which are part of the same group. This, however, does not preclude other potential investors from applying to the Bank of Lithuania in relation to acquisition of shareholdings in *AB bankas FINASTA* and the companies of the same group.

Activities of the Banking Sector

Despite the bankruptcy of one of the banks, i.e. *AB Ūkio bankas*, in 2013, the banking sector remained stable and continued to strengthen. The sector kept growing and generating profits amid improvements in the quality of banks' assets and growth of their liquid assets and capital buffers.

As of 1 January 2014, the assets of the banking system stood at LTL 77.6 billion. As usual, loans account for the bulk of bank assets (for as much as 70% of bank assets, including financial leasing). Liquid funds and debt securities make up the biggest portion of the remaining assets. In total, funds held with the Bank of Lithuania and other banks comprise nearly 17 per cent (LTL 13 billion) and debt securities — another 10 per cent (nearly LTL 8 billion) of bank assets.

Chart 17. Composition of bank assets
(end-of-period)



Source: Bank of Lithuania.

As of late 2013, the banks' portfolio of loans and leases amounted to LTL 54.5 billion. The volume of business loans, which account for the largest share of the total loan portfolio, contracted by LTL 775 million in the course of the year and stood at LTL 23.6 billion at the end of 2013. The largest decreases were in the volume of loans to real estate, manufacturing and trade enterprises. Loans to entities active in transport and agriculture were the only categories to show a bigger increase. In 2013, the banks stepped up lending for housing and consumption.

Quality indicators of the loan portfolio continued to improve in 2013. In addition to the write-offs of bad loans, their progress was also driven by improvements in the financial position of borrowers and by new lending focusing on clients with low risk profile. The banking system's indicators of non-performing loans and loan impairment continued to worsen. In comparison with 2010, when those loan portfolio quality indicators have reached their peak, shows that the balance of both non-performing loans and the special provisions formed in the banking sector has already decreased by nearly a half. Consistent improvement in the indicators shows that the banks were increasingly more favourable in their assessment of the financial position of individual borrowers and the outlooks of their activities, and while working with troubled borrowers, gradually accomplished lengthy recovery procedures opened in the crisis years, thus clearing their balance sheets of illiquid and no income generating financial assets. As a result, most of the banks recorded significant decreases in the portfolios of both loans in recovery and of other loans classified as "problem loans", in particular those extended to legal entities, in 2013.

Table 6. Loan portfolio quality indicators

(31 December 2013; share of the loan portfolio, percentages)

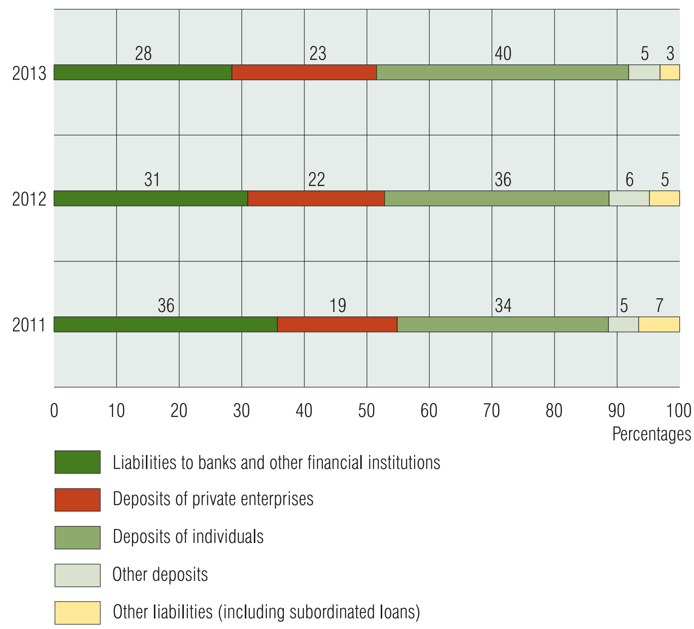
	Loan impairment (specific provisions)	Loans overdue for more than 60 days	Impaired loans	Non-performing loans
Loans to customers	4.2	2.5	8.5	11
housing loans	2.6	2	4.9	7
consumer loans	7.9	4.4	8.7	13

Source: Bank of Lithuania calculations.

With the loan portfolio showing no growth, increasing deposits were invested by banks in debt securities, the portfolio of which increased by 1.5 times. Concentration of investment in government securities is characteristic to banks in Lithuania. High concentration of government securities in the debt securities portfolios of banks is a rather controversial aspect. On the one hand, these investments are safe and stable as long as Lithuania's financial position is considered stable by the markets. On the other hand, high concentration of government securities leads to high sensitivity to crisis situations and might inflict big losses if Lithuania's borrowing costs were to rise sharply. Moreover, in the context of a systemic liquidity crisis the banks would find it difficult to easily market their existing government securities portfolio, while the Bank of Lithuania would be limited in its capacity to accept such a volume of government securities as collateral. Regardless, Lithuania's accession to the euro area will provide Lithuania's banks with direct access to the ECB's open market operations, which will open up wider possibilities to use government securities as collateral.

Banks in Lithuania use two sources of funding — local loans and funding from parent banks. At the end of 2013 they had a total of LTL 47.6 billion in deposits and LTL 19.1 billion in loans received from parent banks. For several years now, the deposit portfolio in banks has shown a growth trend (the volumes of residential and private company deposits in banks have reached record heights) at a faster rate than the loan portfolio. This naturally prompted the banks to reduce liabilities to parent banks steadily. Due to these reasons, the loan-to-deposit ratio has been decreasing for as long as five years, which shows that the loans being issued by the Lithuanian banking system are increasingly financed through local deposits. In the long term, this should ensure balanced and sustained development in the banking sector, which should be based on fundamental factors, i.e. local financial reserves, which are growing in volume. Lithuania's planned changeover to the euro should also work as a positive impetus for the growth of deposits: experience gained by the neighbouring countries has shown that people may tend to bank the money kept at home before the changeover so as to avoid any concerns regarding currency exchange.

Chart 18. Composition of bank liabilities
(end-of-period)



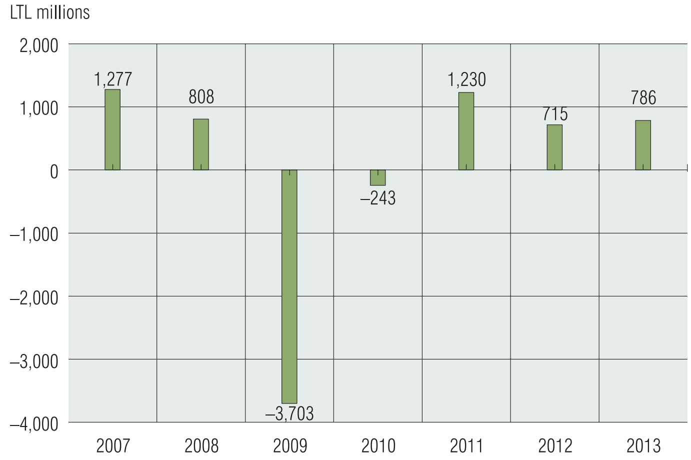
Source: Bank of Lithuania.

With interest rates being exceptionally low, the depositors tended to replace term deposits with non-maturity deposits (to transfer money to a current account upon expiry of the term deposit period). Although the deposits held in banks are short-term (or demand deposits), they still comprise a sustainable financial resource. This is further evidenced by several shocks suffered during the past few years (such as bankruptcies of banks, rumours about one bank), in particular by ensuing volatility in deposits, which was minor and very short-lived.

In 2013, the banks and foreign bank branches operating in the country earned LTL 785.7 million profit — up by one-tenth from 2012. Last year, the activities of six banks and six branches of foreign banks were profitable, whereas one bank and two foreign bank branches operated at a loss.

For several consecutive years now, net interest income, which is the key source of bank revenue, has been decreasing, primarily due to the environment of ultra-low interest rates, which has been prevalent for several years. The decline in net interest income has been accompanied by steady growth in net fee and commission income, as a share of total banking income. In 2013, as compared with 2012, net fee and commission income increased by 6.2 per cent to LTL 651.7 million. The growth of net fee and commission income correlates directly with the level of activity of the country's entities, i.e. the growth of national economy triggered an increase in demand for banking services and in volumes of operations (with the exception of the number of cash operations in bank branches), which, simultaneously, led to an increase in net fee and commission income.

Chart 19. Net profit of banks
(end-of-period)



Source: Bank of Lithuania.

To improve operational efficiency, the banks have been reducing operating costs through the promotion of e-banking development and some of them have been reducing — and plan to reduce in future — the number of customer service units and putting in place self-service centres. The indicators defining the operating efficiency of banks improved slightly from 2012 due to an increase in operating profits in 2013; in particular, the annual return on equity of the banking sector was 8.9 per cent, which was broadly in line with the rest of the EU; the cost-to-income ratio, defining the operating efficiency of banks, remained unchanged year-on-year at 56.5 per cent.

Prudential Requirements for Banking Activities

The Bank of Lithuania has established prudential requirements for banking activities to limit the risks taken by the banks. They regulate capitalisation levels, liquidity, open position in foreign currencies and maximum exposure requirement of banks. As of 1 January 2014, all banks complied with all prudential requirements for banking activities. The bank capital adequacy ratio was 17.6 per cent (minimum requirement is 8%), and the liquidity ratio — 41.2 per cent (minimum requirement is 30%).

Many banks intend to strengthen their capital *inter alia* through earnings generated in 2013. Just two banks — *AB SEB bankas* and *AB Citadele bankas* — have decided to disburse some of their earnings generated in 2013 through dividends: *AB SEB bankas* will distribute as dividends around a half of its profit, and *AB Citadele bankas* — 95 per cent. Capital adequacy ratios of both banks are very high; therefore, the decision of those banks to pay out a portion of their profits as dividends raises no concerns in terms of prudential supervision. Even with the dividends paid out, the capital adequacy ratios of both banks will conveniently remain above the level of 15 per cent.

Capital adequacy varies amongst the banks. Therefore, the Bank of Lithuania constantly encourages all banks to hold capital buffers corresponding to their business profile and higher than the minimum required capital level. The implementation of CRD IV in Lithuania will enable the Bank of Lithuania to introduce other capital buffers for banks, in addition to the minimum capital adequacy ratio (of 8%). Current plans call for introducing a capital conservation buffer (of 2.5%) for banks on 1 January 2015. All Baltic and Nordic countries plan to fully apply this capital buffer earlier than stipulated in CRD IV. With this requirement put in place, the banks will have to comply with the minimum capital requirement of 10.5 per cent, instead of 8 per cent, starting from 2015. However, the actual level of capitalisation of banks currently implies that they should not have any difficulties in complying with this requirement.

In 2013, the Bank of Lithuania continued to monitor preparations by the banks operating in the country for the implementation of liquidity requirements contained in CRD IV. With CRD IV implemented, banks will be bound by two new liquidity requirements, i.e. the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). According to the data submitted by banks, all banks met both the LCR (222%) and the NSFR (117%) at the end of 2013. Accordingly, the banks operating in the country are ready to ensure compliance with the LCR requirement (of 100% from 1 January 2015 onwards) owing to existing sufficient reserves of liquid assets (mostly composed of EU government securities). The NSFR requirement is scheduled to be implemented in 2018, which will give banks enough time to adjust the structure of their assets and liabilities to ensure compliance with this requirement.

Currency risk in banks is insignificant and the banks do not hold any large open positions in foreign exchange, except for an open position in euros. However, given the fixed exchange rate of the litas against the euro, this risk is minimal. In addition, the banks set aside a portion of equity capital to cover this risk. The requirement of the open position in foreign currencies is irrelevant in Lithuania and is intended to be scrapped altogether; however, the banks will continue to be required to build up capital against foreign exchange risks.

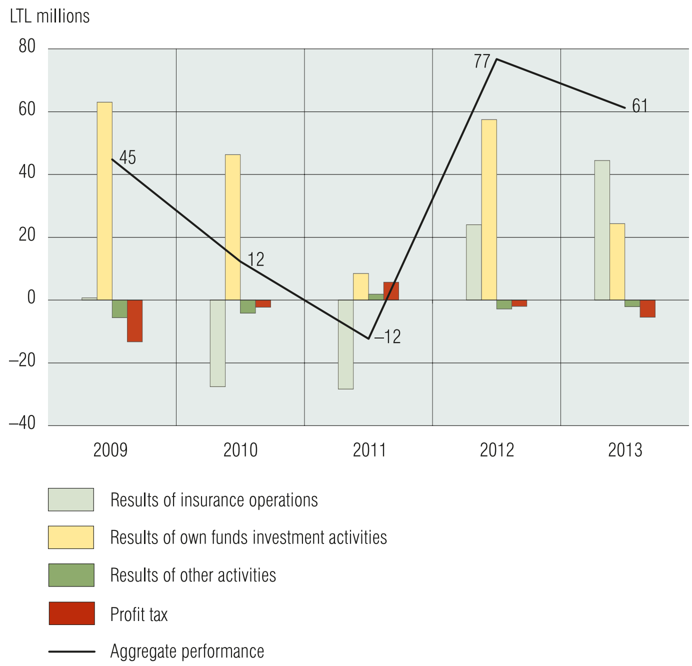
Insurance Market

At the end of 2013, insurance services in the domestic market were provided by 24 insurers, of which 10 are insurance undertaking registered in Lithuania and 14 are branches of insurance undertakings established in other EU countries. Insurance licences of two insurance undertakings, i.e. *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas*, were suspended. The share of Lithuania's overall insurance market held by branches expanded to 49 per cent, from 40 per cent (53% of non-life insurance market, 42% of life assurance market), primarily due to a merger between three non-life insurance undertakings of ERGO in the Baltic countries early in 2013 and the continuation of the insurer's operations in Lithuania through a branch of *ERGO Insurance SE*.

In 2013, Lithuania's insurance market continued to grow steadily: the insurance undertakings registered in the country and the branches of insurance undertakings established in Lithuania by other EU countries last year wrote LTL 1.946 billion in insurance premiums, 8.8 per cent more versus 2012. Growth rates of life assurance and non-life insurance markets were broadly similar, in particular, the life assurance market expanded by 8.9 per cent, or LTL 626.0 million, and the non-life insurance market — by 8.7 per cent, or LTL 1,319.5 million. However, neither life assurance nor non-life insurance segments managed to match the highest scopes seen in previous years. Record premiums written in traditional life assurance by the life assurance segment reflect increased demand for more conservative investment products. At the same time, a rather significant increase (of 9%) in the scope of unit-linked insurance has shown that, despite higher investment risks, policyholders also choose investments in riskier products of life assurance undertakings in the environment of low interest rates. For the non-life insurance market, 2013 was a year of record volumes. Last year, the scope of compulsory motor third-party liability (MTPL), status, general civil liability, financial loss, railway rolling stock and assistance insurance classes was the largest in a decade. However, the amounts paid by the latter insurance groups in claims were record high as well, thus, the loss ratio of non-life insurance market (excluding claims handling expenses and subrogation amounts) decreased marginally by meagre 3 percentage points (to 58%).

According to unaudited data, insurance undertakings[8] registered in Lithuania earned LTL 61.2 million in profit in 2013, i.e. LTL 15.5 million less than in 2012. In contrast to previous periods, profitability of insurance undertakings was mostly driven by successful core, i.e. insurance, operations. The prevailing environment of low interest rates affected investment performance of insurance undertakings' last year, in particular, the return on investment (ROI) decreased by 2.7 percentage points to 2.6 per cent and investment performance was one of the weakest as compared with performance in the past five years. In line with the previous periods, undertakings pursuing life assurance activities scored better in terms of the aggregate performance than non-life insurance undertakings.

Chart 20. Performance of insurance undertakings



In 2013, as compared to 2012, assets of insurance undertakings grew by 8 per cent and amounted to LTL 2.8 billion. Growth was driven by a 3.7 per cent increase in the value of insurance undertakings' investments and by an increase of as much as 14.7 per cent in the amount of life assurance investments where the investment risk is borne by insurance policyholders. The composition of the insurers' investment portfolio remained virtually unchanged, i.e. it remained conservative with the biggest amounts invested in government securities, corporate bonds and term deposits with banks. At the same time, insurance undertakings started looking for more profitable, albeit riskier, investments. As a result, investments in shares and other variable-yield securities increased by 14 per cent (to LTL 105.6 million) to account for 6.6 per cent of total investments.

One of the major indicators of financial stability in the insurance market (solvency margin coefficient) was rather high, of 2.6 (solvency margin requirements are met where the solvency coefficient is above 1). Sufficient coverage of technical provisions of the insurance market with assets and a high solvency margin mean a financially stable market.

In 2013, two planned inspections of insurance undertakings were carried out with focus on the adequacy of reserves formed by insurance undertakings, i.e. insurance technical

[8] *Financial performance of insurance undertakings in operation only on 31 December 2013 is excluded.*

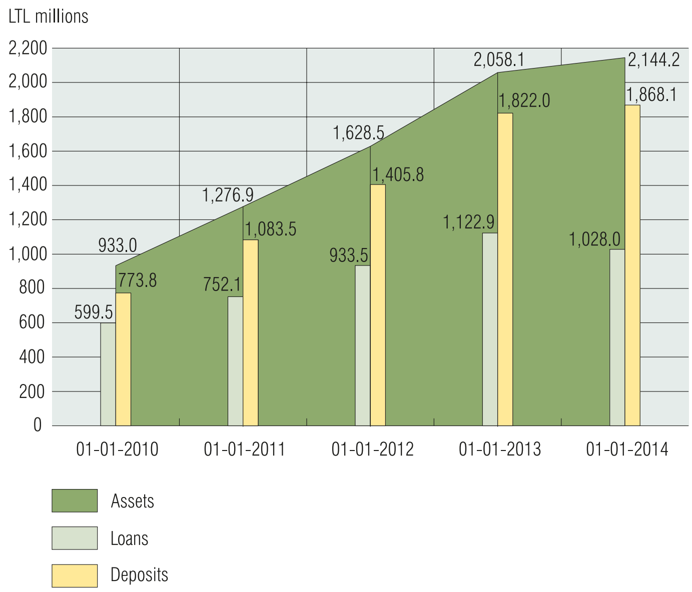
provisions, as well as on the assessment of other areas relevant to the financial standing of the undertakings and the quality of their management system.

Credit Unions

As of 1 January 2014, 76 credit unions, uniting over 150.5 thousand members, were operating in Lithuania. In 2013, two credit unions were established, i.e. the credit union *Saulėgrąža* and *Šeimos kredito unija* (both in Vilnius), and three credit unions (*Nacionalinė kredito unija*, *Švyturio taupomoji kasa* and *Laikinosios sostinės kreditas*) had their licences revoked altogether. On 17 January 2014, the Board of the Bank of Lithuania permanently revoked the licence of the credit union *Vilniaus taupomoji kasa*.

Operating analysis of active credit unions has revealed that operations of some of the credit unions continue to be based on a cooperative approach, i.e. they pool the funds of their members and satisfy their members' household and social needs through loans. The Bank of Lithuania is concerned about the unsustainable development of certain credit unions (mostly established in large cities). These credit unions offer large interest on deposits thus drawing in new members who are interested in the personal benefits they can receive from the credit union; however, they barely care about the credit union's successful operation or possibilities to use profits to build up capital.

Chart 21. Performance indicators of credit unions



Source: Bank of Lithuania.

Problems in the credit unions sector, which required urgent supervisory action, were mainly triggered by rapid development of such credit unions, which was not supported by a sufficiently sustainable capital buffer of adequate loss-absorbing capacity, inadequate competences of certain credit union executives and irresponsible approach. Tightened prudential requirements introduced by the Bank of Lithuania early in 2013 and restrictions applied on the activities of certain credit unions moderated the growth of credit unions as the growth of both deposits and assets slowed down. In addition, certain changes in the composition of loan portfolio have been observed, in particular, a decrease in the portion of loans extended to associated members, classified as riskier, and in the concentration of big loans. However, the ultimate goal to ensure reliable and effective operations and sustainable development of credit unions is yet to be achieved.

With the amount of deposits growing at a much slower rate than in previous years, the assets of credit unions increased by 4.3 per cent in 2013 and amounted to LTL 2.1 billion or 2.8 per cent of the banking sector's assets, as of 1 January 2014.

Despite an 8.5 per cent decrease to LTL 1 billion in 2013, loans extended to members still represented the largest share of credit union assets (47.9%). The decrease in loan portfolio is attributable to the introduction of the maximum exposure requirement (LTL 500 thousand), lending restrictions for certain credit unions and formation of specific provisions for loans. Those factors, coupled with the application of stricter capital adequacy requirements, contributed to the decrease in the amount of loans extended to legal persons. In 2013, these riskier loans, mostly meant for business financing, decreased in both volume and as a share of the loan portfolio (29% of the loan portfolio as of 1 January 2014). With credit unions taking a slightly more conservative approach towards credit risk assessment, the indicators defining the quality of loans took a turn for the worse. In particular, the ratio of specific provisions to the loan portfolio and the share of non-performing loans in the loan portfolio both increased. However, the quality of the loan portfolio may actually be even worse given that the conservative approach towards the assessment of loan portfolios was not applied across the board, as neither was the formation of the necessary specific provisions. In 2014, credit unions will be obliged to reassess the quality of the loan portfolio and the risks assumed pursuant to new requirements of the Regulations for the Assessment of Loans of Credit Unions. The Provisions for Organising the Internal Control and Assessment (Management) of the Risk of Credit Unions, due to enter into force in May 2014, should facilitate identification of inherent operational risks by credit unions and improvement of their management efficiency.

The country's credit unions increased investments in government securities to LTL 645.7 million, which accounted for nearly one-third of credit union assets as of 1 January 2014. As was previously the case, the bulk of them consisted of the Republic of Lithuania government securities portfolio.

As mentioned above, the increase in credit union assets is attributable to the growth in deposits (paying relatively higher interest rates). Although credit unions lowered interest rates on deposits and the growth in deposits slowed down considerably in comparison to the previous year, the volume of deposits taken by credit unions increased in 2013 and amounted to LTL 1.9 billion as of 1 January 2014. Deposits of natural persons accounted for the largest share of total deposits (97%).

Weaker growth in the membership of credit unions and the decrease of loan portfolio triggered changes in the credit unions' share capital, which is accumulated through the provision of loans from share contributions and is, therefore, unstable. With a loan paid back in part or in full, such share contributions are often repaid. As a result, the decline in loans led to a decrease of more than one-tenth, to LTL 208.7 million, in share capital in 2013.

According to the 2013 statements, the operating result of credit unions was a loss of LTL 39.4 million (down from the loss of LTL 60.1 million in 2012). Forty seven credit unions were profitable and another 28 operated at a loss. In 2013, losses decreased due to lower loan impairment costs incurred by credit unions.

As of 1 January 2014, the capital adequacy ratio of the credit union sector was 18.44 per cent (the minimum ratio is 13%[9]), and the liquidity ratio — 58.46 per cent

[9] *For credit unions with a large share of loans extended to associated members in their loan portfolio, this ratio shall be at least 18 or 20 per cent, and at least 25 per cent from 1 January 2014 onward.*

(the minimum ratio is 30%[10]). Credit unions are reorganising their operations to comply with tightened prudential requirements. However, 7 credit unions failed to ensure compliance: the credit union *Vilniaus taupomoji kasa* failed all prudential requirements and another six fell short of the maximum exposure requirement as of the reporting date. Credit unions, continuously failing to comply with prudential requirements or not ensuring their timely implementation, are subject to enforcement measures laid down in the Republic of Lithuania Law on Credit Unions.

The Bank of Lithuania has a strong interest in stability and reliability of credit unions' operations, therefore, it keep them under constant supervision based on risk assessment and supported by the reports received, data from the Loan Risk Database and other information available. Operating analysis of each credit union is performed on a quarterly basis. Priority is given to the credit unions which are the most important systemically (the biggest) or the riskiest in their operations. They have been obliged to submit reports, which are used to assess their operations, at more frequent intervals. Detection of any major problems in operations of a credit union triggers its immediate inspection.

Supervision of credit unions by the Bank of Lithuania contributes to the protection of interests of their members and, simultaneously, helps maintain the stability and reliability of the entire financial system and pursues the results in the best interests of the society.

As of 1 January 2014, the Lithuanian Central Credit Union (LCCU) united 63 credit unions as its members. The assets of the LCCU decreased by LTL 4.1 million during the year and amounted to LTL 366.7 million. Its loan portfolio totalled nearly LTL 68 million. Loans extended to LCCU member credit unions amounted to LTL 62.4 million. Under the joint venture (consortium) agreement signed with the manager of the Entrepreneurship Promotion Fund, *UAB Investicijų ir verslo garantijos* (INVEGA), credit unions were granted LTL 33.4 million in loans from this fund for financing small businesses. In 2013, the LCCU stepped up lending to credit union members through the provision of loans syndicated with credit unions (LTL 5.4 million). Such loans are extended in exchange for share contributions paid to a respective credit union thus fortifying its capital base. The quality of LCCU loan portfolio remained sound. In 2013, the liquidity maintenance reserve (formed from contributions of LCCU members) increased to LTL 17.2 million. The amount of funds accumulated in the Stabilisation Fund increased as well and reached LTL 7.6 million as of 1 January 2014. In 2013, this fund provided aid to 2 credit unions; however, the size of the fund is considered insufficient to address solvency problems of larger credit unions (LCCU members), given the losses incurred by credit unions due to loan impairment. In 2013, LCCU member credit unions contributed LTL 3.4 million to the LCCU's share capital and, taking into account the amount of LTL 2.3 million paid back in the same period to the Republic of Lithuania Government as part of its share contribution, the share capital of LCCU increased by 3.5 per cent. According to statement data, in 2013 the LCCU earned a LTL 1 million profit (LTL 0.3 million profit in 2012), which was mostly due to interest income from investments in government securities.

Other Financial Institutions

Insurance Brokerage Firms

As of 31 December 2013, 101 insurance brokerage firms operated in Lithuania's insurance market. Two insurance brokerage licences were issued and two such licences were revoked in 2013.

[10] *For credit unions with more than LTL 15 million in assets and with the annual deposit growth rates outpacing sustainable rates, the liquidity ratios applied are 40, 50 or 60 per cent, respectively.*

In 2013, similar to the previous year, the number of insurance contracts concluded by insurance brokerage firms exceeded one million. In 2013, insurance brokerage firms intermediated in the conclusion of 1.2 million insurance and pension accumulation contracts — an increase of 9.7 per cent from 2012. As many as 99.8 per cent of the insurance and pension accumulation contracts concluded through the mediation of insurance brokerage firms represented non-life insurance contracts.

Compulsory motor third-party liability (MTPL) insurance dominated in the insurance contracts concluded by insurance brokerage firms. In 2013, the composition of the portfolio of insurance contracts concluded through insurance brokerage firms was similar to that in the previous periods. The MTPL insurance group accounted for the largest share of total contracts — 63.8 per cent.

The assets of insurance brokerage firms amounted to LTL 72.9 million, and equity capital – to LTL 37.8 million. The assets and equity capital of insurance brokerage firms both increased (by 4.1 and 7.3%, respectively, year on year). As of 31 December 2013, three insurance brokerage firms had failed to meet the minimum own capital (which shall be at least EUR 16,803, or LTL 58,017) requirements. Two insurance brokerage firms increased their authorised capital after the reporting date, and another one had its losses covered by shareholders. Six insurance brokerage firms had to make contributions to offset losses by the end of the reporting period.

Income from sales of insurance brokerage firms exceeded LTL 105 million. Although nearly one-fourth of insurance brokerage firms operated at a loss in 2013, overall performance of the entire sector in the reporting period amounted to LTL 10.6 million in profit. The profit was mostly due to an 8.2 per cent annual increase in income from sales.

