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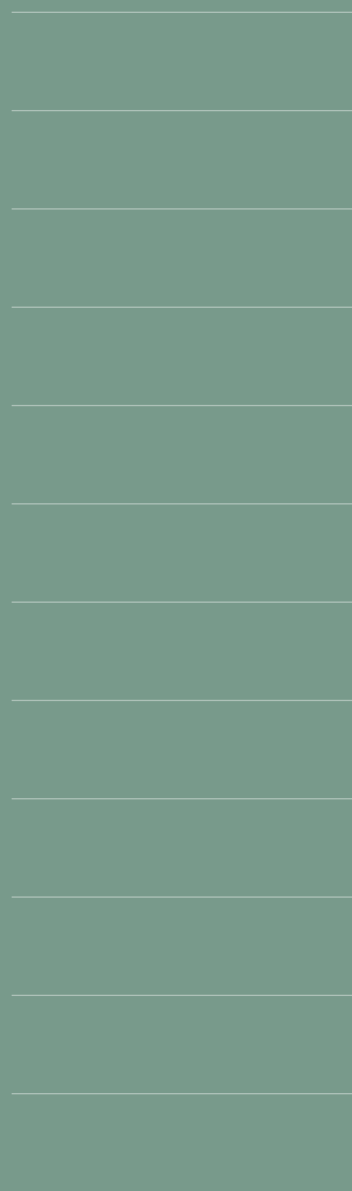


**LIETUVOS BANKAS**  
EUROSISTEMA

# ANNUAL REPORT

2014

2014



# ANNUAL REPORT OF THE BANK OF LITHUANIA

2014

The Board of the Bank of Lithuania approved the 2014 Report on 28 April 2015. The Annual Report was prepared on the basis of data from the Bank of Lithuania, Statistics Lithuania, the European Central Bank, the Statistical Office of the European Union, the International Monetary Fund and other sources, published until 3 April 2015.

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## Abbreviations and other explanations

AB	public limited liability company
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
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
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the European Union
GDP	gross domestic product
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
LCCU	Lithuanian Central Credit Union
MFI	monetary financial institution
p.p.	percentage point
SSM	Single Supervisory Mechanism
UAB	private limited liability company
USA/US	United States of America

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



# SUMMARY

On 1 January 2015, Lithuania adopted the single currency of the EU — the euro — and became the nineteenth member of the euro area. The Bank of Lithuania joined the Eurosystem, whose main monetary policy objective is to maintain price stability in the euro area, and participates together with the ECB and other euro area central banks in the decision-making process related to euro area monetary policy setting and implementation, ECB foreign reserve management, euro area bank supervision and other important financial matters.

This report provides an overview of the preparation for the euro adoption and a detailed presentation of the work of the Bank of Lithuania in 2014 related to the implementation of the objectives of the central bank of the Republic of Lithuania and performance of its functions in the context of domestic and global economic developments, as well as developments within the financial system.

Global economic growth was uneven in 2014. Stronger GDP growth was recorded in the US and the United Kingdom; however, the growth rates of emerging market economies slowed down and the economic growth of the euro area and Japan was slow. Uncertainty in the euro area was increased by the geopolitical tensions related to the conflict in East Ukraine, whereas the recovery was hampered by the deterioration of Russia's economic situation and the introduction of bilateral sanctions. Global economic recovery was stimulated by the decline in commodity prices, accommodative monetary policy measures taken by central banks, gradual recovery of demand. However, instability prevailed due to the deterioration of inflation expectations, high sovereign debt levels, geopolitical conflicts.

Economic growth of Lithuania was among the strongest in the EU in 2014. Growth was supported by domestic demand, especially household consumption. The latter was positively affected by the favourable economic conjuncture: the labour market situation improved, inflation was particularly low and interest rates declined to record lows. Still, compared to 2013, economic growth slowed down. This development was mainly determined by more moderate growth of external demand, decline in the exports of oil products due to stronger competition in the global oil product market and the embargo on certain food products declared by Russia in August.

The labour market was noticeably affected by the rise in the resident participation rate. This rise determined significant employment growth, whereas the unemployment rate declined slightly slower than before. The latter is currently close to the natural unemployment rate estimates. Improvement in the labour market situation contributed to relatively significant wage growth.

Inflation was positive, but very low in 2014 — significantly lower than in several previous years and the long-term average. Low inflation was determined by various factors, such as the fall in global commodity prices, low inflation in the euro area and rather moderate growth of unit labour costs in Lithuania. Owing to the fall in the prices of imported energy commodities — oil and gas — consumer prices of energy declined in Lithuania in 2014. Thus, positive overall inflation was supported only by core inflation (the part of inflation that is more related to domestic demand) and rising food prices. However, the development of these components was also favourable to consumers: both core inflation and the growth of food prices declined, compared to 2013.

The performance results, financial situation and loan repayment capacity of non-financial enterprises improved in 2014. During the period under review, more than two thirds of enterprises operated profitably, the return on equity increased, whereas the burden of liabilities declined. Import restrictions on food products introduced by Russia did not have a negative impact up to now. More favourable performance indicators of non-financial enterprises contributed to a stronger inclination of banks to finance business, however, enterprises still made their borrowing decisions with caution. This was determined by more moderate than expected growth of export markets. Moreover, non-financial enterprises have accumulated large internal reserves, which are primarily used for funding business expansion.

The financial situation of households improved further in 2014: employment and wages grew and unemployment declined. This, together with lower interest rates, determined the improvement in the borrowing capacity of households, compared to the previous year. Nevertheless, consumer expectations deteriorated and consumer borrowing from banks did not increase more than a year ago.

The MFI loan portfolio continued to shrink in the course of 2014 and at the end of the year was 2.1 per cent smaller than a year ago. Enterprises with higher indebtedness to banks continued to reduce their liabilities; however, enterprises with a lower amount of bank loans increased them. These enterprises included energy supply enterprises related to the public sector and the transport sector, which is more open to foreign trade. In Lithuania, same as in the EU, housing loans continued to grow moderately in 2014.

The main objective of the Bank of Lithuania — to maintain price stability — was implemented by applying the fixed litas exchange rate strategy until the adoption of the euro on 1 January 2015. Lithuania applied the currency board arrangement successfully for twenty years until the implementation of its strategic objective — to join the euro area and take advantage of all the benefits of the EU single currency. Lithuania participated in the ERM II from 2004 and maintained the fixed exchange rate regime. On 23 July 2014 the EU Council adopted a decision allowing Lithuania to introduce the euro as its currency from 1 January 2015 and established an irrevocable litas and euro exchange rate of LTL 3.45280 to EUR 1, which was the same as the litas exchange rate, constantly maintained since 2002.

At the end of 2014, 7 banks and 8 foreign bank branches operated in Lithuania. The profit of banks operating in Lithuania declined by 6.2 per cent last year — a result of the increase in loan impairment expenses and higher administrative costs. The amount of business liabilities remained broadly unchanged over the year. The highest concentration of loans was observed in real estate, wholesale and retail trade and the manufacturing sectors. Higher real estate market activity made a positive impact on the housing loan portfolio growth. Loan portfolio quality continued to improve in 2014, as banks wrote off bad loans and assessed the financial situation of borrowers and its prospects more favourably. The planned adoption of the euro significantly contributed to the strong liquidity situation of banks.

After Lithuania joined the euro area and became a member of the ECB Single Supervisory Mechanism, the adaptation of the bank supervisory model to the SSM requirements was continued in order to ensure the effectiveness of the supervisory model and constructive dialogue with the ECB. Comprehensive risk assessment of the three largest banks was conducted according to the ECB methodology in 2014, which demonstrated that bank asset quality is good and their capital is adequate. In addition, banks solidly withstood the stress testing.

Strengthening of the credit union sector supervision continues. Legal acts adopted by the Bank of Lithuania, activity restrictions and other enforcement measures applied to certain credit unions had an impact on the activities of credit unions — they assess the risk assumed more responsibly. In addition, certain loan portfolio composition changes took place — the share of

loans granted to associated members, which are considered to be riskier, declined in the loan portfolio. In the beginning of 2015, the working group created by the Board of the Seimas of the Republic of Lithuania prepared the draft "Conception for the Sustainable Operation of Credit Unions", which was initiated by the Bank of Lithuania. The implementation of the objectives and principles proposed in this concept would ensure closer integration of the credit union sector, more sustainable credit union capital formation, better risk management and more effective supervision.

Since September 2014, the Law on the Bank of Lithuania gives the Bank of Lithuania the mandate to conduct macro-prudential policy with the objective of contributing to the safeguarding of the stability of the financial system, including by means of strengthening its resilience and mitigating a build-up of systemic risk, in order to ensure a sustainable contribution of the financial sector to economic growth. In accordance with this Law, the Bank of Lithuania adopted the Macro-Prudential Policy Strategy in March 2015, which establishes the ultimate and more detailed intermediate macro-prudential policy objectives and instruments for achieving these objectives. The strategy also lays down the procedure for macro-prudential policy decision-making and publishing as well as cooperation with other institutions.

In 2014, prior to adoption of the euro in the Republic of Lithuania, the value and volume of cash in circulation declined by half. The decline of high denomination banknotes and coins was the largest.

The return on financial assets was 1.86 per cent in 2014. Investment results were determined by low profitability rates of the safest euro area countries in terms of credit risk, which declined even more in the course of the year, as well as significantly lower yield spreads on debt securities (credit risk premia) of other euro area countries and the increase in stock prices in global markets.

From 1 January 2016, Lithuania will have to implement the SEPA regulation requirements, according to which payment service providers and their customers will use payment instruments of a similar format according to similar rules. In order to encourage payment service providers to take more active actions, the Bank of Lithuania set the expectations regarding the stages of preparation to implement the SEPA requirements. Payment service providers have to adapt their internal systems and links with customers by 1 July 2015, so that economic entities can gradually migrate to SEPA formats during the remaining time. Taking into account the SEPA regulation requirements, the Bank of Lithuania decided to develop the retail payment system of the Bank of Lithuania that conforms to the SEPA regulation requirements.

The Bank of Lithuania actively participated in the activities of the ESCB, other EU institutions and international organisations, closely cooperated with the IMF and other international organisations, rating agencies, national central banks and supervisory authorities. After the EU Council took the decision on Lithuania's membership in the euro area, representatives of the Bank of Lithuania started their participation as observers in the activities of the ECB Governing Council and Supervisory Board, as well as the ESCB committees consisting of Eurosystem members. The agenda of the EU institutions concentrated on the issues related to the SSM implementation and long-term financing of the European economy. The IMF paid much attention to the issues related to the international macro-economic environment, monetary policy adjustment and financial system reform, while the strengthening of regional monitoring was another important priority area of activity.

In observance of the public accountability principle, the Bank of Lithuania ensures transparency of its activities using various media. Thus, it strengthens confidence in the central bank of the Republic of Lithuania and the domestic financial system.

## I. ADOPTION OF THE EURO IN LITHUANIA

On 1 January 2015, Lithuania became the nineteenth member of the euro area. The Bank of Lithuania is a part of the Eurosystem now and participates together with the ECB and other euro area central banks in the decision-making process related to euro area monetary policy setting and implementation, ECB foreign reserve management, euro area bank supervision and other important financial matters.

The smooth adoption of the euro completed the practical preparation works for the introduction of the new currency, which lasted several years. The Bank of Lithuania action plan for the adoption of the euro included almost 400 measures related to various areas: adaptation of national legislation, provision of information to the public, preparation for the cash changeover, reform of payment systems, management of financial assets, adaptation of accounting systems, statistical information management, consumer protection, etc.

During the preparation for the euro adoption, active cooperation with commercial banks took place. On 17 July 2014, the Bank of Lithuania and commercial banks concluded the Memorandum of Good Practices during the Adoption of the Euro. By signing this memorandum, banks committed to extend customer servicing hours in their branches during the most intensive cash changeover period, create favourable conditions for the debiting of cash into bank accounts and apply other measures to ensure a smooth cash changeover for the population and businesses.

The Bank of Lithuania also cooperated with other public institutions and led three national working groups, which coordinated the issues related to cash, information provision to the public and convergence criteria monitoring. Further in this section, an overview of the most important euro adoption preparatory works will be provided, taking into account the activities of the euro adoption working groups led by the Bank of Lithuania and the areas where the Bank of Lithuania played the most important role.

### Cash Changeover

The Bank of Lithuania was responsible for the provision of euro banknotes and coins. In order to ensure a smooth cash changeover process, the Bank of Lithuania determined the quantity and composition of euro cash denominations required by the country and coordinated them with the ECB. It was decided that Lithuania needs 132 million pcs. of euro banknotes and 370 million pcs. of euro coins to replace litas and to ensure a sufficient volume of cash in circulation for 2015.

After the EU Council made the decision on lifting the derogation granted to Lithuania regarding the use of the national currency, the Bank of Lithuania signed, after coordination with the ECB, the euro banknote borrowing agreement with Deutsche Bundesbank. The euro coins required by Lithuania are minted by the state mint *UAB Lietuvos monetų kalykla*. The Bank of Lithuania concluded an agreement on the minting of Lithuanian euro and euro cent coins and production of euro coin sets with it. The quantity of

132 million pcs. of euro banknotes and 225.3 million pcs. of euro and euro cent coins was delivered to the vaults of the Bank of Lithuania on time for the adoption of the euro in the Republic of Lithuania.

One the most important components of the cash changeover process was the withdrawal of litas cash from circulation and the distribution of euro cash. Preparation for the euro changeover was facilitated by the decline in the volume of litas cash in circulation. In the beginning of 2014, the value of cash in circulation in Lithuania amounted to LTL 11.9 billion, whereas on 31 December this value was equal to only LTL 5.8 billion.

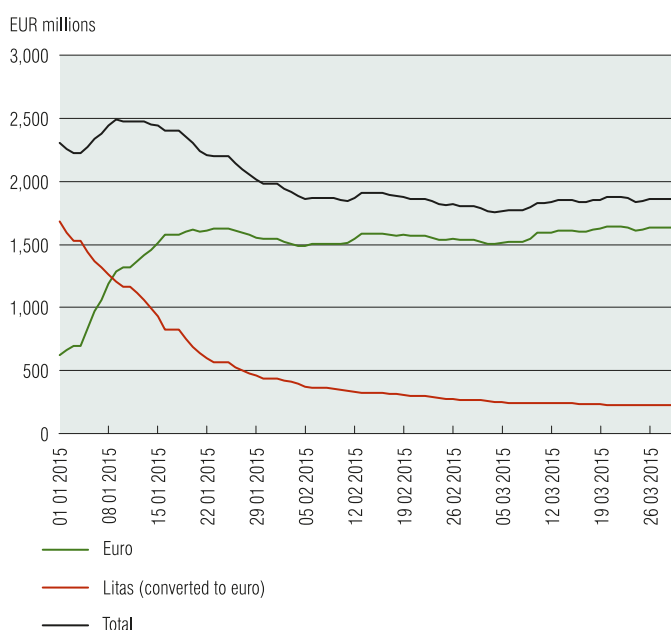
The frontloading of euro coins started on 1 October 2014 and the frontloading of euro banknotes began on 1 November 2014. The total volume of cash issued by the Bank of Lithuania to commercial banks in the course of frontloading until 31 December 2014 amounted to 193.1 million pcs. of euro coins and 36.1 million pcs. of euro banknotes. Commercial banks collected from the Bank of Lithuania all euro coin sets for retailers, i.e. 70.6 thousand sets in the value of EUR 111 and 73.3 thousand sets in the value of EUR 200. The volume of cash issued by commercial banks to customers in the course of sub-frontloading amounted to 95.6 million pcs. of euro coins and 9.5 million pcs. of euro banknotes.

The distribution of the Lithuanian euro coin sets with the value of EUR 11.59 to the public was started by the Bank of Lithuania and commercial banks on 1 December 2014 and by the Lithuania Post on 4 December. All 900 thousand pcs. of the said euro coin sets were distributed to the public by the date of the adoption of the euro.

After the adoption of the euro in Lithuania, cash payments in litas for goods and services were still allowed during the dual circulation period from 1 to 15 January 2015. On 16 January 2015, the euro became the sole legal tender.

The value of euro exceeded the value of litas in circulation already on 9 January 2015, i.e. the value of euro in circulation amounted to EUR 1,282.8 million (51.6%), whereas the value of litas in circulation amounted to EUR 1,204.8 million (48.4%).

**Chart 1. Cash in circulation**



Source: Bank of Lithuania.

On 31 March 2015, the remaining volume of litas in circulation amounted to 13.2 million pcs. of litas banknotes in the value of LTL 628.5 million and 880.6 million pcs. of litas coins in the value of LTL 120.8 million. From the beginning of 2014 to 31 March 2015, 86 per cent (79.8 million pcs.) of litas banknotes and 24 per cent (285.4 million pcs.) of litas coins were withdrawn from circulation in total. From January to March 2015, 43.2 million pcs. of litas banknotes and 209.4 million pcs. of litas coins were withdrawn from circulation.