In accordance with Article 164 of Law of the Republic of Lithuania on Insurance, an insurance brokerage firm shall open a separate bank account for holding insurance premiums received from insurance policyholders, insured persons, beneficiaries and injured third parties as well as the funds of insurance undertakings designated for disbursement to these entities. Particular attention is given to the implementation of the abovementioned provision of the Law, as the shortage of funds on the separate account raises both the risk of the use of other peoples' funds and the risk of non-settlement with the insurers on time. Sector-wide, the requirement for insurance brokerage firms to hold customer funds on the separate account was met with a surplus of LTL 1.3 million as of 31 December 2013.

From 2014 onwards, insurance brokerage firms are subject to amended requirements on the minimum equity capital and the minimum amounts of mandatory professional indemnity insurance. Resolution No 03-160 of 24 September 2013 of the Board of the Bank of Lithuania Indexing the Amounts of Mandatory Professional Indemnity Insurance of Insurance Intermediaries and the Amount of Equity Capital of Insurance Brokerage Firms entered into force on 1 January 2014. Under the abovementioned resolution, the amount of compulsory professional indemnity insurance of insurance brokerage firms was increased to EUR 1,250,618 per claim and to EUR 1,875,927 for all claims per insurance year. In addition, the minimum equity capital threshold was raised, through indexing, to EUR 18,760, or LTL 64,775.

Payment Institutions

The licencing process of payment institutions continued in 2013 with four licences for the provision of payment services issued and the licence of one payment institution was amended. As of 1 January 2014, thirty two payment institutions were registered in the Public List of Payment Institutions. Of these, 23 held licences entitling to provide payment services in the Republic of Lithuania and other EU Member States (the latter right was used by 1 payment institution) and 9 held payment institution licences for restricted activity only valid in the Republic of Lithuania and providing that the average amount of payment transactions performed by a payment institution within the last 12 months shall not exceed LTL 1 million per month. It should be noted that out of all payment institutions holding licences only 3 rendered the payment service provided by a mobile communication network operator, and not the money remittance service. The total turnover of payment transactions performed by payment institutions in 2013 amounted to LTL 6.9 billion, and income from the provision of payment services totalled LTL 67 million. In 2013, similar to the previous year, the payment institution system was dominated by several payment institutions. In particular, three payment institutions accounted for 71 per cent of income and an identical share of the total payment transaction turnover. As of 1 January 2014, all payment institutions complied with the safeguarding requirement for funds received from the users of payment services and the minimum own funds requirements. One payment institution failed to meet the own funds requirement, i.e. the own funds requirement exceeded the actual amount of own funds, and was instructed to provide comprehensive information about measures taken to remedy the irregularity.

Electronic Money Institutions

No new licences authorising to issue electronic money were granted in 2013. As of 1 January 2014, two electronic money institutions entitled to issue electronic money and provide payment services provided for in the licence issued thereto held the licence of an electronic money institution. In 2013, electronic money institutions generated LTL 6.3 million in income from the issuance of electronic money and provision of payment services. As compared to 2012, annual income from the issuance of electronic money and provision of payment services increased by LTL 2.9 million, or 82 per cent. The total turnover of payment transactions performed by electronic money institutions in the past 12 months amounted to LTL 1,094 million as of the reporting date. As compared to 2012, the turnover increased by 5.6 times. Similar to the previous year, one electronic money institution accounted for the bulk of the sector's income from the issuance of electronic money and provision of payment services and, simultaneously, for the bulk of the total turnover of payment transactions performed in the past 12 months. As of 1 January 2014, electronic money institutions complied with relevant prudential requirements, including the safeguarding of the funds received from electronic money holders in exchange for electronic money issued and payment services provided, the minimum equity capital and the equity capital requirement binding for an electronic money institution, and the average outstanding electronic money requirement applied to an electronic money institution engaged in restricted activities.

Financial Brokerage Firms

On 31 December 2013, seven financial brokerage firms were operating in Lithuania, of which 1 held a Category A licence of a financial brokerage firm and 6 — a Category B licence. The licence of the financial brokerage firm *UAB SEB Enskilda* was revoked at the firm's request in the first quarter of 2013, which was followed by the revocation of the licence of *UAB FMĮ Finbaltus* in the third quarter and of the licence of *UAB FMĮ Vivum* in the fourth quarter. No new licences were issued in 2013.

In 2013, as compared to 2012, the assets of financial brokerage firms decreased by 14.6 per cent and amounted to LTL 21.3 million as of 31 December 2013. Assets of *UAB FMĮ Orion Securities* (LTL 14.1 million) accounted for more than half of the sector's assets. This firm remained the leader in the sector of financial brokerage firms. The structure of assets remained broadly unchanged from the previous year. Financial brokerage firms held a sizeable share of their assets (37.7%) in banks.

In 2013, operating performance of financial brokerage firms improved from the losses of LTL 7.5 million incurred in 2012 to losses of LTL 0.4 million. The activities of 3 financial brokerage firms were profitable, while others operated at a loss. *UAB FMĮ Orion Securities* posted the biggest profit of LTL 0.3 million.

As of 31 December 2013, the average capital adequacy ratio of financial brokerage firms was 1.6 (should be at least 1.0). All financial brokerage firms complied with the prescribed capital adequacy requirement.

In 2013, an administrative sanction of LTL 12,500 was imposed on the Head of Administration of *UAB FMĮ Finvesta* for violations, including non-submission or late submission of financial statements and other mandatory information to the Bank of Lithuania and provision of information to the public.

Management Companies

As of 31 December 2013, 14 management companies operated in Lithuania's market for financial instruments. In 2013, no new licences were issued and none of existing ones were revoked. In January 2014, the operating licence of *UAB Citadele investicijų valdymas* was invalidated at the management company's request. As of late 2013, management companies managed 28 2nd pillar pension funds for the accumulation of a portion of the state social insurance contribution, 10 3rd pillar funds for supplementary voluntary pension accumulation, and 33 CIUs (including 32 investment funds and 1 investment company with variable capital).

Following the entry into force of the Law on Collective Investment Undertakings Intended for Informed Investors on 1 July 2013, the Board of the Bank of Lithuania in late 2013 expanded the operating licences of *UAB Synergy Finance* and *UAB LORDS LB Asset Management* to include, at their request, the right to manage the collective investment undertakings established pursuant to the Law on Collective Investment Undertakings Intended for Informed Investors. Early in 2014, the Board of the Bank of Lithuania issued an authorisation for the management of CIUs intended for informed investors authorising *UAB Investicijų valdymas Prosperus* to manage the CIUs intended for informed investors as well as an authorisation for *UAB LT Development Fund* to engage in investment firm activities in accordance with the Law on Collective Investment Undertakings Intended for Informed Investors. More companies are likely to apply for authorisations to pursue operations falling within the scope of the abovementioned law.

In 2013, as compared to 2012, the assets of management companies increased by 4.6 per cent and amounted to LTL 81.4 million as of 31 December 2013 (compared to LTL 77.9 million as of 31 December 2012). At the end of 2013, over half (66.2%) the assets of management companies was held in settlement and term deposit accounts with banks. Two management companies, i.e. *UAB Swedbank investicijų valdymas* and *UAB SEB investicijų valdymas*, accounted for more than half of the sector's assets.

In 2013, the operating result of management companies was a profit of LTL 10.7 million. Most management companies (9) operated at a profit, led by *UAB SEB investicijų valdymas*, which generated the biggest profit (LTL 7.5 million). In 2012, the profit of management companies amounted to LTL 8.5 million.

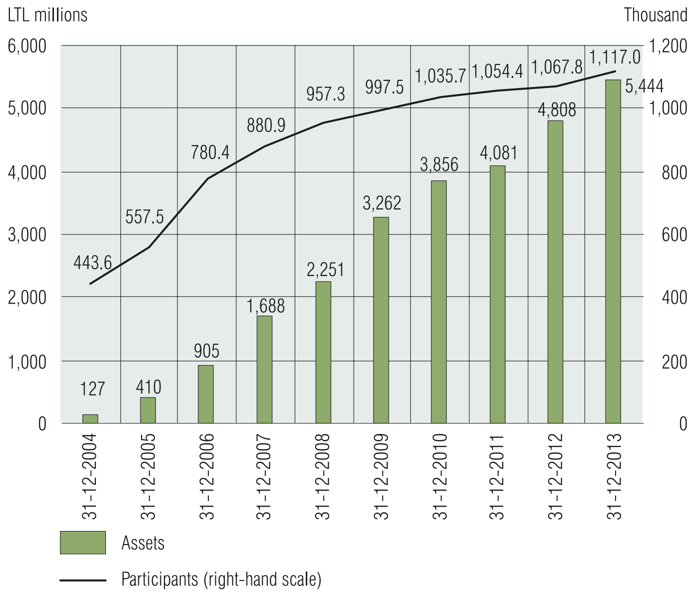
As of 31 December 2013, all management companies had complied with the capital adequacy ratio, which shall be at least 1.0. The average capital adequacy ratio of management companies decreased in 2013 to reach 4.0 as of 31 December (from 4.3 in 2012).

Financial Services and Markets, Their Supervision

Pension Funds

Twenty eight 2nd pillar pension funds operate in Lithuania. They are managed by 8 pension accumulation companies, including 6 management companies and 2 life assurance undertakings. In 2013, the assets managed by 2nd pillar pension funds increased by LTL 636.59 million (or 13.24%) and amounted to LTL 5,444.47 million at the end of December. The number of 2nd pillar pension fund participants rose by 4.61 per cent to 1,117.01 thousand.

Chart 22. Developments in the number and assets of 2nd pillar pension fund participants



Source: Bank of Lithuania calculations.

Medium equity share pension funds, investing up to 70 per cent of funds in equity, were the most popular. They accounted for 53.3 per cent of all pension accumulation system participants and the value of their assets accounted for 51.9 per cent of the total assets of pension funds. Second in popularity was the strategy of small equity share pension funds (up to 30% of shares), chosen by more than 279 thousand participants (25.0% of the market).

Despite volatility observed in financial markets in the past 12 months, 27 out of 28 2nd pillar pension funds demonstrated positive performance and the unit values of funds increased by an average of 4.3 per cent. The unit values of conservative investment pension funds showed the smallest gain (of 0.6% on average). Other funds with at least some equity exposure recorded bigger increases in unit values. In particular, the unit values of small equity share pension funds rose by an average of 3.4 per cent, of medium equity share pension funds — of 4.6 per cent, and of equity pension funds — of as much as 9.4 per cent.

As far as the investment portfolio of 2nd pillar pension funds is concerned, it should be noted that the bulk of investments (55.98%) consisted of investments in CIU units, including equity CIUs (LTL 1.90 billion) and debt security CIUs (LTL 1.04 billion), as of

31 December 2013. The major share of pension fund assets (68.2%) was invested in euro. The share of investment in litas accounted for 13.7 per cent, US dollar — 12.2 per cent.

On 20 November 2013, the Bank of Lithuania liquidated two 2nd pillar pension funds managed by *UAB Citadele investicijų valdymas*. The participants who had not switched to other funds themselves were transferred to the *Finasta* conservative investment pension fund managed by *UAB Finasta Asset Management* and to the pension fund *MP Medio II* managed by *UAB MP Pension Funds Baltic* in accordance with the procedures established by the Bank of Lithuania.

Between 1 April and 30 November 2013, individuals participating in the pension accumulation system and having the pension accumulation agreements signed until 2013, had to choose between options for further participation in the system (to stop their contributions to pension funds, to transfer pension contributions to a chosen pension fund from their own resources voluntarily and get an additional contribution from the state budget, or to change nothing). According to the data made available by Sodra, 352.5 thousand participants (31.6%) opted to transfer pension contributions from their own funds and get an additional contribution from the state budget while 24 thousand individuals (2.1%) decided to discontinue their contributions to pension funds and to continue with savings for retirement in Sodra. In addition, all new participants (56.5 thousand) who had their pension accumulation agreements signed in 2013 will pay supplementary contributions to the funds.

In view of this particular period, during which the participants of pension accumulation system had to choose between options for continued participation in the system, the Bank of Lithuania put great emphasis on monitoring and controlling the information provided by pension accumulation companies as it sought to prevent cases where the customers may be given incorrect or inadequate information. Information made publicly available by pension accumulation companies was checked for compliance with Article 17 of the Republic of Lithuania Law on the Accumulation of Pensions and the Guidelines on the Advertising of Financial Services approved by the decision of the Director of the Supervision Service of the Bank of Lithuania. In addition, the Bank carried out a survey to find out market practices related with the selection and training of the persons providing information about pension funds. Moreover, the Bank documented good practices on disclosure of information about pension accumulation activity to customers and shared them with pension accumulation companies. The aim of this initiative was to reduce the risks of positive expectations about pension accumulation, which may be created by information about changes in pension accumulation procedures provided to participants by pension accumulation companies and to avoid wrong practices of providing unclear and incomprehensive information about pension benefits, which may mislead existing or potential pension accumulation system participants.

Pension accumulation companies updated information published on their websites, building upon the good practices provided by the Bank of Lithuania. In addition, the Bank carried out a survey of long- and short-term effects of the 2nd pillar pension fund system on government finances and household income. The survey looked into the effects of different pension accumulation options available on income in old age, as well as the general effects on the national pension system and public finances. The results have shown that participation in the 2nd pillar pension fund system may potentially generate an increase of up to one-third in income in old age for participants (depending on age, length of service, income), provided that they pay additional contributions from their own income and, thus, become eligible for an additional contribution from the state budget. The advantages of a participant's decision to limit his or her 2nd pillar pension savings to a part of social insurance contributions transferred to a pension fund would be negligible. In the long term, this system would become cheaper than the system without private accumulation, i.e. the amount of public finances spent on contributions to the pension system would decrease, depending on the positive effects of the 2nd pillar on the participants' income in old age and the relationship between pension benefits and former wages, and provided that the majority of pension accumulation system participants agree to spend some of their money on contributions to pension funds.

Ten supplementary voluntary pension accumulation funds managed by five management companies operate in Lithuania. In 2013, the assets managed by 3rd pillar pension funds increased by LTL 21.69 million (19.97%) and amounted to LTL 130.35 million in late December. The number of participants accumulating their pensions in 3rd pillar pension funds increased by 19.65 per cent over the year and amounted to 34,237 at the end of the fourth quarter. 2013 was a successful year for 3rd pillar pension funds as the unit values of all funds increased by an average 6.4 per cent.

Investments of 3rd pillar pension funds are similar in structure to those of 2nd pillar pension funds. As of 31 December 2013, the bulk of pension fund investments (60.3%) consisted of investments in CIU units or shares. Government securities ranked second among most popular investments and accounted for 28.1 per cent of the assets of 3rd pillar pension funds. Most of the assets of 3rd pillar pension funds (59.1%) were invested in euro. Investments in US Dollar accounted for 16.9 per cent of pension fund assets, and investments in litas — for another 12.5 per cent.

In 2013, the Bank of Lithuania approved the rules of two new 3rd pillar pension funds: "DNB Supplementary Conservative Pension" and "Danske Pension Plus". Moreover, the supplementary voluntary pension accumulation fund of *UAB Citadele investicijų valdymas* was liquidated last year.

Collective Investment Undertakings

As of 31 December 2013, 33 CIUs (including 32 investment funds and 1 investment company of variable capital) had been established by 10 management companies. Last year, the assets managed by CIUs increased, contrary to the number of participants, which showed a decline. Since the beginning of the year, the funds' assets have increased by LTL 196.57 million (or 30.65%) to LTL 837.95 million, yet the number of participants decreased by 5.25 per cent (or 0.9 thousand) to 17.9 thousand. Such a trend has been prevalent for a few years already and the number of participants has been decreasing since the end of 2008 due to funds' performance falling short of participants' expectations and mergers between funds. In addition, Lithuanian investors choose other investment alternatives due to limited choice available in the market.

In 2013, the unit values of CIUs showed positive developments with average growth of 7.7 per cent recorded. The unit values of equity CIUs showed the biggest increase of 10.7 per cent, followed by mixed investment CIUs with 6.3 per cent and debt security CIUs with 2.0 per cent.

As of 31 December 2013, investments in the units or shares of other CIUs comprised the bulk of CIU investments (31.23%), followed by investments in shares, which attracted 21.03 per cent of CIU assets as direct investments. As of the end of 2013, more than half of CIU assets had been invested in euro. CIU investments in US Dollar accounted for 12.63 per cent, and investments in litas — for 13.33 per cent of the funds' assets.

The other portion of CIU funds had been invested in Norwegian krone, Swedish krona, Polish zloty and other currencies.

Primary and Secondary Markets

The general list of issuers supervised by the Bank of Lithuania remained unchanged in the reporting period. The Bank of Lithuania supervised 47 issues, unchanged from the beginning of 2013. As of the end of 2013, the shares of 16 companies were listed in the Main List of *AB NASDAQ OMX Vilnius*, 16 — in the Secondary List (including one issuer with its shares also traded on the Warsaw Stock Exchange). The shares of 3 companies were traded on the Warsaw Stock Exchange and another two companies had their bonds listed in the Debt Securities List of *AB NASDAQ OMX Vilnius*. In addition, the list of issuers included 10 companies whose securities are not traded on regulated markets.

The primary market for shares showed increased activity. Two public offerings of shares were implemented successfully in the reporting period (*AB Grigiškės* and *AB AviaAM Leasing*) with more than 19 million ordinary registered shares, worth nearly LTL 100 million, placed. One company (*AB Šiaulių bankas*) used its own shares to increase the capital. In addition, two issues of shares with the total issue price of LTL 16.2 million were placed (*AB Biofuture* and *AB Avia Solutions Group*) without a prospectus. The total issue price of the shares issued in the primary market in 2013 exceeded LTL 131 million (down from nearly LTL 133 million in 2012).

The primary market for bonds showed no major changes. Bonds were almost fully sold via private placements. In 2013, same as in 2012, all bonds were issued by banks. Last year, 66 issues of non-equity securities (63 in a respective previous period) with the total face value of LTL 662.6 million (LTL 727.5 million in 2012) were placed in the bond market, including bonds worth LTL 30 million (LTL 37 million in a respective previous period) placed publicly.

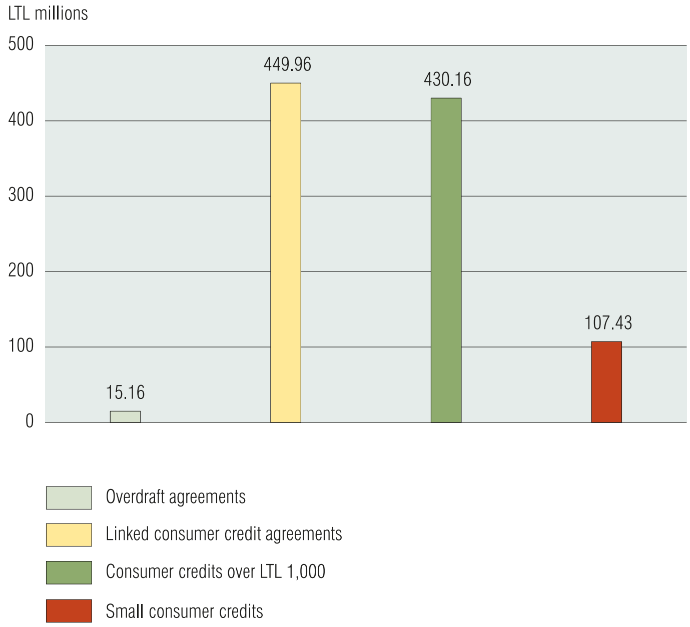
Similar to the previous period, trade in the secondary market operated by *AB NASDAQ OMX Vilnius* was not active and the *OMX Vilnius* gained 19 per cent, which was the same as in the previous year. In 2013, the total turnover decreased by 20 per cent to LTL 550 million, yet the number of transactions increased by nearly 4 per cent. Last year, the share prices of companies soared by as much as 68 per cent (45% in 2012). Total market capitalisation of the stock exchange increased by 6 per cent in 2013 (4.7% in 2012) — to LTL 17.2 billion from LTL 16.2 billion.

Consumer Credit Market

As of 31 December 2013, the public list of consumer credit providers included 60 companies (other than credit institutions) authorised to provide consumer credits. As of late 2013, those companies had provided 722 thousand consumer credits (up by 17.19 per cent from the end of 2012). The amount of credits extended to consumer credit borrowers totalled LTL 1,002.71 million as of 31 December 2013. As compared to the end of the previous year, the credit portfolio increased by 16.67 per cent.

As of late 2013, consumer credit lenders had granted to individuals a total of 263.49 thousand credits under linked consumer credit agreements and 451.32 thousand credits under other agreements, of which 249.11 thousand (55.2%) were small consumer credits (of up to LTL 1,000). In addition, 7.47 thousand credits had been granted under overdraft agreements (provided by just two leasing subsidiaries of banks). In terms of the balance of credit amount, the biggest amount of credits had been extended under linked consumer credit agreements, i.e. LTL 449.96 million. The analysis of the portfolio of credits granted under other consumer credit agreements shows that the amount of consumer credits over LTL 1,000 totalled LTL 430.16 million at the end of last year, while the balance of small consumer credits amounted to LTL 107.43 million. In addition, LTL 15.16 million had been extended under overdraft agreements.

Chart 23. Balance of consumer credits under consumer credit agreements, 31 December 2013



The consumer credit market continues to grow. In 2013, the number of credits issued by consumer credit lenders increased by 11.07 per cent and the amount of credits disbursed in that period rose by 13.60 per cent, mostly due to an increase in consumer credits over LTL 1,000. In 2013, as compared to 2012, the number of such credits soared 3.5 times and their amount increased by 27.91 per cent. The number of small consumer credits provided and their amount showed minor decreases of 2.22 per cent and 3.59 per cent, respectively. This was due to a big fall in the number of new small consumer credits in the third quarter of 2013, which was triggered by the coming into force of new regulatory provisions establishing more stringent requirements for the assessment of solvency of consumer credit borrowers. In the fourth quarter, which includes a holiday season, the number and amount of new small consumer credits increased again (by 5.26 per cent and 6.20 per cent, respectively). In 2013, consumer credit lenders granted 778.48 thousand small consumer credits (2.2% less, as compared to 2012) to borrowers and extended LTL 298.55 million (3.59% less, as compared to 2012). The average credit amount decreased by meagre LTL 5.45 and stood at LTL 383.5. At the end of 2013, small credits with the repayment period extended following the payment of an extension fee by borrowers accounted for 36.81 per cent of the total outstanding credit amount. Late in 2013, the services of small consumer credit lenders were used by 206.40 thousand customers, including 80.93 thousand (39.21%) individuals younger than 25 years. It is worth noting the increase in the number of customers aged below 25 years. Late in 2012, small consumer credit lenders had 65 thousand customers in this age group. The average weighted annual percentage rate of charge applied to small consumer credits at the conclusion of agreements was 164 per cent and the average weighted annual interest rate — 99 per cent. The weighted annual percentage rate of charge applied to small consumer credits and the average weighted annual interest rate both decreased over the year — from 173 per cent and 105 per cent, respectively.

The share of overdue loans is growing rapidly. In 2013, the number of delinquencies (with payments overdue by more than 90 days) among consumer credit borrowers increased by 46.51 per cent to reach 156.32 thousand at the end of the year, while the amount (including interest charged for late payment, penalties and other amounts payable under agreements) increased to LTL 279.44 million, from LTL 196.26 million, or by 42.39 per cent. Delays were most frequently observed in discharging liabilities under the agreements of consumer credits of more than LTL 1,000 and under small consumer credit agreements.

On 19 March 2013, the Board of the Bank of Lithuania approved Regulations on the Assessment of Solvency of Recipients of Consumer Loans and Responsible Lending (came into force on 1 July 2013), which elaborate the assessment of solvency of a consumer credit borrower. In addition, the Bank approved a Supplement to the Guidelines on the Advertising of Financial Services facilitating the assessment of whether or not the advertising of consumer credit agreements is adequate, i.e. whether or not it infringes the prohibition against the promotion of irresponsible borrowing.

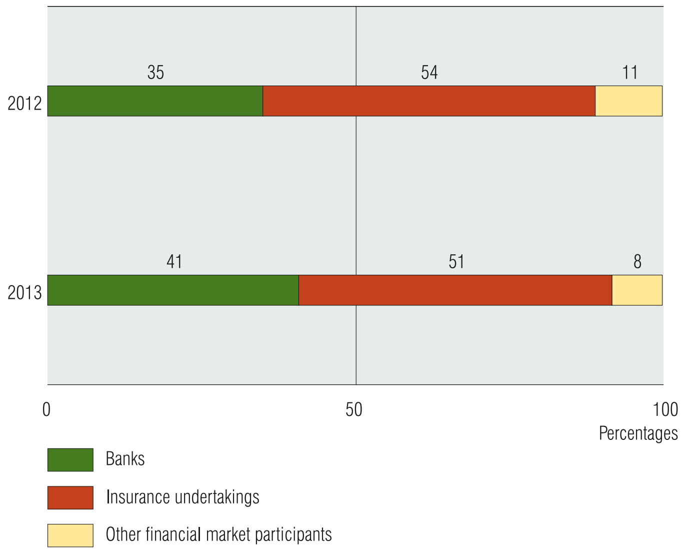
In October 2013, the Bank of Lithuania submitted to the Ministry of Finance a package of proposals amending the Law on Consumer Credit. In particular, it proposed to reduce the annual percentage rate of charge applicable to consumer credits, to restrict possibilities for consumers to enter into consumer credit agreement without giving it much thought, to oblige consumer credit lenders to check all information received from clients, to introduce additional requirements for advertising and proportionate fines for violations of this law.

Settlement of Disputes

In 2013 — the second year of handling disputes between consumers and financial market participants — the Bank of Lithuania received 670 applications regarding disputes. As compared to the first year, the number of such applications increased by 8 per cent (from 617 in 2012). As was previously the case, most of the applications concerned contracts with insurance undertakings (50.6%). However, the share of such disputes decreased somewhat as the number of disputes with banks increased accordingly (40.6%) of cases. Disputes with other market participants (consumer credit lenders, credit unions, management companies, etc.) comprised a very small share (8.8%). Forecasts of growth in the total number of disputes and, in particular, disputes in the banking sector turned out to be true, and the reasons of such growth include public education activities, awareness raising about the dispute settlement function performed by the Bank of Lithuania, massive scale of services provided by banks as well as rollout of new services. The number of applications is not likely to decrease in future or may increase slightly, and the split-up between sectors is expected to remain broadly unchanged.

The analysis of the decisions, taken by the Bank of Lithuania in relation to the matters in dispute, shows that nearly one-third of decisions were in favour of consumers (28%). In other cases (72%) consumer claims against financial market players were dismissed as unfounded. As compared to 2012, this breakdown remained unchanged. It should be noted that in a number of cases the consumers, who had referred their dispute with a financial market participant to the Bank of Lithuania, managed to resolve the disputes by means of an amicable agreement, often initiated by the Bank of Lithuania. In 2013, such agreements were reached in 55 cases (up from 51 in 2012). It should be noted that the Bank of Lithuania takes decisions in relation to the matters in disputes only if the parties at dispute fail to reach an amicable settlement despite mediation efforts of the Bank of Lithuania. In such cases, the Bank of Lithuania reviews the evidence provided by the parties and collected by the Bank of Lithuania at its own discretion, the terms and conditions of an individual contract, legislative provisions, case law, etc., to determine the validity of the consumer's claim, arising from the contract, against a financial market participant and makes its decision. The most frequent reasons for rejecting consumer claims included failure to read the terms and conditions of a relevant contract carefully, their misinterpretation, misunderstanding of circumstances or facts and, more rarely, fraud. In cases where consumer claims were satisfied, the Bank of Lithuania usually acknowledged improper contractual conduct by financial market participants, insufficient disclosure of information or insufficient clarity of contractual terms and conditions.

Chart 24. Breakdown of the number of applications by sector



Financial Education

In 2013, the Board of the Bank of Lithuania approved a concept of financial education. Its main goal is to improve financial literacy of the country's people in order to make sure that they make rational financial decisions and take a responsible approach towards management of personal finances.

In the reporting period, the Bank of Lithuania joined the CYFI (Child and Youth Finance International).