Litas were exchanged to euro free of charge at the fixed exchange rate of LTL 3.4528 to EUR 1 at the Lithuania Post and some credit unions for 60 calendar days from the adoption of the euro. Litas will be exchanged to euro for six months in commercial banks and for the whole year in some commercial bank branches. The Bank of Lithuania will exchange litas into euro free of charge for an unlimited period of time.

## Adaptation of ATMs and Payment Services

In order to ensure availability of ATMs and electronic payments for the public during the adoption of the euro in Lithuania, the Bank of Lithuania established the objectives to be implemented and monitored preparations carried out by payment service providers in the areas of payment card settlements, cash withdrawal at ATMs and internet banking.

The adaptation of the ATM network to issue euro from 1 January was successful. The majority of ATMs ceased issuing litas in the late evening of 31 December. Only a part of ATMs ceased working earlier due to certain functional limitations — they were turned off gradually from 29 to 31 December. 60 per cent of ATMs in Lithuania started working already in the first minutes of 2015 and at 00:30 it was possible to withdraw euro cash at all ATMs. ATMs that accept cash were activated slightly later, however, the majority of them (80%) started operating in the night of 1 January as well and the remaining ones started working in the first part of 1 January. It should be noted that, in order to ensure a smoother changeover from litas to euro, two of the largest banks continued to accept litas at ATMs even after the euro adoption day.

No major disturbances were observed in the area of card payments as well. As planned and notified in advance, it was not possible to make settlements using payment cards of some banks for some time during New Year's night due to the installation of system upgrades. These disturbances lasted from 15 minutes to 1 hour.

Changes to bank systems, as well as sufficient time for making them, were necessary due to the adoption of the euro. Therefore, payment orders were accepted for a shorter time than usual on 31 December — until 12:00. Internet banking systems stopped operating from 14:00, with several exceptions. Internet banking systems of the majority of banks were available to customers already on 1 January. It was possible to check the account balances converted to euro in some of them, while in others it was possible to use all services. On the morning of the first business day of January, internet banking systems of all banks were operating.

## Reform of Payment Systems

The Bank of Lithuania performs one of its main functions — to encourage stable and efficient operation of payment and securities settlement systems — by administering payment systems.

After the adoption of the euro, the payment systems operated by the Bank of Lithuania were reformed: the real time litas payment system LITAS-RLS was shut down, whereas real time settlements in euro are currently performed in the real time payment system TARGET2-LIETUVOS BANKAS. During the implementation of the reform, the Bank of Lithuania prepared plans and coordinated the connection to TARGET2-LIETUVOS BANKAS of those credit institutions that did not participate in the system until this year. From 2015, all credit institutions participating in this system may utilise overnight deposit and marginal lending facilities provided by the Eurosystem.

The retail payment system LITAS-MMS was reorganised and began providing euro retail payments services among domestic credit institutions from 2015. The Bank of Lithuania made changes to the system LITAS-MMS, which allows credit institutions participating in this system to make payments among them faster and to reduce the fees payable by their customers. The system's operating hours were extended, i.e. the payments are now processed until 17:00 (a year ago, retail payments were processed until 15:30). Moreover, the number of clearings was increased from four to nine per day, whereas the payment fee was reduced from the earlier fee of 19 centas to 1 euro cent.

A new express retail payment service was introduced in the system LITAS-MMS, i.e. credit institutions, which decided to provide the express payment service to their customers, can submit via the system LITAS-MMS an express payment (which is settled immediately, without waiting for the next clearing) to another credit institution using this service. The processing of such payment costs 10 euro cents for the credit institution.

The settlement of retail payments in the EU is regulated by the Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (hereinafter — SEPA regulation). SEPA regulation establishes a one-year transitional period for the countries that adopted the euro to prepare for SEPA formats, which end in the beginning of 2016. Therefore, the euro retail payment system that complies with the SEPA regulation requirements should start operating on 1 January 2016. Currently, the Bank of Lithuania is preparing software changes to upgrade the system LITAS-MMS and to adapt it to the payment orders described in the SEPA standard. In 2016, the system compatible with SEPA formats will provide the infrastructure for credit institutions not only to exchange payment orders generated according to the joint SEPA standard within the country, but also to send and receive them from credit institutions of all European Economic Area (EEA) countries. Not only credit institutions were invited to join the system of the Bank of Lithuania, but also payment and electronic money institutions — it is expected that this will increase competition in the payment market.

## **Provision of Information to the Public**

The Bank of Lithuania, together with the ECB, conducted an active cash information campaign. One of its main objectives was to provide information to the public about the single currency of the European Union — euro banknotes and coins and their security features; to ensure that people are well prepared to protect themselves from potential fraud, avoid misunderstandings, etc. According to the Eurobarometer survey published in autumn 2014, one of the essential areas of information requested by Lithuanian residents during the preparation for the adoption of the euro was the appearance of euro



banknotes and coins (this was indicated by 36% of the surveyed persons).<sup>1</sup> A variety of communication tools were used for such provision of information.

In 2014, the Bank of Lithuania published 113 press releases, held 9 press conferences and published online 33 of its own short films and 3 short films provided by the ECB.

Information and educational lectures and other events were organised for various public target groups. In spring and autumn 2014, 240 seminars for residents and businesses were organised by the Bank of Lithuania and other institutions in all 60 municipalities of Lithuania, which were attended by more than 7 thousand participants. In March 2014, around 8 thousand children participated in the events of the Children Financial Education Week organised by the Bank of Lithuania. The Money Museum of the Bank of Lithuania organised 66 educational events about the euro, which were attended by 2 thousand schoolchildren. The Money Museum prepared methodical and educational materials about the euro for schoolchildren in various grades, which were distributed to teachers.

Much attention was paid to the provision of information to cash handlers and cashiers about euro cash. In spring and autumn 2014, the Bank of Lithuania organised 77 training seminars in total, which were attended by 1,200 cash handlers from financial services, trade and post enterprises. They transferred the knowledge acquired about the euro to around 12 thousand colleagues in their respective undertakings.

From 13 May to 1 October 2014, the exhibition of the Bank of Lithuania "Vytis: from the Lithuanian *Denar* to the Euro" was held in Kaunas. This exhibition revealed the historical journey of the Vytis from the first Lithuanian coins of the 14<sup>th</sup> century to the Lithuanian euro. The visitors to the exhibition had an opportunity to see the Lithuanian euro of 2015 issue with the Vytis on them for the first time. The exhibition was attended by 2.5 thousand visitors. On 2 October, the exhibition was transferred to Vilnius and was open there until the end of February 2015.

As the adoption of the euro approached, the Bank of Lithuania actively encouraged businesses to sub-frontload sufficient amounts of euro cash to ensure a smooth change-over to the new currency. The Bank of Lithuania prepared and published recommendations "Eight Steps for Entrepreneurs to Prepare for the Use and Sub-Frontloading of Euro Cash" in August 2014, whereas in November, in cooperation with the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania, 230 thousand e-mails were sent to businesses, encouraging them to sub-frontload euro cash.

The Bank of Lithuania, together with the ECB, organised an international conference "The Euro in Lithuania: Single Market, Single Currency, Common Future" on 25 September 2014, which was widely covered by the global media.

The euro exhibition organised by the Bank of Lithuania and the ECB in Vilnius from October 2014 to January 2015 was attended by 46 thousand visitors from all over Lithuania.

Publications were effectively utilised for providing information about the euro. From 3 to 23 December 2014, euro information packages prepared by the ECB and the Bank of Lithuania were sent to 1.34 million Lithuanian households. They contained practical information about euro cash and special three-dimensional currency calculators produced for the adoption of the euro. In addition, 236 thousand ECB publications and more than 1.7 million booklets, brochures and posters prepared by the Bank of Lithuania were distributed and 39 information stands about the euro were built in Lithuania in 2014.

<sup>1</sup> [http://ec.europa.eu/economy\\_finance/pdf/2014/fl402\\_report\\_for\\_pub.pdf](http://ec.europa.eu/economy_finance/pdf/2014/fl402_report_for_pub.pdf)



During the information campaign, attention was paid to the provision of information to national minorities (publications about the euro in Polish and Russian were distributed) and certain measures were implemented to provide information about the new currency to socially sensitive groups — the blind and visually impaired persons (the Bank of Lithuania ordered and distributed 3 thousand special cards to the blind for recognising euro banknotes and coins; 4 thousand ECB sound cards were distributed to them), the hearing impaired persons (the Bank of Lithuania ordered a short film in sign language about the euro security features).

The most intensive stage of the euro cash information campaign organised by the Bank of Lithuania and the ECB took place from the middle of December 2014 to the middle of January 2015: outdoor, press, internet and TV advertisements were released, short films “Lithuania Introduces the Euro — Meet our Money” and “Lithuania Introduces the Euro — Journey” (the Bank of Lithuania contributed to their production) were broadcast on television and the screens of information partners.

The euro information campaign organised by the Bank of Lithuania and other public institutions (the Ministry of Finance, the Ministry of the Economy, the State Consumer Rights Protection Authority, etc.) in cooperation with the ECB and the European Commission gave positive results. Based on the data of the representative survey commissioned by the Bank of Lithuania, from November 2014 to end-January and early February 2015, the share of the population<sup>2</sup> able to indicate at least one euro banknote security feature increased by as much as 38 per cent (from 46 to 84%). During the Eurobarometer survey conducted from 16 to 19 January 2015 around 1 thousand respondents belonging to various social and demographic groups were surveyed by telephone in Lithuania. 86 per cent of respondents stated that the adoption of the euro was smooth and efficient.<sup>3</sup> The data of the Eurobarometer surveys<sup>4</sup> indicate that awareness of the Lithuanian population about the euro increased gradually. In April 2013, only 41 per cent of them agreed that they are well (very well and sufficiently well) informed; in April 2014 — 50 per cent, in September 2014 — 70 per cent, and in January 2015 — as much as 92 per cent. Moreover, acceptance of euro as a single currency of the EU by residents increased gradually. In spring 2013, only 40 per cent of residents approved the euro, in spring 2014 — 50 per cent, whereas in November 2014, before the adoption of the euro — 63 per cent.<sup>5</sup>

Expenses of the Bank of Lithuania related to the dissemination of information about the euro and communication comprised LTL 1.46 million in 2014. It should be noted that the Bank of Lithuania succeeded to perform a significant share of public information provision activities free of charge in cooperation with socially responsible partners. At the expense of the three largest domestic mobile operators, residents were informed about the main aspects of the euro adoption by SMSs: during the two information provision stages in July to August 2014 and in December 2014, 6.38 million SMS messages were sent. The educational social event initiated by the Bank of Lithuania, during which the main principles of checking whether euro banknotes are genuine were introduced to residents from early November 2014 to early January 2015, was joined on non-commercial grounds by 25 partners. Information reached residents through banks, merchants, service

<sup>2</sup> In November 2014, the share of respondents who had seen euro banknotes comprised 84 per cent, 46 of them could indicate at least one euro banknote security feature; in end-January to early February 2015, the share of respondents who had seen euro banknotes was 99 per cent, 84 per cent could indicate at least one euro banknote security feature.

<sup>3</sup> [http://ec.europa.eu/economy\\_finance/articles/pdf/fl412\\_report\\_final\\_en.pdf](http://ec.europa.eu/economy_finance/articles/pdf/fl412_report_final_en.pdf)

<sup>4</sup> [http://ec.europa.eu/public\\_opinion/flash/fl\\_402\\_sum\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_402_sum_en.pdf)

<sup>5</sup> [http://ec.europa.eu/public\\_opinion/archives/eb/eb82/eb82\\_first\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb82/eb82_first_en.pdf)

providers, more than 2 thousand information screens managed by airports and other organisations.

In November to December 2014, more than 300 thousand schoolchildren, their parents and teachers were provided essential information about the single euro area currency through electronic diaries. Such possibility was created by the three largest electronic learning networks *Mano dienynas*, *TAMO* and *Vdienynas*, who participated in the euro information campaign on non-commercial grounds under the initiative of the Bank of Lithuania and the Ministry of Education and Science of the Republic of Lithuania.

Significant contribution to the euro cash information campaign was made by the ECB, which funded measures of euro information provision to the public (information package for each household, other publications about euro banknotes and coins, production and broadcasting of outdoor, press, internet and TV advertisements, euro exhibition, etc.).

The Public Information Working Group led by the Bank of Lithuania coordinated euro communication and included representatives of 15 institutions. Moreover, regular consultations and cooperation took place with business partners (banks, trade companies) and educational institutions.

## Protection of Consumer Interests during the Adoption of the Euro

In order to ensure suitable protection of the interests of financial service users (hereinafter — users) during the adoption of the euro, already in the beginning of 2014 the Bank of Lithuania ascertained potential risks that may be encountered by users. Guidelines on Customer Information about the Euro Adoption Consequences on Contractual Relationship were adopted. Their objective is to draw attention of financial market participants supervised by the Bank of Lithuania to the main principles of information provision to customers, in order to provide comprehensive information to them on the practical aspects of the euro adoption, impact of the euro adoption on contractual relations between financial market participants and their customers and other related changes. Moreover, when monitoring compliance with the requirements established by the Law on the Adoption of the Euro in the Republic of Lithuania, the Bank of Lithuania reviewed websites of 26 financial market participants from September to December 2014. During the assessment of their information about the fees for the services provided by financial market participants, the Bank of Lithuania found shortcomings, which were mainly related to the indication of applicable fees only in litas and their incorrect conversion from litas to euro and rounding. All entities that had the said shortcomings in their websites took into consideration the instructions of the Supervision Service to correct them and complied with them in time. From September to December 2014, seven complaints of customers regarding potential infringements of the legal acts regulating the adoption of the euro were considered; however, it was decided after their assessment that all of them were ungrounded.

## Accession to the Banking Union

After Lithuania joined the euro area, it automatically became a part of the SSM. Practical issues related to the participation in the SSM were discussed with Danièle Nouy, Chairwoman of the ECB Supervisory Board, during her visit at the Bank of Lithuania in January 2015. Since 4 November 2014, when the application of the SSM started, the ECB became directly responsible for the supervision of the largest banks operating in

euro area countries, whereas national supervisory authorities remained responsible for the supervision of smaller banks. The ECB took over direct supervision of the three largest banks operating in Lithuania (*AB SEB bankas*, *Swedbank*, *AB*, and *AB DNB bankas*). However, the SSM is created in such a way that the ECB uses the experience and resources of national institutions when conducting supervision of the largest banks. Joint supervisory teams are established for this purpose for each significant bank directly supervised by the ECB. The teams are coordinated by the ECB staff; however, a significant role is also played by the experts of national supervisory authorities included in them. The status of the Bank of Lithuania in the supervisory colleges of the three largest banks also changed: from now on the ECB participates in them as a full member, whereas the Bank of Lithuania participates as an observer. The Bank of Lithuania started intensive preparations for joining the SSM already last year: a comprehensive risk assessment of the three largest banks was conducted according to the common ECB methodology, which demonstrated that bank asset quality is good and their capital is adequate, while the banks withstood the stress testing strongly; a member of the Board of the Bank of Lithuania started participating as an observer in the SSM Supervisory Board (she became a full member from 1 January 2015); the staff of the Bank of Lithuania started participating in the SSM working groups during the preparation of the common supervision methodology and exchange of the best supervisory practice; bilateral meetings with the ECB staff working in various areas took place, etc. It should be noted that from 1 January 2015, after gaining the full SSM Supervisory Board mandate, the Bank of Lithuania participates in making the decisions not only on the issues related to Lithuanian banks, but also on the issues related to the supervision of banks in the whole euro area.

## II. REVIEW OF THE ECONOMY AND FINANCE

### Global Economic Developments

Global real GDP increased by 3.3 per cent in 2014; however, the growth rates in the main regions of the world were uneven. The fastest growth among developed countries was observed in the US (real GDP increased by 2.4%) and the United Kingdom (2.6%), whereas the GDP growth in the euro area and Japan was slow and amounted to respectively 0.9 and 0.1 per cent. The GDP growth rate in most emerging economies slowed down. The main factors that determined the global economic developments in 2014 were the following: a slow recovery of demand, continuing and new military conflicts, the fall in commodity prices, low (and negative in some cases) interest rates.

**Table 1. Real GDP in the world**

(per cent)

	Real GDP growth			
	2013	2014	2015*	2016*
World	3.3	3.3	3.5	3.7
Developed countries	1.3	1.8	2.4	2.4
USA	2.2	2.4	3.6	3.3
Euro area	-0.5	0.9	1.2	1.4
Emerging countries	4.7	4.4	4.3	4.7
China	7.8	7.4	6.8	6.3
Russia	1.3	0.6	-3.0	-1.0

Source: IMF

\* Forecasts.