In April, the Bank of Lithuania introduced its financial education initiative and the website *Pinigų bitė* (www.pinigubite.lt) to the public. This website should become a source of unbiased and reliable information about personal financial planning and management for the country's residents. The website receives 7,234.5 hits per month on average.

In the reporting period, the Bank of Lithuania and the Ministry of Education and Science of the Republic of Lithuania signed an agreement on cooperation in financial and economic education of schoolchildren. The institutions intend to cooperate in the implementation of various financial and economic education projects, including the development of study materials, organisation of various trainings, seminars and studies, sharing of information about smart methods to develop financial literacy skills in schoolchildren, and searching for the ways and means of providing information about the management of personal finances and the economy, which would be the most acceptable to schoolchildren. In cooperation with the Ministry of Education and Science, the Bank spearheaded Lithuania's participation in an international study to assess the financial literacy of 15 year-olds in 2015. This study will help assess the level of their financial literacy and compare Lithuania's data on an international scale.

The Bank of Lithuania believes, as do the financial market participants actively involved in financial education and the representatives of the authorities concerned about financial education, that for the development of financial literacy skills of the population to be consistent, it should involve governmental organisations and should be built upon an effective national financial education strategy. Therefore, the Bank of Lithuania put forward a proposal to the Republic of Lithuania Government to commence the development of the national financial education strategy.

In autumn 2013, the Bank organised traditional free awareness raising and training seminars on the management of personal finances and responsible borrowing in three cities, including Vilnius, Kaunas and Klaipeda. The seminars of the Bank of Lithuania were attended by more than 800 Lithuania's residents.

In addition, *Pinigų bitė* Youth Week, a financial education initiative, was organised in the reporting period. It involved the presentation of a virtual financial literacy lesson dealing with the main principles of personal finance management. The virtual lesson targets students and 9–12 graders. The initiative saw active involvement of the country's schools and the financial literacy test was taken by 3,930 readers of DELFI, the media sponsor of the initiative.

Macro-Prudential Policy

Macro-Prudential Policy Targets

The recent economic and financial crisis has demonstrated the extent to which systemic risks[11] may negativelly impact the financial sector in Lithuania, the EU and the whole world in general and affect economic development. The build-up of systemic risk is often characterised by unbalanced growth of credit or leverage[12], strengthening of interconnections between individual parts of the financial sector and increase in concentration. In recent years, the EU has revised its former institutional and regulatory framework of financial sector supervision in order to reduce the probability of future crises and mitigate their effects. Macro-prudential policy, which aims to strengthen the stability of the entire financial system by building its additional resilience and to reduce possibilities of systemic risk build-up, is one of the core elements of this reform. One of the lessons learnt from the global financial crisis is that the supervision and regulation of individual financial institutions is not sufficient to safeguard from system-wide risks, such as excessive growth of credit or real estate prices. One of the main objectives of macro-prudential policy is to reduce the pro-cyclicality of the financial system through more stringent regulation in the context of unsustainable booms in order to build up sufficient buffers that could be used in downturn. Finally, macro-prudential policy seeks the contribution of a sustainable financial sector to balanced long-term economic growth.

It should be noted that the success of macro-prudential policy can only be measured in the long term, whereas the costs of implementing the policy are incurred and seen immediately. For example, an additional larger capital buffer, which is intended to safeguard the banking sector from potential future losses and to reduce credit supply constraints during economic downturn, may trigger a short-term increase in the cost of credit. Such a mixture of long-term benefits and short-term costs leads to an inaction bias, which undermines the implementation of macro-prudential policy. Hence, in order to ensure the stability and operational sustainability of the entire financial system and

[11] Systemic risk means a risk of disruption in the financial system with the potential to have serious negative consequences for the financial system and the real economy.

[12] Leverage means a ratio between on-balance sheet and off-balance sheet assets at fair value (non-risk weighted) and core equity capital of a financial institution.

not only of its single participants, an authority should be designated and entrusted with the implementation of macro-prudential policy and which would be able to conduct this policy in a transparent, independent and effective manner.

Macro-Prudential Policy Implementation

EU-wide macro-prudential policy is set by the European Systemic Risk Board (ESRB), established on 1 January 2011. In order to ensure the effectiveness of macro-prudential policy on both international and national scale, the EU Member States shall designate authorities entrusted with the conduct of macro-prudential policy, which would accommodate national specificities in their decision-making. The national macro-prudential authority should ensure timely and appropriate evaluation of systemic risks arising from non-homogeneous cycles of economic and financial system development in different countries and apply adequate measures to mitigate those risks. In addition, there needs to be a national authority, which would implement the recommendations issued by the ESRB and in regard to systemic risk warnings.

Amendments to the Law on the Bank of Lithuania have been submitted to the Seimas of the Republic of Lithuania. The proposal includes the Bank of Lithuania designation by law to be responsible for the macro-prudential policy in Lithuania. The Seimas of the Republic of Lithuania is debating the necessary legislative amendments in its spring session 2014. With its institutional and financial independence, accountability vis-ą-vis the national legislature and exclusive competence in safeguarding financial stability, the Bank of Lithuania is the best placed to pursue effective implementation of this policy in the country. Moreover, integration of individual institutions supervisory functions within the Bank of Lithuania implies unique possibilities of information access and control. Implementation of both micro-prudential and macro-prudential policies open up possibilities to ensure effective identification of systemic risks, application of macro-prudential instruments and their control as well as impact assessment. It should be noted that many EU Member States have decided to entrust the conduct of macro-prudential policy with the national central banks, such a model is recommended[13] also by the ESRB for macro-prudential policy implementation.

Macro-Prudential Policy Instruments

Systemic risk mitigation and prevention policy is partly applied in Lithuania through two important macro-prudential policy instruments defined in the Responsible Lending Regulations approved by the Bank of Lithuania, i.e. the maximum loan-to-value (LTV) ratio (85 %) and the maximum debt-service-to-income (DSTI) ratio (40%). Although the threat of systemic risks, triggered by unsustainable credit and economic growth, is not observed in Lithuania at present, the macro-prudential policy authority would continuously assess the need for additional instruments in order to ensure the effectiveness of the policy and implementation of EU legislation. Most of the macro-prudential instruments are determined in CRD IV Directive and CRR Regulation, such as, for example, a capital conservation buffer, a countercyclical capital buffer or a capital buffer for other systemically important financial institutions. The primary purpose of the countercyclical capital buffer is to protect the banking system from potential losses where excessive credit growth triggers the build-up of systemic risks. This additional capital buffer would be used in cases where credit growth far exceeds the growth of national economy. The capital buffer for other systemically important institutions will allow establishing an additional capital buffer for national systemically important institutions.

[13] *Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3).*

Following the transposition of CRD IV, the Bank of Lithuania plans to adopt a decision on the introduction of the capital conservation buffer and will regularly assess the need in the countercyclical capital buffer. After the publication of guidelines on other systemically important financial institutions by the European Banking Authority in 2015, the Bank of Lithuania intends to adopt a decision on the introduction of a respective capital buffer for national systemically important financial institutions.

Cash Management

In implementing its exclusive right to issue currency, the Bank of Lithuania puts into and withdraws from circulation the currency of the Republic of Lithuania, establishes its denominations, organises currency production, transportation and storage, makes up reserve funds of banknotes and coins according to the procedure established in laws.

Currency Issue and Withdrawal

In 2013, the value of currency in circulation, including collector (commemorative) coins and numismatic sets, increased by LTL 485.5 million: LTL 2,094.7 million was put into circulation and LTL 1,609.1 million — withdrawn from it. Over the year, the value of cash increased by 4.3 per cent (5.4% in 2012). On 31 December, currency in circulation amounted to LTL 11,902.1 million (LTL 11,416.5 million, a year ago).

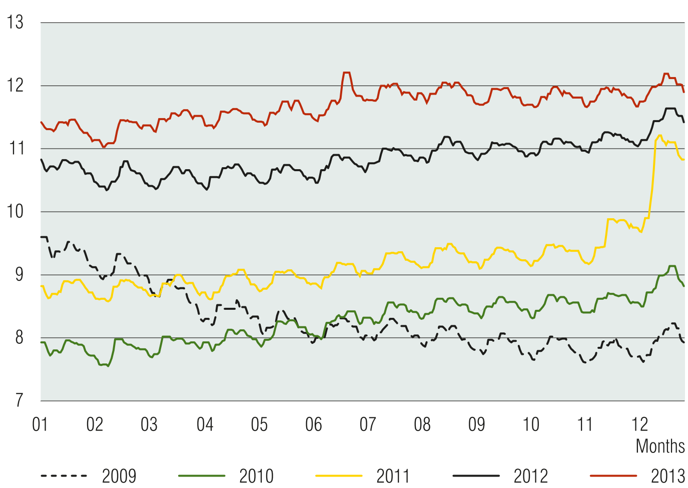
Table 7. Net currency issue or withdrawal (–)
LTL millions

Year	Quarter				
	I	II	III	IV	I–IV
2011	–143.9	298.3	248.0	1,600.7	2,003.1
2012	–376.7	270.5	239.4	456.3	589.5
2013	106.2	317.9	–122.6	184.1	485.5

Source: Bank of Lithuania.

In 2013, the most noticeable increase and decrease in the value of currency in circulation were registered respectively in June and January.

Chart 25. Litas in circulation



Source: Bank of Lithuania.

On 31 December 2013, banknotes in circulation totalled 93.0 million pieces, with their total value standing at LTL 11,621.5 million. Since the beginning of the year, the number of banknotes in circulation grew by 1.7 million pieces (1.8%) and their value rose by LTL 460.9 million (4.1 %). The average value of a banknote in circulation increased during the year from LTL 122.2 to LTL 125.0.

Although the amount of cash in circulation rose, in 2013 the Bank of Lithuania frontloaded and accepted a smaller amount of banknotes than in previous year: it frontloaded 153.5 million pieces (166.8 million pieces in 2012) and accepted 151.8 million (163.5 million in 2012).

In 2013, the same banknote returned to the Bank of Lithuania 1.8 times (2 times in 2012) on average. The banknotes unfit for further use made up on average 18 per cent (22% in 2012) of the banknotes that were returned to the Bank of Lithuania. Of 151.8 million pieces of banknotes accepted by the Bank of Lithuania over the year were recognised as unfit for further circulation and 30.6 million banknotes were destroyed (35.1 million pieces in 2012).

On 31 December, the number of circulation coins in circulation made up 1,165.9 million pieces with their value standing at LTL 264.0 million. Since the beginning of the year, the number of coins in circulation grew by 63.2 million pieces (5.7%) and their value surged by LTL 22.9 million (9.5%).

Table 8. Banknotes and coins in circulation

Denomination	31/12/2012		31/12/2013		31/12/2012		31/12/2013	
	LTL millions	percentage	LTL millions	percentage	Pcs., millions	percentage	Pcs., millions	percentage
Banknotes								
LTL 1	2.6	0.0	2.6	0.0	2.6	2.9	2.6	2.8
LTL 2	2.6	0.0	2.6	0.0	1.3	1.4	1.3	1.4
LTL 5	2.2	0.0	2.2	0.0	0.4	0.5	0.4	0.5
LTL 10	100.6	0.9	98.8	0.9	10.1	11.0	9.9	10.6
LTL 20	223.2	2.0	237.6	2.0	11.2	12.2	11.9	12.8
LTL 50	460.7	4.1	408.5	3.5	9.2	10.1	8.2	8.8
LTL 100	2,000.1	17.9	1,920.2	16.5	20.0	21.9	19.2	20.7
LTL 200	6,593.8	59.1	7,198.8	61.9	33.0	36.1	36.0	38.7
LTL 500	1,774.7	15.9	1,750.1	15.1	3.5	3.9	3.5	3.8
Total banknotes	11,160.6	100.0	11,621.5	100.0	91.3	100.0	93.0	100.0
Coins								
LTL 0.01	4.3	1.8	4.6	1.7	429.8	39.0	455.1	39.0
LTL 0.02	4.6	1.9	4.9	1.8	229.6	20.8	243.5	20.9
LTL 0.05	4.3	1.8	4.5	1.7	85.9	7.8	90.2	7.7
LTL 0.1	16.0	6.6	16.7	6.3	160.1	14.5	166.7	14.3
LTL 0.2	15.7	6.5	16.6	6.3	78.7	7.1	82.9	7.1
LTL 0.5	12.4	5.1	12.8	4.9	24.8	2.2	25.7	2.2
LTL 1	48.3	20.0	51.0	19.3	48.3	4.4	51.0	4.4
LTL 2	61.6	25.6	67.8	25.7	30.8	2.8	33.9	2.9
LTL 5	73.8	30.6	85.2	32.3	14.8	1.3	17.0	1.5
Total circulation coins	241.1	100.0	264.0	100.0	1,102.7	100.0	1,165.9	100.0
Collector (commemorative) coins and numismatic sets	14.9		16.6		0.3		0.4	

Source: Bank of Lithuania.

At the end of 2013, the average number of circulation litas and centas coins per capita in Lithuania made up on average 389 circulation litas and centas coins (368 coins in 2012), of which 152 pieces (143 pieces at the end of 2012) were 1 centas coins.

Collector (Commemorative) Coins

In 2013, the Bank of Lithuania issued five silver (Ag 925) collector (commemorative) coins. The coin minting quality — a mirror surface with matte relief (proof). In addition, six other collector (commemorative) circulation coins were issued: four 2 litas proof quality coins in separate numismatic sets, and unc quality coins of the same name; also one 1 litas *unc* quality and one 25 litas *proof-like* quality coins.

Two numismatic sets of circulation coins of the 2013 issue with a commemorative sign dedicated to the anniversaries of victorious battles of the Grand Duchy of Lithuania and the 80th anniversary of the transatlantic flight of Steponas Darius and Stasys Girėnas, with a commemorative sign.

All of them were minted at UAB Lithuanian Mint. For more details see Annex.

Counterfeit Banknotes and Coins

The number of counterfeit banknotes identified in Lithuania decreased from 644 pieces in 2012 to 536 in 2013 (by 20%). The largest number of counterfeits was found of 50 litas banknotes of the 2003 issue. They accounted for 35 per cent of all counterfeits. Counterfeit 100 litas banknotes of the 2000 issue accounted for 22 per cent and counterfeits of 200 litas banknotes of the 1997 issue made up 20 per cent of the counterfeits.

Counterfeits were most often printed by using inkjet printers, sometimes imitating banknote security features (watermark, security thread, and security features fluorescent under UV light). The counterfeits were of poor quality, thus they could be easily distinguished from the genuine currency by doing a "feel-look-tilt" test and comparing them with genuine banknotes.

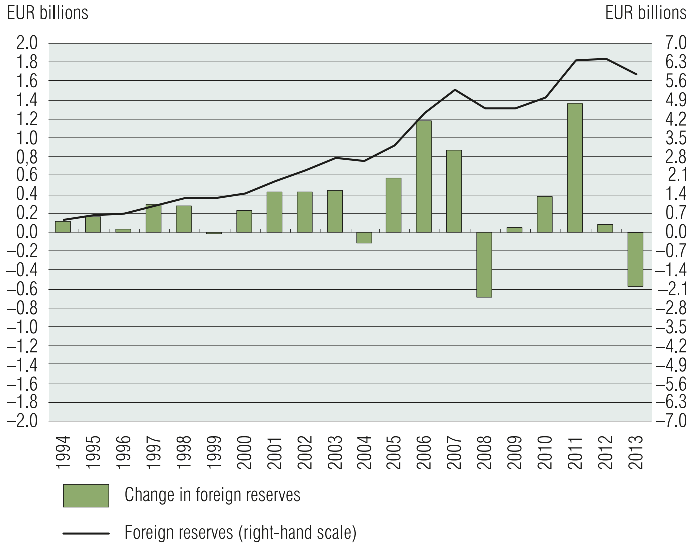
The counterfeits identified in Lithuania in 2013 accounted for around 0.0006 per cent of total banknotes in circulation: one counterfeit banknote per 173 thousand of banknotes in circulation (22 thousand pieces in the euro area). In Lithuania, the overall level of currency counterfeiting was significant lower compared to the euro area countries.

Management of Investment of Financial Assets

Under the Law on the Bank of Lithuania, the principle objective of the central bank is to maintain price stability. It is implemented by ensuring smooth functioning of the currency board arrangement — unrestricted and continuous conversion between the national currency and the euro, and *vice versa*. Therefore the major objective of the Bank of Lithuania in the management of financial assets is to ensure sufficient amount of liquid financial resources for the functioning of this system. To undertake imperative interventions in the domestic foreign exchange market the Bank of Lithuania uses official foreign reserve assets (hereinafter — foreign reserves). They make up the major share of the financial assets controlled by the Bank of Lithuania.

On 31 December 2013, foreign reserves amounted to EUR 5,868.0 million (LTL 20,260.9 million). They went down by EUR 570.0 million (LTL 1,968.3 million) or 8.9 per cent over the year. The reduced amount of the central government deposits with the Bank of Lithuania was the major factor behind the decrease.

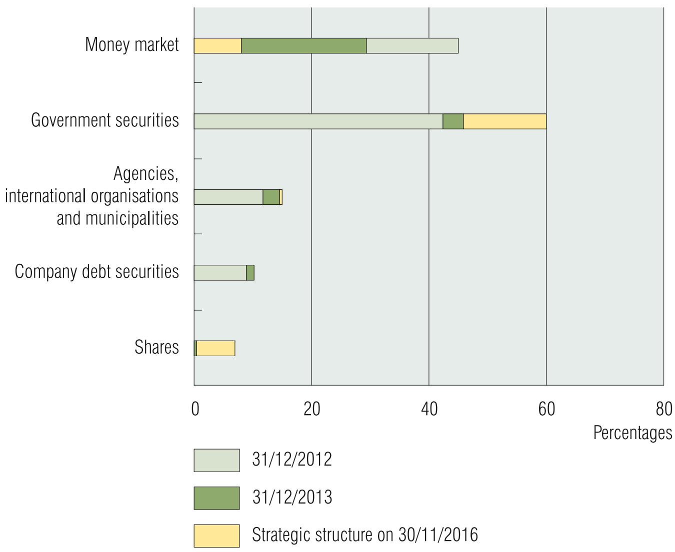
Chart 26. Foreign reserves



Source: Bank of Lithuania.

The financial assets investment strategy was updated in response to the developments of the global economy and financial markets in recent years and recommendations of the World Bank. The new strategy is aimed at wider diversification of investment risks by multiplying investment types and extending investment geography, and increasing expected investment yield over a three-year investment period. The largest share of the financial assets investments is in euro, while investments denominated in other currencies are insured normally against exchange rate fluctuations. The Bank of Lithuania has additionally included in its investment portfolio debt and equity securities (shares) of companies holding investment ratings, and increased investments into longer term bonds. The fluctuations of these investments may be higher in short term due to the market value changes, but they imply higher return in longer term (3 years) due to a possibility to employ less closely interlinked investment strategies. Changes in the policy of the management of financial assets are to be implemented consistently in three years.

Chart 27. Changes in investment structure



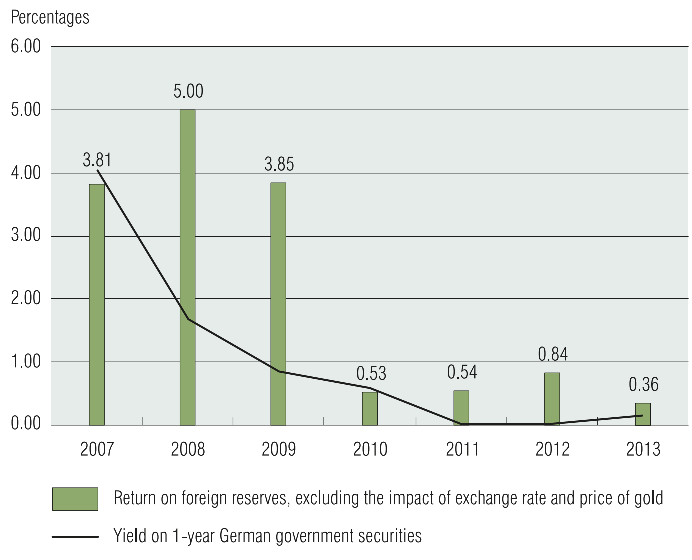
A risk budget was set up for the process of investing financial assets to reduce the volatility risk in volatile financial markets. It helps to limit the amount of expected loss of one year, arising due to adverse fluctuations in market prices. The risk budget of EUR 100 million set up in the new investment strategy means that total negative return on financial assets during one year with a probability of 95 per cent should not exceed EUR 100 million. On 31 December 2013, the value of investment portfolio risk made up EUR 21 million.

Investment profit depends on a possibility to take investment risk. With the currency board model effective in Lithuania the investments of financial assets of the Bank of Lithuania have to be liquid and safe. These two principles are given priority with regard to the return on investments. To this end, the level of the safest and most liquid investment interest rates, which have reached record lows since the beginning of the financial crisis, is having a strong impact on the results of investing of financial assets. In 2013, the investment results were determined by low yield ratios in the safest euro area countries, which grew slightly over the year with respect to credit risk, and a slight decrease in the difference (credit risk premiums) the between yield ratios of debt securities of other countries of the euro area.

In an environment of low interest rates for low-risk investments, the return on financial assets is unlikely to be high. The updated investment strategy is aimed at increasing average return on investments over a three-year horizon by taking potential risk of losses due to market volatility over shorter terms.

On Lithuania's adoption of the euro, the Bank of Lithuania's euro investments will no longer be considered foreign reserves, although they are to remain a portion of the financial assets. A small part of the foreign reserves is to be used as a contribution to the ECB's foreign reserves. These reserves will be assets of the Bank of Lithuania and earn interest. The foreign reserves transferred by the ECB are to be accounted as the Bank of Lithuania's claim on the Eurosystem. The other portion of the assets is to be managed by the Bank of Lithuania on its own, as has been the case until now.

Chart 28. Return on foreign reserves and yield of one-year German government bonds



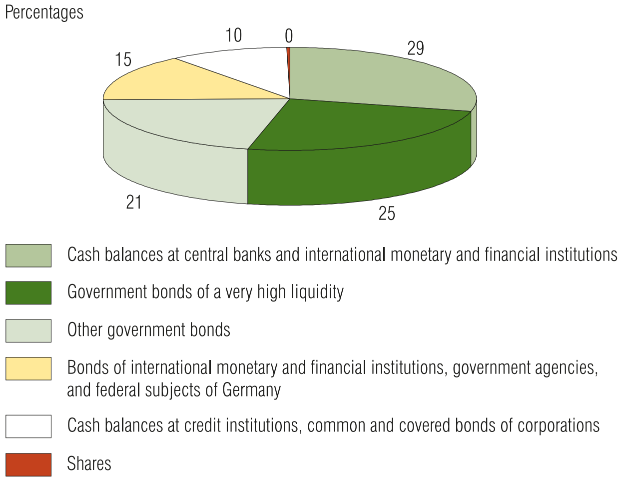
Source: Bank of Lithuania.

Upon Lithuania's entry to the euro area, the Bank of Lithuania will increase its share in the ECB's capital, which implies monetary income from the euro area and a share of the ECB's profit in proportion to its share in the subscribed capital.

Liquidity and Safety of Financial Assets

Following the principle of liquidity, the Bank of Lithuania manages its financial assets to ensure that, where needed, it could sell investments immediately and without a significant loss. Investments in government bonds of a very high liquidity and cash balances at other central banks and international monetary and financial institutions accounted for 54 per cent of investments on 31 December 2013. At the end of the year, government bonds of Germany, France, and the Netherlands were considered of a very high liquidity.

Chart 29. Breakdown of investment by financial instrument
(31 December 2013)
Percentages



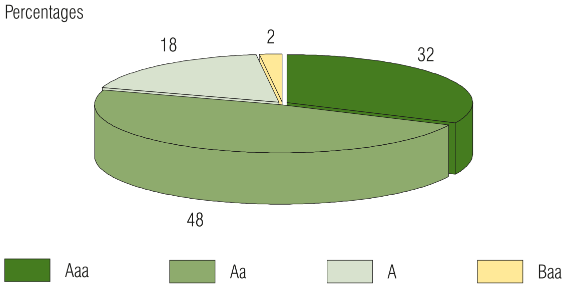
Source: Bank of Lithuania.

The Bank of Lithuania also applies other liquidity requirements, which ensure that regular-scope interventions in the domestic foreign exchange market are made, and liabilities *vis-ą-vis* depositors can be met without selling any investments.

Following the principle of safety, the Bank of Lithuania limits and actively manages all types of financial risks faced in the process of investment of foreign assets.

Credit risk is limited by compiling and updating regularly lists of eligible counterparties and issuers of securities with particularly low probability of default, and by limiting investment concentration. The Bank of Lithuania's share of investments in the highest-rated financial instruments went down over the year from 50 to 32 per cent because of a decrease of the funds held in other central banks.

Chart 30. Breakdown of investments by rating
(31 December 2013)
Percentages



Source: Bank of Lithuania.

Like many other central banks, the Bank of Lithuania is exposed to foreign exchange risk and gold price risk. As our country has a fixed exchange rate of the litas against the euro, to mitigate the foreign exchange risk, the Bank of Lithuania invests almost all its foreign assets (excluding gold and assets not related to liabilities in foreign currencies) in euro, or if it invests in other currencies, it secures itself against possible risks related to foreign exchange rate. The share of financial assets related to liabilities is invested in the currency of these liabilities.

On 31 December, gold accounted for 3.0 per cent of foreign reserves not related to liabilities in foreign currencies. Over the year, the amount of gold remained unchanged standing at 5.8 tons. Its price in euro fell by 30.0 per cent over the year.

The Bank of Lithuania is also exposed to the interest rate risk as the volatility in market rates changes the market value of its assets. Longer-term, riskier investments tend to generate higher returns, yet sometimes the return over one-year horizon can be negative due to a rise in interest rates. Interest rate risks are managed by setting benchmarks for individual portions of the financial assets and placing limits on portfolio real investment deviations (in terms of modified duration, MD) from benchmark MD. Following the launch of the new investment strategy, the MD of foreign reserves was increased over the year from 0.69 to 1.13 per cent.

Handling of Statistics

The Bank of Lithuania is the country's major institution of financial statistics. In 2013, it continued the development, compilation and dissemination of the MFI balance sheet statistics and statistics of interest rates, assets and liabilities of investment funds, interbank lending and foreign exchange markets, payment instruments, official reserve assets, balance of payments and international investment position, external debt, foreign direct investment, and quarterly financial accounts. The major part of this statistics is compiled in accordance with the EU and ECB legislation, international statistical standards and manuals.

In 2013, the Bank of Lithuania started preparatory works in the field of finance statistics, to be adequately prepared to adopt the euro in due time. To meet the ECB requirements applied to the statistics of euro area countries, it focused on amendments to the requirements for reporting of the MFI balance sheet statistics and statistics of interest rates, assets and liabilities of investment funds, and payment instruments; also, some restructuring work was done in the statistics of quarterly financial accounts, general government finance statistics, and external sector statistics.

To ensure the development, compilation, and dissemination of the MFI balance sheet statistics and interest rates, the Bank of Lithuania used its website and monthly bulletin to publish the compiled statistics of MFI balance sheets and interest rates, and also provided statistics on MFI balance sheet items and interest rates to the ECB. The Bank of Lithuania's Board prepared and approved resolutions on amendments to statistical reporting regarding the MFI balance sheets and interest rates, and assets and liabilities of investment funds, implementing the requirements under the new ECB regulations ECB/2013/33, ECB/2013/34, and ECB/2013/38. By participating in the development of the monetary and finance statistics of the ESCB, the Bank of Lithuania, in order to give due consideration to the new needs of its users, contributed to the evaluation of the benefits and costs of the implementation of the new statistics of the balance sheets of insurance corporations. Moreover, preparations were made to compile and submit statistical data of securities issued by the ECB.

The Bank of Lithuania has started the final phase of implementing the Balance of Payments and International Investment Position Manual. To this end, the efforts were taken to improve methodologies for calculation of the indicators of foreign trade, services, and direct investments. All indicators related to foreign loans were removed from the new statistical reporting forms, as this type of information is to be prepared by using the data base of foreign loans in order to alleviate the statistical reporting burden of corporations. Data of the Interdepartmental Data Warehouse now is used to calculate services under the monthly balance of payments abandoning the collection of this type of information from corporations.