The majority of the main central banks maintained low key interest rates or reduced them further and applied accommodative monetary policy measures in 2014 in response to the falling inflation and slow GDP growth rates. In the second half of the year, monetary policy stances started to diverge in the US and the euro area. In October, the Federal Reserve System announced the end of the quantitative easing programme, whereas the ECB started applying additional non-conventional monetary policy measures and reduced interest rates.

The economic growth in the US was stronger in 2014, owing to the recovery in domestic demand and the growth of consumption expenditure. The labour market situation improved gradually in the course of the year, the unemployment rate declined, wages and real income of residents grew. The US dollar appreciated against all main currencies in 2014 and the US trade balance deficit increased. Although government spending increased, the US federal budget deficit declined to the lowest level since 2008 due to the improvement in tax collection.

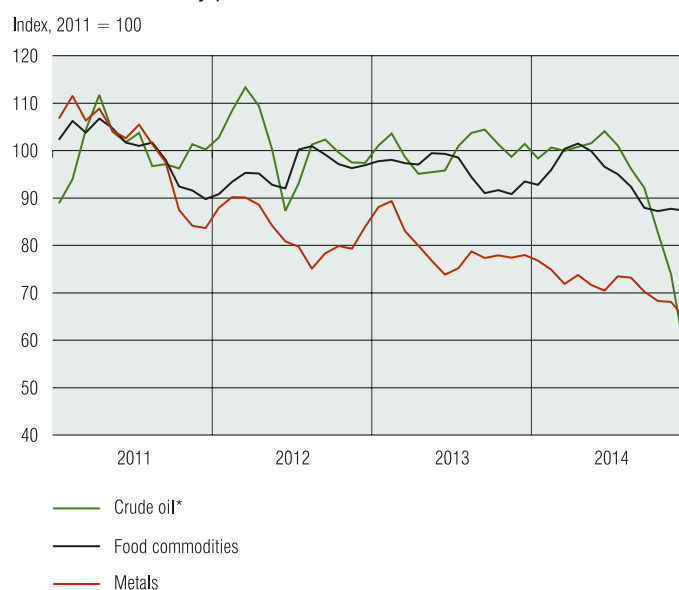
Euro area real GDP growth was slow in 2014, especially in the four largest economies of the region (Germany — 1.6, France — 0.4, Italy — -0.4, Spain — 1.4%). Unemployment

remained high in the region, whereas inflation was low and deflation was observed in some euro area countries in December, as well as in the first months of 2015. Euro area economic growth was constrained by weak investment, structural problems and uncertainty regarding the continuing conflict in Ukraine. The euro depreciated in 2014 against the currencies of most trade partners, whereas the current account surplus increased, compared to 2013. Euro area sovereign debt remained high, whereas political instability in Greece, which renewed in the last quarter, increased tensions in financial markets even more.

Owing to the conflict in Ukraine, the fall in oil prices and economic sanctions, Russia's economic situation deteriorated in 2014, especially in the last quarter. The rouble exchange rate fell considerably, inflation increased significantly, the purchasing power of residents declined and the investment environment deteriorated. In December, the central bank of Russia increased the official interest rate to 17 per cent, in order to constrain the capital outflow from the country. The fall in oil prices hindered the collection of sufficient revenues into the budget, whereas the sanctions applied by the Western countries restricted the possibilities to borrow abroad. The weak Russian economy and the sanctions introduced by it aggravated the economic development of some Central and Eastern European countries. For example, the economy of Finland contracted slightly, whereas the GDP growth rates of Latvia and Lithuania slowed down.

The best economic situation among the Scandinavian countries remained in Sweden, same as in 2013. The Swedish economy grew by 2.1 per cent, the unemployment rate declined and domestic demand increased; however, household indebtedness remained high and housing prices rose. Particularly, low inflation in Sweden determined the decision of the central bank of Sweden to reduce the key interest rates to 0 per cent. The economy of Norway was negatively affected by the fall in oil prices and the resulting decline in revenues from oil and gas exports; however, the GDP growth was relatively stable and inflation was higher than in most European countries. The economy of Denmark grew for the first time since the recession, which lasted two years, the labour market situation improved, confidence indicators of households improved and consumption grew.

**Chart 2. Commodity prices in US dollars**



Sources: IMF and Bank of Lithuania calculations.  
\* Brent, WTI and Dubai Fateh oil price average.

The fall in oil prices by more than 50 per cent in 2014 positively affected the consumption levels in oil-importing countries; however, oil-exporting countries had difficulties in ensuring the collection of sufficient revenues to the budget. The fall in oil prices is related to the decline in demand and the decision of oil-exporting countries not to reduce production volumes. The fall in oil prices reduced the inflation rate in many countries and contributed to lower inflation expectations.

## Economic Developments in Lithuania

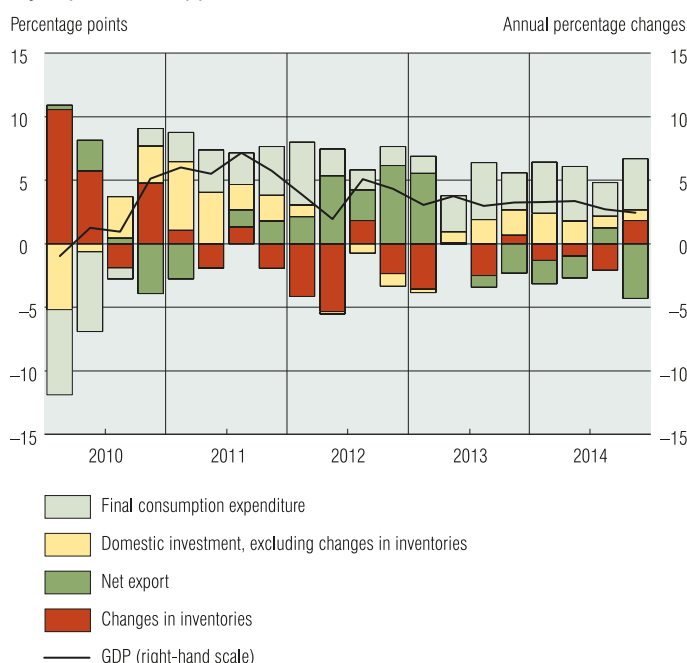
### Real Sector

Lithuania's economy is growing sustainably. However, a more moderate increase in external demand determined slightly slower economic growth in Lithuania. This slows down the narrowing of the negative output gap that accumulated during the recession. However, the fundamentals of Lithuania's economy are good: the tradable sector maintains the recovered competitiveness, whereas the impact of factors that limited domestic demand during the recession is fading.

### Aggregate Demand

In 2014 Lithuania's economy grew by 3.0 per cent (having eliminated the impact of seasonal and working days). Such development is slower than in 2012 and 2013, however, it is still one of the strongest in the whole EU. Lithuania's economic growth slowed down due to less favourable developments in the exports of goods and services. It was mostly influenced by a more moderate growth of external demand, unfavourable developments in the global oil product market and the embargo introduced by Russia in August. Lower contribution of exports to the economic growth of Lithuania was partially offset by strong domestic demand — both household consumption and domestic investment grew.

**Chart 3. Contributions to the development of real GDP (by expenditure approach)**



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Household consumption was the main driver of the economic growth. Such development of household consumption was determined by favourable economic conjuncture.

During this period, the labour market situation improved: wages and employment grew, particularly low inflation did not reduce the purchasing power of households and the decline of interest paid for loans to record lows reduced the burden of financial liabilities. These factors increased the disposable income of households and improved the financial situation of households. This allowed households to plan their expenditure more decisively. The active residential real estate market was one more factor that encouraged households to consume, since after buying a home households bought other consumption goods for it.

Economic activity was also driven by a slightly higher increase in domestic investment than in 2013. Its expansion was determined by the reasons related to the economic conjuncture and the projects pursued by the public sector. The latter were mostly related to civil engineering objects, such as the works related to the implementation of the “Rail Baltica” project, building structures of the LNG terminal, expansion and modernisation of electricity supply networks. In the private sector, production capacity utilisation that remained at a relatively high level for some time and sufficient own funds of enterprises were among the main factors that encouraged enterprises to invest in production capacity modernisation and expansion. Therefore, investment in the construction of industrial buildings and warehouses and the acquisition of capital goods increased in 2014. The active residential real estate market created conditions for developers of residential housing projects to invest in new projects. Among the main types of investment, only investment in transport equipment is declining; however, such development of this investment was expected. Particularly high investment of this type in 2013 was determined by the fact that enterprises hurried to purchase transport equipment before the introduction of the new stricter emission standard “Euro 6” applied to vehicles from the beginning of 2014.

### **Aggregate Supply**

Looking from the production side, economic activity was mostly increased by construction, trade and transport, manufacturing in 2014. The value added in the majority of other economic activities also grew; however, their impact on GDP growth was relatively small.

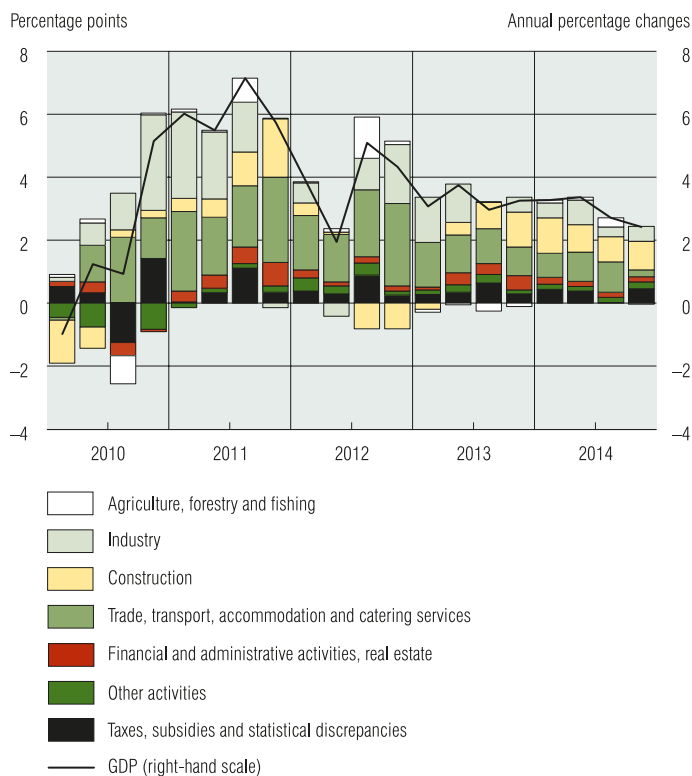
The largest impact on the growth of economic activity in 2014 was made by construction. Construction grew due to the rise of domestic investment and the factors that affected it. As mentioned earlier, the volume of residential construction increased due to the active residential real estate market, the construction of civil engineering structures grew due to the projects implemented by the public sector, while the construction of non-residential buildings rose due to investment of enterprises in production capacity modernisation and expansion.

Trade and transport activity grew relatively fast in 2014; however, development of the economic activities attributed to it diverged. The retail trade expansion was especially favourable and its activity was boosted by the fast growth of household consumption and the active residential real estate market. Activity in other economic sectors — wholesale trade, transport and storage — declined markedly in the second half of the year, after relatively fast growth observed in the first half of the year. Such development of activity in the latter economic sectors was partially affected by the embargo introduced by Russia in August.

The impact of Russia’s actions was also observed in the manufacturing sector, especially in food production. This, together with more moderate growth of external demand and unfavourable developments in the global oil product market, were the main factors that determined the slowest growth of the value added in manufacturing since 2010.

It should be noted that this slowdown of activity in the manufacturing sector should not be assessed as a consequence of the loss of competitiveness, as Lithuania's export market shares in the main trade partners continued to increase in 2014.

**Chart 4. Contributions to the development of real GDP  
(by production approach)**



Sources: Statistics Lithuania and Bank of Lithuania calculations.

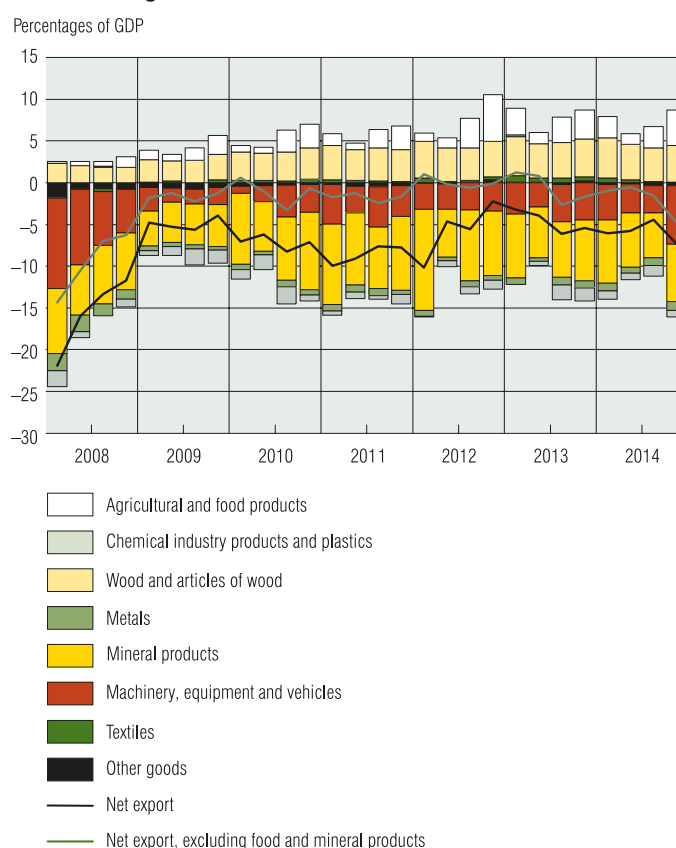
## External Sector

The expansion of the nominal trade in goods in several recent years slowed down. In 2014, it became lower than a year ago by 0.6 per cent. Such development was mainly affected by the decline in the export of mineral products by one fourth. The fall of oil refining margins due to stronger competition was one of the main factors that prompted *AB ORLEN Lietuva* to reduce production volumes considerably in the beginning of the year. Although in the middle of the year the situation stabilised, in the second half of the year the nominal export of mineral products was significantly affected by the fall of oil prices by more than half. It should be noted that the export, excluding the contribution of mineral products, grew by 6.7 per cent in 2014 and this growth was determined by both exports and re-exports of Lithuanian origin. The export of wood and articles of wood grew quite rapidly. This growth was prompted by strong foreign demand for these products, which encouraged enterprises that produce furniture and other articles of wood to invest in the expansion of production capacity. The nominal export of fertilisers also grew; however, its developments were quite uneven. Due to the fall in the prices of fertilisers and relatively high commodity prices, exporters of fertilisers suffered difficulties, however, export results improved later, when the prices of fertilisers rebounded again. The growth of Lithuanian re-export was strongly affected by the increase in re-export of machinery and equipment to Russia in the middle of the year, however, this growth subsided at the end of the year. Although re-export grew by almost one tenth in 2014, there were factors that reduced it. The largest negative impact was made by a fall in the



re-export of vehicles by one fifth. It is likely that this development was determined by the depreciation of currencies of the main re-export partners (Russia, Belarus and Kazakhstan) and weaker economic growth of these countries. Trade was also negatively affected by the embargo on certain food products introduced by Russia in August. The largest losses were incurred by the exporters of dairy and meat products and providers of wholesale trade and transport and storage services. Although the export of food and agricultural products to Russia declined by more than 50 per cent, these negative developments were partially offset by the increase in the export of these products to other countries.

**Chart 5. Foreign trade balance**



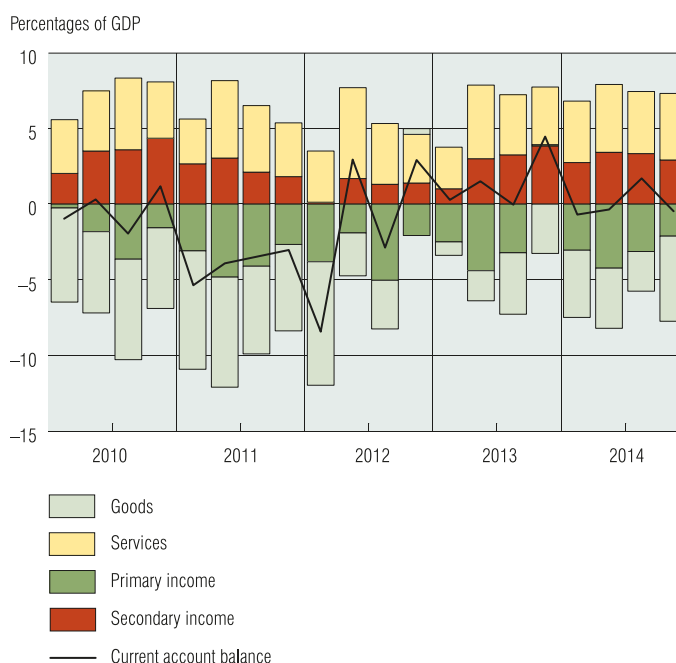
Sources: Statistics Lithuania and Bank of Lithuania calculations.

Convergence of the economy of Lithuania allows to expect a poorer current account balance; however, in several recent years the current account was positive or close to balance. The current account remained close to balance in 2014 — the surplus comprised EUR 44.9 million or 0.1 per cent of GDP. Compared to 2013, the current account surplus declined mainly due to a poorer balance of trade in goods and primary income balance. When assessing the quarterly data releases, it should be noted that the current account balance changed quite significantly over the year. In the first half of the year, the current account balance was negative. This was mainly determined by the deterioration in the balance of trade in goods, which was poorer due to the aforementioned developments in the exports of oil products and fertilisers. As usual, the current account balance was also worsened by dividends paid to non-residents in the first half of the year. After less favourable developments in the first half of the year, the current account balance improved for a short time in the third quarter and was positive. This was essentially related to stronger exports of agricultural and food products, especially grain. Moreover, the negative impact of mineral products on trade balance faded due to better export results in this product group. The current account balance deteriorated again at the end

of 2014. This development was mainly determined by a one-off factor — the import of the liquefied natural gas floating storage. Due to the large value of this transaction, its impact on the trade balance was not offset by the export of crops, which increased to a record high over the recent two years, and the related large improvement in the balance of trade in agricultural and food products.

When assessing the whole year 2014, as usual, the current account balance was mainly positively affected by the secondary income balance and the balance of services. Private transfers made the usual strong contribution to the positive secondary income balance. Despite the impact of the conflict between Russia and Ukraine, the growth of the export of services exceeded both the GDP growth and the growth of the import of services, therefore, the ratio of the balance of this current account component to GDP was higher than a year ago.

Chart 6. Components of the current account balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

## Labour Market

### Employment and Unemployment

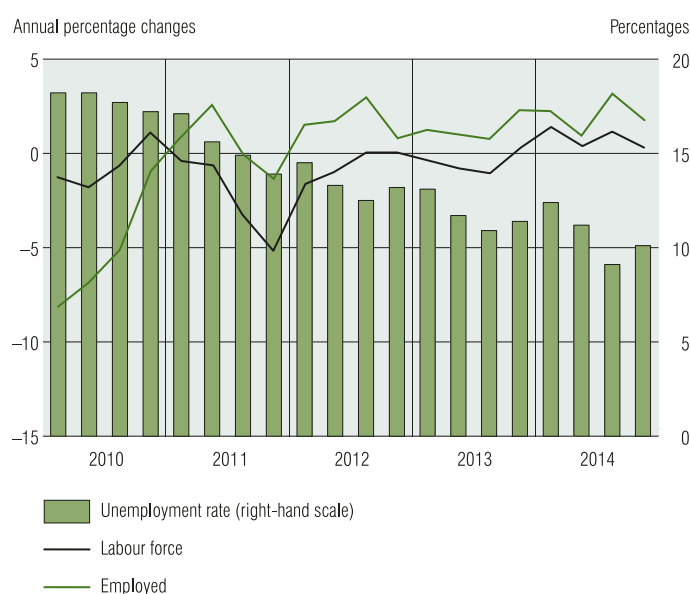
The rising participation rate softened the negative impact of migration and determined the increase in labour force. The labour force, which consists of those in search of employment and those who are already employed, was higher by 0.8 per cent in 2014, compared to 2013. The provision of social assistance to disadvantaged residents, which was delegated to municipalities from January 2014, might have contributed to rising activity. This change allowed a more targeted distribution of assistance, which increased incentives of residents to participate in the labour market more actively. The rise in activity could also be determined by new possibilities of organising work more flexibly by using service vouchers and by the increase of the retirement age since 2012.

In the context of rising participation rate, the number of employed persons increased significantly — it was 2.0 per cent higher in 2014, compared to 2013. Almost a half of this increase in the number of employed persons was determined by agriculture. The development of employment in this sector in recent years could be affected by the new

possibility to perform certain agricultural works without concluding employment contracts and by using service vouchers instead of them. The growth of the number of employed persons in the services sector was also quite fast. A more favourable situation in this sector is evidenced by a noticeable increase in job vacancies and no longer worsening confidence indicator of this sector. The number of employed persons in industry and construction remained broadly unchanged.

With the residents participating in the labour market more actively, the decline in unemployment rate slowed down slightly. The slower decline could also be expected due to the fact that the unemployment of 10.7 per cent is quite close to the natural unemployment rate estimates. Structural unemployment may currently account for a relatively large share of the unemployment rate. This is also evidenced by the development of the number of lower qualification unemployed persons. During the economic recovery, the number of these unemployed persons declined significantly more slowly than the number of higher qualification unemployed persons. The number of unemployed persons without any qualification remains similar as in 2010, the period when the unemployment rate was particularly high. This means that the number of these unemployed persons may not necessarily decrease with the further relatively fast economic growth.

**Chart 7. Main labour market indicators**



Sources: Statistics Lithuania and Bank of Lithuania calculations.

## Wages

Wages rose quite significantly: they were 5 per cent higher in 2014, compared to 2013. Compared to 2012 (then, as in 2014, the minimum wage increased insignificantly), wage growth was faster by 2 p.p. The improvement of the labour market situation contributes to faster growth: the number of unemployed persons per one job vacancy — a ratio reflecting wage pressures — is gradually declining. Moreover, one tenth of enterprises currently<sup>6</sup> state that their operation is restricted by the shortage of employees; this number is 2.4 p.p. higher than in 2012. These changes indicate that it is slightly more difficult for enterprises to find suitable employees; therefore, the incentives to increase wages are higher.

<sup>6</sup> Excluding construction sector enterprises. This share is not particularly high, since during the economic upswing (2007 to 2008) the shortage of employees restricted the operation of one third of enterprises.

Chart 8. Nominal gross wages

Annual percentage changes



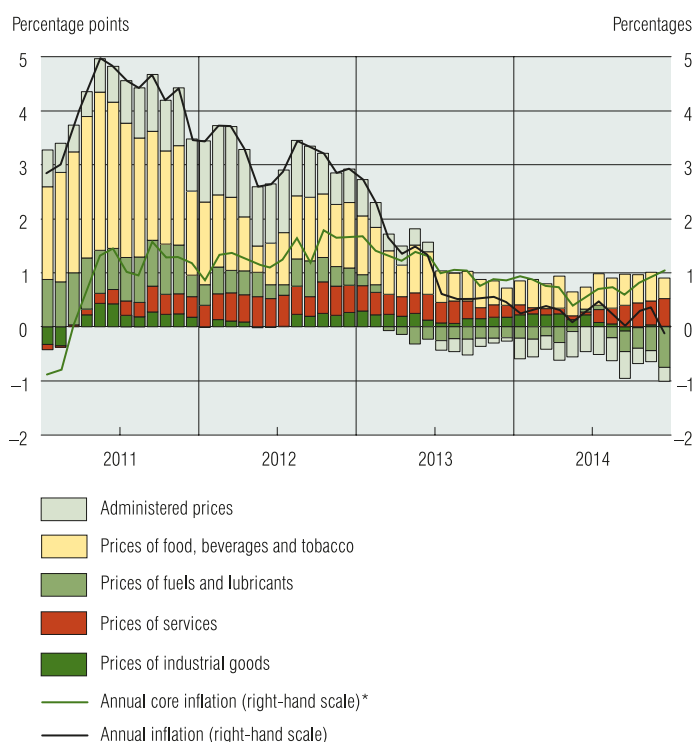
Source: Statistics Lithuania.

## Prices and Costs

Inflation was very low already for two consecutive years. The average annual HICP inflation was 1.2 per cent in 2013 and just 0.2 per cent in 2014. These indicators are significantly lower than in several previous years and the long-term inflation average (which comprised 3.2%).

Low inflation was determined by various factors favourable to consumers. Global commodity prices declined, whereas inflation in the euro area and other countries, which affects prices in Lithuania through imports, was low. Producer prices in the domestic market and import prices decreased, therefore, there was no upward pressure for consumer prices stemming from the production chain or from abroad. The growth of unit labour costs, calculated as the difference between gross wage growth and labour productivity growth, was moderate: wages rose, but labour productivity also increased. Thus, core inflation — an inflation indicator that is more related to domestic situation and calculated from the prices of industrial goods and market services — was low and positive. The core inflation, together with the rise in food (including beverages and tobacco) prices, supported positive overall inflation, whereas other consumer prices — administered and fuel prices — declined over the year.

Compared to 2013, the trends of all price groups were more favourable to consumers in 2014: the prices of food, services and industrial goods increased less, fuel prices declined more, whereas administered prices declined after previous rises. The latter price group was the most important factor behind the decrease in the average annual inflation, compared to 2013: it accounted for about half of the total decline. The development of administered prices was mostly affected by the changes in the price of electricity: in the beginning of 2013, the price of electricity for household consumers increased significantly — almost by one-tenth — due to support for biofuel power-plants and cogeneration power plants, whereas in the beginning of 2014 it declined by around 5 per cent, after the Government had decided to reduce the quota of electricity, purchased at a price higher than the market price. Other administered prices, for example, heat energy and gas prices, also declined, owing to the cheaper natural gas imported from Russia.

**Chart 9. Contributions to the annual HICP inflation**

Sources: Statistics Lithuania and Bank of Lithuania calculations.

\* Change in HICP, excluding the prices of food, fuels and lubricants, and administered prices.

Food price increase was smaller in 2014 than in 2013, and this fact accounted for one-fifth of the total inflation decline. According to the data of the Food and Agriculture Organization of the United Nations, global food commodity prices, especially those of grain, declined, owing to high supply. Food producer prices in Lithuania decreased as well. Similarly to food prices, lower core inflation also determined around one-fifth of the total inflation decline: the prices of both industrial goods and market services grew slower in 2014 than in 2013.

Greater fall of fuel prices accounted for only one-tenth of the total inflation decrease. The impact was low, since the prices of fuel, same as oil prices, declined more significantly only in the second half of 2014, especially at the very end of the year. Lower oil price can be explained by moderate demand and high supply. When discussing commodity prices, it is also important to note that they are expressed in US dollars; therefore, prices in euro are also affected by the exchange rate. Recently, the US dollar appreciated significantly with regard to the euro, and this development offset a part of the fall of commodity prices in US dollars. Therefore, the depreciation of the euro had an upward effect on inflation both in the euro area and in Lithuania.

Tax decisions also had a certain upward effect on inflation in Lithuania, since excise duties were increased in spring. In March, the excise duty on cigarettes was increased (in order to gradually, in several years, reach the minimum excise duty established by the EU), whereas in April the excise duty on alcoholic beverages was increased.

## General Government Finance

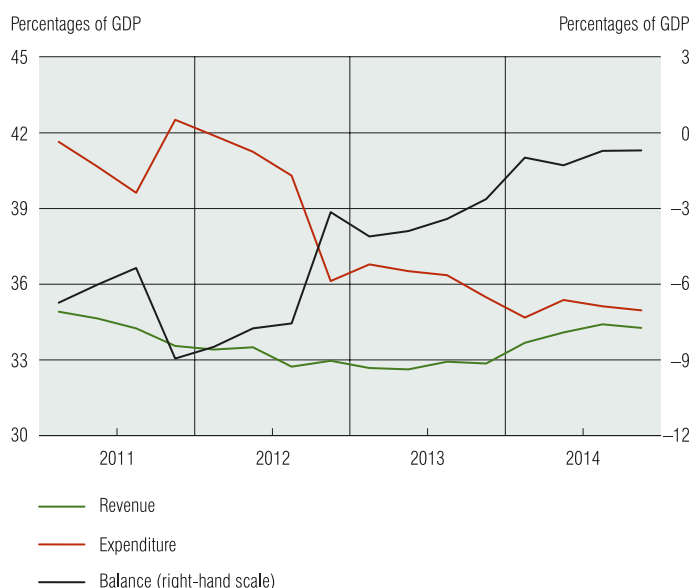
### Revenue, Expenditure and Deficit

The ratio of the general government balance to GDP declined to the lowest level in the last seven years and amounted to 0.7 per cent in 2014. Deficit declined by 1.9 p.p. over the year, mainly due to a rise in general government revenue. The expenditure factor also

contributed to lower deficit — the general government expenditure-to-GDP ratio continued to decline over the year. In terms of institutional sectors, the general government balance improved mostly due to lower deficits of non-budgetary funds and the state budget, whereas the impact of a moderate improvement in the local government balance was lower. The accumulation of the surplus in the balance of non-budgetary funds was determined by a large increase in income, since SC Deposit and Investment Insurance was included in the general government sector due to methodological changes. The state budget deficit fell mostly due to the annual increase of around one tenth in the income collected to this budget from indirect taxes. The local government deficit declined due to the collection of higher income than planned, which was determined by the improved labour market situation and administrative changes (the share of personal income tax allocated to municipalities was increased). Social security funds were the only sub-sector of the general government where deficit in 2014 was larger than a year ago. This development was determined by the increase in expenditure for the compensation of earlier cuts in old-age and disability pensions.

The general government revenue-to-GDP ratio increased by 1.4 p.p. and comprised 34.3 per cent in 2014. The general government revenue-to-GDP ratio increased mostly due to received capital transfers, higher tax revenue and social contributions. The impact of the economic growth on revenue was overshadowed by methodological changes: after the inclusion of SC Deposit and Investment Insurance in the general government, capital transfers received by the general government increased as a result of higher revenue from property sales. Tax revenue was mostly increased due to higher revenues from VAT and personal income tax. These revenues were also positively affected by improved labour market situation and rising wages as household consumption expenditure and retail trade turnover increased. Larger wage bill created preconditions for the growth of social contributions. The latter were positively affected by the increase of the minimum wage from October. Taxable profit increased by around one tenth, therefore, the amount of the profit tax collected in 2014 also increased by one tenth, compared to the previous year. A stronger increase of revenue from this tax in 2014 was hindered by the continued decline of the share of taxpayers, who declare the payment of the advance profit tax according to the expected profit.

**Chart 10. General government revenue, expenditure and deficit**  
(four-quarter moving sums, compared to GDP)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

The ratio of public sector expenditure to GDP declined by 0.5 p.p. and comprised 35.0 per cent in 2014. The lower ratio was determined by the larger growth of GDP than that of expenditure. Nominal expenditure increased over the year by 2.3 per cent, mostly due to the rise in expenditure on intermediate goods and services, wages and employer social contributions and capital transfers. Wage expenditure increased due to the base effect: according to the ruling of the Constitutional Court, salary rates and qualification premia of civil servants from October 2013 were restored to the level of 2009. Capital transfers mostly increased due to the decision to compensate pensions that were reduced during the economic slowdown. It should be noted that the whole amount of compensations necessary for the full implementation of the ruling of the Constitutional Court was included in the general government sector accounts in 2014 according to the Eurostat's explanation, although the adopted Law on Compensation provides for the compensation of only a part of the reduced old-age and disability pensions. Capital transfers also increased in 2014 due to the said methodological changes and the inclusion of SC Deposit and Investment Insurance into the general government. Recalculation of the indicators of previous years according to these methodological changes was the main factor behind the higher than earlier announced fiscal deficits.

## Debt

The general government debt increased by EUR 1.3 billion, whereas the ratio of government debt to four-quarter GDP rose to 40.9 per cent. The nominal debt increased mostly due to the growth of the long-term portfolio of government securities, whereas saving notes increased as well. The rise in debt was determined by advance borrowing: at the end of 2014, the bond issue of EUR 1 billion was placed, the largest part of which was used to redeem the earlier bond issue in the beginning of 2015. This was the main factor that did not allow the debt ratio to decline in 2014, although macro-economic conditions were favourable: the primary general government deficit was considerably smaller than a year ago, whereas the difference between the average interest rate payable for debt and the economic growth rate was favourable.

In terms of institutional sectors, the debt of the central government and social security funds increased the most in 2014 due to the placement of government securities in international markets and the loans received from local commercial banks. The local government debt increased by almost one tenth in 2014; however, overdue debt decreased by more than one sixth. In the coming years, the fiscal discipline of both municipalities and public finances in general should improve further due to the Constitutional Law of the Republic of Lithuania on the Implementation of the Fiscal Treaty, which was adopted on 6 November 2014 by the Lithuanian Parliament. This law provides for expenditure restriction rules to be applied to budgets of the largest municipalities, as well as the creation of a new budget policy control institution, which will monitor compliance with these rules. These functions were allocated to the National Audit Office of Lithuania.