Preparation works concerning the submission of new indicators to the ECB were launched to implement ESA 2010 methodology and the new guidelines on general government finance statistics. The ECB's audit recommendations in the area of general government finance statistics were taken into account when presenting information for preparing the first report on the quality of general government finance statistics of non-euro area EU Member States. Preparations were launched to compile and publish the statistical data of the latter.

In 2013, the Bank of Lithuania enhanced the management of securities and foreign loan databases and quality of data by revising historical data and harmonizing the terms used. The introduction of additional security measures and tools for drawing-up of statements, reporting and data processing was continued in the statistical information systems of securities issue and of their holders. After installing interfaces among the securities databases and other databases, the information from these databases is used to compile statistics of assets and liabilities of investment funds, securities issue statistics, external statistics, and to draw quarterly financial statements. These actions help to alleviate the statistical reporting burden of agents of economy.

The infrastructure for the loan risk database of credit institutions was further developed to ensure efficient functioning of the credit system and the Bank of Lithuania's right to access information necessary for supervision, monetary policy and financial stability analysis and statistics. After the new system for electronic information services to residents was installed by the Bank of Lithuania a possibility was created to natural entities who use their ID to get connected to the electronic banking system or other electronic means to obtain information about their private data which are managed by the loan risk database, as well as which of the credit institutions wanted to get their private data during the last two years.

Payment and Securities Settlement Systems

One of the functions of the Bank of Lithuania is to encourage stable and efficient operation of payment and securities settlement systems. The Bank of Lithuania provides settlement services, conducts the oversight of payment and securities settlement systems, and coordinates the activities of Lithuanian market entities in implementing national and international projects.

Litas Payment Systems

The Bank of Lithuania manages the real-time gross settlement system (LITAS-RLS) and the designated time retail payment system (LITAS-MMS), and performs the function of their operator. It ensures reliable operation of the systems, consults their participants, maintains business continuity of the systems, as appropriate, and performs other administrative tasks of systems and their participants.

On 31 December 2013, the system LITAS-RLS had 23 participants: The Bank of Lithuania, seven commercial banks, five foreign bank branches, Central Securities Depository of Lithuania (CSDL), Lithuanian Central Credit Union (LCCU), six financial brokerage firms and two operators of the payment card schemes (Visa Europe Services Inc. and MasterCard International Incorporated). All these participants, except the operators of the payment card schemes, also participated in the system LITAS-MMS. Compared to late 2012, the number of participants decreased in both systems — LITAS-RLS and LITAS-MMS: the Lithuanian branch of *AS UniCredit Bank* and *UAB FMĮ Finbaltus* discontinued their participation in both systems, and *AB Ūkio bankas* lost its status of the participant upon the revocation of its licence. The Lithuanian branch of *Pohjola Bank Plc* became a new participant in both systems, and MasterCard International Incorporated joined the system LITAS-RLS.

Table 9. LITAS-RLS and LITAS-MMS Transactions

Year	Volume of transactions, thousands			Value of transactions, LTL millions		
	Total	Daily average	Concentration level*, %	Total	Daily average	Concentration level, %
2012	446 (LITAS-RLS)	1.8	66.0	265,851	1,055.0	49.9
	31,169 (LITAS-MMS)	123.7	74.6	188.826	749.3	59.5
2013	529 (LITAS-RLS)	2.1	65.7	242.048	964.3	56.5
	31,403 (LITAS-MMS)	125.1	77.7	187.199	745.8	64.4

Source: Bank of Lithuania calculations.

**Concentration ratio is the share of transactions of three banks with the largest volume of payments in total payment transactions.*

The suspension of the activities of *AB Ūkio bankas* on 12 February 2013 did not disrupt the operations of the systems. The annual availability[14] of the system LITAS-RLS was 99.98 per cent.

Euro Payment System

In Lithuania, a real-time system for payments in euro TARGET2-LIETUVOS BANKAS is operating, which allows national financial institutions to provide their customers urgent settlement services in euro. TARGET2-LIETUVOS BANKAS is the so-called TARGET2 component system — a part of the system TARGET2 managed by the Eurosystem, providing a real-time gross settlement of euro payments in central bank money.

At the end of the year, the system TARGET2-LIETUVOS BANKAS had 12 participants: the Bank of Lithuania, six commercial banks, three foreign bank branches, CSDL, and LCCU. In 2013 the Lithuanian branch of *AS UniCredit Bank* discontinued its participation in the system, and the participation of *AB Ūkio bankas* was discontinued after revocation of its licence.

[14] *Availability — the ratio of the time for system participants to use the system and the operating hours of the system according to the set schedule.*

Table 10. TARGET2-LIETUVOS BANKAS Transactions

Year	Volume of transactions			Value of transactions, EUR millions		
	Domestic payments	Cross-border payments sent	Cross-border payments received	Domestic payments	Cross-border payments sent	Cross-border payments received
2012	21,975	103,777	137,043	2,724	134,671	135,352
2013	27,160	80,217	132,904	2,906	72,606	72,187

Source: The Bank of Lithuania.

Oversight of Payment and Securities Settlement Systems

The Bank of Lithuania conducts the oversight of three payment systems (LITAS-RLS, LITAS-MMS and KUBAS[15]) and the securities settlement system (SSS).[16] The Bank of Lithuania participates in the oversight of TARGET2 together with the Eurosystem, and from 2010 — in the cooperative oversight of the TARGET2-Securities platform, which is under development, together with other supervisory authorities.

In 2013, the operation of the systems overseen by the Bank of Lithuania were stable (there were no critical incidents), and their operators followed requirements laid down in the Law on Settlement Finality in Payment and Securities Settlement Systems of the Republic of Lithuania.

In 2013, the Bank of Lithuania performed assessment of the compliance of the system LITAS-RLS with the Principles for Financial Market Infrastructures, which were prepared by the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIC) in cooperation with the Technical Committee of the International Organisation of Securities Commissions (IOSCO). The system assessment was carried out pursuant to 15 out of 24 principles applicable to payment systems operated by central banks. They cover various aspects of the operation of the LITAS-RLS system. The assessment showed that the level of the compliance of the payment system LITAS-RLS with the principles remained unchanged compared to the results of the assessment of compliance with the Core Principles for Systemically Important Payment Systems, accomplished in 2010. The evaluation of some operational aspects was different due to the new interpretation of requirements and methodology for the assessment. Recommendations were formulated based on the results of the assessment, to enhance the efficiency and reliability of the system LITAS-RLS in the future.

Single Euro Payments Area Project

The banks operating in Lithuania have been participating for some time already in the Single Euro Payment Area (SEPA) project designated to standardise the execution of retail euro payments at the European level. The majority of them offer SEPA credit transfer service for their clients. Some banks started providing the SEPA direct debit services. Payment cards issued in Lithuania, POS terminals and ATMs comply with SEPA requirements.

As of 1 February 2014, credit transfers and direct debit operations complying with SEPA requirements had to substitute analogous national instruments in euro area countries under Regulation (EU) No 260/2012 of the European Parliament and of the Council, establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (hereinafter — SEPA Regulation). On 26 February 2014, the European Parliament and the Council approved an amendment to the SEPA Regulation, which provides banks and other payment service providers with a

[15] The LCCU is the owner and operator of the system KUBAS.
[16] The owner and operator of SSS is the CSDL.

six-month transitional period, during which they would be allowed to execute payments that do not comply with the requirements of the SEPA Regulation. The amendment to the SEPA Regulation will not have any impact on non-euro area countries as they are to comply with the requirements of the SEPA Regulation in one year after the euro adoption but no later than by 31 October 2016. However, the amendment showed that the process of preparation to pursue the SEPA Regulation requirements is not a simple one and may take longer than initially anticipated.

The SEPA Coordination Committee (hereinafter — SEPA Committee) coordinates the preparation of the introduction of SEPA standards in Lithuania. In response to the upcoming SEPA compliance deadline, the agreement on establishing the SEPA Committee was renewed in 2013 and not only banks, but other payment service providers to which the SEPA Regulation requirements are relevant such as payment and electronic money institutions, and credit unions as well, joined the activities of the SEPA Committee.

Payment service users have been involved in the process of preparations for SEPA compliance. The second SEPA forum — a meeting between the Bank of Lithuania and the SEPA Coordination Committee with payment service users and organisations representing them — took place in 2013. The purpose of SEPA forums is to encourage cooperation among payment service providers, software developers and payment service users, increase SEPA awareness and promote exchanges of good practices, discussions and search for the most effective solutions, in order to facilitate the private enterprises and public sector preparations for the compliance with SEPA requirements.

To improve the spread of information about SEPA, the Bank of Lithuania in cooperation with the Association of Lithuanian Banks created a specialised website called SEPA (www.sepa.lt), which was launched in January 2014. The website is to be used for publishing the latest and most relevant information important to both households and enterprises.

Plans are to mainly focus further on the preparation of payment service users to use SEPA payment instruments and informing about SEPA project in 2014. This year, payment service providers are to present a number of technical solutions regarding the implementation of SEPA direct debit and alternative services (e-invoicing) in Lithuania, and the use of the ISO 20022 XML message standard.

TARGET2-Securities Project

The Eurosystem is implementing the TARGET2-Securities (T2S) project. The purpose of this project is to create a technical platform that would allow concentrating the transfers of securities and associated funds related to the settlement of securities transactions. T2S will enable execution of both domestic and cross-border settlements in euro and other currencies if the issuing banks agree to this. Presently only *Danmarks National-bank* has decided to permit settlements in the T2S platform in the Danish krone (from 2018), while all the remaining settlements will be executed in euro.

In 2013, another two central securities depositories (hereinafter — CSDs) — newly created depository *BNY Mellon CSD* and *Latvijas Centrālais depozitārijs*, a depository in Latvia owned by *NASDAQ OMX Group* — signed the T2S Framework Agreement and joined the T2S community. Now total of 24 European CSDs are preparing for the use of the T2S platform.

In 2013, all CSDs and central banks which plan to participate in T2S confirmed that the T2S program plan is comprehensive and appropriate with regard to the presented requirements, and the results are achievable. The development of the software for T2S was completed and an intensive T2S training program started based on the principle "train the trainer". It is expected to help CSDs and central banks to prepare successfully for testing and migration.

T2S continued to push up the harmonisation of market practices and standards in the securities post-trading area in Europe: in 2013, the T2S Advisory Group presented the third harmonisation progress report. Substantial progress was made in setting harmonisation standards and monitoring of market compliance or market plans to comply with these standards.

The Bank of Lithuania continued the preparations for joining the T2S technical platform. The Bank of Lithuania is to open cash accounts in the T2S platform for participants of the payment system TARGET2-LIETUVOS BANKAS for them to have a possibility to make settlements of securities transactions. The Bank of Lithuania is to join the T2S platform together with the CSDL and other Baltic countries in February 2017.

Administration of the Accounts of the State Treasury and Institutions

Acting as a fiscal agent for the state under the Law on the Bank of Lithuania, in 2013 the Bank of Lithuania continued to administer litas and foreign currency accounts of the State Treasury. The state monetary resources held on these accounts which are accumulated and used in accordance with the procedure set forth by the State Treasury Law of the Republic of Lithuania and other legal acts are managed by the Ministry of Finance of the Republic of Lithuania. The Bank of Lithuania also continued to administer litas and foreign currency accounts of other state institutions, EU institutions, foreign central banks and international financial institutions (hereinafter — institutions). Monetary resources held in the State Treasury accounts that are managed by the Ministry of Finance of the Republic of Lithuania formed the largest share of funds held on all accounts.

On 31 December 2013, 194 accounts of the State Treasury and institutions were administered by the Bank of Lithuania compared to 199 in 2012, of which 77 were litas accounts and 117 — foreign currency accounts (respectively 85 and 114 in 2012). These accounts were opened at the Bank of Lithuania in accordance with the legislation of the Republic of Lithuania and the Bank of Lithuania, whereas the terms of their administration and the services provided are established by agreements.

The Bank of Lithuania provides the following services to the State Treasury and institutions: payment services, foreign exchange transactions, fixed-term deposits in euro and US dollar, account statements and other reporting services. For some institutions of our state, litas cash service is provided.

Preparation for the Euro Adoption

When acceding to the EU, Lithuania assumed the obligation in the Treaty of Accession to participate in the Monetary Union as a member state which would adopt the single EU currency euro once it complied with the set convergence criteria. At the same time it is a natural result of Lithuania's monetary policy over many years. Its success was secured by the currency board regime that was chosen in 1994, the pegging of the litas to the euro in 2002, and joining of the Exchange Rate Mechanism II (ERM II) in 2004.

Following the Government's announcement of a strategic goal to adopt the euro in 2015, the Bank of Lithuania has been actively preparing for the introduction of the single

EU currency in all the areas of its activities. Joining the euro area is not only a smooth changeover of the currency, but it also includes preparing to join the banking union, sharing responsibility of the supervision of the finance sector with the ECB, ensuring that payment systems retain the service quality, and many other things.

When preparing for the adoption of the euro, the Bank of Lithuania maintains close cooperation with other institutions of the Republic of Lithuania. The Chairman of the Board of the Bank of Lithuania is a member of the Commission for the Coordination of the Adoption of the Euro in the Republic of Lithuania in accordance with the structure for coordination of actions of preparation for the euro introduction as approved by the Government's resolution. The Bank of Lithuania chairs three working groups composed of representatives of Government institutions, business, and local government associations: the Lithuania's Compliance with Convergence Criteria Monitoring Working Group, Cash Working Group, and Public Information Working Group. In addition, the Bank of Lithuania has its representatives in the working groups chaired by other institutions, and is an active participant in the work of these groups.

Practical issues related to the preparation of the Bank of Lithuania for the euro adoption are addressed in the Bank of Lithuania's Committee for Coordination of the Euro Adoption Issues, which follows the Bank of Lithuania's plan on euro adoption. There are 400 measures in that plan, related to various areas: the adaptation of the national law, public information, management of financial assets, adaptation of accounting, management of statistical information, consumer protection, etc. Continuous monitoring of the measures included in the plan is performed, and the plan is regularly updated. In early 2014, the Bank of Lithuania formed a special Monitoring Working Group to perform these functions.

The most important works planned in the preparation for the adoption of the euro are referred to in this section, taking into account the activities and areas of the euro adoption working groups chaired by the Bank of Lithuania, in which the Bank plays the major role.

Monitoring of Compliance of Lithuania's Indicators with Economic Convergence Criteria

The Bank of Lithuania monitors a possible compliance of Lithuania's indicators with the economic convergence criteria. The current state is assessed based on the most recent data; future compliance of the indicators is assessed according to the projections made by the Bank of Lithuania and international institutions. Lithuania's all relevant indicators are expected to meet the criteria in spring 2014, the period to be used for the assessment of indicators based on which the decisions on joining the euro area, as of early-2015, by Lithuania should be taken.

The Bank of Lithuania forecasts inflation to be well below the reference value of the convergence criteria in spring 2014. It is already known that in 2013, the government deficit was notably lower compared to the reference value of the convergence indicator. As before, Lithuania meets the criterion for the government debt with a large reserve. The criteria for long-term interest rates and exchange rate are also expected to be met. The country is to comply with the exchange rate criterion because it has maintained a stable exchange rate of the litas to the euro since 2 February 2002, and plans to do so until the adoption of the euro. Lithuania has participated in the ERM II since 28 June 2004, i.e. much longer than the set term of two years.

Table 11. Estimates of economic convergence criteria and forecasts for meeting criteria in Lithuania

(percentages, unless otherwise stated)

	The most recent value[17]	Bank of Lithuania projections (February 2014)
	on March 2014	for Q4 2014
Average annual HICP inflation		
Lithuania's indicator	0,7	0,9
Reference value (country abbreviations)	1.2 (BG, CY, LV)	1.9 (ES, CY, BG)
Long-term interest rates		
Lithuania's indicator	3,7	–
Reference value (country abbreviations)	5.4 (BG, LV)	–
The general government deficit-to-GDP ratio		
Lithuania's indicator	2.2 (2013)	2.1 (2014)
Application of EDP[18]	Not applicable	Not applicable
Reference value	3.0	3.0
The general government debt-to-GDP ratio		
Lithuania's indicator	39.4 (2013)	39.9 (2014)
Reference value	60,0	60.0
Rate of exchange, litas for 1 euro		
Lithuania's indicator	3,4528	3,4528
Reference value	3,4528 ± 15%	3,4528 ± 15%

Sources: Eurostat, February 2014 projections of the EC, February 2014 projections of the Bank of Lithuania and Bank of Lithuania calculations.

Note: BG — Bulgaria, CY — Cyprus, ES — Spain, LV — Latvia.

Ensuring Legal Convergence of Lithuania

During an extraordinary session on 23 January 2014, the Seimas adopted the Law on Amendment to the Law on the Bank of Lithuania, the Law on Amendment to Article 14 of the Law of the Republic of Lithuania on State Audit, and the Law on the Amendment to the Law of the Republic of Lithuania "On the law on the amendment to ratification No XI-2058 of the amendment to Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro, adopted on 25 March 2011 by the decision of the European Council 2011/199/EB, for the legislation of the Republic of Lithuania to be compatible with the Treaty on the Functioning of the European Union (hereinafter — the Treaty), the ECB, and the Statute of the ESCB", and removed any incompatibilities of the Lithuanian legislation with the EU law, specified in the convergence reports prepared by the EC and the ECB in 2012, regarding the ownership right of the Bank of Lithuania to the bank's real estate and the scope of audit of the Bank of Lithuania to be carried out by the National Audit Office.

After the previously mentioned laws came into force on 31 January 2014, the legislation of the Republic of Lithuania became compatible with the EU Treaty and the ECB and ESCB Statute, and the incompatibilities of the Lithuanian legislation with the EU law, specified in the convergence reports prepared by the EC and the ECB in 2012, were removed.

[17] The Bank of Lithuania's estimates of the reference values for price stability and long-term interest rate criteria are not official data. The decision on the countries which should be included in the calculation of the reference values is made by the EC and the ECB.

[18] EDP means an excessive deficit procedure. Not being under EDP shows exactly that the Member State is in compliance with the criterion. Under Article 2 of the Protocol (No 13) of the Treaty of the Functioning of the European Union, the criterion shall mean that at the time of the examination a Member State is not the subject of the decision of the Council of the European Union that an excessive deficit exists.

On 30 January 2014, the State Commission of the Lithuanian Language made an addition to its Resolution No N-10 (99) of 28 October 2004 "On the name of the single currency of the European Union in the Lithuanian language" by a notice, providing for the name of the single currency "euro" to be written as a word of any other language (normally in italics) when used instead of the nominative singular form *euras* in legislations of the Republic of Lithuania, in order to ensure that the provisions of the EU Treaty, which set down the nominative singular form of the single currency name to be written as "euro" in national legislation, are not violated.

At the end of 2013, the Bank of Lithuania prepared the draft of most important piece of legislation to regulate the euro adoption — a draft of the Law of the Republic of Lithuania on the Adoption of the Euro in the Republic of Lithuania. The draft law has been coordinated with the ECB and Lithuanian institutions and submitted to the Seimas for the consideration during the spring session. If the Seimas adopts it, the law is expected to come into effect after the Council of the EU takes a decision on the abrogation of the derogation for Lithuania regarding the use of the national currency.

Preparation for Cash Changeover

The Bank of Lithuania is the key institution responsible for timely provision of euro banknotes and coins in the Republic of Lithuania. To ensure a smooth changeover process in Lithuania, the Bank of Lithuania determined the demand for euro banknotes and coins to replace litas banknotes and coins in circulation currently, and ensure the circulation in 2015. The Bank of Lithuania has calculated in coordination with the ECB the demand for and structure of euro banknotes of each denominations.

After the Council of the EU takes a decision on the abrogation of the derogation for Lithuania regarding the use of the national currency, the Bank of Lithuania, after coordinating it with the ECB, shall sign an agreement on borrowing euro banknotes with one of the national central bank in the euro area, which is to supply euro banknotes.

The euro coins needed by Lithuania will be minted at UAB Lithuanian Mint. The Bank of Lithuania is to sign an agreement with it on minting Lithuanian euro and euro cents and producing sets of euro coins before the Council of the EU takes a decision on cancelling the derogation for Lithuania regarding the use of the national currency.

Litas cash withdrawal from circulation and euro cash frontloading is one of the key elements of the cash changeover. In view of the above, time periods for frontloading and sub-frontloading of euro banknotes and coins were set: frontloading of banks with euro coins is to commence three months, and euro banknotes — two months before the euro adoption date, while sub-frontloading of banks' clients will begin one month before the euro adoption date. Furthermore, the list of distribution and service businesses to offer to the population a possibility to exchange their litas to the euro free of charge within six months after the euro introduction date is yet to be finalised; a preliminary map of places for exchanging the litas to the euro free of charge has been prepared. A list of banks to offer free of charge exchange of the litas to the euro for another six months following the six-month period after the euro adoption date has been drawn. The Cash Changeover Guidelines have been prepared. They have defined the key participants in the cash changeover process and their functions, principles for the provision of euro banknotes and coins, management of the euro and the litas, and cash changeover during the dual circulation of the euro and the litas.

Restructuring of Payment Systems

Current litas payments will be replaced by euro payments after the euro introduction in Lithuania. As of 2015, urgent (real-time) interbank euro settlements in Lithuania will be performed only within TARGET2-LIETUVOS BANKAS, the payment system of the Bank of Lithuania, and the operations of the system LITAS-RLS are to be terminated. The payment system TARGET2-LIETUVOS BANKAS has been effective in Lithuania since late 2007. Presently, it is used by majority (10) of the credit institutions (banks) registered in the country, while other three institutions are to get prepared for the participation in it during 2014.

The Bank of Lithuania's retail payment system LITAS-MMS will be ready for euro payments by the end of 2015, following the entry into force of Regulation (EC) No 260/2012 of the European parliament and the Council of 14 March 2012, establishing SEPA requirements. Payments in the payment system LITAS-MMS by using current data formats will be executed by the end 2015. The Bank of Lithuania is to decide after the consultations with market participants in 2014 whether the payment system LITAS-MMS is to comply with SEPA requirements at the beginning of 2016.

Public Information System

When preparing for the euro adoption, the Bank of Lithuania announced and presented to various target audiences (finance experts, businesspeople, media, and public) the quantitative assessment of the likely impact of the euro adoption in 2015 on the national economy, carried out by the bank experts. The results of it suggested that the positive impact of the euro would be long-term and significantly exceed the single currency introduction costs and the amount of Lithuania's additional financial contributions.

The Bank of Lithuania in cooperation with the Ministry of Finance have organised and coordinated the work of the Public Information Working group. The Public Information Working Group, which includes representatives of thirteen government institutions and organisations have revised the Lithuanian Public Information on the Euro Adoption and Communication Strategy, and the action plan for its implementation. Based on these documents, the Bank of Lithuania is responsible for introducing the new currency euro to the public and is preparing for an intensive phase of the public information about the euro. It is to start after the Council of the EU takes a decision regarding the euro introduction in Lithuania. The consultations have started with the ECB regarding the cooperation in informing cash managers and the public about euro cash.

Communication and other issues related to the euro adoption were presented to businesspeople, representatives of government institutions and municipalities.

As in previous years, publications issued by the European Commission and the ECB in Lithuanian about the Economic and Monetary Union, the single currency euro, and souvenirs with euro symbols were distributed.

The monitoring and evaluation of media information about the euro were conducted on a regular basis, rapidly responding to the information published or inquiries presented on this topic by the media or population.

Participation in the European System of Central Banks and International Cooperation

The Bank of Lithuania participated in the EU and ESCB decision-making processes, represented the Republic of Lithuania within international finance organisations, and maintained relations with other national central banks and rating agencies. The cooperation with the EU and international institutions was especially intensive during the Lithuanian Presidency of the EU Council.

Participation in the European System of Central Banks

The Bank of Lithuania is a member of the ESCB composed of the ECB and national central banks of all the EU Member States. The ECB is the major partner of the Bank of Lithuania in the EU. As the Bank of Lithuania is not a member of the Eurosystem, it cooperates with the ECB and other national central banks in the EU by participating in the work of the General Council of the ECB and ESCB committees.

The decision-making bodies of the ECB — the Governing Council and the Executive Board — govern the ESCB. Only representatives of the ECB and euro area Member States can participate in them. Governors of the national central banks of the Member States that have not yet adopted the euro take part in the work of the ECB's General Council. The General Council is the third decision-making body of the ECB for as long as there are Member States that have not yet adopted the euro. The General Council considers issues related to the macroeconomic situation, monetary and financial market developments, and the functioning of ERM II in the EU and non-euro area Member States. In 2013, the Chairman of the Board of the Bank of Lithuania attended, as usually, four meetings of the ECB's General Council. Besides, at the request of Latvia, an extra meeting of the General Council of the ECB was organised to assess the country's economic and legal convergence and approve of the final text of the convergence report on Latvia. The report concluded that Latvia met all the euro adoption criteria.

Day-to-day work of the ESCB continues by representatives of the EU national central banks participating in the work of ESCB committees and their working groups. The issues addressed by ESCB committees cover all the key areas of the central banking: from monetary policy, market operations, financial stability to statistics, communication, etc. The Governing and General Councils of the ECB make their decisions based on the material prepared by committees. Representatives of non-euro area national central banks are invited to take part only when committees discuss issues relevant for the entire ESCB, which are later included in the agenda of the ECB's General Council. Representatives of the Bank of Lithuania, as well as of other national banks of non-euro area Member States, participate, in the work of 12 ESCB committees, the Human Resources Conference, and working groups established by the committees. Participation in the ESCB committees and their working groups is an important element of the activities of all structural units of the Bank of Lithuania.

ESCB decisions are often taken by written procedure, and no meetings are organised. The Bank of Lithuania continuously watches the process of decisions taken by written procedure, assesses their likely impact, and presents remarks and proposals. The Bank of Lithuania takes particularly active part in the consultations regarding some draft legislation of Lithuania, organised on the initiative of the Bank of Lithuania or the Ministry of Finance of the Republic of Lithuania. In 2013, consultations were held on amendments to, among other things, laws of the Republic of Lithuania, necessary to ensure legal convergence, such as amendments to the Law on the Bank of Lithuania regarding the legal status of the assets owned by the Bank of Lithuania, and amendments to the Law on National Audit Office, regulating the scope of audit of the Bank of Lithuania by the National Audit Office. Also, written procedures were applied to coordinate amendments to draft agreements (on TARGET2, ERM II, and transportation of euro banknotes) with the ESCB, which were signed later by the Bank of Lithuania and other ESCB members.

The Bank of Lithuania is a shareholder of the subscribed capital of the ECB. The right to subscribe and hold capital of the ECB is limited to the EU national central banks. The national central banks of the euro-area Member States own 70 per cent of the total capital of the ECB, and 30 per cent belongs to the national central banks of the non-euro area Member States. The shares of the national central banks in the ECB's capital key are weighted according to the shares of the respective Member States in the EU's total population and GDP. These weights are adjusted every five years and whenever a new Member State joins the EU. In 2013, the ECB's capital key was recalculated twice: on 1 July, when Croatia joined the EU, and on 29 August, when the ECB performed a regular capital recalculation, which is done every five years. After the both recalculations, the ECB's capital increased to EUR 10,825,007,069.61 with the share of the Bank of Lithuania in the subscribed capital of the ECB accounting for 0.4132 per cent or EUR 44,728,929.21. The national central banks of the non-euro Member States pay up 3.75 per cent of their subscribed capital of the ECB.