## Financial Position of the Private Sector

### Activity of Non-Financial Enterprises

At the end of 2014, slightly more than 57.0 thousand enterprises operated in Lithuania.<sup>7</sup> The balance-sheet value of the assets managed by them remained broadly unchanged

<sup>7</sup> Public limited liability companies, private limited liability companies, state and municipal enterprises, branches of foreign enterprises, agricultural and cooperative societies and public institutions.

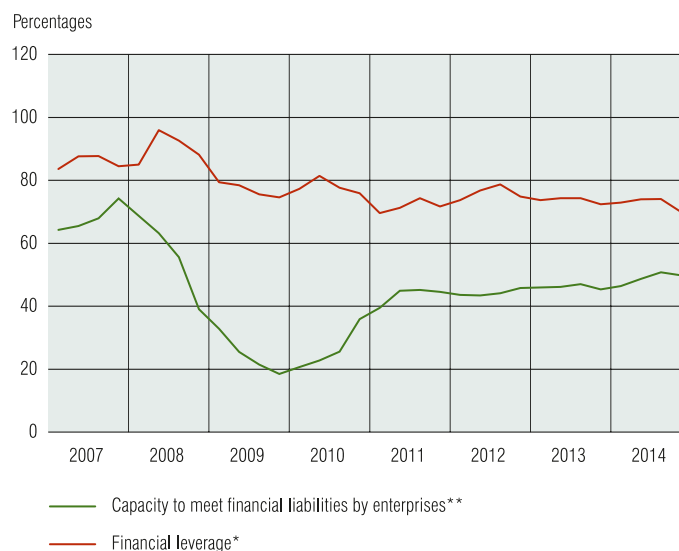
over the year and made up EUR 59 billion at the end of the fourth quarter. The average conditional number of staff employed rose moderately (by 1.8%) and exceeded 1.0 million for the first time since 2008. Performance results, financial situation and loan redemption capacity of non-financial enterprises, which accounted for 44.7 per cent of the total bank loan portfolio, improved. At the end of the last quarter of 2014, more than two thirds of enterprises operated profitably, whereas the return on equity increased by 1.1 p.p. (to 9.1%).

Owing to the improvement in performance results of enterprises and their capacity to meet financial liabilities, the number of new bankruptcy proceedings also declined. Bankruptcy proceedings were initiated against 1,477 enterprises in 2014 (4.8% less than a year ago). The largest decline in the number of bankruptcies was observed in agriculture, production and trade. Construction, accommodation and catering economic activities remained the riskiest: the share of bankruptcy proceedings initiated in these economic activities, compared to the total number of operating enterprises, was the largest in 2014.

The sales income of manufacturing enterprises declined during the period under review by 3.7 per cent, however, due to lower commodity prices the cost price of goods and services also fell (by 6.5%), therefore, profitability (EBITDA margin) increased by 1.4 p.p. (to 6.5%). At the end of 2014, the majority of enterprises assessed the demand for production as sufficient, although export forecasts became less optimistic than a year ago due to the fall in foreign demand in the Eastern markets.

**Chart 11. Capacity of non-financial undertakings to meet their liabilities and financial leverage**

(Q1 2007 to Q4 2014)



Sources: Statistics Lithuania and of the Bank of Lithuania calculations.

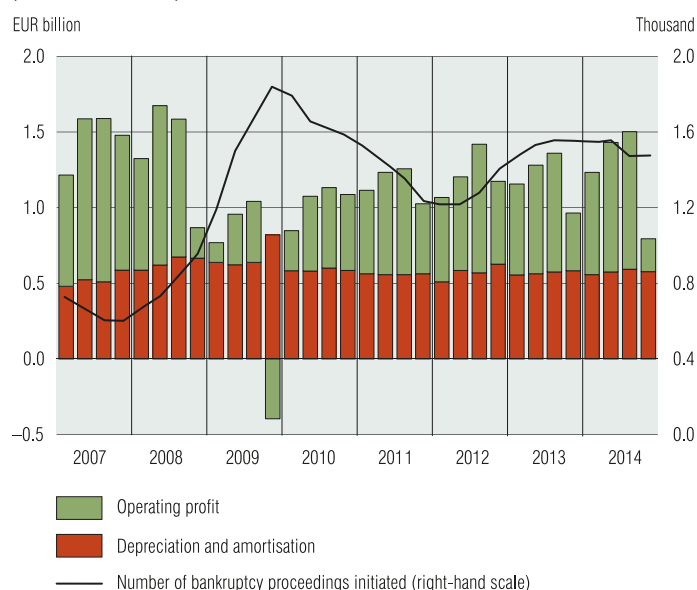
\* Indebtedness of enterprises, compared to their equity capital.

\*\* Profit before taxes, amortisation and depreciation, compared to financial liabilities.

Results of trade enterprises during the period under review remained broadly unchanged. Sales income was only 0.5 per cent lower than a year ago, whereas profitability (EBITDA margin) increased by 0.6 p.p. Despite slower growth, the number of bankruptcy proceedings of trade enterprises declined significantly. In the period under review, this number was 17.6 per cent lower than a year ago. The financial situation of trade enterprises was particularly improved by lower liabilities (they declined by 3.4% in 2014).



**Chart 12. Performance results of non-financial enterprises and the number of bankruptcy proceedings initiated over the year (Q1 2007 to Q4 2014)**



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

Transport and storage activities, which are relatively closely related to the activity of trade enterprises, did not exhibit significant signs of growth in 2014 as well. Although their sales income rose and was 4.8 per cent higher than a year ago, this increase was offset by higher costs of the main categories; therefore, profitability remained broadly unchanged (EBITDA margin declined by 0.9 p.p.). Moreover, the number of bankruptcy proceedings initiated in the sector increased slightly (by 5.1%).

The improvement in the financial situation of the private sector positively affected performance results of construction and real estate enterprises. The number of real estate transactions, construction approvals and finished constructions of both residential and non-residential buildings increased. This allowed almost two thirds of construction and real estate enterprises to operate profitably and increase sales income significantly (by 10.3%). However, due to large supply the profitability (EBITDA margin) remained broadly unchanged (it increased by only 0.6 p.p.).

Although the improvement in performance indicators of non-financial enterprises contributed to stronger inclination of banks to finance business, enterprises made their borrowing decisions with caution, same as in 2013. This was determined by more moderate than expected growth of export markets. Moreover, insufficient demand remained one of the most significant factors restricting the operation of enterprises: it subdued investment, since this factor in particular is the most important (for example, in industry) when making investment decisions. Besides, non-financial enterprises have accumulated large internal reserves, which they primarily use for funding the planned business expansion (the change in their borrowing behaviour took place in 2009, when they turned from the net borrower from the economy to the net lender to the economy).

**Table 2. Key performance indicators of non-financial enterprises**

(per cent)

Type of economic activity*	Profitability**		Financial leverage***		Debt redemption capacity****		Bankruptcy probability*****	
	2013	2014	2013	2014	2013	2014	2013	2014
Forestry and fishing	11.6	2.1	27.0	60.0	365.7	45.6	5.0	2.6
Mining and quarrying	18.0	12.1	62.8	55.7	72.1	74.5	1.1	1.2
Manufacturing	2.3	3.4	96.5	92.5	45.6	57.6	2.8	2.6
Energy supply <sup>8</sup>	3.5	-10.7	52.5	76.7	68.9	0.0	1.3	1.2
Water supply	2.4	6.3	37.1	36.4	74.1	90.7	2.6	2.6
Construction	3.4	4.5	129.5	119.2	36.8	50.2	4.4	4.4
Wholesale and retail trade	2.6	3.2	137.2	125.3	47.9	54.0	2.7	2.2
Transport and storage	5.1	5.1	66.6	62.9	83.2	79.9	3.1	3.3
Accommodation and catering	3.9	2.1	195.3	180.5	19.3	15.9	4.7	5.0
Information and communication	10.0	11.2	67.4	70.5	80.1	90.1	1.2	1.6
Real estate operations	23.0	23.4	113.6	92.2	13.5	16.7	1.3	1.4
Professional and scientific activities	33.1	49.6	14.6	15.8	71.2	91.7	1.4	1.3
Education	4.0	8.1	46.6	46.1	111.5	195.9	1.0	1.9
Total	4.0	4.5	72.4	69.9	45.4	49.8	2.7	2.6

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

\* Abbreviations for the names of some economic activities are used.

\*\* Ratio of profit before tax to sales income over the period.

\*\*\* Ratio of liabilities to equity capital at the 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 bankruptcy proceedings initiated over the year to the total number of enterprises at the end of period.

## Household Finances

The financial position of households improved further in 2014 due to positive changes in the labour market related to the economic growth. With the rise in demand for employees, the number of employed persons in the country was higher by 2 per cent on average than in 2013, the unemployment rate declined, whereas wages of employees rose. The increase in the minimum monthly wage at the end of the year also contributed to faster growth of employee wages.

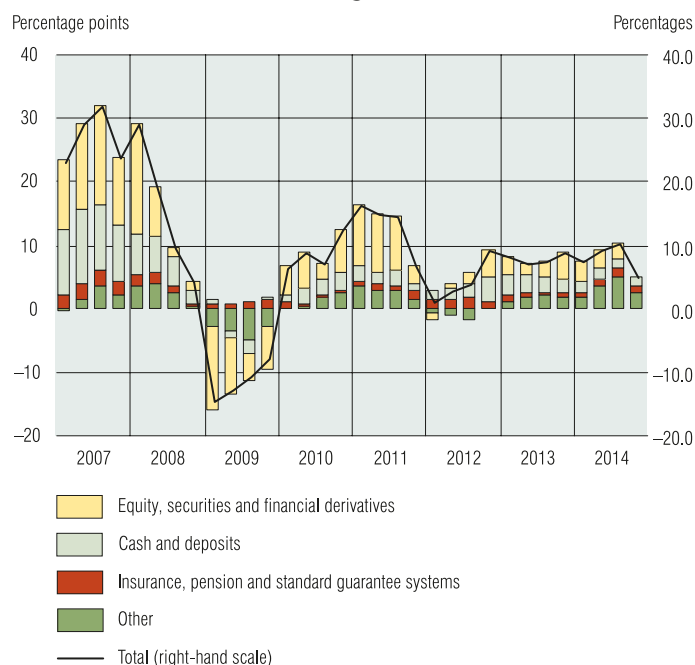
As consumer prices remained broadly unchanged, real net wages increased for the second consecutive year in 2014, whereas their growth (by 5.7% over the year) was faster than in the previous year. Still, consumer expectations deteriorated due to concerns related to the military conflict in Eastern Ukraine, whereas consumer confidence declined. Consumer sentiment improved slightly in the last quarter: the consumer confidence indicator increased and was equal to its long-term average at the end of the year. This shows that the rapid negative change of consumer confidence determined by geopolitical tensions was short-term, whereas residents do not assess future economic prospects as poorer than usual.

Household financial assets comprised EUR 31.9 billion or 87.8 per cent of the country's GDP for 2014 at the end of 2014. Shares and other securities (41% of total financial assets) and cash and deposits (36% of total financial assets) remained the largest components of these assets. Compared to the respective period last year, the value of financial assets held by households grew by EUR 1.5 billion or 5 per cent. This growth was mostly affected by

<sup>8</sup> The negative performance result was determined by the increase in other operating costs. The majority of these costs are related to the projects implemented by energy enterprises.

the increase in other receivables — trade credits granted by households to non-financial enterprises and payments receivable from social security funds.

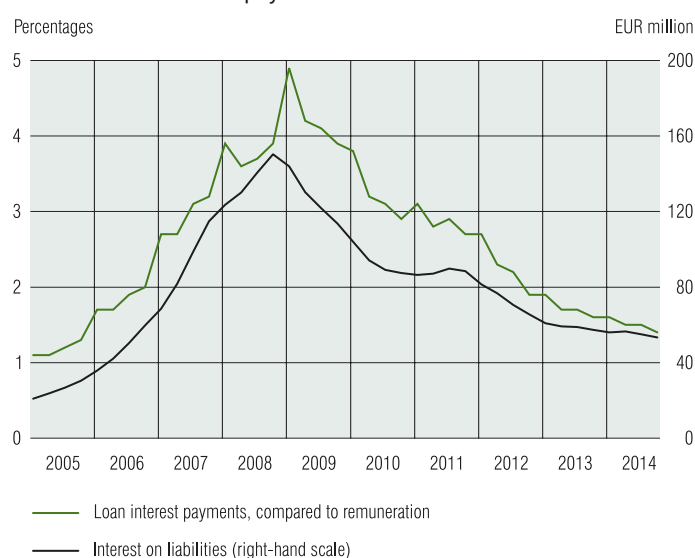
**Chart 13. Contributions to the change of financial assets of households**



Source: Bank of Lithuania calculations.

With the improvement of the financial situation of households, the amount of bank loans, which comprises the largest share of their total liabilities (63.9%), remained unchanged in 2014. People took increasingly more housing loans, the volume of which grew by 1.9 per cent. This positive change was offset by the decline in the amount of consumer loans and lending for other purposes of 7.3 per cent. It should be noted that consumer loans are granted not only by banks: over the period under review, the amount of consumer credits granted by non-financial enterprises increased by 16.7 per cent to EUR 0.3 billion. Such a trend is not sustainable due to high interest rates of these credits (for example, the average interest rate of small consumer credits in the last quarter was 99%); therefore, the share of bad consumer credits amounted to 26.9 per cent.

**Chart 14. Loan interest payment burden of households**



Sources: Statistics Lithuania and Bank of Lithuania calculations.

The improvement of the financial situation of households contributed to the fact that they became less risky borrowers in 2014. In addition to the increase in income, their capacity to meet liabilities on time was also improved by the decline in loan redemption expenses: the interest rates on the majority of housing loans granted to households were variable. As the ECB continued to implement the accommodative policy, they declined to record lows.

It is projected that the financial situation of households will continue to improve in 2015, as the rising domestic demand — investment and private consumption — will continue to increase employment and stimulate the rise of wages. The weak economic growth in the EU, the recession in Russia, which is the second most important export market, and potential new restrictions of trade between the EU and Russia determined by geopolitical factors still remain the main circumstances that may negatively affect the Lithuanian economy. This would in turn slow down the growth of employment and wages, which could result in the increase of credit risk of households.

## Credit and Deposit Market Development<sup>9</sup>

MFI (mainly banks and foreign bank branches) loan portfolio continued to shrink in the course of 2014 and was –2.1 per cent smaller than a year ago at the end of the year. The decline of the loan portfolio was most significantly affected by the redemption of loans by non-financial enterprises, whereas this decline was slightly offset by the gradual increase in housing loans taken by households, which lasted for almost two years. The portfolio of loans to non-financial enterprises declined by EUR 255.1 million (3.2%) in 2014. The portfolio of housing loans increased by EUR 136.4 million (2.3%) over the same period. As the overall growth of loans remained negative and the GDP grew, the loans to GDP ratio declined and comprised 47.8 per cent at the end of the period. This ratio declined by 21.9 p.p. from its highest value five years ago.

**Table 3. Change in the total value of the loan portfolio of MFIs**

(per cent)

	2011	2012	2013	2014
Bank loan portfolio	–0.2	0.4	–0.6	–2.1
Portfolio of loans to financial intermediaries	–12.3	34.6	25.0	–12.6
Portfolio of loans to the government	34.9	3.9	24.2	–4.6
Portfolio of loans to non-financial enterprises	–0.1	0.2	–6.5	–3.2
Portfolio of loans to households	–2.1	–3.1	–0.4	0.6
Housing loans	–0.3	–1.3	0.6	2.3
Consumer and other loans	–7.7	–8.7	–4.0	–5.9

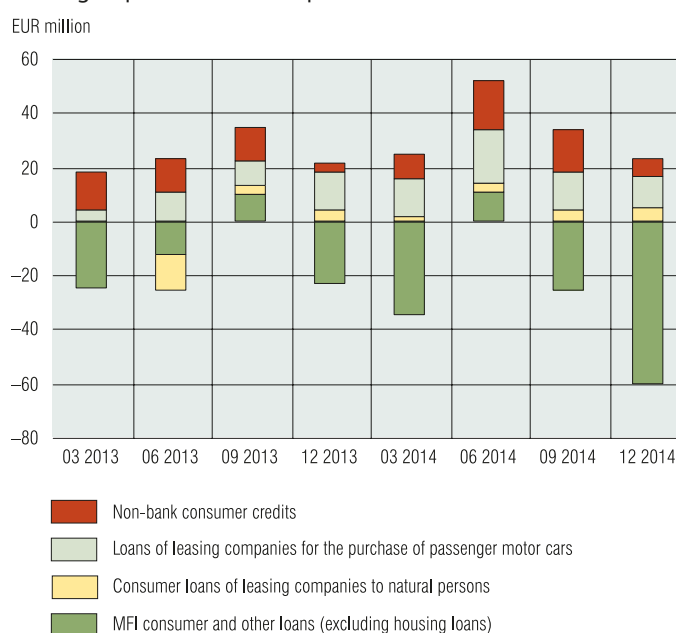
Source: Bank of Lithuania calculations.