Participation in the Activities of EU Institutions

The Bank of Lithuania maintains close relations with the Economic and Financial Affairs Council of the EU (ECOFIN Council) and the European Commission (EC), and, within the range of its competence, provides opinion and assessment when formulating the Republic of Lithuania's position on issues considered by the ECOFIN Council. The Chairman of the Bank of Lithuania attends informal meetings of the ECOFIN Council, held for the finance ministers and governors of national central banks to discuss relevant economic and financial issues, to agree on necessary legal and political decisions. In September 2013, such a meeting was held for the first time in Lithuania. Representatives of the Bank of Lithuania are active participants in the work of the Economic and Financial Committee (EFC), one of the most important advisory committees of the ECOFIN Council.

During the Lithuanian Presidency of the EU Council in the second quarter of 2013, the cooperation of the Bank of Lithuania with EU institutions became even more intensive. Regarding the aims of the Presidency of the EU Council, the Bank of Lithuania contributed significantly to the implementation of Lithuania's goals in the area of financial services, set for the six-month period of its EU Presidency focusing particularly on the progress in such areas as creation of the banking union, supervision of financial markets and improvement of payment infrastructure, regulation of insurance mediation, and adequate representation of the EU in international fora.

Negotiations on legal acts to be used as the basis for the creation of the banking union and their adoption were among the major issues on the agenda of both ECOFIN and EFC in 2013. First, the Capital Requirement Directive IV (CRD IV) and the Capital Requirement Regulation (CRR) which are to form the basis for common rules on financial services in the EU were adopted in summer 2013, and regulations that are to provide grounds for the creation of a single supervisory mechanism, the first element of the banking union, were adopted in October 2013. The aim of the single supervisory mechanism is to ensure, based on rules common to all the EU, the safety and soundness of the EU banking sector, stability of the financial system, and unity of the internal market. Intensive work continued leading to an agreement on the single resolution mechanism, the second element of the banking union. When preparing for the membership in the euro area, the Bank of Lithuania also began preparations for the participation in the single supervisory mechanism.

The Bank of Lithuania participates in the work of the General Board of the European Systemic Risk Board (ESRB) and its Advisory technical Committee as well. The principle objective of the ESRB is to ensure effective macro-prudential supervision of the EU financial system. The macro-prudential policy has to be coordinated not only when threats for the financial stability of the entire EU arise, but also when national authorities take measures to reduce risks of internal financial imbalances, as measures used in one Member State may have effect on other Member States as well. In view of this, the ESRB adopted a recommendation on macro-prudential policy measures in 2013 by focusing on the identification of risks and threats within the EU financial system.

By ensuring the supervision of the financial market, the Bank of Lithuania actively participates in the work of European institutions responsible for macro-prudential oversight such as the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), and European Securities and Market Authority (ESMA) by addressing the issues relevant to the EU market and expressing properly the position of the Bank of Lithuania.

Cooperation with the IMF and Other International Institutions

In 2013, the Bank of Lithuanian continued close cooperation with the IMF and other international organisations, rating agencies, and national central banks. Particularly close cooperation was maintained with the IMF, in whose supreme management body — the Board of Governors — the Republic of Lithuania is represented by the Chairman of the Board of the Bank of Lithuania.

Lithuania's cooperation with the IMF is based on annual economic consultations under Article IV of the Articles of Agreement of the IMF. The Article IV Consultation Mission of the IMF worked in Lithuania in February 2013, and a regular semi-annual mission of the IMF experts was visiting Lithuania in September the same year. The IMF experts analysed Lithuania's economic situation, development trends, and situation in the financial sector. Lithuania's responsible economic policy in the last few years and the resilience of its financial system received a positive evaluation during the economic consultations held at the meeting of the Executive Board of the IMF in March 2013. The IMF also positively viewed Lithuania's aim to adopt euro in 2015, underlining the importance of the further fiscal consolidation and structural reforms.

Christine Lagarde, Managing Director of the IMF, came for a visit to Lithuania in July 2013. This was the first visit of such a high-ranking IMF official in the country in the last sixteen years. When in Lithuania, the IMF's managing director met with the management of the Bank of Lithuania and other government authorities and took part in the discussion "Economic Integration in Europe: Challenges and Possibilities", organised by the Bank of Lithuania and its partners.

The IMF and World Bank had their annual meetings in Washington in October 2011. Global economy perspectives were discussed during these meetings, as well as financial stability, general issues regarding the financial system and increasing the role of international financial institutions. During the Presidency of the EU Council, Lithuania (representing the EU and separately Nordic and Baltic countries) presented at the International Monetary and Finance Committee common positions of the EU and Nordic-Baltic Constituency by underlining that amid the recovery of the global economy the growth was still weak and that emerging positive trends continued to reflect significant challenges to fiscal sustainability and strengthening of the financial sector.

Issues of international macroeconomic environment, prospects, tuning up of monetary policy, and restructuring of the financial system dominated the agendas of the IMF and other international institutions in 2013. Much attention was given to strengthening of monitoring – first and foremost, to the analysis of non-traditional monetary policy, indirect effects of individual countries' economic policy on economic policy of other countries, and macro-prudential policy.

Lithuania represented the EU alongside with the European Commission and the ECB and participated in G20 meetings of finance ministers and central bank governors, and other events. Lithuania represented the EU during the discussions of international financial architecture and investment financing at G20 meetings. Representatives of the Bank of Lithuania contributed actively to the formation and presentation of a common EU position, took part in the meetings of the EU finance ministers and deputy governors of central banks and the International Finance Architecture Working Group.

Relations with Foreign Central Banks and Financial Supervisory Authorities

The major banks, insurance undertakings and branches of foreign banks and insurance undertakings in Lithuania's financial sector belong to large financial groups. Therefore, to supervise banks and insurance undertakings within these groups, the Bank of Lithuania regularly cooperates with the financial supervisory authorities of other countries. A particularly intensive cooperation is with representatives of the supervisory authorities of the financial sectors in Sweden and the Baltic States.

In addition, active cooperation links are maintained with colleges of supervisors. Representatives of the financial supervisory authorities of all the countries in which a certain banking or insurance group is operating take part in their work. These colleges are highly important for the supervision of banks and insurance undertakings: they share relevant information on the activities and performance of banks and their groups, economic situation in individual countries, discuss prospects of the supervision of financial institutions, and prepare joint supervisory strategies. In 2013, representatives of the Bank of Lithuania participated in the work of colleges of supervisors of banks, founded by the financial supervisory authorities of Denmark, Latvia, Norway, and Sweden, as well as the work of colleges of supervisors of insurance undertakings, founded by the supervisory authorities of the United Kingdom, Germany, Poland, and Sweden. Risk assessment of supervised units, bank resolve and recovery plans, as well as requests of banks for permission to replace the internal ratings-based credit risk assessment approach with the advanced approach to the assessment of operational risk remained major issues for the colleges of supervisors of banks. While colleges of supervisors of insurance undertakings focused mainly on the preparations for the implementation of the Solvency II Directive and the review process of the internal models for calculating capital requirements.

When inspecting subsidiaries of foreign banks, auditing foreign bank branches, and inspecting insurance undertakings that belong to EU insurance groups, the Bank of Lithuania cooperates with the financial sector supervisory authorities in other countries. It notifies them of planned inspections or audits and their results, exchange other relevant information with them. Foreign financial supervisory authorities share information about the results of inspections of parent banks and insurance undertakings carried by them.

Agreements were signed with insurance supervision authorities in Latvia and Estonia on exchange of information, on a quarterly basis, about insurance companies, which have branches in Lithuania and Latvia, and Lithuania, and Estonia, respectively. The agreement on cooperation and information exchange in the area of insurance supervision with the Ukraine was renewed in 2013.

III. ORGANISATION OF ACTIVITIES OF THE BANK OF LITHUANIA

Staff and Organisational Structure

Mission, Values and Ethics

After the structural reform of the Bank of Lithuania in 2012, a new model of the organisational structure was put in place by significantly reducing the number of layers in the management hierarchy and employees, and management staff; also, the three-year strategic plan of the Bank of Lithuania was updated and revised in 2013. It contains the institution's mission and values, strategic aims and goals.

The mission of the Bank of Lithuania is to pursue harmonized and sustainable economic development by implementing the monetary and macro-prudential policy, and fostering a sound and effective national financial system.

The Bank of Lithuania's vision is an innovative, proactive and open central bank, which uses optimal resources to achieve maximum benefits for the society.

The main principles of the Bank of Lithuania's activities are based on the following values:

- Adherence to the public interests: every decision taken has to serve public interests.
- Competence and quality: institutional decisions and assessment have to be governed by expert knowledge and good performance of the staff.
- Transparency of activities: a constant flow of objective and comprehensive information on bank's activities, explanations of and reasoning behind the decisions taken.

Ethics is regulated by the Code of Ethics for the Staff and by the Code of Ethics for the Board of the Bank of Lithuania. They establish the principles of conduct and the standards of professional ethics. The Codes are to ensure proper separation between public and private interests and observance of high professional ethical standards.

Staff

On 31 December 2013, the Bank of Lithuania had 596 employees (for 3 of them it was the last day of work, and 22 were employed on fixed-term contracts).[19] There were 303 employees actually working in the Banking, Economics and Financial Stability, Cash, and Supervision Services involved in the provision of key banking functions, and 289 employees in the organisational administrative management units, including divisions of physical security and transportation of valuables, IT services, internal audit, human resources, legal, and financial accounting. In 2013, the coefficient of employee turnover was 6.2 per cent. After the previously mentioned structural reform in 2013, the staff costs dropped by 26 per cent compared to 2012.

[19] The number of staff actually does not include 15 employees who were on maternity/paternity leave or unpaid leave during the period of their work at the ECB or the IMF.

The Bank of Lithuania's Board went through the renewal in 2013 as well: three members left the Board upon the expiry of their term of office, and two new members joined it so that the Bank of Lithuania's Board had a four-member Board at the end of 2013.

Twenty two of the Bank of Lithuania's employees hold doctoral degrees.

In 2013, 39 students were hired into the internship program in the Bank of Lithuania. During the survey of the youth organisation AIESEC, conducted among the Lithuanian higher school students and graduates, the Bank of Lithuania was named one of the most attractive organisations for students to undergo internship.

Management

In 2013, the Bank of Lithuania did not only formulate the new mission, vision and values, but also expended much effort in making the strategic management more effective. The three-year institutional aims of the Bank of Lithuania have been formulated into annual goals for structural units and aims for individual staff members:

- timely identification of structural problems of the financial system and ensuring their effective solution by employing macro prudential and other regulatory measures;
- growing into a competence centre capable of preparing high quality applied analysis that will help to adopt high quality decisions necessary for ensuring sustainable economic development;
- higher efficiency of cash circulation and settlement systems, and safety of transactions;
- striving for higher return on invested reserves managed by the bank;
- introduction and implementation of a new model for the operations of credit unions, and minimizing negative effects to the population by the development of fast loans;
- smooth implementation of the measures in the euro adoption plan, which are assigned to the Bank of Lithuania, and cooperation with and help to other institutions participating in the euro adoption process;
- growing into an attractive and competitive employer, after the implementation of a modern system of the management of human resources, with regard to the specifics of a central bank;
- being among three most effective central banks in the Nordic and Baltic region.

The efficiency of a clear and specific link between the institution's annual aims set by the Board and aims of every individual employee is controlled by setting up a new, in terms of quality, performance evaluation.

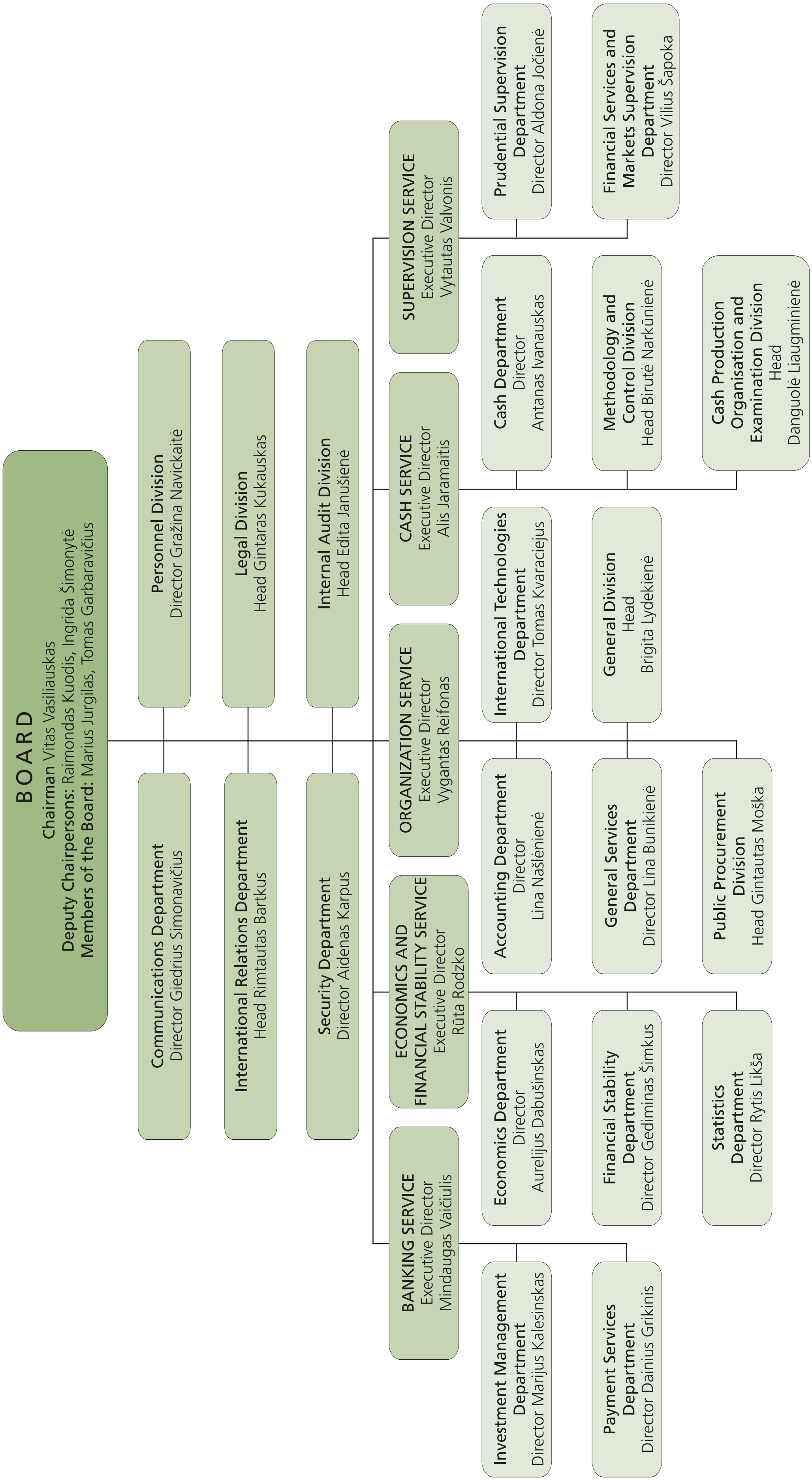
Staff Training and Development

Staff training in 2013 was organised with the aim of improving professional skills of the management and specialists. Nearly 4 per cent of the wage funds were allocated for skill improvement.

The staffs deepened their knowledge within their professional areas. Much attention was given to specialised training designed for employees of the ESCB members.

Structural units organised introductory training for their new staff members to learn about the Bank's structure and activities. Students interning at the Bank of Lithuania also attended the training.

Chart 31. Organisational chart



It is encouraged at the ESCB level to gain work experience through working at other central banks of the EU Member States. In three quarters of 2013, three staff members of the Bank of Lithuania worked at the ECB on short-term contracts during their unpaid leave from the Bank of Lithuania. They had an opportunity to acquire expert knowledge on issues of economics, international relations, market operations, and IS auditing. One staff member is working at the IMF now.

Vladas Jurgutis Scholarship and the Competition "New Economic Ideas"

The Vladas Jurgutis Scholarship was established in 1990. It is awarded to two best-performing full-time students of banking and finance at Lithuanian universities for one academic year. Candidates for the Scholarship are nominated by university faculties, which have banking and finance departments. Decisions on awarding the Scholarship are taken by the Board of the Bank of Lithuania.

The amount of the Scholarship is one minimum monthly wage. In 2013 the Vladas Jurgutis Scholarship was awarded to two students from Kaunas University of Technology and ISM University of Management and Economics for excellent academic performance and active participation in scientific activity.

The Bank of Lithuania organised in 2013 for the second time a competition of student research papers, under the name of "New Economic Ideas". Cash prizes were awarded to three students of the Economics Department of Vilnius University.

Transparency of Activities and Public Communication

To comply with the public reporting principle, the Bank of Lithuania uses various information means (information on its website, press releases, interviews with media, press conferences, surveys, presentation of new coins, answers to inquiries by residents) to ensure the transparency of its activities. This is a way to increase confidence in the central bank of the Republic of Lithuania and national financial system.

Twice a year, the Chairman of the Board submits reports to the Seimas of the Republic of Lithuania on the implementation of the Bank's primary objective, the situation in the financial market, and performance of the Bank's functions. Reports are also published on the website of the Bank of Lithuania.

To increase transparency of the operations of credit unions, the Bank of Lithuania started publishing in 2013 not only general data for the entire banking system and the credit union sector (as before), but also key operational indicators of every individual bank and credit union and information about their compliance with the prudential requirements.

After the suspension of *AB Ūkio bankas*, the Bank of Lithuania used various means to explain to the public in Lithuanian, English and Russian the reasons behind its decision, was presenting, as fast as possible, information relevant to the customers of the closed bank, opened a special telephone line for people to get information about their deposits and the deposit insurance system, payment cards, etc. Focusing on the information for depositors helped to ensure calm among the population regarding the restrictions imposed on the bank operations, and the stability of the national banking system. A similar information model but of a smaller scale was used after cancelling licenses of four credit unions.

A significant educational and enlightenment role is played by the Money Museum of the Bank of Lithuania. It has prepared and launched a special education program for younger school age students, called "Learn about the World of Money". In 2013, 35 thousand people visited the Money Museum in Vilnius and its exposition in the bank building in Kaunas, as well as various events organised there. The Money Museum of the Bank of Lithuania was recognised an exclusive tourism site and awarded the prise "Money Museum— the Most Friendly Museum in Vilnius" in a competition "Lithuanian destination of excellence 2013. Tourism for all". The competition was organised by the State Tourism Department of the Ministry of Economics of the Republic of Lithuania, under the auspices of the European Commission project EDEN. In another competition which was organised by Vilnius municipality and called "Vilnius Hospitality", the Money Museum was elected the most hospitable museum in Vilnius city. In 2013 the scientific research journal *MintWorld Compendium* included it into the five best museums of central banks around the world.

On the 20th anniversary of the litas, the Money Museum in cooperation with the Union of the Lithuanian Art Photographers and the Club of the Lithuanian Press Photographers organised an exhibition-competition "Money in Photography II" in Vilnius in June/July 2013.

The Bank of Lithuania prepares and distributes publications about its activities, the most important economic phenomena.

Table 12. Publications of the Bank of Lithuania in 2013

Report on the Implementation of the Primary Objective of the Bank of Lithuania, Performance of its Functions and the Situation in the Banking System (to be presented to the Seimas of the Republic of Lithuania twice a year)
Annual Report of the Bank of Lithuania 2012 (in Lithuanian and English)
Monthly Bulletin of the Bank of Lithuania (No 1 and 2, in Lithuanian and English)
Annual Financial Statements of the Bank of Lithuania. 2012 (Lithuanian and English)
Banking Statistics Yearbook 2012 (in Lithuanian and English)
Financial Stability Review 2013 (in Lithuanian and English)
Lithuanian Economic Review (quarterly, in Lithuanian and English)
Academic Journal *Monetary Studies* (biannual);
Working Paper Series publications (in English)
Thematic Paper Series (in Lithuanian)
Banking Activity Review (quarterly and annual; in Lithuanian and English)
Review of the Activities of Credit Unions and the Central Credit Union of Lithuania (quarterly; in Lithuanian and English)
Review of the Activities of Payment Institutions (quarterly; in Lithuanian; in English for Q4 only)
Review of the Activities of Electronic Money Institutions (quarterly; in Lithuanian; in English for Q4 only)
Review of Lithuania's Insurance Market (quarterly; in Lithuanian and English)
Review of Lithuania's 2nd Pillar and 3rd Pillar Pension Funds and the Market of Collective Investment Undertakings (quarterly, in Lithuanian; in English for Q4 only)
Review of Operational Results of Issuers (quarterly and annual; in Lithuanian)
Survey of the Financial Situation of Households with Loans (in Lithuanian and English)
Review of the Study of the Costs of Payment Services (annual; in Lithuanian and English)
Review of the Consumer Credit Market (annual; in Lithuanian)
Activities of Insurance Brokerage Companies (quarterly, in Lithuanian; in English for Q4 only)
Review of the Survey of Risks to Lithuania's Financial System (in Lithuanian and English)
Bank Lending Surveys (in Lithuanian and English)
Review of the Survey of Non-financial Enterprises on Business Financing (in Lithuanian and English)
Review of the Survey of the Financial Behaviour of Households (in Lithuanian and English)
Review of the Survey of Payment Service Consumption Habits of Lithuania's population (in Lithuanian and English)
Review of Activities of Insurance Brokerage Companies (quarterly; in Lithuanian; in English for Q4 only)
Review of Activities of Management Companies (quarterly; in Lithuanian; in English for Q4 only)
Review of Dispute Investigation (quarterly; in Lithuanian)
Booklets of collector (commemorative) litas coins to present the collector (commemorative) coins issued in 2012 (in Lithuanian and English)
Catalogue *Lithuanian Collector Coins 1993–2012* (in Lithuanian and English)

As a member of the ESCB, the Bank of Lithuania closely cooperates with ECB specialists; the following ECB publications in the Lithuanian language were prepared together with them in 2011: the ECB Annual Report 2012, editorials for ECB monthly bulletins, editorials and summaries for quarterly versions of the ECB bulletins, and Report of the European Systemic Risk Board 2012. Electronic versions of all these publications are available on the Bank of Lithuania's website.

IV. THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA 2013

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Independent Auditor's Report to the Seimas of the Republic of Lithuania

We have audited the accompanying financial statements of the Bank of Lithuania (hereinafter - the Bank), which comprise the balance sheet as at 31 December 2013, the statement of income for the year then ended and the explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Principles adopted by the Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 about 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 Bank'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 Bank'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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance for the year then ended in accordance with the Accounting Principles adopted by the Bank.

On behalf of Deloitte Lietuva, UAB

Veiko Hintsov
Partner

Jekaterina Jocienė
Lithuanian Certified Auditor
Licence No. 000436

Vilnius, Republic of Lithuania
28 March 2014

BALANCE SHEET OF THE BANK OF LITHUANIA

LTL millions

	Notes	31 December 2013	31 December 2012
ASSETS			
1. Gold	**1**	**563.98**	**811.02**
2. Claims on foreign institutions denominated in foreign currency		**20,053.93**	**21,381.27**
2.1. Receivables from the International Monetary Fund	**2**	532.63	551.71
2.2. Deposits, securities and other investments denominated in foreign currency	**3**	19,521.30	20,829.55
3. Claims on domestic institutions denominated in foreign currency	**4**	**168.60**	**142.19**
4. Securities of domestic institutions held for monetary policy purposes denominated in litas	**5**	**18.46**	**131.73**
5. Other assets		**382.39**	**410.03**
5.1. Tangible and intangible fixed assets	**6**	105.78	108.93
5.2. Investments into non-marketable equity instruments	**7**	17.32	17.51
5.3. Off-balance-sheet instruments revaluation differences	**17**	86.64	95.49
5.4. Accruals and prepaid expenses	**8**	153.94	174.70
5.5. Sundry	**9**	18.71	13.40
Total		**21,187.36**	**22,876.24**
LIABILITIES			
6. Banknotes and coins in circulation	**10**	**11,902.07**	**11,416.52**
7. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	**11**	**4,519.17**	**4,691.56**
8. Liabilities to other domestic institutions denominated in litas	**12**	**419.24**	**423.60**
9. Liabilities to foreign institutions denominated in litas	**13**	**32.70**	**25.36**
10. Liabilities to domestic institutions denominated in foreign currency	**14**	**1,954.74**	**3,612.59**
11. Liabilities to foreign institutions denominated in foreign currency	**14**	**37.03**	**33.32**
12. Counterpart of special drawing rights allocated by the International Monetary Fund	**2**	**532.24**	**551.30**
13. Items in the course of settlement	**15**	**26.34**	**113.28**
14. Other liabilities	**16**	**10.16**	**2.86**
14.1. Off-balance-sheet instruments revaluation differences	**17**	8.25	0.31
14.2. Accruals and income collected in advance		1.40	1.52
14.3. Sundry		0.51	1.03
15. Provisions	**18**	**49.48**	**7.48**
16. Revaluation accounts	**19**	**285.99**	**580.12**
17. Capital	**20**	**1,397.56**	**1,397.56**
17.1. Authorised capital		200.00	200.00
17.2. Reserve capital		1,197.56	1,197.56
18. Profit for the year	**30**	**20.64**	**20.67**
Total		**21,187.36**	**22,876.24**

PROFIT AND LOSS ACCOUNT OF THE BANK OF LITHUANIA

LTL millions

	Notes	2013	2012
1.1. Interest income	**21**	96.94	186.03
1.2. Interest expense	**22**	(1.37)	(10.77)
1. Net interest income		**95.57**	**175.26**
2.1. Realised gains (losses) arising from financial operations	**23**	46.51	(66.50)
2.2. Unrealised losses from revaluation	**24**	(28.56)	(1.13)
2.3. Transfer to provisions for risks		(42.00)	–
2. Net result of financial operations, revaluation losses and provisions for risks		**(24.06)**	**(67.63)**
3.1. Fees and commissions income		21.06	18.21
3.2. Fees and commissions expense		(3.04)	(3.00)
3. Net income from fees and commissions	**25**	**18.02**	**15.21**
4. Dividend income	**26**	**14.98**	**1.94**
5. Other income		**1.18**	**5.58**
TOTAL NET INCOME		**105.69**	**130.36**
6. Staff costs	**27**	**(46.36)**	**(62.82)**
7. Administrative expenses	**28**	**(23.47)**	**(21.20)**
8. Depreciation and amortisation of tangible and intangible fixed assets	**6**	**(8.30)**	**(11.02)**
9. Banknote and coin production services and circulation expenses	**29**	**(6.92)**	**(14.66)**
PROFIT FOR THE YEAR	**30**	**20.64**	**20.67**

The Annual Financial Statements 2013 of the Bank of Lithuania were approved on 28 March 2014 by Resolution No. 03-37 of the Board of the Bank of Lithuania.

Chairman of the Board — Vitas Vasiliauskas

Director of the Accounting Department of the Organization Service — Lina Našlėnienė

EXPLANATORY NOTES

FUNCTIONS OF THE BANK OF LITHUANIA

The Bank of Lithuania shall perform the following functions:

– 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;

– manage the foreign reserves of the Bank of Lithuania;

– act as an agent of the State Treasury;

– perform financial market supervision;

– investigate disputes between consumers and financial market participants out of court;

– encourage sound and efficient operation of payment and securities settlement systems;

– collect monetary, banking and balance of payments statistics, as well as data of the financial and related statistics of the Republic of Lithuania, implement standards on the collection, reporting and dissemination of said statistics and compile the Balance of Payments of the Republic of Lithuania.

After Lithuania's accession to the European Union (EU) on 1 May 2004, the Bank of Lithuania became 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 THE ANNUAL FINANCIAL STATEMENTS

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, which is in line with the accounting and financial reporting guidelines established by the European Central Bank (ECB) to the extent that such requirements are applicable to the national central bank of a Member State that has not yet adopted the euro. If a specific accounting treatment is not laid down in the Accounting Policy of the Bank of Lithuania and in the absence of the decisions and instructions to the contrary by the ECB, the Bank of Lithuania shall follow the principles of the international accounting and financial reporting 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 comparable financial data for 2012 have been presented.

Due to rounding, the totals included in the Balance Sheet, Profit and Loss Account and Notes of the Bank of Lithuania may not equal the sum of the individual figures.