Non-financial enterprises were not inclined to use bank funding for their activities and in the first three quarters of 2014 mostly used own funds, trade credits or borrowed from financial institutions other than banks (for example, from leasing companies) for this purpose. The decline in the portfolio of MFI loans to non-financial enterprises was most significantly affected by economic activities that had the largest liabilities to banks (for

<sup>9</sup> During the assessment of loan and deposit developments in Lithuania in this section, the adjusted statistical reporting data prepared by the Bank of Lithuania are used (for more detailed information about it, see Annex 2 of the Lithuanian Economic Review of December 2014 prepared by the Bank of Lithuania), they may differ from the data collected for supervisory purposes.

example, construction and real estate). The portfolio of loans to these sectors made up one third of the total portfolio of loans to non-financial enterprises at the end of 2014, although it declined by 7.4 per cent over the year. Taking into account the experience of the recent economic recession, banks are still cautious when lending to economic activities related to the real estate sector, although the loan redemption capacity of this sector is improving. Loans to energy supply and transport and storage activities increased by almost one tenth over the year and comprised 14.8 per cent. Thus, banks much more favourably lend to enterprises that are more related to the public sector and those enterprises that are more open to foreign trade.

**Chart 15. Change of loans to households for purposes other than housing acquisition over the quarter**

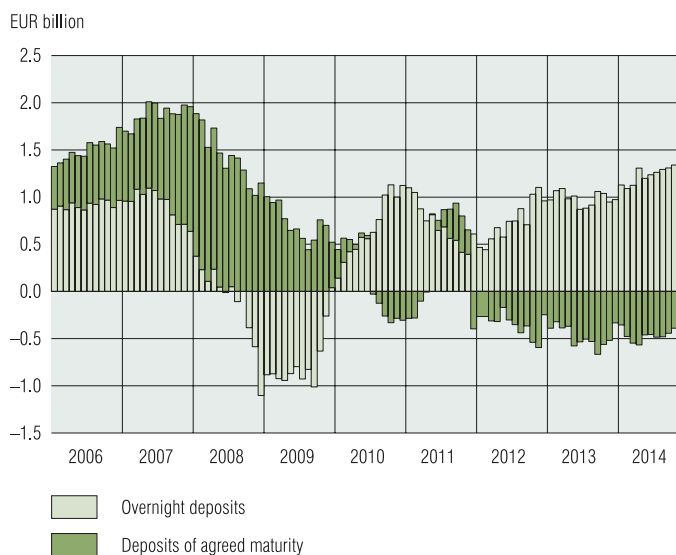


Source: Bank of Lithuania calculations.

The portfolio of MFI housing loans to households has been increasing for almost two consecutive years. The gradual recovery of housing loans is related to the strengthening of the financial position of households, improvement of future expectations and the wish of residents to acquire more durable goods. Despite the increase in the housing loan portfolio in 2014, the total debt of households to MFIs remained broadly unchanged, since consumer and other loans shrank. Still, the total borrowing of households for purposes other than housing acquisition remained broadly unchanged, since the loans granted by other lenders to households increased in 2014.

It became cheaper to borrow from MFIs in 2014, mainly due to the accommodative monetary policy implemented by the ECB and high liquidity in financial markets. Interbank interest rates were low as never before at the end of 2014. This determined the decline of the interest rates on new loans granted by MFIs, since around 80 per cent of all interest rates on new loans are fixed up to one year. Moreover, banks considered the improvement in the financial situation and the loan redemption capacity of households and non-financial enterprises as a factor decreasing the lending risk and started reducing lending margins in the middle of the year. In 2014 the weighted average interest rate on new loans to the private sector comprised 3.4 per cent and was 0.2 p.p. lower than a year ago.

Chart 16. Change of private sector deposits with MFIs over the year



Source: Bank of Lithuania calculations.

Overnight deposits (cash accounts) increased by EUR 1.2 billion from January to November 2014, whereas in December their growth amounted to as much as EUR 1.3 billion. In order to better prepare for the currency changeover, almost all economic sectors supplemented their bank accounts in December by depositing a part of their disposable cash (the value of cash in circulation declined by EUR 1.8 billion in 2014). Currently, there are no signs of potential deposit decline in the nearest future, since bank deposits declined slightly in January 2015 due to the usual seasonal fluctuations. Moreover, the experience of the Baltic States that adopted the euro earlier is contradictory: deposits remained broadly unchanged in the first quarter after the adoption of the euro in Estonia, whereas in Latvia they declined. The growth of bank deposits was also positively affected by government borrowing and the rise of foreign income (for example, net exports and capital transfers). Attractiveness of deposits as a saving instrument declined: the interest rate on the longest-term (over 2 years) new private sector deposits declined from 1.7 to 1.4 per cent in 2014, since banks did not see any need to attract more deposits due to already high liquidity reserve held by them.

## III. KEY FUNCTIONS OF THE BANK OF LITHUANIA

### Exchange Rate and Monetary Policy

Until the adoption of the euro on 1 January 2015, the primary objective of the Bank of Lithuania — to maintain price stability — was implemented through the fixed litas exchange rate strategy. The fixed litas exchange rate and the currency board arrangement were applied successfully for 20 years until Lithuania achieved its strategic goal to join the euro area and to benefit from all of the advantages provided by the EU's single currency, such as the absence of exchange rate risks relating to the national currency and the euro, lower currency exchange costs, lower interest rates and lower dynamics thereof as well as cheaper settlement with the key trade partners in the euro area.

### Exchange Rate Policy

The legal grounds for the fixed litas exchange rate were established by the Law of the Republic of Lithuania on the Credibility of the Litas, which came into force on 1 April 1994. It set an obligation for the Bank of Lithuania to ensure that the litas amount in circulation would be fully (no less than 100%) backed by gold and convertible foreign currency reserves and the anchor currency be exchanged into litas at a fixed exchange rate. Following those currency board principles, the Bank of Lithuania maintained the fixed exchange rate of the litas. Between 1 April 1994 and 1 February 2002, Lithuania used the US dollar as its anchor currency and the litas was pegged to the greenback at the fixed exchange rate of LTL 4 per USD 1. On 2 February 2002, the litas was re-pegged to the euro in a predefined and published procedure using as reference the 1 February euro and US dollar market exchange rate fixed and published by the ECB in the ordinary course of its business.

Bound by the fixed litas exchange rate regime, the Bank of Lithuania ensured free exchange of litas into euro and vice versa; therefore, it could not directly regulate litas market interest rates or the amount of litas in circulation as the latter was driven by changing litas demand. For these reasons, the Bank of Lithuania was unable to directly regulate the aggregate demand or the level of prices. However, the fixed exchange rate of the litas meant that the primary objective was pursued indirectly, i.e. it helped keep export and import prices stable and encouraged international trade, formed low inflation expectations and supported confidence in Lithuania's economic policy. This helped maintain relative price stability in the long-term perspective. In general, such a strategy, supported by inherent openness of Lithuania's economy and the relative flexibility of prices and wages, was applied overall successfully from 1994 onward.

Lithuania set the strategic goal of adopting the European Union's single currency as far back as in the mid-1990s.<sup>10</sup> Upon joining the EU in 2004, Lithuania made a formal commitment to adopt the euro once it met the convergence criteria outlined in the Maastricht Treaty. The conditions for euro adoption include a country's accession to the ERM II. Lithuania joined the ERM II on 28 June 2004 and, since then, maintained the fixed

<sup>10</sup> See *Monetary Policy Programme of the Bank of Lithuania for 1997–1999*.

exchange rate regime and a stable exchange rate of the litas against the euro, which was LTL 3.45280 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 to maintain the fixed exchange rate of the litas against the euro until the accession to the euro area.

In June 2014, the ECB and the EC published convergence reports on Lithuania, which declared the country compliant with the aforementioned criteria and provided recommendations on the national economic policy, which would help maintain a sustainable convergence-friendly environment in the future. At the same time, the EC proposed to the Council of the European Union to give the go-ahead for the adoption of the euro in Lithuania on 1 January 2015.

On 23 July 2014, the Council of the European Union adopted a formal decision allowing Lithuania to join the euro area on 1 January 2015 and established the irrevocable conversion rate, set at LTL 3.45280 for EUR 1, which corresponded to the stable exchange of the litas maintained by the Bank of Lithuania from 2002.

In 2014, growing expectations of joining the euro area continued to narrow down the spreads between longer-term interest rates in Lithuania and respective interest rates in the single currency bloc (in particular in the first half of the year). Meanwhile, the spreads between short-term interbank interest rates, VILIBOR and EURIBOR, remained virtually unchanged in the period under review and stayed at the low levels reached in earlier years. In 2014, the spread between the yield on 10-year government securities of the Republic of Lithuania (in LTL), which is used to measure the convergence of long-term interest rates, and the yield on their German benchmark equivalents (in EUR) narrowed to 1.31 p.p. (December 2014), from 1.89 p.p. (December 2013). Moreover, the yield on 10-year government securities of the Republic of Lithuania, which exceeded the euro area's average by 0.04 p.p. a year ago, became 0.14 p.p. below that average in a year. The spread between 6-month VILIBOR and EURIBOR displayed some volatility during the year. However, it remained virtually unchanged year-on-year, at 0.1 p.p.

In the short- to mid-term horizon, inflation in Lithuania may deviate from the price stability level targeted by the Eurosystem, may be more volatile than the general euro area's CPI and, in many cases, may slightly exceed the latter index. This will be due to a number of factors, both external and internal, such as structural processes (e.g. labour productivity gap between the tradable and non-tradable sectors affecting price convergence); significant changes in global commodity markets, in particular in prices for food and energy resources, which account for a relatively large share of Lithuania's consumer price index and cost structure; administrative decisions (changes of consumption taxes or administered prices), as well as cyclical upswings or downturns, which can also be affected by the national economic and fiscal policies.

## Monetary Policy Instruments

The Bank of Lithuania used 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, exchanged litas into euro and euro into litas without restriction, applied reserve requirements and provided an overnight facility.

In implementing the fixed litas exchange rate regime, the Bank of Lithuania remained committed vis-à-vis 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 euro purchased or sold by the Bank of Lithuania over a certain period of time) depended directly on changes in the autonomous factors<sup>11</sup> of the banking sector's reserves in litas, required reserves and excess reserves.

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

**Table 4. Monetary policy instruments applied by the Bank of Lithuania**

Liquidity provision	Liquidity absorption	Maturity	Frequency	Procedure
<b>Standing facilities for banks in transactions with the Bank of Lithuania</b>				
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 euro and settles on trade date or the second day following trade date and sells euro and settles on the second day following trade date.
Overnight repurchase agreements	—	24 hours	Access at the discretion of counterparties	Bilateral transactions
<b>Reserve requirements</b>				
Banking sector liquidity stabilisation	<p>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.</p> <p>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.</p> <p>Required reserves are held in litas on the banks' settlement accounts with the Bank of Lithuania.</p> <p>Compliance with the reserve requirement is assessed on the basis of the method of average.</p>			

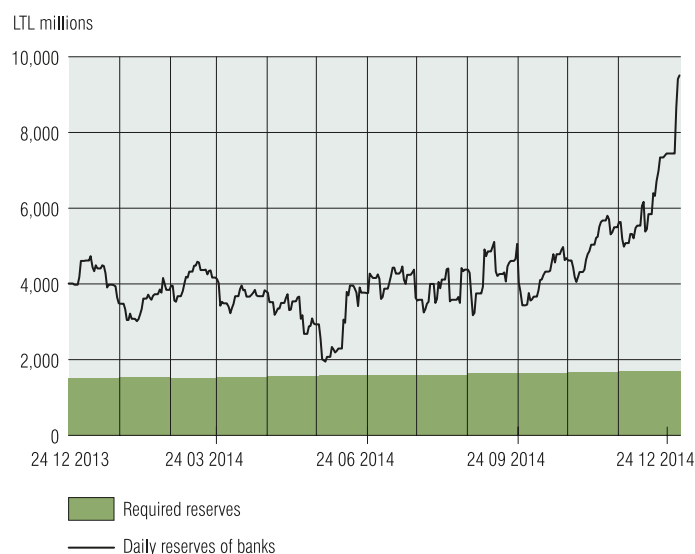
## Required Reserves and Banking Sector Liquidity Development Factors

In 2014, the reserve requirement ratio applied by the Bank of Lithuania was 3 per cent (1% in the euro area). In early 2014 required reserves stood at LTL 1,512 million. Over the year, they rose by nearly LTL 180 million, or almost 12 per cent, as a result of an increase in the required reserve base.

Similar to previous years, the autonomous factors contributed to the growth in the surplus of the banking sector's reserves in litas. However, the banks did not exchange that surplus into euro due to the level of interest rates in the euro area and the measures applied by the Bank of Lithuania before the adoption of the euro. In the period under review (between 24 December 2013 and 31 December 2014) autonomous factors boosted the supply of bank reserves by LTL 8.7 billion. 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 3.5 billion. The amount of litas cash in circulation decreased substantially before the adoption of the euro, which, accordingly, increased the surplus of the banks' required reserves in litas by LTL 5.1 billion (see Chart 17). Other autonomous factors to the surplus of reserves in litas added LTL 0.1 billion.

<sup>11</sup> 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 from the banking sector to the Bank of Lithuania or from the Bank of Lithuania to the banking sector.

**Chart 17. 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 2014, similar to 2013, the banking sector's reserves in litas remained unusually high (LTL 4.0 billion). Those reserves increased by LTL 5.5 billion over the year and exceeded the required reserves by more than 5.5 times. The level of interest rates, which prevailed in the euro area in early 2014, encouraged banks to exchange litas into euro. However, the decisions adopted by the ECB on 5 June 2014 brought the interest rates in the euro area down, even reaching negative territory. At that time, the Bank of Lithuania applied zero interest rates on excess required reserves. Negative interest rates in the euro area encouraged banks to exchange euro into litas and, as a result, the excess reserve holdings returned back to the level observed in early 2014. In addition to interest rates in the euro area, subsequent developments in the level of reserves were also driven by households' behaviour before the adoption of the euro and measures applied by the Bank of Lithuania.

In May, the Bank of Lithuania resumed fixed-term deposit auctions for banks operating in Lithuania as it sought to neutralise temporary fluctuations in liquidity in the banking system triggered by the adoption of the euro and to avoid sudden fluctuations in its foreign reserves. Lithuania as other countries, which adopted the single currency, experienced a substantial decrease in the amount of national currency cash in circulation before the changeover to the euro due to increased depositing of cash holdings with credit institutions by residents who sought an easier (automatic and free-of-charge) way to exchange the national currency into euro. All this taken together led to a substantial increase in the banks' excess cash balances in the national currency at the central bank. The currency board arrangement, which was in place in Lithuania, provided an opportunity for banks to exchange those surpluses into the euro (which would reduce foreign reserves of the Bank of Lithuania). Deposit auctions proved effective in substantially weakening these incentives. At the end of the year, the amount raised through deposits totalled LTL 4.9 billion. The average interest on deposits set at the auctions ranged between 0.24 and 0.01 per cent and in the second half of the year alone — between 0.07 and 0.01 per cent.

## Foreign Exchange Operations

In 2014, contrary to 2013, the amount of foreign currency in net terms purchased by the Bank of Lithuania exceeded the amount sold by LTL 1.3 billion (see Table 5). Last year, the sale of foreign currency (mainly euro) in net terms to the Bank of Lithuania by the

Ministry of Finance and other depositors amounted to LTL 1.4 billion, while the purchase of euro by domestic banks in net terms amounted to LTL 0.1 billion.

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

(LTL millions)

	2013	2014				
		Q1	Q2	Q3	Q4	Q1–Q4
Domestic banks	–2,394.4	–734.9	112.4	234.7	329.1	–58.7
Other depositors of the Bank of Lithuania	2,742.7	172.0	298.6	111.0	823.7	1,405.3
<b>Total</b>	<b>348.3</b>	<b>–562.9</b>	<b>411.0</b>	<b>345.7</b>	<b>1,152.8</b>	<b>1,346.6</b>

Source: Bank of Lithuania.

In 2014, the amount of foreign exchange transactions between the Bank of Lithuania and domestic banks and its other depositors totalled LTL 9.5 billion, which was almost four times less than in 2013 (LTL 36.5 billion) (see Chart 18). The decrease in foreign exchange activity by the banking sector was driven by the reasons related to the adoption of the euro (see previous subsection).

**Chart 18. 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

The Bank of Lithuania is responsible for the supervision of the entire financial market. The purpose of ongoing 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.

The Bank of Lithuania keeps working to improve the licencing process so as 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 well-reputed. To this end, the Bank tests the suitability of senior executives of the financial institutions under its supervision

to hold office and refuses to approve senior executive appointments in financial institutions where the persons concerned lack relevant qualifications and experience.

One of the major tasks related to licencing was to assess the potential acquirers of shares in *AB bankas Finasta*. This exercise involved the analysis and assessment of the acquirers' financial soundness and reputation as well as the collection of information about the acquirers from law enforcement, supervisory and other authorities. On the basis of the information at its disposal, the Bank of Lithuania decided to raise no objections to the acquisition of 100 per cent of shares in *AB bankas Finasta* and the voting rights attached to those shares by *Invalda LT* and nine other persons acting in concert. Furthermore, the Bank drafted legislation implementing the Law of the Republic of Lithuania on Currency Exchange Operators, which paved the way for currency exchange operators to launch services.

A lot of focus is on the processes of integration into the EU single market. The implementation of CRD IV/CRR — a vital EU legislative package — is approaching completion. The Board of the Bank of Lithuania has drafted resolutions implementing CRD IV. Some of these drafts have already been adopted by the Board, while others should be adopted in the first half of 2015. A new package for the reporting of financial and supervisory information on banks was introduced successfully in 2014.

The Bank of Lithuania continues to implement the Bank Recovery and Resolution Directive (2014/59/EU), which established a framework for the recovery and resolution of credit institutions and investment firms as it entered into force on 1 January 2015. It has started drafting amendments to the Law on Financial Sustainability and related legislation. In 2014, the banks submitted their first ever recovery plans to the Bank of Lithuania. The Bank of Lithuania reviewed those recovery plans and organised a meeting with the banks' officials in order to hold a broader discussion of the shortcomings identified in those documents and to present the requirements for recovery plans. Early in 2015, the Bank of Lithuania sent letters to the banks having no parent institutions specifying the requirements for the content of individual recovery plans and the deadlines for their submission.

The Bank of Lithuania went ahead with preparations for the implementation of Directive 2009/138/EC on the taking-up and pursuit of the business 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. As part of the implementation of Solvency II and Omnibus II, the Board of the Bank of Lithuania drafted a number of resolutions and submitted comments to the Ministry of Finance regarding draft amendments to the Law on Insurance transposing the provisions of the Omnibus II Directive.

For the adequate implementation of European legislation adopted in the field of financial services regulation in recent years, relevant preparatory work was launched: drafting of proposals on improvements of legal regulation pertaining to lending for house purchases, which would simultaneously implement Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property. Also, it started drafting basic account provisions implementing Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. On top of that, it worked to implement the Markets in Financial Instruments Directive (2014/65/EU), etc.

Supervision of credit unions was stepped up. Once adopted by the Seimas, the amendments to the Law on Credit Unions and related legislation, which aim to enhance credibility and safety of credit unions' operations, put an obligation on credit unions to

strengthen their capital base and improve the management of risks being undertaken. The Bank continues to search for an operational and supervisory model, which would be the most suitable for credit unions in Lithuania's environment and would mitigate the threat posed by this sector to public interests. The Board of the Seimas of the Republic of Lithuania on 16 May 2014 established a task group, which involved experts from the Bank of Lithuania and developed a concept of sustainable activities of credit unions. Once implemented, the objectives and principles outlined in the concept will help enhance integration in the credit unions' sector, ensure more sustainable capital formation in the unions and tighten risk management and supervision. Moreover, the Bank of Lithuania drafted the rules on credit unions' investment in non-equity securities, which established the requirements for the credit unions to follow when investing available cash as well as building and assessing securities portfolios. In line with the draft, investment made by credit unions shall not undermine the ultimate objective of credit unions, which is to serve the borrowing needs of their members, i.e. credit unions must retain their traditional operating model and investment in securities should be made with the purpose of liquidity management. In addition, the draft stipulates that investment in securities by a credit union cannot exceed 30 per cent of its assets.

Much emphasis was put on communication with market participants and their consultation last year. Traditionally, the Supervision Service of the Bank of Lithuania organised annual meetings with all market participants under supervision or their associations to present regulatory developments, which have already been implemented or will be implemented in the future, to review the expected trends of the Union's supervisory regulation and to discuss the existing situation in the market. As in previous years, the Bank of Lithuania held two compliance meetings with market participants to discuss the issues of compliance with legislative requirements, which are encountered in practice by each market participant. The Bank also provides individual consultations to the entities under its supervision. In 2014 the banking sector was mainly concerned about the aspects of CRD IV/CRR implementation, draft implementing legislation for the directive and the requirements for bank recovery plans. In addition, the Bank of Lithuania organised meetings for the insurance market participants to discuss the implementation of Solvency II, in particular the guidelines on the calculation of technical reserves, the setting of insurance contract boundaries and the underlying assumptions in the standard formula for the solvency capital requirement calculation. It provided consultations to existing and potential market participants on various aspects of licencing, such as the provision of payment and investment services, the assessment of business models, reorganisation, acquisition of shares, executive competence, activities of currency exchange operators, etc.

## **Financial Market Participants and Their Supervision**

### **Banks**

At the end of 2014, there were seven banks and eight foreign bank branches in Lithuania. In 2014 the aggregate profit of Lithuanian banks decreased by 6.2 per cent, hit by increases in both loan impairment charges and in administrative costs. The amount of deposits with banks reached new highs, in particular due to impressive growth at the end of the year, as the switchover to the euro drew closer. The total banks' portfolio of loans and leases showed a slight decrease. The amount of corporate liabilities was virtually unchanged, year-on-year, and remained concentrated mainly in real estate, wholesale and retail as well as manufacturing sectors. An increase in activity in this market made a positive contribution to the growth of housing loan portfolio. The quality of the loan portfolio continued to improve in 2014 as the banks kept writing off bad

loans and became more positive in their assessment of the financial health of individual borrowers and its outlook. The banks' liquidity profile was strong, to a large extent, due to the anticipated adoption of the euro. The banks have successfully finalised the euro adoption project.

## Banking Supervision

As Lithuania prepared to join the euro area and the banking system made arrangements to become part of the Single Supervisory Mechanism, in 2014, the Bank of Lithuania performed a comprehensive risk assessment of the country's three biggest banks, i.e. *AB SEB bankas*, *Swedbank*, *AB* and *AB DNB bankas*. Its results showed that the banks' assets were of good quality and the capital available was adequate to withstand shocks under the adverse scenario. Late in 2014, members of international colleges supervising banks and branches operating in Lithuania exchanged information about the banks' situation and risks in other countries and worked out a supervisory action plan for these and domestic banks for 2015. As in previous years, the focus of the first quarter of 2015 will be on the banks' risk assessment and the second quarter will mainly be dedicated to the analysis of the banks' internal capital adequacy assessment process. Following these stages, supervisory colleges will take general decisions as regards capital adequacy and liquidity of the banks that are part of banking groups and of each banking group as a whole, while the Bank of Lithuania will make such decisions in relation to capital adequacy and liquidity of domestic banks.

In 2014, the Bank of Lithuania undertook supervisory review and evaluation processes in respect to six banks and two significant branches of foreign banks. Given that *AB SEB bankas*, *Swedbank*, *AB*, *AB DNB bankas*, the Lithuanian branch of *Nordea Bank*, *AB*, the Lithuanian branch of *Danske Bank A/S* and *AB Citadele bankas* are part of cross-border banking groups, the Bank of Lithuania participated in supervisory colleges in charge of respective banking groups while performing the supervisory review and evaluation of these banks. To sum up the results, it may be stated that these processes have not identified any major shortcomings. Supervisory colleges, in their turn, stated that the capital of the banks that were part of banking groups and those banking groups as a whole was adequate to cover potential losses from the risks taken.

Building on the results of supervisory review and evaluation processes undertaken in respect to the Lithuanian banks that do not belong to any foreign banking group, the Bank of Lithuania extended the application of capital adequacy requirements, set individually for *AB bankas FINASTA* and *UAB Medicinos bankas*. In particular, it left in place the individual capital adequacy requirement of 11 per cent set for *AB bankas FINASTA*, which had to deal with operational uncertainty as a result of changes in ownership, management and the business model, and the individual capital adequacy requirement of 10 per cent set for *UAB Medicinos bankas*, which, as a follow-up to the latest inspection by the Bank of Lithuania, was told to reduce the risks associated with real estate and to book additional losses due to sensitivity. At the end of 2014, the Bank of Lithuania performed a general inspection of *AB Šiaulių bankas*. The Board of the Bank of Lithuania discussed its results in April 2015.

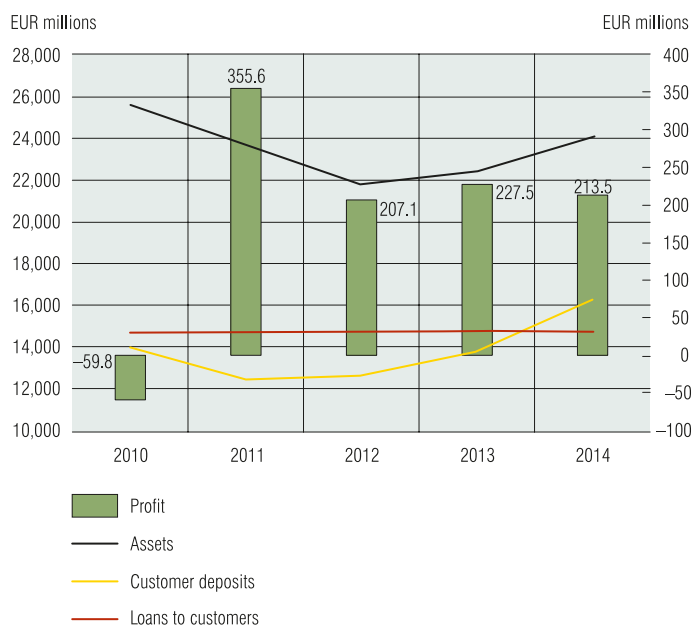
After several years of searching for a buyer of *AB bankas FINASTA*, the sale of the bank and other companies that are part of *Finasta* group was closed at the end of 2014. The companies of *Finasta* group were acquired by *AB Invalda LT* and a group of persons acting in concert. Following the withdrawal of several partners from the deal, *AB Invalda LT* chose to focus exclusively on the business of investment management. Hence it announced

officially that it planned to sell *AB bankas FINASTA* to *AB Šiauliy bankas* (in exchange for a shareholding in *AB Šiauliy bankas*). The Bank of Lithuania has not yet received any official documents pertaining to that acquisition. The process of selling *Citadele* continued in 2014. A group of US investors led by *Ripplewood Advisors LLC*, which has already obtained the ECB's clearance for the acquisition of Latvia's *AS Citadele* bank, filed a bid to acquire the *Citadele* group. However, the investor also needs the ECB's clearance for the indirect acquisition of *AB Citadele bankas* as well as the approval of a relevant Swiss regulatory authority for the acquisition of a company that is part of the group. The Bank of Lithuania is currently examining the application submitted by the investor.

### Activities of the Banking Sector

The assets of the banking sector increased by 7.4 per cent over the year to reach EUR 24.1 billion (LTL 83.3 billion) on 1 January 2015. This growth was driven by a substantial inflow of deposits ahead of the euro changeover (the bulk of that amount was transferred to the banks' accounts with the Bank of Lithuania). The amount of customer deposits in banks increased by EUR 2.5 billion (LTL 8.6 billion), or 18.1 per cent, over the year, to reach new highs of EUR 16.3 billion (LTL 56.2 billion) as of 1 January 2015. Late in 2014, the long-term trend of deposit growth was additionally supported by the approaching switchover to the euro.

Chart 19. Developments in performance indicators of the banking sector



Source: Bank of Lithuania.

In 2014, all banks complied with the established liquidity and capital adequacy ratios. As of 1 January 2015, the aggregate liquidity ratio of banks was 43.4 per cent (the minimum requirement of 30%), and the capital adequacy ratio was 21.3 per cent (well above the minimum requirement of 8%). Taking into account the outcome of the annual review and evaluation of the banks operating in the country, the Bank of Lithuania extended the application of tighter capital adequacy requirements for two banks.

The portfolio of loans and leases of the banking system decreased marginally (0.3%) in 2014, to reach EUR 15.7 billion (LTL 54.3 billion) as of 31 December. According to the reports submitted to the Bank of Lithuania for supervision purposes, the volume of loans



to non-financial corporations, which account for the largest share of the total banking loan portfolio, decreased by EUR 0.3 billion (LTL 1.0 billion) and stood at EUR 6.5 billion (LTL 22.5 billion) at the end of the year. This decrease was mainly due to changes in the rules governing the classification of customer groups and consolidated accounting. With these effects excluded, it can be said that the total amount of corporates' liabilities to banks remained virtually unchanged over the year. Business enterprises tended to use own funds to finance their operations and were reluctant to borrow from banks for major long-term investment amid continued uncertainty over the outlook for the country's largest trading partners (Russia, the euro area). The amounts of loans extended to public authorities, including state-owned and municipal entities, and to financial corporations (not including credit institutions) decreased by 5.4 and 6.7 per cent over the year to reach EUR 1.1 billion and EUR 0.13 billion, respectively (LTL 3.95 billion and LTL 0.46 billion). In 2014, gradual improvements in the financial health of households, positive shifts in future expectations, appetite for durable consumer goods, lack of alternative investment choices as well as a marginal increase in activity in the residential property market observed early in the year also contributed to a slight increase in housing loans, which grew by EUR 0.1 billion (LTL 0.4 billion). At the end of 2014, the housing loan portfolio amounted to EUR 5.7 billion (LTL 19.8 billion), and the overall retail loan portfolio — to EUR 6.9 billion (LTL 24 billion).

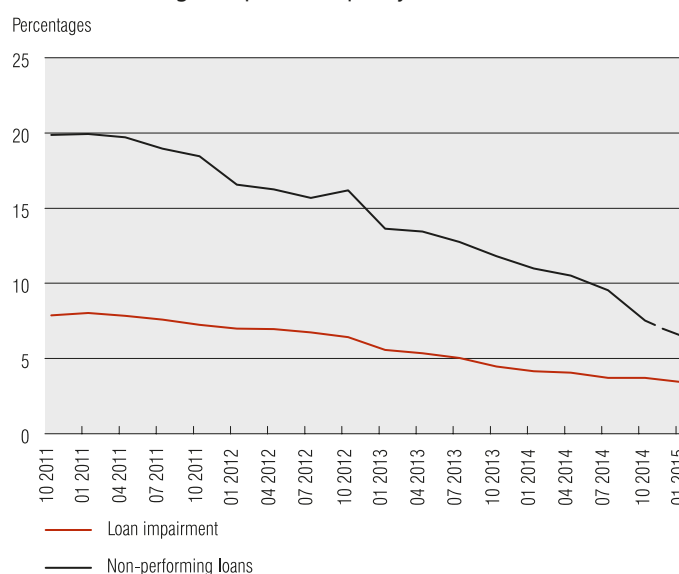
Quality indicators of the loan portfolio continued to improve, mostly due to the write-offs of bad loans. In late 2014, alongside with the phasing-in of supervisory financial reporting (FINREP) templates, the EU harmonised the definition of non-performing loans. Although it differs from the definition previously applied in Lithuania<sup>12</sup>, its effect on the volume of non-performing loans within the Lithuanian banking system was not significant. In 2014, the non-performing loan ratio, calculated in accordance with the official methodology of the European Banking Authority (EBA), decreased by 4.5 p.p. to 6.5 per cent<sup>13</sup> and the loan impairment ratio — by 0.7 p.p. to 3.4 per cent. Most of the banks continued to record significant decreases in the portfolios of loans in recovery and other loans classified as "problem loans" in 2014, mainly as a result of improvements in the obligors' financial health and in the outlook of their activities and thanks to the sufficiently conservative credit practice of the past years. Moreover, the banks kept working with troubled borrowers as they sought to gradually accomplish loan restructuring and recovery procedures opened in the crisis years.

Improvements in loan quality indicators were also fuelled by bad loan write-offs, some of which resulted naturally from the completion of recovery procedures (writing off of credit balances that have not been recovered), while others arose from the write-off policies of certain banks, which chose to write off the balances, which were unlikely to be recovered, before the completion of recovery procedures.

<sup>12</sup> According to the new definition, non-performing loans are those that are more than 90 days overdue. Previously, the Bank of Lithuania applied a delinquency period of 60 days. Although that threshold was more stringent, the non-performing loans are now taken to include both the impaired loans and the loans, which are unlikely to be paid back in full without realisation of collateral, i.e. the flow from the obligor's operations is insufficient (this approach is more conservative than the one previously applied in Lithuania).