ACCOUNTING POLICY

GENERAL PRINCIPLES

In managing financial accounting and drawing up 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, marketable securities and other on-balance-sheet and off-balance-sheet foreign reserves assets and liabilities (hereinafter — financial items) denominated in foreign currency are recorded in financial accounting at acquisition cost (transaction price), and the Annual Financial Statements are presented at the official exchange rate[1] and market price, except for securities classified as held to maturity.

Results arising from revaluation of gold holding and foreign currency (on a currency-by-currency basis) at official rates are accounted for separately. Results arising from revaluation of marketable debt and equity securities (on a code-by-code basis), future contracts and forward transactions in securities (on an item-by-item basis) at market prices are accounted for separately as well.

Unrealised revaluation loss arising at the end of the financial year from revaluation of a separate financial item at market price or official exchange rate and exceeding previous unrealised revaluation gain registered in a corresponding revaluation account, is recognised as the expense of the reporting financial year. Unrealised loss taken to Profit and Loss Account cannot be reversed in subsequent years against new revaluation gain of the same financial item resulting from changes in market price and official exchange rate or offset by the revaluation gain of another type of the financial item.

Unrealised revaluation gain arising at the end of the financial year from the revaluation of a separate financial item at market price and official exchange rate is presented at revaluation accounts.

The average rate and average price 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 the realised and unrealised results.

Income and expense are recognised in the accounting period in which they are earned or incurred and not in the period in which they are received or paid.

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 one Troy ounce. This price is converted into litas at the official exchange rate of the litas against the US dollar on the day of revaluation.

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 the recognition of unrealised revaluation loss on gold at year-end, the average cost of gold is correspondingly adjusted to the gold market price and US dollar exchange rate 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.

[1] *Official exchange rate — the official exchange rate of the litas against the euro or exchange rate of the litas against foreign currency determined by the Bank of Lithuania.*

FOREIGN CURRENCY

Financial items denominated in foreign currency are revalued on each business day at the official exchange rate prevailing on that day.

Official exchange rates of the litas against major foreign currencies determined by the Bank of Lithuania

Litas (LTL) per unit

Currency	Code	31 December 2013	31 December 2012
Euro	EUR	3.4528	3.4528
Swiss franc	CHF	2.8155	2.8562
US dollar	USD	2.5098	2.6060
100 Japanese yen	JPY	2.3823	3.0186
Special drawing rights (SDR)	XDR	3.8782	4.0171

The average rate of foreign currency is recalculated on a daily basis in case of an increase of a respective foreign currency position.

In the event of recognition of unrealised revaluation loss on a separate 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.

FOREIGN EXCHANGE TRANSACTIONS

Foreign currency to be received or paid, according to foreign exchange spot, forward and swap transactions, influences a respective foreign currency's position on a trade date 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 is accrued on a daily basis over the remaining duration of the transaction.

MARKETABLE SECURITIES

Marketable debt and equity securities are recorded in on-balance-sheet accounts at acquisition cost on the settlement date.

The revaluation of marketable securities (other than those debt securities classified as held-to-maturity) is performed on the last business day of each month at mid-market prices prevailing at the revaluation date. Revaluation results of securities related with changes of the market price of securities and the official exchange rate of the foreign currency are accounted for in separate revaluation accounts.

Debt securities classified as held-to-maturity are accounted at cost subject to impairment and taking into account amortised premiums and discounts.

The average price of each issue of securities is recalculated at the end of the business day in consideration of all purchases of the same issue of securities made during the day and their average acquisition costs. Realised gain (loss) for the same day sales of these securities is calculated according to this new average cost.

Coupon interest, purchased together with debt security, is presented in a separate balance sheet item as other assets and is not included in the acquisition cost of the security.

The amount of dividend, bought together with equity security, is included in the acquisition cost of the security. Dividend bought in the period when the dividend receivable is announced is presented in a separate balance sheet item as other assets.

The difference between the debt security acquisition cost and its nominal value — discount or premium — is recognised as income or expense according to the straight-line method on a daily basis from the settlement date of purchase transaction to the maturity date or settlement date of sale transaction.

Discount on non-coupon bearing debt securities is amortized according to the internal rate of return (IRR) method and discount or premium on coupon bearing debt securities is amortized according to the straight-line method.

If at the end of the financial year unrealised revaluation loss on valuation of a separate type of securities is recognised as expense, the average cost of such issue of securities is adjusted according to its market price prevailing on the last business day of the financial year.

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 at the forward price of the transaction. Securities to be purchased or sold under these transactions are revalued on the last business day of each month at forward market price.

On the settlement date of forward transactions in securities, purchases or sales of the securities are recorded on the on-balance-sheet accounts at the actual market price, and the difference between this price and the forward price of the transaction is recognised as realised income or expense.

NON-MARKETABLE EQUITY INSTRUMENTS

Non-marketable equity instruments are long-term investments into equity instruments held for the specific purposes of the Bank of Lithuania 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. They are recorded at acquisition cost.

REVERSE TRANSACTIONS

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

Reverse repurchase agreements are recorded as collateralised outward loans on the asset side of the balance sheet. The collateral acquired during transactions period is not reported 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 over the remaining duration of the transaction.

INTEREST RATE TRANSACTIONS

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

Interest rate swaps are recorded in off-balance-sheet accounts at notional amount from the trade date to the closing or maturity date. These transactions are revalued at market price on the last business day of a month. Unrealised loss recognised as expense at the end of financial year is presented as write downs on the balance sheet liabilities accounts and is subject to linear amortisation till the maturity date of the transaction. Interest income and interest expense is accrued on a daily basis over the remaining duration of the transaction.

TANGIBLE AND INTANGIBLE FIXED ASSETS

In 2013, following the change in the Accounting Policy of the Bank of Lithuania, one of the tangible fixed assets' recognition criteria was changed: tangible fixed assets include such tangible items whose acquisition cost (including VAT) is no less than LTL 7,000 (LTL 2,000 in 2012, LTL 500 before 2012) and whose useful life is longer than one year. The Museum funds, pieces of art and tangible assets included into the list of historical and art valuables are also treated as tangible fixed assets with no regard to their acquisition cost. From 2013 intangible fixed assets include items without physical substance whose useful life is no less than one year and whose acquisition cost is no less LTL 7,000 (earlier intangible assets, regardless of the cost, were recorded as fixed). 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 estimated useful life of the asset. Assets acquired free of charge are booked at the value indicated in the good delivery note or, when the value is not indicated, at the value not exceeding the market value of the assets. The value of the tangible and intangible fixed assets acquired free of charge is recognised as income accordingly to their depreciation (amortisation).

Depreciation (amortisation) rates of tangible and intangible fixed assets

Fixed assets	Annual rate, %
Tangible assets	
Buildings and structures	2.5–10
Cash count and computer equipment	8–50
Vehicles	20
Furniture, office equipment and other fixed assets	3–50
Intangible assets	25–50

If there are signs of a significant decline in the market value of real estate, then at the end of the financial year the acquisition cost of such assets is reduced by the amount of impairment loss.

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 of 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.

RECOGNITION OF INCOME AND EXPENSE

Interest income and expense, related to financial items denominated in foreign currency (including premiums and discounts of securities) are calculated and booked daily.

Realised gain and loss arising from financial items denominated in foreign currency are taken to the Profit and Loss Account on the trade date, except for the realised gain and loss on securities which are recognised on the settlement date.

Unrealised revaluation gain is not recognised as income and is presented in revaluation accounts. Unrealised revaluation loss, exceeding previous revaluation gain related to the corresponding financial item, is taken to the Profit and Loss Account at year-end.

Dividend of marketable equity instruments is booked upon its announcement.

Interest income and expense related to financial assets and liabilities denominated in litas are booked at least monthly. Other income and expense of the year denominated in litas are booked till the year-end.

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 the balance sheet date and therefore the amounts reported in the Annual Financial Statements have to be adjusted.

No adjustment is made for the data 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 of such importance that their non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements are disclosed in the Explanatory Notes to the Annual Financial Statements.

RECLASSIFICATION

In 2013 reclassifications in the structure of the Balance Sheet and Profit and Loss Account of the Bank of Lithuania were related to the disclosure of announced dividend, bought with marketable equity securities, as well as of provisions related to liabilities to the staff. Thereafter following the principles of consistency and comparability the respective comparable amounts of 2012 have been adjusted.

LTL millions

Balance Sheet and Profit and Loss Account items	31 December 2012 balances as published in 2012	Adjustment owing to reclassification	31 December 2012 balances as published in 2013
Accruals and prepaid expenses	171.71	2.99	174.70
Sundry (assets)	16.39	(2.99)	13.40
Sundry (liabilities)	8.51	(7.48)	1.03
Provisions	–	7.48	7.48
Staff costs	(58.25)	(4.57)	(62.82)
Administrative expenses	(25.77)	4.57	(21.20)

NOTES

Note 1. Gold

	31 December 2013	31 December 2012
Gold holdings in:		
Troy ounces	187,026.59	187,026.59
Kilograms	5,817.18	5,817.18
Price of one Troy ounce, USD	1,201.50	1,664.00
Value of gold, LTL millions	**563.98**	**811.02**

As at 31 December 2013 the entire amount of gold was held in a foreign central bank. The fall of the gold price in financial markets in 2013 resulted in the decrease of the value of gold.

Note 2. Receivables from the International Monetary Fund

LTL millions

	31 December 2013	31 December 2012
Reserve tranche position with the International Monetary Fund	0.13	0.14
Balance in special drawing rights account with the International Monetary Fund	532.50	551.58
Total	**532.63**	**551.71**

The reserve tranche position with 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.

Reserve tranche position with the International Monetary Fund

SDR millions

	31 December 2013	31 December 2012
Lithuania's quota in the IMF (total value)	183.90	183.90
Claims of the IMF corresponding to the promissory notes of the Government of the Republic of Lithuania in litas	(183.36)	(183.37)
IMF accounts with the Bank of Lithuania in litas	(0.50)	(0.49)
Reserve tranche position with the IMF	**0.03**	**0.03**

As at 31 December 2013 the value of the quota of Lithuania in the IMF totalled SDR 183.90 million, the major part of which is secured by the non-interest-bearing promissory notes denominated in litas and issued by the Government of the Republic of Lithuania.

The major part of the SDR balance in the SDR account with the IMF managed by the Republic of Lithuania is comprised of SDR 137.24 million (LTL 532.24 million) allocated by the IMF in 2009, the counterpart of which is disclosed under the balance sheet of the Bank of Lithuania liability item "Counterpart of Special Drawing Rights allocated by the International Monetary Fund". The interest payable and receivable on SDR funds coincide.

Note 3. Deposits, securities and other investments denominated in foreign currency

LTL millions

	31 December 2013	31 December 2012
Debt securities	13,671.57	12,789.61
Accounts	3,387.08	5,137.99
Claims on the ECB (TARGET2[2] account)	1,212.19	2,658.52
Marketable equity securities	823.38	242.53
Fixed-term deposits	345.28	–
Reverse repurchase agreements	81.80	0.90
Total	**19,521.30**	**20,829.55**

The item "Marketable equity securities" presents the investments in exchange traded funds, which replicate corporate bonds' or equities' indexes. As at the end of 2013 investment replicating equity securities' indexes amounted to LTL 69.33 million.

Liabilities of the Bank of Lithuania to participants of TARGET2 related to the claims of the Bank of Lithuania on the ECB arising due to operations performed via TARGET2 are presented in Note 14.

The breakdown of deposits, securities and other investments by currency is presented in Note 31.

Breakdown of deposits, securities and other investments denominated in foreign currency by the economic area of residence of the issuer and counterparty

LTL millions

	31 December 2013	31 December 2012
Euro area EU Member States	13,398.22	14,852.42
Non-euro area EU Member States	1,591.72	1,908.39
Swiss Confederation	2,204.52	2,205.20
Japan	1,557.19	1,148.07
International financial institutions	432.22	359.45
Other countries	337.43	356.02
Total	**19,521.30**	**20,829.55**

Breakdown of deposits, securities and other investments denominated in foreign currency by maturity

LTL millions

	31 December 2013	31 December 2012
On demand	4,599.27	7,796.51
Up to 1 year	7,947.69	6,074.15
1–3 years	1,757.60	4,323.42
3–5 years	2,190.28	1,743.76
Over 5 years	2,203.06	649.18
Without term	823.38	242.53
Total	**19,521.30**	**20,829.55**

[2] *TARGET2 is a Trans-European Automated Real-time Gross settlement Express Transfer system operating on the basis of a single shared platform and providing harmonised services according to a unified price system.*

Note 4. Claims on domestic institutions denominated in foreign currency

LTL millions

	31 December 2013	31 December 2012
Securities of the Government of the Republic of Lithuania, other than those classified as held-to-maturity	126.07	46.60
Securities of the Government of the Republic of Lithuania, classified as held-to-maturity	42.50	95.55
Claims on domestic credit institutions	0.03	0.04
Total	**168.60**	**142.19**

Securities of the Government of the Republic of Lithuania were acquired in the secondary market. As at 31 December 2013 the market value of securities classified as held-to-maturity amounted to LTL 46.08 million.

Note 5. Securities of domestic institutions held for monetary policy purposes denominated in litas

This balance sheet item presents securities purchased in years 2011–2012 during securities purchase auctions arranged for regulation of the liquidity purposes of the banking system. These securities are presented at market value. In 2013 the Bank of Lithuania earned LTL 1.90 million (LTL 6.48 million in 2012) in interest income on the securities purchased in these auctions.

LTL millions

	31 December 2013	31 December 2012
Securities of the Government of the Republic of Lithuania	18.46	131.73
Total	**18.46**	**131.73**

Compared with 31 December 2012, the balance of the securities of the Government of the Republic of Lithuania decreased due to the redemption of several issues in 2013.

Note 6. Tangible and intangible fixed assets

LTL millions

	Tangible assets				Intangible assets (including assets under construction)	**Total**
	Buildings and construction in progress	Cash count and computer equipment (including asset under construction)	Vehicles	Other tangible assets (including asset under construction)		
Acquisition cost as at 31 December 2012	125.46	59.19	5.60	27.54	17.61	**235.41**
Additions in 2013	–	5.11	–	0.36	1.34	**6.81**
Disposals in 2013	(0.08)	(5.90)	–	(4.89)	(0.60)	**(11.48)**
Acquisition cost as at 31 December 2013	125.38	58.40	5.60	23.02	18.34	**230.74**
Accumulated depreciation as at 31 December 2012	(35.78)	(48.15)	(5.22)	(20.53)	(16.81)	**(126.48)**
Depreciation in 2013	(3.00)	(3.79)	(0.39)	(0.88)	(0.26)	**(8.30)**
Depreciation of disposed assets in 2013	0.08	4.98	–	4.16	0.60	**9.82**
Accumulated depreciation as on 31 December 2013	(38.69)	(46.94)	(5.60)	(17.26)	(16.47)	**(124.96)**
Net carrying amount as at 31 December 2013	**86.69**	**11.46**	**–**	**5.76**	**1.88**	**105.78**
Net carrying amount as at 31 December 2012	**89.68**	**11.05**	**0.39**	**7.01**	**0.80**	**108.93**

The effect of changes in the Accounting Policy on the recognition criteria of tangible and intangible fixed assets was immaterial, therefore the comparative information for 2012 has not been adjusted.

The Bank of Lithuania has not concluded any transactions with the mortgage of tangible assets of the Bank of Lithuania.

Note 7. Investments into non-marketable equity instruments

LTL millions

	31 December 2013	31 December 2012
Paid-up share of the capital of the ECB	5.74	5.93
Bank for International Settlements shares	11.51	11.51
SWIFT shares	0.07	0.07
Total	**17.32**	**17.51**

The Bank of Lithuania is a member of the ESCB. In accordance with Article 28 of the Statute of the ESCB and of the ECB, the Bank of Lithuania is the subscriber to the capital of the ECB. Shares of the national central banks in the subscribed capital of the ECB depend on the established key for the ECB capital subscription, which is adjusted in accordance with Article 29 of the Statute of the ESCB and of the ECB. Given the accession of Croatia to the EU on 1 July 2013, the ECB's capital key was adjusted. Following this adjustment the share of the Bank of Lithuania in the capital of the ECB comprises 0.4093 per cent (0.4256% before the adjustment) and the part of the share in the capital of the ECB amounting to EUR 0.06 million was paid back to the bank of Lithuania.

Key for subscription of the capital of the European Central Bank

Per cent

Central bank	Until 1 July 2013	From 1 July 2013
Nationale Bank van België / Banque Nationale de Belgique	2.4256	2.4176
Deutsche Bundesbank	18.9373	18.7603
Eesti Pank	0.1790	0.1780
Banc Ceannais na hÉireann / Central Bank of Ireland	1.1107	1.1111
Bank of Greece	1.9649	1.9483
Banco de España	8.3040	8.2533
Banque de France	14.2212	14.1342
Banca d'Italia	12.4966	12.4570
Central Bank of Cyprus	0.1369	0.1333
Banque centrale du Luxembourg	0.1747	0.1739
Bank Ċentrali ta'Malta / Central Bank of Malta	0.0632	0.0635
De Nederlandsche Bank	3.9882	3.9663
Oesterreichische Nationalbank	1.9417	1.9370
Banco de Portugal	1.7504	1.7636
Banka Slovenije	0.3288	0.3270
Národná banka Slovenska	0.6934	0.6881
Suomen Pankki – Finlands Bank	1.2539	1.2456
Subtotal for euro area NCBs	**69.9705**	**69.5581**
Българска народна банка (Bulgarian National Bank)	0.8686	0.8644
Česká národní banka	1.4472	1.4539
Danmarks Nationalbank	1.4835	1.4754
Hrvatska narodna banka	–	0.5945

Key for subscription of the capital of the European Central Bank
continued

Central bank	Until 1 July 2013	From 1 July 2013
Latvijas Banka	0.2837	0.2742
Lietuvos bankas	0.4256	0.4093
Magyar Nemzeti Bank	1.3856	1.3740
Narodowy Bank Polski	4.8954	4.8581
Banca Naţională a României	2.4645	2.4449
Sveriges Riksbank	2.2582	2.2612
Bank of England	14.5172	14.4320
Subtotal for non-euro area NCBs	**30.0295**	**30.4419**
Total	**100.0000**	**100.0000**

In accordance with Article 29 of the Statute of the ESCB and of the ECB, the shares of the national central banks in the subscribed capital of the ECB are adjusted every five years on the basis of population and GDP data provided by the European Commission. Such adjustment became effective on the post-balance-sheet date from 1 January 2014 and respectively the share of the Bank of Lithuania in the subscribed capital of the ECB comprises 0.4132 per cent.

As Lithuania does not participate in the euro area, the transitional provisions of Article 47 of the Statute of the ESCB and of the ECB shall apply. According to these provisions, the Bank of Lithuania paid up 3.75 per cent of its subscribed capital of the ECB. As a non-euro area national central bank, the Bank of Lithuania is not entitled to receive any share of the distributable profits of the ECB, nor is it liable to fund any loss of the ECB.

Distribution of the subscribed and paid-up capital of the European Central Bank
Euro

Central bank	Subscribed capital until 1 July 2013	Paid-up capital until 1 July 2013	Subscribed capital from 1 July 2013	Paid-up capital from 1 July 2013
Nationale Bank van België / Banque Nationale de Belgique	261,010,384.68	261,010,384.68	261,705,370.91	261,705,370.91
Deutsche Bundesbank	2,037,777,027.43	2,037,777,027.43	2,030,803,801.28	2,030,803,801.28
Eesti Pank	19,261,567.80	19,261,567.80	19,268,512.58	19,268,512.58
Banc Ceannais na hÉireann / Central Bank of Ireland	119,518,566.24	119,518,566.24	120,276,653.55	120,276,653.55
Bank of Greece	211,436,059.06	211,436,059.06	210,903,612.74	210,903,612.74
Banco de España	893,564,575.51	893,564,575.51	893,420,308.48	893,420,308.48
Banque de France	1,530,293,899.48	1,530,293,899.48	1,530,028,149.23	1,530,028,149.23
Banca d'Italia	1,344,715,688.14	1,344,715,688.14	1,348,471,130.66	1,348,471,130.66
Central Bank of Cyprus	14,731,333.14	14,731,333.14	14,429,734.42	14,429,734.42
Banque centrale du Luxembourg	18,798,859.75	18,798,859.75	18,824,687.29	18,824,687.29
Bank Ċentrali ta'Malta / Central Bank of Malta	6,800,732.32	6,800,732.32	6,873,879.49	6,873,879.49
De Nederlandsche Bank	429,156,339.12	429,156,339.12	429,352,255.40	429,352,255.40
Oesterreichische Nationalbank	208,939,587.70	208,939,587.70	209,680,386.94	209,680,386.94
Banco de Portugal	188,354,459.65	188,354,459.65	190,909,824.68	190,909,824.68
Banka Slovenije	35,381,025.10	35,381,025.10	35,397,773.12	35,397,773.12
Národná banka Slovenska	74,614,363.76	74,614,363.76	74,486,873.65	74,486,873.65
Suomen Pankki – Finlands Bank	134,927,820.48	134,927,820.48	134,836,288.06	134,836,288.06
Subtotal for euro area NCBs	**7,529,282,289.35**	**7,529,282,289.35**	**7,529,669,242.48**	**7,529,669,242.48**
Българска народна банка (Bulgarian National Bank)	93,467,026.77	3,505,013.50	93,571,361.11	3,508,926.04

Distribution of the subscribed and paid-up capital of the European Central Bank
continued

Central bank	Subscribed capital until 1 July 2013	Paid-up capital until 1 July 2013	Subscribed capital from 1 July 2013	Paid-up capital from 1 July 2013
Česká národní banka	155,728,161.57	5,839,806.06	157,384,777.79	5,901,929.17
Danmarks Nationalbank	159,634,278.39	5,986,285.44	159,712,154.31	5,989,205.79
Hrvatska narodna banka	–	–	64,354,667.03	2,413,300.01
Latvijas Banka	30,527,970.87	1,144,798.91	29,682,169.38	1,113,081.35
Lietuvos bankas	45,797,336.63	1,717,400.12	44,306,753.94	1,661,503.27
Magyar Nemzeti Bank	149,099,599.69	5,591,234.99	148,735,597.14	5,577,584.89
Narodowy Bank Polski	526,776,977.72	19,754,136.66	525,889,668.45	19,720,862.57
Banca Naţională a României	265,196,278.46	9,944,860.44	264,660,597.84	9,924,772.42
Sveriges Riksbank	242,997,052.56	9,112,389.47	244,775,059.86	9,179,064.74
Bank of England	1,562,145,430.59	58,580,453.65	1,562,265,020.29	58,584,938.26
Subtotal for non-euro area NCBs	**3,231,370,113.23**	**121,176,379.25**	**3,295,337,827.14**	**123,575,168.51**
Total	**10,760,652,402.58**	**7,650,458,668.60**	**10,825,007,069.62**	**7,653,244,410.99**

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with 1,070 shares, the acquisition cost of which is LTL 11.51 million and the nominal value is SDR 5,000 per share. The Bank of Lithuania has paid 25 per cent of the value of these shares. In 2013 the Bank of Lithuania received dividends of 1.34 LTL million for BIS shares (LTL 1.37 million in 2012).

The Bank of Lithuania holds seven SWIFT shares with the acquisition cost of LTL 71,615. Dividends are not paid for these shares.

Note 8. Accruals and Prepaid Expenses

LTL millions

	31 December 2013	31 December 2012
Accrued interest income	104.45	105.78
Accrued coupon on debt securities	103.48	105.03
Accrued interest on financial derivatives	0.95	0.74
Other accrued interest	0.02	0.01
Coupon purchased with debt securities	44.13	62.58
Dividend purchased with equity securities	1.28	2.99
Other accrued income	2.55	1.79
Prepaid expenses	1.53	1.56
Total	**153.94**	**174.70**

Note 9. Sundry

LTL millions

	31 December 2013	31 December 2012
Loans to Bank of Lithuania staff	9.52	11.65
Dividend receivable	8.04	0.58
Inventories	0.96	0.92
Advances and other receivables	0.19	0.24
Total	**18.71**	**13.40**

Pursuant to a resolution of the Board of the Bank of Lithuania, loans to the Bank of Lithuania staff were no longer to be issued as of 27 August 2009.

The receivables of the Bank of Lithuania were impaired, resulting in LTL 0.36 million due to the insolvency of services' counterparties.

Note 10. Banknotes and coins in circulation

This balance sheet item presents the nominal value of litas banknotes and coins in circulation. In 2013 the value of banknotes and coins put into circulation by the Bank of Lithuania was LTL 2,094.68 million (LTL 3,066.91 million in 2012) and the value of those withdrawn from circulation was LTL 1,609.14 million (LTL 2,477.41 million in 2012) including collector (commemorative) coins and numismatic sets of coins.

Banknotes and coins in circulation

LTL millions

	31 December 2013	31 December 2012
Banknotes	11,621.49	11,160.56
Circulation coins, including numismatic sets of circulation coins	264.46	241.44
Collector (commemorative) coins and sets of these coins	16.12	14.52
Total	**11,902.07**	**11,416.52**

Note 11. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas

LTL millions

	31 December 2013	31 December 2012
Accounts (including required minimum reserves)	4,519.17	4,691.56
Total	**4,519.17**	**4,691.56**

This item consists of the holdings of required minimum reserves held by commercial banks in their current accounts with the Bank of Lithuania. As of 24 January 2013 credit institutions have been subject to 3 per cent required reserves ratio (4 per cent required reserve ratio in 2012). The Bank of Lithuania pays interest for required reserves applying interest rates for the deposit facility set by the ECB (in 2012 interest was paid for the part of commercial bank required reserves that did not exceed the required reserve ratio used by the ECB for that period by applying marginal interest rates of the main refinancing operations of the Eurosystem set by the ECB) (see Note 22). In 2013 the interest rate used for calculations of interest paid by the Bank of Lithuania fluctuated from 0 to 0.75 per cent (in 2012 fluctuated from 0.75 to 1.00%).

Note 12. Liabilities to other domestic institutions denominated in litas

LTL millions

	31 December 2013	31 December 2012
Liabilities to government institutions	346.26	346.37
Liabilities to other domestic institutions	72.99	77.23
Total	**419.24**	**423.60**

Note 13. Liabilities to foreign institutions denominated in litas

LTL millions

	31 December 2013	31 December 2012
Balances in current accounts of international organisations	32.64	25.23
Balances in current accounts of foreign banks	0.06	0.12
Total	**32.70**	**25.36**

Note 14. Liabilities denominated in foreign currency

Liabilities to domestic institutions denominated in foreign currency

LTL millions

	31 December 2013	31 December 2012
Balances in current accounts of government institutions	879.61	3,572.95
Fixed-term deposits of government institutions	566.26	–
Balances in current accounts of TARGET2 participants	499.67	39.65
Fixed-term deposits of government institutions	9.20	–
Total	**1,954.74**	**3,612.59**

Liabilities to foreign institutions denominated in foreign currency

LTL millions

	31 December 2013	31 December 2012
Balances in current accounts of international financial institutions	37.03	33.32
Total	**37.03**	**33.32**

Breakdown of liabilities denominated in foreign currency by maturity

LTL millions

	31 December 2013	31 December 2012
On demand	1,416.18	3,645.78
Up to 1 year	575.46	–
Without term	0.13	0.14
Total	**1,991.77**	**3,645.91**

Note 15. Items in the course of settlement

The balance of items in the course of settlement consists of cash management operations with commercials banks in the course of settlement.

Note 16. Other liabilities

LTL millions

	31 December 2013	31 December 2012
Accruals and income collected in advance	1.40	1.52
Accrued interest expenses	0.33	0.44
Income collected in advance	1.07	1.08
Other liabilities	0.51	1.03
Off-balance-sheet instruments revaluation differences (see Note 17)	8.25	0.31
Total	**10.16**	**2.86**

Note 17. Off-balance-sheet instruments revaluation differences

Off-balance-sheet instruments revaluation differences represent the revaluation due to changes in the official exchange rate of off-balance-sheet accounted foreign exchange payables and receivables and the revaluation due to market price movements for forward transactions in securities and interest rate transactions.

Off-balance-sheet instruments revaluation differences

LTL millions

	31 December 2013		31 December 2012	
	Gain	Loss	Gain	Loss
Foreign exchange swap transactions	86.47	8.18	95.34	–
Forward transaction in securities	–	–	0.16	–
Interest rate swap transactions	0.16	0.07	–	0.31
Total	**86.64**	**8.25**	**95.49**	**0.31**

Note 18. Provisions

LTL millions

	31 December 2013	31 December 2012
Provisions for risks	42.00	–
Provisions related to liabilities to the staff	7.48	7.48
Total	**49.48**	**7.48**

The Board of the Bank of Lithuania, seeking to have the sufficient financial resources to cover the risks related to the management of financial assets and to safeguard the capital of the Bank of Lithuania and real value of financial assets, decided to establish provisions for expected foreign exchange rate, interest rate and credit risks (hereinafter — provisions for risks). These provisions shall be made under the provisions of the Guideline of the ECB on legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) and the provisions of the Accounting Policy of the Bank of Lithuania approved by the Board (based on the above mentioned Guideline).

The demand for the provisions for risks is calculated based on assessed level of risk exposure of the Bank of Lithuania and taking into account the amount of existing and forecasted financial assets of the Bank of Lithuania as well as developments of interest rates in financial markets (see Note 31).

The Board of the Bank of Lithuania, taking into account the abovementioned factors and considering the assessed strategy for reaching the set amount of provisions for risks in the long run, deemed it appropriate in 2013 to establish in 2013 LTL 42.00 million provisions for risks. The size and continuing requirement for this provision is reviewed annually, based on the adopted risk exposure assessment model.

Risk provisions may be used for the coverage of all or the part of the net expenses related to financial assets' operations (realised result, unrealised revaluation loss and impairment).

Provisions related to liabilities to the staff
LTL millions

	31 December 2012	Established during 2013	Used during 2013	31 December 2013
Provisions for:				
Termination benefits, payable for staff who will qualify for the state social insurance pension while working at the Bank of Lithuania	3.48	0.68	(0.03)	4.14
Wages and salaries payable for annual leave	2.91	4.60	(4.37)	3.15
Termination benefits by agreements payable for the staff in subsequent years	0.62	(0.08)	(0.45)	0.09
Termination benefits to the members of the Board as provided in the Law on the Bank of Lithuania	0.47	0.10	(0.47)	0.10
Total	**7.48**	**5.30**	**(5.31)**	**7.48**

Note 19. Revaluation accounts

Revaluation accounts present unrealised revaluation gain of gold, debt and equity securities, off-balance-sheet instruments and foreign currency.

LTL millions

	31 December 2013	31 December 2012
Revaluation accounts		
Gold	251.95	498.98
Debt securities	33.55	80.56
Equity securities	0.30	0.37
Foreign currency	0.03	0.06
Financial derivatives	0.16	0.16
Total	**285.99**	**580.12**

Unrealised revaluation loss, recognised as expenses at the last working day of 2013, is presented in Note 24.

Note 20. Capital

Statement of changes in equity for 2013
LTL millions

	31 December 2012	Distribution of profit for 2012	31 December 2013
Capital			
Authorised capital	200.00	–	200.00
Reserve capital	1,197.56	–	1,197.56
Total	**1,397.56**	**–**	**1,397.56**

Note 21. Interest income

LTL millions

	2013	2012
Interest income from foreign institutions on:	89.98	174.87
Securities, other than those classified as held-to-maturity	85.25	156.60
Securities classified as held-to-maturity	–	8.12
Reverse repurchase and repurchase agreements	0.11	4.72
Balances in current accounts and fixed-term deposits	1.14	1.20
Financial derivatives	3.49	4.23
Interest income from institutions of the Republic of Lithuania	6.53	10.61
Securities related to monetary policy operations	1.90	6.48
Securities of the Government of the Republic of Lithuania other than those classified as held-to-maturity	2.05	0.05
Securities of the Government of the Republic of Lithuania classified as held-to-maturity	2.58	4.07
Other interest income on:	0.43	0.55
Loans to Bank of Lithuania staff	0.43	0.55
Total	**96.94**	**186.03**

In 2013, 97.6 per cent (96.2% in 2012) of interest income was earned in foreign currency. The decrease in interest income in 2013 was caused by the fall of financial market interest rates.

Note 22. Interest expense

LTL millions

	2013	2012
Interest expense on:		
Financial derivatives	1.05	0.43
Monetary policy instruments	0.24	5.03
Fixed-term deposits of government institutions	0.07	2.62
Balances in current accounts of government institutions	–	2.38
Other	0.01	0.31
Total	**1.37**	**10.77**

In 2013, 82.6 per cent (53.3% in 2012) of interest expense was incurred in foreign currency.

Note 23. Realised gains (losses) arising from financial operations

LTL millions

	2013	2012
Realised gains (losses) arising from:		
Transactions in securities	31.82	(63.15)
Interest rate transactions	14.82	(3.37)
Other transactions in foreign currency	(0.13)	0.02
Total	**46.51**	**(66.50)**

Note 24. Unrealised losses from revaluation

LTL millions

	2013	2012
Unrealised revaluation losses on:		
Securities	28.35	0.78
Foreign currency	0.21	0.04
Interest rate transactions	0.00	0.31
Total	**28.56**	**1.13**

Note 25. Net income from fees and commissions

LTL millions

	2013	2012
Fees and commissions from:		
Contributions of supervised financial market participants	11.11	7.94
Settlement services	7.43	7.31
Sale of numismatic valuables	2.28	2.70
Usage of the Loan Risk Database	0.18	0.16
Other services	0.06	0.10
Total	**21.06**	**18.21**
Expenses relating to fees and commissions	(3.04)	(3.00)
Net income from fees and commissions	**18.02**	**15.21**

From 2012, pursuant to the Law on the Bank of Lithuania, costs of the financial markets' supervision are funded by contributions of supervised financial market participants and own funds of the Bank of Lithuania. In 2013, the amount of the financial market participants' contributions (LTL 11.11 million) comprised 75 per cent (50% in 2012) of planned costs by the Bank of Lithuania related to the financial markets supervision.

Note 26. Dividend income

LTL millions

	2013	2012
Dividend income from:		
Non-marketable equity securities	1.34	1.37
Marketable equity securities	13.64	0.58
Total	**14.98**	**1.94**

Note 27. Staff costs

LTL millions

	2013	2012
Expenses on wages and salaries:	30.97	34.93
To the members of the Board	0.97	1.09
To the heads of structural divisions	2.53	2.20
To other staff of the Bank of Lithuania	27.47	31.64
Other emoluments	0.40	5.75
Contributions to State Social Insurance Fund	9.69	12.55
Expenses on provisions related to liabilities to the staff (see Note 18)	5.30	9.59
Total	**46.36**	**62.82**

The Board of the Bank of Lithuania consists of the Chairman of the Board of the Bank of Lithuania, two Deputy Chairmen and two Board Members. In 2013 the term of office of one Deputy Chairman and two Board Members expired and LTL 0.47 million in termination benefits were paid out of accrued provisions (no such benefits paid in 2012). In 2013 a new Deputy Chairman and Board Members were appointed instead of those whose term of office expired. Members of the Board were also paid LTL 0.16 million salaries for annual leaves out of the accrued provisions (LTL 0.13 million in 2012).

As at 31 December 2013 the operations of the Bank of Lithuania have been managed by five services, three departments and three autonomous divisions. The total number of employees in the Bank of Lithuania as at 31 December 2013 was 611 (2012 — 610 employees) of which 22 were on fixed-term labour contract (2012 — 23 employees) and 15 were on parental leave or unpaid leave for short-term contracts with the ECB and IMF or for studies abroad (2012 — 24 employees).

Note 28. Administrative expenses

LTL millions

	2013	2012
Administrative expenses		
Maintenance expenses	9.68	10.31
Participation fees	2.50	2.01
Information subscription expenses	1.78	2.00
Business trips	2.17	1.56
Asset write-downs	1.97	1.25
Mail and communication	1.36	1.52
Staff training	1.16	0.86
Public relations	0.52	0.51
Other	2.33	1.19
Total	**23.47**	**21.20**

In 2013, pursuant to the change of the provisions on recognition of tangible and intangible fixed assets (see Accounting Policy, “Tangible and intangible fixed assets”) and using a retrospective approach on accounting policy change, the carrying amount of tangible and intangible fixed assets in use with acquisition cost less than LTL 7,000 amounting to LTL 1.29 million was recognised as expenses.

Note 29. Banknote and coin production services and circulation expenses

LTL millions

	2013	2012
Banknote printing expenses	–	10.75
Coin minting expenses	6.62	3.54
Cash circulation expenses	0.31	0.36
Total	**6.92**	**14.66**

Note 30. Distribution of the profit of the Bank of Lithuania

In regard to Article 23 of the Law on the Bank of Lithuania, profit (loss) is distributable (coverable) in the following order:

1) Net distributable profit (loss), which consists of profit (loss) for the last financial year and undistributed profit (if any) carried over from the previous financial periods, is distributed (covered) after the end of the financial year;

2) Net distributable loss shall be covered from the reserve capital of the Bank of Lithuania. When reserve capital is not sufficient to cover the net distributable loss, remaining uncovered losses are carried forward to be covered by the distributable profit of the succeeding financial years;

3) The net distributable profit shall be allocated in the following sequence:

– to cover the uncovered loss carried forward;

– to the authorised capital up to the amount specified in the Law on the Bank of Lithuania;

– to the reserve capital up to the amount, independently established by the decision of the Board of the Bank of Lithuania taking into account potential impact of risks; however this capital shall not be less than five amounts of the authorised capital of the Bank of Lithuania;

– to the State Budget as the profit contribution of the Bank of Lithuania. This contribution shall not exceed the amount corresponding to 70 per cent of the calculated average of the profit (loss) of the Bank of Lithuania of the last three financial years.

The surplus of the distributable profit after the allocation shall be carried forward as undistributed profit and shall be distributed in subsequent financial years.

Profit distribution

LTL

	2013	2012	2011
Profit distribution			
To the state budget	20,643,310	20,666,921	72,947,773
To the Bank of Lithuania for the compensation of the market value of assets transferred to state institutions	–	–	16,677,000
To the reserve capital of the Bank of Lithuania	–	–	38,410,617
Total	**20,643,310**	**20,666,921**	**128,035,390**

Note 31. Financial risk and its management

The main source of the financial risk of the Bank of Lithuania is the financial assets of the Bank of Lithuania. In managing these assets the Bank of Lithuania is exposed to different types of financial risk such as market, credit, liquidity and settlement risk.

In 2013, following the approving of new financial assets' management policy, value at risk indicator became the most important tool for the management of financial risks. This indicator cannot exceed the risk budget for financial assets investments, i.e. EUR 100 million negative return per annum with 95 per cent probability. This facilitates the use of fewer interrelated investment strategies as well as one indicator for the overall assessment of both equity and debt securities risk. The model considering the past patterns and forecasted macroeconomic environment in the most important financial markets for the Bank of Lithuania was implemented for the calculation of value at risk indicator. As at 31 December 2013, following the evaluation of the forecast of the size and structure of financial assets in 2014, value at risk amounted to LTL 73.00 million. The part of this amount, corresponding to the forecasted developments in risks exposure scenario and the long-term strategy for establishing of provisions for risk, was presented under the balance sheet item "Provisions" (see Note 18).

Appropriate investment allocation plays important role in financial risk management seeking reducing concentration of investment. In 2013 the Bank of Lithuania increased diversification of investments by launching investments in equities, increasing investment in investment grade debt securities, expanding the geographical diversity of investments, using exchange traded funds (ETFs) linked to well-diversified equity and debt securities market indexes.

Exchange rate risk has been immaterial — practically all foreign reserves not related to liabilities in foreign currencies are invested in the anchor currency — the euro or, if they are invested in other currency, simultaneously are hedged against the possible exchange rate risk. The part of foreign reserves corresponding to liabilities is invested in the currency of the liabilities.

For the purpose of managing exchange rate risk and interest rate risk, the Bank of Lithuania also uses financial derivatives. All financial derivatives are included in the measurement of the foreign reserves investment market and credit risk.

Credit risk is managed by establishing the limits of the liabilities to the Bank of Lithuania by issuers, counterparties and their groups. These limits indicate the requirements for the financial reliability of those issuers and/or counterparties.

Liquidity risk is managed by setting liquidity ratios and a minimum amount of highly liquid financial instruments in foreign reserves.

Various correspondent account management instruments are applied for managing settlement risks: the delivery-versus-payment principle, matching of debt and credit turnovers, ISDA Master Agreement. These measures facilitate the reduction of the risk of loss due to settlement defaults by counterparties.

Assets and liabilities of the Bank of Lithuania by currency

LTL millions

	LTL	EUR	CHF	JPY	XDR	XAU	Other	Total
31 December 2013								
ASSETS								
Gold	–	–	–	–	–	563.98	–	**563.98**
Claims on foreign institutions denominated in foreign currency	–	15,523.41	2,220.78	1,557.19	532.63	–	219.92	**20,053.93**
Receivables from the IMF	–	–	–	–	532.63	–	–	**532.63**
Debt securities	–	11,983.76	–	1,481.76	–	–	206.05	**13,671.57**
Equity financial instruments	–	823.38	–	–	–	–	–	**823.38**
Deposits and other investments	–	2,716.27	2,220.78	75.43	–	–	13.87	**5,026.35**
Claims on domestic institutions denominated in foreign currency	–	106.42	–	–	–	–	62.18	**168.60**
Securities of domestic institutions related to monetary policy operations denominated in litas	18.46	–	–	–	–	–	–	**18.46**
Other assets	132.66	157.29	0.58	85.43	–	–	6.42	**382.39**
Total on-balance-sheet assets	**151.13**	**15,787.12**	**2,221.35**	**1,642.62**	**532.63**	**563.98**	**288.53**	**21,187.36**
LIABILITIES								
Banknotes and coins in circulation	11,902.07	–	–	–	–	–	–	**11,902.07**
Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	4,519.17	–	–	–	–	–	–	**4,519.17**
Liabilities to other domestic institutions denominated in litas	419.24	–	–	–	–	–	–	**419.24**
Liabilities to foreign institutions denominated in litas	32.70	–	–	–	–	–	–	**32.70**
Liabilities to domestic institutions denominated in foreign currency	–	1,950.10	0.07	–	0.13	–	4.43	**1,954.74**
Liabilities to foreign institutions denominated in foreign currency	–	37.03	–	–	–	–	–	**37.03**
Counterpart of special drawing rights allocated by IMF	–	–	–	–	532.24	–	–	**532.24**
Items in the course of settlement	26.34	–	–	–	–	–	–	**26.34**
Other liabilities	1.57	0.38	8.18	–	–	–	0.02	**10.16**
Provisions	49.48	–	–	–	–	–	–	**49.48**
Revaluation accounts	253.16	31.69	–	0.03	–	–	1.11	**285.99**
Capital	1,397.56	–	–	–	–	–	–	**1,397.56**
Profit	20.64	–	–	–	–	–	–	**20.64**
Total on-balance-sheet liabilities	**18,621.93**	**2,019.21**	**8.25**	**0.03**	**532.37**	**–**	**5.57**	**21,187.36**
NET ON-BALANCE-SHEET ASSETS (LIABILITIES)	**(18,470.80)**	**13,767.91**	**2,213.10**	**1,642.59**	**0.26**	**563.98**	**282.96**	**0.00**
Off-balance-sheet assets included into currency position								
Receivables under foreign exchange transactions	–	5,214.76	1,035.84	–	–	–	–	**6,250.60**
Off-balance-sheet liabilities included into currency position								
Payables under foreign exchange transactions	51.79	1,035.84	3,245.63	1,641.81	–	–	275.53	**6,250.60**
Net off-balance-sheet assets (liabilities) included into currency position	**(51.79)**	**4,178.92**	**(2,209.79)**	**(1,641.81)**	**–**	**–**	**(275.53)**	**0.00**
NET ASSETS (LIABILITIES)	**(18,522.60)**	**17,946.84**	**3.31**	**0.78**	**0.26**	**563.98**	**7.43**	**0.00**
31 December 2012								
Total on-balance-sheet assets	**273.36**	**17,680.52**	**2,210.79**	**1,243.12**	**551.71**	**811.02**	**105.72**	**22,876.24**
Total on-balance-sheet liabilities	**18,518.89**	**3,802.98**	**0.00**	**0.05**	**551.44**	**–**	**2.87**	**22,876.24**
NET ON-BALANCE-SHEET ASSETS (LIABILITIES)	**(18,245.52)**	**13,877.54**	**2,210.79**	**1,243.07**	**0.27**	**811.02**	**102.84**	**0.00**
Off-balance-sheet assets included into currency position	**96.68**	**3,589.54**	**–**	**–**	**–**	**–**	**–**	**3,686.22**
Off-balance-sheet liabilities included into currency position	**34.53**	**96.68**	**2,210.14**	**1,243.01**	**–**	**–**	**101.86**	**3,686.22**
Net off-balance-sheet assets (liabilities) included into currency position	**62.15**	**3,492.86**	**(2,210.14)**	**(1,243.01)**	**–**	**–**	**(101.86)**	**0.00**
NET ASSETS (LIABILITIES)	**(18,183.37)**	**17,370.40**	**0.64**	**0.06**	**0.27**	**811.02**	**0.98**	**0.00**

ANNEXES

Resolutions Passed by the Board of the Bank of Lithuania and Published in *Valstybės žinios* (Official Gazette) in 2013

Resolution No 03-217 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-163 of the Board of the Bank of Lithuania of 12 July 2012 on adoption of the rules for the approval of documents of pension associations established by the Law on the Accumulation of Occupational Pensions (*Valstybės žinios* (Official Gazette) No 141-7130, 31 12 2013);

Resolution No 03-230 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 38 of the Board of the Bank of Lithuania of 14 March 2002 on approval of the regulations on required reserves of credit institutions (*Valstybės žinios* (Official Gazette) No 141-7140, 31 12 2013);

Resolution No 03-229 of the Board of the Bank of Lithuania of 20 December 2013 on approval of the amounts of contributions of the supervised financial market participants for the year 2014 (*Valstybės žinios* (Official Gazette) No 141-7139, 31 12 2013);

Resolution No 03-225 of the Board of the Bank of Lithuania of 20 December 2013 repealing certain resolutions of the Board of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 141-7138, 31 12 2013);

Resolution No 03-224 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-168 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the calculation of capital adequacy requirements for the financial brokerage firms and management companies (*Valstybės žinios* (Official Gazette) No 141-7137, 31 12 2013);

Resolution No 03-223 of the Board of the Bank of Lithuania of 20 December 2013 on the national derogations chosen for application by the Bank of Lithuania under Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (*Valstybės žinios* (Official Gazette) No141-7136, 31 12 2013);

Resolution No 03-222 of the Board of the Bank of Lithuania of 20 December 2013 on approval of the standard terms and conditions of the pension accumulation agreement (*Valstybės žinios* (Official Gazette) No 141-7135, 31 12 2013);

Resolution No 03-221 of the Board of the Bank of Lithuania of 20 December 2013 on approval of the principles of opening, handling and closing of the pension accounts and of accounting for the pension fund units (*Valstybės žinios* (Official Gazette) No 141-7134, 31 12 2013);

Resolution No 03-220 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-114 of the Board of the Bank of Lithuania of 11 July 2013 on approval of the rules for transferring the participants of the pension fund for the accumulation of a part of the state social insurance contribution under liquidation to another pension fund (*Valstybės žinios* (Official Gazette) No 141-7133, 31 12 2013);

Resolution No 03-219 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-165 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for the preparation and submission of information of the pension associations (*Valstybės žinios* (Official Gazette) No 141-7132, 31 12 2013);

Resolution No 03-218 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-164 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules on granting the authorisations to change the status of the pension association (*Valstybės žinios* (Official Gazette) No 141-7131, 31 12 2013);

Resolution No 03-216 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-160 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the publicly disclosed information of the financial brokerage firms and management companies (*Valstybės žinios* (Official Gazette) No 141-7129, 31 12 2013);

Resolution No 03-215 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-158 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the organisation of activities of financial brokerage firms (*Valstybės žinios* (Official Gazette) No 141-7128, 31 12 2013);

Resolution No 03-214 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-157 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for the provision of investment services and acceptance and fulfilment of customer orders (*Valstybės žinios* (Official Gazette) No 141-7127, 31 12 2013);

Resolution No 03-213 of the Board of the Bank of Lithuania of 20 December 2013 amending Resolution No 03-149 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the procedure for the notification about essential changes and of the requirements for the standard list of essential changes (*Valstybės žinios* (Official Gazette) No 141-7126, 31 12 2013);

Resolution No 03-207 of the Board of the Bank of Lithuania of 12 December 2013 amending Resolution No N-117 of the Insurance Supervisory Commission of the Republic of Lithuania of 1 October 2004 on approval of the methodology for the calculation of amounts of technical provisions for insurance (*Valstybės žinios* (Official Gazette) No 130-6690, 19 12 2013);

Resolution No 03-206 of the Board of the Bank of Lithuania of 12 December 2013 on approval of the table of the basic pension annuity amounts (*Valstybės žinios* (Official Gazette) No 130-6689, 19 12 2013);

Resolution No 03-208 of the Board of the Bank of Lithuania of 12 December 2013 amending Resolution No 03-144 the Board of the Bank of Lithuania of 1 September 2011 on the responsible lending regulations (*Valstybės žinios* (Official Gazette) No 129-6616, 17 12 2013);

Resolution No 03-198 of the Board of the Bank of Lithuania of 5 December 2013 on declaring the legal tender and issuing into circulation of the numismatic (commemorative) coin of 100 litas denomination dedicated to the 400th anniversary of the issuance of the first map of the Grand Duchy of Lithuania (*Valstybės žinios* (Official Gazette) No 126-6443, 10 12 2013);

Resolution No 03-197 of the Board of the Bank of Lithuania of 5 December 2013 amending Resolution No 03-151 of the Board of the Bank of Lithuania of 16 September 2013 on approval of the procedure for the balancing of public and private interests at the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 126-6442, 10 12 2013);

Resolution No 03-192 of the Board of the Bank of Lithuania of 28 February 2013 amending Resolution No 03-51 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on the notifications of transactions in securities of the issuer concluded by managers of issuers (*Valstybės žinios* (Official Gazette) No 124-6369, 05 12 2013);

Resolution No 03-183 of the Board of the Bank of Lithuania of 14 November 2012 amending Resolution No 03-160 of the Board of the Bank of Lithuania of 24 September 2013 on the indexation of sums insured of the compulsory insurance in respect of the professional third-party liability of the insurance intermediary and of the equity amount of insurance brokers (*Valstybės žinios* (Official Gazette) No 119-6043, 20 11 2013);

Resolution No 03-181 of the Board of the Bank of Lithuania of 14 November 2012 on approval of the regulations for the assessment of members of the management body and key function holders of the financial market participants supervised by the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 119-6042, 20 11 2013 (*Valstybės žinios* (Official Gazette) No 120, 23 11 2013);

Resolution No 03-173 of the Board of the Bank of Lithuania of 24 October 2013 on approval of the rules of operation of the European Money Market Funds (*Valstybės žinios* (Official Gazette) No 113-5682, 30 10 2013);

Resolution No 03-167 of the Board of the Bank of Lithuania of 24 October 2013 amending Resolution No 03-57 of the Board of the Bank of Lithuania of 7 April 2011 on approval of the regulations on granting the *Vladas Jurgutis* Award (*Valstybės žinios* (Official Gazette) No 107- 5326, 12 10 2013);

Resolution No 03-168 of the Board of the Bank of Lithuania of 8 October 2013 on approval of the guidelines for the selection of the temporary administrator and bankruptcy administrator (*Valstybės žinios* (Official Gazette) No 109-5424, 17 10 2013);

Resolution No 03-166 of the Board of the Bank of Lithuania of 8 October 2013 on declaring the legal tender and issuing into circulation of four numismatic (commemorative) circulation coins of 2 litas denomination dedicated to the creations of nature and man (Programme II) (*Valstybės žinios* (Official Gazette) No 107-5325, 12 10 2013);

Resolution No 03-164 of the Board of the Bank of Lithuania of 8 October 2013 on approval of the financial assets management policy of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 107-5324, 12 10 2013);

Resolution No 03-163 of the Board of the Bank of Lithuania of 3 October 2013 on the maximum technical interest rate (*Valstybės žinios* (Official Gazette) No 106-5272, 10 10 2013);

Resolution No 03-162 of the Board of the Bank of Lithuania of 3 October 2013 on the submission of financial and statistical data of the insurance brokers (*Valstybės žinios* (Official Gazette) No 106-5271, 10 10 2013);

Resolution No 03-161 of the Board of the Bank of Lithuania of 3 October 2013 amending Resolution No 03-67 of the Board of the Bank of Lithuania of 15 March 2012 on assigning the performance of certain financial market supervision related functions of the Board of the Bank of Lithuania to the structural subdivisions of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 106-5270, 10 10 2013);

Resolution No 03-154 of the Board of the Bank of Lithuania of 24 September 2013 on approval of the regulations for selling numismatic valuables of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 102-5069, 28 09 2013);

Resolution No 03-160 of the Board of the Bank of Lithuania of 24 September 2013 on the indexation of sums insured of the compulsory insurance in respect of the professional third-party liability of the insurance intermediary and of the equity amount of insurance brokers (*Valstybės žinios* (Official Gazette) No 103-5096, 01 10 2013);

Resolution No 03-150 of the Board of the Bank of Lithuania of 16 September 2013 on approval of the rules on the pre-emption right to acquire the shares issued by a public company or on the acquisition and disposal of the convertible bonds (*Valstybės žinios* (Official Gazette) No 99-4935, 20 09 2013);

Resolution No 03-153 of the Board of the Bank of Lithuania of 16 September 2013 amending Resolution No 5 of the Board of the Bank of Lithuania of 13 January 2013 on the code of ethics of employees of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-4938, 20 09 2013);

Resolution No 03-152 of the Board of the Bank of Lithuania of 16 September 2013 amending Resolution No 175 of the Board of the Bank of Lithuania of 11 November 2004 on the code of ethics of the Board of the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-4937, 20 09 2013);

Resolution No 03-151 of the Board of the Bank of Lithuania of 16 September 2013 on approval of the procedure for the balancing of public and private interests at the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-4936, 20 09 2013);

Resolution No 03-149 of the Board of the Bank of Lithuania of 16 September 2013 on approval of the rules for the establishment of the litas and foreign currency exchange rates (*Valstybės žinios* (Official Gazette) No 99-4934, 20 09 2013);

Resolution No 03-145 of the Board of the Bank of Lithuania of 29 August 2013 on approval of the procedure for the coordination of articles of association of an insurance undertaking or insurance brokers amended in the cases of increase or decrease of the authorised capital (*Valstybės žinios* (Official Gazette) No 92-4640, 31 08 2013);

Resolution No 03-139 of the Board of the Bank of Lithuania of 14 August 2013 on declaring the legal tender and issuing into circulation of the numismatic (commemorative) coin of 50 litas denomination dedicated to the 600th anniversary of the christening of Samogitia (*Valstybės žinios* (Official Gazette) No 89-4463, 22 08 2013);

Resolution No 03-123 of the Board of the Bank of Lithuania of 19 July 2013 on approval of the regulations on the requirements for the managers of management and investment companies operating in accordance with the Law on collective investment undertakings intended for the informed investors and approval of their candidatures (*Valstybės žinios* (Official Gazette) No 82-4144, 27 07 2013);

Resolution No 03-121 of the Board of the Bank of Lithuania of 19 July 2013 on approval of the regulations on the requirements applicable to the informed investors in observance of the Law on collective investment undertakings intended for the informed investors (*Valstybės žinios* (Official Gazette) No 82-4143, 27 07 2013);

Resolution No 03-122 of the Board of the Bank of Lithuania of 19 July 2013 on approval of the regulations on the distribution of investment risk of the undertakings for collective investment operating in observance of the Law on collective investment undertakings intended for the informed investors (*Valstybės žinios* (Official Gazette) No 82-4142, 27 07 2013);

Resolution No 03-126 of the Board of the Bank of Lithuania of 19 July 2013 repealing Resolution No 88 of the Board of the Bank of Lithuania of 26 May 2005 on requirements for the management of activities and risks of specialised banks (*Valstybės žinios* (Official Gazette) No 82-4146, 27 07 2013);

Resolution No 03-125 of the Board of the Bank of Lithuania of 19 July 2013 amending Resolution No 38 of the Board of the Bank of Lithuania of 26 March 2009 on approval of the minimum loan assessment requirements for credit unions (*Valstybės žinios* (Official Gazette) No 82-4147, 27 07 2013);

Resolution No 03-124 of the Board of the Bank of Lithuania of 19 July 2013 on approval of the regulations for the acquisition of the qualifying holding of the management companies operating in observance of the Law on collective investment undertakings intended for the informed investors (*Valstybės žinios* (Official Gazette) No 82-4145, 27 07 2013);

Resolution No 03-115 of the Board of the Bank of Lithuania of 11 July 2013 on approval of the rules on sales of the pension assets of the additional voluntary pension accumulation fund under liquidation (*Valstybės žinios* (Official Gazette) No 76-3872, 16 07 2013);

Resolution No 03-114 of the Board of the Bank of Lithuania of 11 July 2013 on approval of the rules for transferring the participants of the pension fund for the accumulation of a part of the state social insurance contribution under liquidation to another pension fund (*Valstybės žinios* (Official Gazette) No 76-3871, 16 07 2013);

Resolution No 03-118 of the Board of the Bank of Lithuania of 11 July 2013 on approval of the rules for calculating and publicising the average interbank interest rates (VILIBOR) (*Valstybės žinios* (Official Gazette) No 75-3822, 13 07 2013);

Resolution No 03-113 of the Board of the Bank of Lithuania of 11 July 2013 on the maximum technical interest rate (*Valstybės žinios* (Official Gazette) No 75-3821, 13 07 2013);

Resolution No 03-110 of the Board of the Bank of Lithuania of 27 June 2013 on approval of the Rules on the use of the digital images of the Bank of Lithuania for publication purposes and their transfer (*Valstybės žinios* (Official Gazette) No 69-3510, 29 06 2013);

Resolution No 03-106 of the Board of the Bank of Lithuania of 6 June 2013 amending Resolution No 03-226 of the Board of the Bank of Lithuania of 23 October 2012 on approval of the rules of compulsory civil liability insurance of the technical supervisor of the construction of a construction works (*Valstybės žinios* (Official Gazette) No 62-3113, 12 06 2013);

Resolution No 03-105 of the Board of the Bank of Lithuania of 6 June 2013 on approval of the rules for the examination of complaints received by the financial market participants (*Valstybės žinios* (Official Gazette) No 62-3112, 12 06 2013);

Resolution No 03-97 of the Board of the Bank of Lithuania of 15 May 2013 on declaring the legal tender and issuing into circulation of the numismatic (commemorative) coin of 50 litas denomination and of the numismatic (commemorative) circulation coin of 1 litas denomination dedicated to Lithuania's Presidency of the Council of the European Union (*Valstybės žinios* (Official Gazette) No 52-2628, 21 05 2013);

Resolution No 03-95 of the Board of the Bank of Lithuania of 2 May 2013 amending Resolution No 151 of the Board of the Bank of Lithuania of 7 December 2006 on approval of requirements for the publicly disclosed information (*Valstybės žinios* (Official Gazette) No 47-2381, 09 05 2013);

Resolution No 03-91 of the Board of the Bank of Lithuania of 2 May 2013 on declaring the legal tender and issuing into circulation of the numismatic (commemorative) coin of 50 litas denomination and of the numismatic (commemorative) circulation coin of 25 litas denomination dedicated to the 25th anniversary of the establishment of the Lithuanian Sąjūdis (from the series "Lithuania's Road to Independence") (*Valstybės žinios* (Official Gazette) No 47-2380, 09 05 2013);

Resolution No 03-90 of the Board of the Bank of Lithuania of 2 May 2013 on statistical reporting on securities held in possession and safe custody by monetary financial institutions and managers of accounts (*Valstybės žinios* (Official Gazette) No 47-2379, 09 05 2013);

Resolution No 03-76 of the Board of the Bank of Lithuania of 9 April 2013 on the maximum technical interest rate (*Valstybės žinios* (Official Gazette) No 38-1895, 13 04 2013);

Resolution No 03-74 of the Board of the Bank of Lithuania of 9 April 2013 amending Resolution No 67 of the Board of the Bank of Lithuania of 28 April 2005 on approval of the procedure for the imposition of fines for the noncompliance with the rules on required reserves of credit institutions (*Valstybės žinios* (Official Gazette) No 38-1894, 2013 04 13, Nr.);

Resolution No 03-68 of the Board of the Bank of Lithuania of 28 March 2013 amending Resolution No 154 of the Board of the Bank of Lithuania of 15 November 2007 on approval of the Rules for selecting, assessing and publishing the assets eligible to be used as collateral for securing credit operations of the Bank of Lithuania and amendments to the respective resolutions of the Board of Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 34-1690, 30 03 2013);

Resolution No 03-66 of the Board of the Bank of Lithuania of 28 March 2013 supplementing Resolution No N-68 of the Insurance Supervision Commission of the Republic of Lithuania o 15 March 2005 on approval of the Guidelines for the prevention of money laundering aimed at the insurance undertakings engaged in life insurance business and insurance brokers engaged in the intermediation activities related to life insurance (*Valstybės žinios* (Official Gazette) No 34-1689, 30 03 2013);

Resolution No 03-61 of the Board of the Bank of Lithuania of 19 March 2013 on the information provided by the credit union administrators (*Valstybės žinios* (Official Gazette) No 32-1588, 28 03 2013);

Resolution No 03-64 of the Board of the Bank of Lithuania of 19 March 2013 amending Resolution No 03-151 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the procedure for issuing licenses laid down by Law on collective investment undertakings and by Law on supplementary voluntary accumulation of pensions (*Valstybės žinios* (Official Gazette) No 30-1521, 23 03 2013);

Resolution No 03-63 of the Board of the Bank of Lithuania of 19 March 2013 amending Resolution No 03-144 the Board of the Bank of Lithuania of 1 September 2011 on the responsible lending regulations (*Valstybės žinios* (Official Gazette) No 30-1520, 23 03 2013);

Resolution No 03-62 of the Board of the Bank of Lithuania of 19 March 2013 on approval of the regulations for the assessment of solvency of consumer credit borrowers and responsible lending (*Valstybės žinios* (Official Gazette) No 30-1519, 23 03 2013);

Resolution No 03-55 of the Board of the Bank of Lithuania of 7 March 2013 amending Resolution No 16 of the Board of the Bank of Lithuania of 26 February 2004 on approval of the Rules for concluding and executing the litas and anchor currency — the euro exchange transactions between the Bank of Lithuania and banks (*Valstybės žinios* (Official Gazette) No 28-1380, 16 03 2013);

Resolution No 03-51 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on the notifications of transactions in the issuer's securities concluded by managers of issuers (*Valstybės žinios* (Official Gazette) No 26-1271, 09 03 2013);

Resolution No 03-50 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on the publication of the regulated information (*Valstybės žinios* (Official Gazette) No 26-1270, 09 03 2013);

Resolution No 03-49 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on making the notification of the acquisition or disposal of a shareholding (*Valstybės žinios* (Official Gazette) No 26-1269, 09 03 2013);

Resolution No 03-48 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules for the preparation and submission of the periodic and additional information (*Valstybės žinios* (Official Gazette) No 25-1255, 08 03 2013);

Resolution No 03-47 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on the drawing up and approval of a takeover bid circular and on the implementation of a takeover bid (*Valstybės žinios* (Official Gazette) No 25-1254, 08 03 2013);

Resolution No 03-46 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on ensuring the confidentiality and disclosure of the information undisclosed to the public (*Valstybės žinios* (Official Gazette) No 25-1253, 08 03 2013);

Resolution No 03-45 of the Board of the Bank of Lithuania of 28 February 2013 on approval of requirements for the preparation of the information document mandatory in the cases of public trading in medium-sized issues of securities and exemptions from its preparation (*Valstybės žinios* (Official Gazette) No 25-1252, 08 03 2013);

Resolution No 03-44 of the Board of the Bank of Lithuania of 28 February 2013 on approval of the rules on the preparation and approval of the securities' prospectus and on the public disclosure of information (*Valstybės žinios* (Official Gazette) No 25-1251, 08 03 2013);

Resolution No 03-32 of the Board of the Bank of Lithuania of 21 February 2013 on approval of the rules for the prevention of financial crises of the Bank of Lithuania, establishment of their management stages and exchange of information (*Valstybės žinios* (Official Gazette) No 22-1116, 28 02 2013);

Resolution No 03-27 of the Board of the Bank of Lithuania of 12 February 2013 amending Resolution No 03-31 of the Board of the Bank of Lithuania of 2 February 2012 on the organisation of the competition of higher education students' research papers in the study area of finance and economics (*Valstybės žinios* (Official Gazette) No 17-886, 14 02 2013);

Resolution No 03-24 of the Board of the Bank of Lithuania of 5 February 2013 on approval of the regulations for the inspection of preparedness to provide financial services of a credit union applying for the issuance of a license (*Valstybės žinios* (Official Gazette) No 15-779, 09 02 2013);

Resolution No 03-21 of the Board of the Bank of Lithuania of 31 January 2013 on approval of the requirements for outlining the credit union's activities and drawing up its operating plan (*Valstybės žinios* (Official Gazette) No 14-724, 07 02 2013);

Resolution No 03-20 of the Board of the Bank of Lithuania of 31 January 2013 on approval of the forms of statistical reports (*Valstybės žinios* (Official Gazette) No 14-723, 07 02 2013);

Resolution No 03-13 of the Board of the Bank of Lithuania of 24 January 2013 amending Resolution No 138 of the Board of the Bank of Lithuania of 9 November 2006 on the general regulations for the calculation of capital adequacy (*Valstybės žinios* (Official Gazette) No 13-652, 02 02 2013);

Resolution No 03-09 of the Board of the Bank of Lithuania of 17 January 2013 amending Resolution No 125 of 21 December 1995 on approval of the rules for managing the loan risk database (*Valstybės žinios* (Official Gazette) No 8-344, 22 01 2013);

Resolution No 03-08 of the Board of the Bank of Lithuania of 17 January 2013 amending Resolution No 241 of 24 December 2009 on approval of the procedure on submission of statistical information and data necessary for the preparation of the balance of payments and balance of international investments of the Republic of Lithuania to the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 8-343, 22 01 2013);

Resolution No 03-04 of the Board of the Bank of Lithuania of 17 January 2013 on declaring the legal tender and issuing into circulation of the numismatic (commemorative) coin of 50 litas denomination dedicated to the 150th anniversary of the Uprising of 1863–1864 (*Valstybės žinios* (Official Gazette) No 7-323, 19 01 2013);

Resolution No 03-02 of the Board of the Bank of Lithuania of 10 January 2013 on the maximum technical interest rate (*Valstybės žinios* (Official Gazette) No 5-211, 15 01 2013);

Resolution No 03-01 of the Board of the Bank of Lithuania of 10 January 2013 amending Resolution No 38 of the Board of the Bank of Lithuania of 14 March 2002 on approval of the regulations on required reserves of credit institutions (*Valstybės žinios* (Official Gazette) No 5-210, 15 01 2013).

Collectors (Commemorative), Collectors (Commemorative) Circulation Coins and Coin Sets Issued In 2013

On 25 February a coin set with a commemorative sign, dedicated to the anniversaries of the victorious battles of the Grand Duchy of Lithuania and on 12 July — a coin set with a commemorative sign, dedicated to the 80th anniversary of the transatlantic flight of S. Darius and S. Girėnas, were issued. Quality of the coin sets — brilliant plane and relief surface (*BU*), mintage — 3,500 pcs of each.

Chart.1. Numismatic 2013 coin sets of circulation coins

On 22 January, a 50 litas silver coin, dedicated to the 150th anniversary of the Uprising of 1863–1864, was issued. Diameter —38.61 mm, weight — 28.28 g, mintage — 3,000 pcs.

Designed by Vidmantas Valentas and Giedrius Paulauskis.

Chart 2. 50 litas silver coin dedicated to the 150th anniversary of the Uprising of 1863–1864

On 31 May, coins, dedicated to the 25th anniversary of the Lithuanian *Sąjūdis* (from the series "Lithuania's Road to Independence"), were issued: a 50 litas collectors (commemorative) silver coin and 25 litas collectors (commemorative) circulation coin made from copper/aluminium/zinc/tin alloy. The diameter of the silver coin is 38.61 mm, weight 28.28 g, quality proof, mintage 4,000 pcs. The diameter of the coin, made from a copper/aluminium/zinc/tin alloy, is 28.00 mm; weight — 10.00 g, quality — proof like, mintage — 25,000 pcs.

Designed by Rytas Jonas Belevičius.

Chart 3. 50 litas silver coin and 25 litas coin, from copper/aluminium/zinc/tin alloy, dedicated to the 25th anniversary of the establishment of the Lithuanian *Sąjūdis* (from the series "Lithuania's Road to Independence")

On 25 June, a 50 litas collectors (commemorative) silver coin and a 1 litas collectors (commemorative) circulation coin, dedicated to the Lithuanian Presidency of the Council of the European Union, were issued. The diameter of the silver coin is 38.61 mm, weight — 28.28 g, quality — proof, mintage — 4,000 pcs. The diameter of the coin, a copper/nickel alloy, is 22.30 mm, weight — 6.25 g, mintage — 100,000 pcs.

Designed by Rytas Jonas Belevičius.

Chart 4. 50 litas silver coin and 1 litas coin, from copper/nickel alloy, dedicated to the Lithuanian Presidency of the Council of the European Union

On 6 September, a 50 litas silver coin, dedicated to the 600th anniversary of the christening of Samogitia, was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — proof, mintage — 3,000 pcs.

Designed by Petras Repšys.

Chart 5. 50 litas silver coin dedicated to the 600th anniversary of the christening of Samogitia

On 29 October, four 2 litas collectors (commemorative) circulation coins, dedicated to the creations of nature and man: Puntukas stone, Stelmužė Oak, *kurėnas* (kurenkahn) and *verpstė* (distaff), were

issued. The mintage of the proof quality coins is 4,000 pcs of each; they formed coin sets. The mintage of the *unc* quality coins is 100,000 pcs of each. The diameter of the coins is 25.00 mm, weight — 7.50 g. The ring is from copper/aluminium/nickel alloy, the core — from copper/nickel alloy.

Designed by Giedrius Paulauskis.

Chart 6. 2 litas proof and *unc* quality coins, dedicated to the creations of nature and man and their (quality — proof) coin set

On 16 December, a 100 litas silver coin, dedicated to the 400th anniversary of the issuance of the first map of the Grand Duchy of Lithuania, was issued. The dimensions of the coin are 42 × 42 cm, weight — 56.56 g, mintage — 4,000 pcs.

Designed by Rolandas Rimkūnas, Eglė Rimkūnienė and Giedrius Paulauskis.

Chart 7. 100 litas silver coin, dedicated to the 400th anniversary of the issuance of the first map of the Grand Duchy of Lithuania

All coins bear the logo of the Lithuanian Mint.

Banknotes and Coins in Circulation

10 litas

2001 issue

2007 issue

20 litas

2001 issue

2007 issue

50 litas

1998 issue

2003 issue

100 litas

2000 issue

2007 issue

200 litas

1997 issue

500 litas

2000 issue

1 centas – 1991 issue

2 centas – 1991 issue

5 centas – 1991 issue

10 centas – 1991 issue

20 centas – 1991 issue

50 centas – 1991 issue

10 centas – issues since 1997

20 centas – issues since 1997

50 centas – issues since 1997

1 litas – issues since 1998

2 litas – issues since 1998

5 litas – issues since 1998

Circulation Collectors (Commemorative) Coins

1997

1 litas coin issued to mark the 75th anniversary of the Bank of Lithuania and the litas

Designed by Rimantas Eidėjus
Vytis adapted by Arvydas Každailis
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 200,000 pcs.

1999

1 litas coin issued to mark the 10th anniversary of the Baltic Way

Designed by Antanas Žukauskas
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 1,000,000 pcs.

2004

1 litas coin issued to mark the 425th anniversary of Vilnius University

Designed by Rytas Jonas Belevičius
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 200,000 pcs.

2005

1 litas coin dedicated to the Palace of the Grand Dukes of Lithuania

Designed by Giedrius Paulauskis
Alloy of copper and nickel. Cu 75%, Ni 25%
Regular dodecagon coin
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 1,000,000 pcs.

2009

1 litas coin dedicated to Vilnius – European Capital of Culture 2009

Designed by Vytautas Narutis
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 1,000,000 pcs.

2010

1 litas coin dedicated to the 600th anniversary of the Battle of Grunwald

Designed by Rytas Jonas Belevičius
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 1,000,000 pcs.

2011 m.

1 litas coin dedicated to Basketball

Designed by Liudas Parulskis and Giedrius Paulauskis
Alloy of copper and nickel. Cu 75%, Ni 25%
The edge of the coin rimmed at intervals
Diameter 22.30 mm. Weight 6.25 g
Mintage 1,000,000 pcs.

2012 m.

2 litas coin dedicated to the Lithuanian health resorts: Birštonas, Druskininkai, Neringa, Palanga

The edge of the coin has 105 rims
(5 sectors with 21 rims each)
Designed by Giedrius Paulauskis
Metal: ring Cu/Al/Ni alloy, the middle part Cu/Ni alloy
Diameter 25.00 mm, Weight 7.50 g
Mintage 100,000 pcs.

2013 m.

1 litas coin dedicated to the Lithuanian Presidency of the Council of the European Union

Designed by Rytas Jonas Belevičius.
Cu/Ni alloy
Diameter — 22.30 mm. Weight — 6.25 g.
The reverse of the coin in the centre artistically depicts a map of the EU, which is encircled by the inscription LIETUVOS PIRMININKAVIMAS EUROPOS SĄJUNGOS TARYBAI (The Lithuanian Presidency of the Council of the European Union)
Mintage 100, 000 pcs.

25 litas coin dedicated to the 25th anniversary of the establishment of the Lithuanian *Sąjūdis* (from the series "Lithuania's Road to Independence")

Designed by Rytas Jonas Belevičius.
Denomination — 25 litas.
Metal — Cu/Al/Zn/Sn alloy.
Quality — proof like.
Diameter — 28.00 mm. Weight — 10.00 g.
Edge of the coin — rimmed
Mintage 25,000 pcs.

2 litas coins dedicated to the creations of nature and man

Designed by Giedrius Paulauskis
Edge of the coin — rimmed at intervals
Metal: ring — Cu/Al/Ni alloy,
middle part —Cu/Ni alloy.
Diameter — 25.00 mm. Weight — 7.50 g.
Mintage 100,000 pcs. of each.

For more information on the currency of the Bank of Lithuania and its security features, see the website of the Bank of Lithuania (http.www.lb.lt/banknotai_ir_monetos)

Glossary

This glossary contains selected terms that are used in the Annual Report.

Balance of payments: a statistical statement recording the transactions between residents and non-residents for a certain period. The balance of payments consists of the current, capital and financial accounts.

Central government: the government as defined in the European System of Accounts 1995 other than regional and local government.

Central securities depository (CSD): an entity that: (i) enables securities transactions to be processed and settled by book entry, (ii) provides custodial services (e.g. the administration of corporate actions and redemptions), and (iii) plays an active role in ensuring the integrity of securities issuance. Securities can be held in a physical (but immobilised) form or in a dematerialised form (as electronic accounting entries).

Collateral: assets pledged or otherwise transferred by credit institutions to central banks as a guarantee for the repayment of loans, as well as assets sold by credit institutions to central banks under repurchase agreements.

Credit institution: an institution holding a licence to engage in and engaged in the acceptance of deposits or other repayable funds from unprofessional market participants and in their lending.

Credit risk: the risk that a counterparty will not settle the full value of an obligation — neither when it becomes due, nor at any time thereafter. Credit risk includes investment replacement cost risk and principal risk. It also includes the risk of the settlement bank failing.

Debt security: a security which confirms the right of its holder to get from its issuer the amount corresponding to the nominal value of this security, interest or another equivalent of return at specified terms.

Direct investment: cross-border investment for the purpose of obtaining a lasting interest in an enterprise resident in another economy (assumed, in practice, for ownership of at least 10% of the ordinary shares or voting rights). It includes equity capital, reinvestment and other capital associated with inter-company operations,

Economic and Financial Affairs (ECOFIN) Council: the EU Council which is composed of the Economics and Finance Ministers.

Economic and Financial Committee: a committee which carries out preparatory work for the European Commission and the ECOFIN Council. It monitors the economic and financial state of the Member States and of the EU, and contributes to budget review.

ERM II (exchange rate mechanism II): the system which provides the framework for exchange rate policy cooperation between the euro area countries and the non-euro area EU Member States. ERM II is a multilateral arrangement with fixed, but adjustable, central rates and a standard fluctuation band of ±15 per cent. Decisions concerning central rates and narrower fluctuation bands are taken by mutual agreement between an EU Member State concerned, euro area countries, the ECB and other EU Member States participating in the mechanism. All participants in ERM II, including the ECB, have the right to initiate a confidential procedure aimed at changing the central rates.

EURIBOR: an interest rate at which a bank with a high credit rating would lend funds in euro to another bank with a high credit rating. Data on this rate is provided by a group of banks; for interbank deposits, it is calculated on a daily basis for a different term of up to 12 months.

Euro area: the area comprising the EU Member States that have adopted the euro as the single currency and in which a single monetary policy is conducted under the responsibility of the Governing Council of the ECB. Currently the euro area comprises the following countries: Ireland, Austria, Belgium, Estonia, Latvia, Greece, Spain, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Portugal, France, Slovakia, Slovenia, Finland and Germany.

European Central Bank (ECB): the centre of the Eurosystem and the European System of Central Banks (ESCB) with the status of a legal person. The ECB ensures that the objectives set for the Eurosystem and the ESCB are implemented by the ECB itself or the national central banks in accordance with the Statute of the ESCB. It is governed by the Governing Council, Executive Council and, as a third decision-making body, the General Council.

European System of Central Banks (ESCB): the system composed of the ECB and the national central banks of all 28 EU Member States, i.e. it includes, in addition to the members of the Eurosystem, the NCBs of those EU Member States whose currency is not the euro. The ESCB is governed by the Governing Council, the Executive Council and the General Council of the ECB.

Eurosystem: the central banking system of the euro area. It comprises the European Central Bank and the national central banks of the EU Member States.

Financial stability: condition in which the financial system — comprising financial intermediaries, markets and market infrastructure — is capable of withstanding shocks and the unravelling of financial imbalances, thereby mitigating the probability of disruptions in the financial intermediation process to the extent that they impair the allocation of savings to profitable investment.

Foreign exchange swap: an agreement between two parties thereby they agree to exchange the flows of amounts payable associated with the arrears of the same amount. Foreign exchange swaps can be simultaneous spot and forward.

General Council: one of the decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and the governors of all national central banks of the ESCB.

General government: a sector defined in the European System of Accounts 1995 comprising resident entities that are engaged primarily in the production of non-marketable goods and services intended for individual and collective consumption and/or in the redistribution of national income and wealth. It includes central, regional and local government, as well as social security funds. Excluded are government-owned entities that are engaged in commercial activities, such as public enterprises

Governing Council: the supreme decision-making body of the ECB. It comprises the members of the Executive Board of the ECB and the governors of the NCBs of the Member States which have adopted the euro.

Harmonised Index of Consumer Prices (HICP): a measure of the development of consumer prices that is compiled by Eurostat and harmonised for all EU Member States.

Interest expenses: interest paid by a payment institution on borrowed funds and on the funds of the payment accounts of consumers and other payment service providers.

Interest income: interest received by a payment institution from the invested funds of payment service users and other payment service providers as well as other funds held by a payment institution.

Investment portfolio: net transactions and/or positions of securities issued by residents ("assets") and non-resident net transactions and/or positions of securities issued by residents ("liabilities"). It comprises equity securities, debt securities (bonds and notes, money market instruments) other than amounts included in direct investment and international reserves.

ISIN: International Securities Identification Number, or code, assigned to securities issued in financial markets. It is assigned by a competent issuing authority.

Key ECB interest rates: interest rates set by the Governing Council of the ECB, reflecting the stance of the monetary policy of the ECB. They include the main refinancing operations rate, the marginal lending rate and the deposit facility rate.

Liquidity risk: a probability of disruptions in a credit institution's settlements due to cash flows imbalances.

Macro-prudential policy: policy implemented by the central bank of the country or another institution, which is aimed at avoiding risks to the financial system as a whole or reducing them, thereby maintaining the stability and resilience of this system.

Market risk: the probability that market variables — interest rate, currency exchange rate, the prices of equity securities, commodities — will change so that an electronic money institution and a payment institution will incur losses due to a transaction concluded.

Monetary financial institutions (MFI): financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in EU law) and all other resident financial institutions engaged in the acceptance of deposits and/or close substitutes for deposits from entities other than MFIs and, on their own account (at least in economic terms), granting credit and/or investing in securities. The latter group mainly consists of money market funds, i.e. funds investing in short-term and low-risk instruments with their term normally up to one year and shorter.

Monetary income: income accrued by NCBs from implementing the Eurosystem's monetary policy. It is earned from the assets indicated in the Governing Council's guidelines that include banknotes in circulation and deposit liabilities to credit institutions.

Operational risk: the probability of loss resulting from people, systems, inadequate or failed internal processes or from external events, including legal risk.

Payment institution: a legal entity holding a payment institution licence or a limited purpose payment institution licence.

Price stability: the primary objective of the Eurosystem. The Governing Council of the ECB defines price stability as an average annual increase in the HICP in the euro area of below 2 per cent. The Governing Council has also made it clear that, in the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2 per cent over the medium term.

Refinancing operation: a regular open market operation executed by the Eurosystem in the form of reverse transactions. Such operations are carried out through a weekly standard tender and normally have a maturity of one week.

Repurchase agreement and reverse repurchase agreement: an agreement to sell and subsequently repurchase securities, commodities or a guaranteed title to securities or commodities, where such a guarantee is issued by a recognised exchange holding the title to the above-named securities or commodities, whereby the institution cannot transfer or pledge certain securities or commodities to more than one counterparty at a time and undertakes to repurchase them (or substitutes of securities or commodities of the same type) at a fixed price on a specified date which had already been indicated or will be indicated by the seller. For a seller of securities or commodities it is a repurchase agreement, while for a buyer — a reverse repurchase agreement.

Securities settlement system (SSS): a system for securities transfer free of charge or for a fee (applying the Delivery-versus-Payment principle).

Shares: equity securities representing ownership of a stake in a corporation. They include quoted shares, shares tradable on a stock exchange, non-quoted shares and other. Shares usually generate income in the form of dividends.

Single Euro Payments Area (SEPA): an integrated payment services market in which competition laws are effective and there are no differences between cross-border and national payments in euro.

Systemic risk: the risk that the default of one system participant to meet its liabilities in a timely manner will cause the default of other system participants to meet their liabilities in a timely manner. Such a default may cause significant liquidity or credit problems that may threaten the stability of the financial system and confidence in it.

TARGET 2: a second generation TARGET system. It is designated for settlement in euro using the money of a central bank and a single shared platform to which all payment orders are sent.

VILIBOR: average inter-bank interest rate at which the banks operating in Lithuania would lend funds to other banks operating in Lithuania. This indicator is calculated by the Bank of Lithuania on the basis of the interest rates offered by selected active inter-bank market participants. VILIBOR is calculated of different maturities (from overnight to twelve months).

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