<sup>13</sup> The decrease of approximately 2.3 percentage points was due to changes in the valuation base used to calculate the indicator (according to the new FINREP, calculations of the ratio include certain exposures of banks, central banks, the share of government securities, etc. Such exposures basically contain no non-performing exposures, which results in a better general indicator of non-performing loans (as compared to the previous method)). Excluding this effect, the ratio of non-performing loans, which would be closer to the one previously calculated in Lithuania, would be approximately 8.8 per cent



**Chart 20. Banking loan portfolio quality indicators**

Source: Bank of Lithuania.

As compared to mid-2014, the banks' view about the potential impact of Russia's retaliatory trade sanctions on their loan portfolios remained basically unchanged. In particular, expectations remained optimistic and potential financial effects were described as minimal (although they might be somewhat larger for certain banks). The sectors hardest hit by these sanctions include food, agricultural and transport industries as well as the providers of accommodation services. However, the banks do not expect any major disruptions to loan repayment or financial losses from the loans issued to these sectors' entities. Although the direct effect of Russia's retaliatory sanctions on the banks' customers and, simultaneously, on the quality of loan portfolios, has already been assessed, the banks expect further impact from economic deterioration in Russia on Lithuania's businesses. This impact still remains difficult to measure.

In 2014, changes in banks' liquidity profile were mainly driven by growth in customer deposits (this money was invested by banks in liquid assets), which, in its turn, was fuelled by preparations to adopt the euro. The growth in customer deposits in banks is a traditional phenomenon observed at the end of each year. However, that growth was particularly strong in December 2014. Demand deposits of households and private undertakings recorded the biggest increase hence the share of banking assets funded by short-term financial resources at the end of the year was even higher than before. In general, the growth of volumes in the demand deposit segment in recent years has been driven by ultra-low interest rates.

The banks' liquidity profile improved substantially in the run-up to the euro changeover. In particular, the liquidity ratio of the banking system increased over the quarter to 43.6 per cent, its highest level in the past three years, from 40.6 per cent (the minimum requirement is 30%). Substantial growth in deposits and continued weakness of bank lending led to an increase (in particular in December) in the banks' liquid assets buffers, above all, in balances on their accounts with the Bank of Lithuania.

The last liquidity ratio reports, based on the procedure adopted by the Board of the Bank of Lithuania, and the data on compliance with the liquidity requirement were submitted by banks and foreign bank branches operating in Lithuania on 31 December 2014. From 2015 onward, the banks operating in the country and the LCCU will have to ensure compliance with the liquidity coverage ratio (LCR), which shall be calculated in accordance

with the provisions of CRD IV and CRR. As part of preparations to implement the new liquidity requirements, the banks have been reporting the data required to calculate the LCR and the net stable funding ratio (NSFR) to the Bank of Lithuania since 1 April 2014, although the reporting of LCRs calculated by banks will only become mandatory on 1 October 2015. The available data shows that the banks, which hold sufficiently large buffers of liquid assets, comply with the respective ratios with a sufficient safety margin. Based on Basel III rules<sup>14</sup>, the average LCR of the banking sector was 306 per cent (vs. the requirement of 100%) and the NSFR was 162 per cent (vs. the requirement of at least 100%) as of 1 January 2015.

Market risks taken by the banking system decreased in 2014 as the banks scaled down their debt securities portfolios marginally. The banking system's investment in debt securities fell by nearly 8 per cent over the year, to EUR 2.1 billion (LTL 7.3 billion), including the EUR 1.4 billion (LTL 4.8 billion) worth portfolio, which was measured at fair value and was sensitive to market fluctuations. Debt securities of the Government of the Republic of Lithuania comprised the bulk of the banks' debt securities portfolio (approx. 67%), while the shares of securities issued by issuers from Europe and other countries were much smaller, e.g. 7 per cent for Germany, 5 per cent for Denmark or 4 per cent for Luxembourg.

The Lithuanian banks do not have any substantial investment in financially-troubled markets, which demonstrated high volatility last year (Russia, Ukraine or Greece). Investment in Russia's issuers almost halved in 2014, to reach EUR 8.7 million (LTL 30.6 million) at the end of the year.

In 2014, the Lithuanian banking sector remained profitable thanks to the profits generated by six of seven banks and five of eight bank branches. In total, the banks and foreign bank branches earned EUR 213.4 million (LTL 736.8 million) in profit in 2014, down by EUR 14.2 million (LTL 48.9 million), or 6.2 per cent, year-on-year. Despite increases in both net interest income of the banking system and its net fee and commission income, a EUR 44.5 million (LTL 154.0 million) rise in loan impairment charges and administrative costs had a substantial dampening effect on the aggregate profit performance.

The indicators defining the operating efficiency of banks remained broadly unchanged. The net interest margin edged up to 1.59 per cent as of 1 January 2015, from 1.51 per cent a year before. The return on assets slid to 0.92 per cent, from 1.02 per cent, in the same time period and the return on equity — to 8.05 per cent, from 8.94 per cent, as a result of a year-on-year decrease in profit and a substantial increase in bank assets.

In 2014, net interest income increased by EUR 26.3 million (LTL 90.8 million), or 7.5 per cent. The gross interest income shrank by 0.3 per cent in the period under review as lending activity remained subdued hence the growth of net interest income resulted from a 12 per cent fall in interest cost, as some banks decided to stop paying interest on shorter-term deposits and the depositors opted to hold less money in fixed-term deposits. In addition, interest cost was also lowered by a decline in liabilities to parent banks and, possibly, by a decrease in the cost of refinancing of existing loans.

Net fee and commission income increased by EUR 4.8 million (LTL 16.6 million), or 2.6 per cent, in 2014. Income from fees and commissions was stable (decreased by meagre 0.9%) hence the net result benefitted from a 10 per cent decrease in fee and commission expense. In fact, the latter change was triggered by technical factors as the *Nordea* bank in 2014 abandoned its 2013 practice of allocating certain head office expenditure to its

<sup>14</sup> Calculation of exposures in accordance with Basel III rules slightly differs from the method established in CRD IV; however, the principle used to calculate the ratios is the same.

Lithuanian branch. Excluding that one-off effect, net fee and commission income of the banks operating in Lithuania decreased by 2.8 per cent.

In 2014, the banks' administrative costs rose by EUR 17.5 million (LTL 60.6 million), or 5.5 per cent, driven by increases in both staff costs and other administrative charges. In 2014 the banks also bore costs related to the adoption of the euro, which, presumably, had a substantial effect on the total amount of expenditure (according to previous initial estimates, the banks and the Bank of Lithuania expected the extra costs related to the adoption of the euro to reach approximately EUR 29.0 million, or some LTL 100 million). In addition, the growth of wages in the country might also have contributed to the increase in staff costs. Loan impairment charges last year increased by EUR 27.1 million (LTL 93.4 million) to EUR 33.6 million.

The banking system recorded no major operational risk events in 2014 and the general level of operational risk remained stable. The euro adoption project, which was one of the challenges augmenting the level of risk and which benefitted from increased focus and resources allocated by both banks and the Bank of Lithuania, was completed smoothly.

The Competition Council of the Republic of Lithuania finally revoked the fine it previously imposed on an alleged cartel involving several banks and G4S. The banks continue to implement structural changes related to branch reorganisation, which has as its aim the reduction of the volume of cash operations. The New Minimum Security Requirements adopted by the Bank of Lithuania for Internet payments will come into effect on 1 November 2015. Moreover, the Bank of Lithuania and the banking system participants have agreed to replace password cards with more secure solutions, such as password generators, M-signatures or a combination of password cards and one-time SMS codes.

## Insurance Market

As of late 2014, the number of insurers providing insurance services in the domestic market was unchanged year-on-year. Specifically, insurance services were provided by 24 insurers, including 10 insurance undertakings registered in Lithuania and 14 branches of insurance undertakings established in other EU countries (two insurance undertakings, i.e. *UAB Būsto paskolų draudimas* and *UADB Industrijos garantas* had their insurance licenses suspended). Branches held 49.5 per cent of Lithuania's total insurance market (53% of non-life insurance market and 43% of life assurance market).

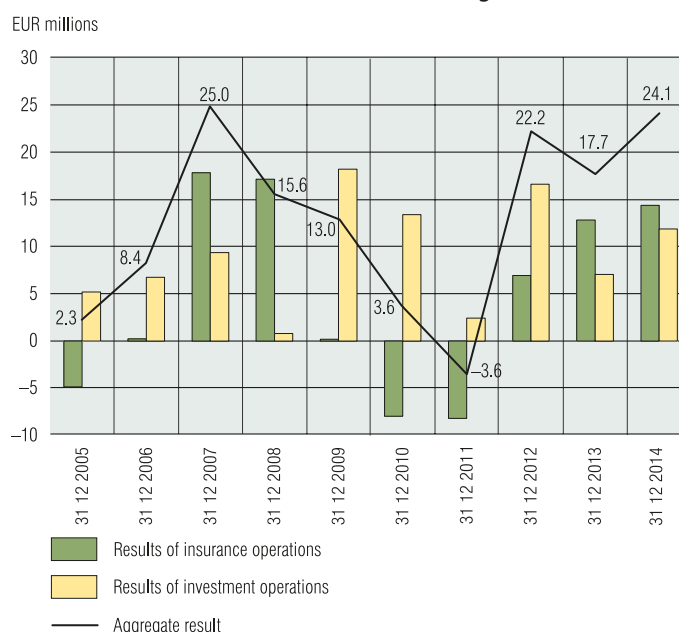
The second half of 2014 saw changes in the ownership of insurance undertakings. After the United Kingdom insurance company *Royal & Sun Alliance Insurance* announced the sale of its insurance business in the Baltic States, Poland's insurance company *PZU S.A.*, the largest single shareholder of *UAB DK PZU Lietuva* and *UAB PZU Lietuva gyvybės draudimas*, acquired the shares of *AB Lietuvos draudimas*. The Competition Council cleared the acquisition of shares in *AB Lietuvos draudimas* on condition that *PZU S.A.* transfer its business related to motor vehicle insurance (other than railway rolling stock) and property insurance activities carried out by *UAB DK PZU Lietuva*. Moreover, *PZU S.A.* issued a subordinated loan to *UAB DK PZU Lietuva* for the acquisition of the Estonian branch of the Danish insurance undertaking *Codan Forsikring A/S*.

In 2014, the Lithuanian insurance market continued to grow. The insurance undertakings registered in Lithuania and the branches established by other EU countries last year wrote EUR 600.9 million (LTL 2,074.6 million) in insurance premiums, a rise of 6.6 per cent year-on-year. However, the growth rates of life assurance and non-life insurance markets differed widely. The life assurance market saw a spike in activity and, as a result, the amount of premiums written soared by 18.6 per cent from 2013 to EUR 215.0 million

(LTL 742.5 million), which was a mere 6.2 per cent below the peak level recorded in the market in 2007. The life assurance market delivered its second consecutive year of record premiums written in traditional life assurance, which reflects strong demand in conservative investment sources. At the same time, a decrease in the guaranteed interest rate for traditional life assurance, which was triggered by the low level of interest paid by debt securities, and a decline in interest on fixed-term deposits, fuelled the policyholders' appetite for riskier life assurance products. As a result, the amount of investment-linked life assurance premiums written soared by 19.2 per cent in 2014, year-on-year. The growth of non-life insurance market was rather sluggish (of mere 1.0%, as compared to 2013) due to intense competition and the resulting decrease in tariffs of many types of non-life insurance and the amount of premiums totalled EUR 385.8 million (LTL 1,332.1 million). The growth of non-life insurance market was mainly driven by changes in the classes of health, property and general liability insurance. Meanwhile, the amount of premiums written within MTPL and Casco — the largest classes of motor vehicle insurance — decreased last year, which had a dampening effect on growth in this market. The number of contracts increased in most classes of insurance last year. However, the loss ratio of non-life insurance market (excluding claim handling expenses and subrogation amounts) increased by 2.2 p.p., to 59.7 per cent, last year due to a negative change in average premiums.

According to unaudited data, the insurance undertakings registered in Lithuania earned EUR 24.1 million (LTL 83.2 million) in profit in 2014. Over the past ten years, a heftier profit has been recorded only once (in 2007, 4% above last year's level). All undertakings, except *UAB DK PZU Lietuva* and *UADB Industrijos garantas*, generated a profit last year. Insurance undertakings made a profit from both insurance and investment operations. Same as in the previous year, the insurers' profitability was mainly due to the success of core, i.e. insurance, business, which generated EUR 14.4 million (LTL 49.7 million) in profit. The insurers sought to improve their performance in direct insurance and, therefore, focused on one of their key objectives — to develop the pricing that would match the risks. Profit from investment operations soared by a whopping 68 per cent, compared to 2013, to EUR 11.9 million (LTL 41.0 million). The return on investment was rather high (4%), thanks to growth in values of higher-yielding investment units, which were acquired prior to the reporting period.

At the end of 2014, the assets of insurance undertakings totalled EUR 1.024 billion (LTL 3.534 billion), 19 per cent more than a year ago. This increase was due to investment by the Polish insurance undertaking *PZU S.A.*, which sought to expand the operations of *UAB DK PZU Lietuva* beyond Lithuania and into other EU Member States. As far as the structure of assets is concerned, the bulk comprises investment, which amounted to EUR 871.4 million (LTL 3.009 billion) in 2014. In terms of economic origin, investment made by insurance undertakings is classified as either own investment or the money of policyholders put under the undertakings' management pursuant to investment-linked life assurance contracts. Over the year, the amount of policyholders' money put under the undertakings' management increased by as much as 20 per cent to EUR 342.9 million (LTL 1.184 billion). Own investment, which is used to cover traditional insurance technical reserves as well as equity and other liabilities, increased by 13 per cent over the year to reach EUR 528.35 million (LTL 1.825 billion) at the end of 2014. 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, equities and fixed-term deposits with banks.

**Chart 21. Performance of insurance undertakings**

The solvency margin ratio — one of the key indicators of financial stability in the insurance market — was rather high, of 2.4 (solvency margin requirements are met where the solvency ratio is above 1) and showed that the market was stable in financial terms.

Two scheduled inspections of insurance undertakings were carried out in 2014. They focused on the solvency of the insurance undertakings and their financial health, the adequacy of the technical reserves, their governance, internal controls, risk management systems and other things.

### Credit Unions

As of 1 January 2015, 74 credit unions, including 63 LCCU members, operated in Lithuania with a total membership of nearly 150 thousand. Two credit unions had their licences permanently revoked in 2014.

Although the provision of loans to members remains the core activity of the credit union sector (loans account for the bulk of assets), certain credit unions were keen on investing in government securities last year.

Reinforcement of sustainable capital is one of the core tasks of the credit union sector. However, some of the credit unions have failed to make full use of the capital reinforcement tools made available through amendments to the Law on Credit Unions.

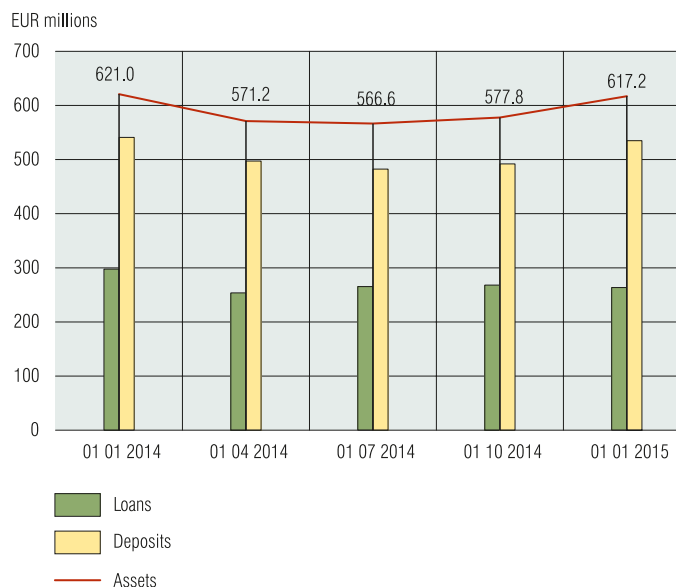
Credit unions took part in the process of adoption of the euro in Lithuania. Eleven credit unions provided free-of-charge services of litas exchange into euro to both members and non-members.

The assets of credit unions decreased in 2014 as two credit unions had their licences revoked. As of 1 January 2015, the sector's assets totalled EUR 617.2 million (LTL 2.1 billion), or 2.5 per cent of the banking system's assets (down from 2.8% a year before).

Loans extended to members represented the largest share of credit unions' assets (42.7%). In 2014, the loan portfolio shrank by more than one-tenth to reach EUR 263.5 million (LTL 909.9 million) as of 1 January 2015. Decreases in the loan portfolio and in the amount of loans extended to legal entities were mainly driven by the increase in specific provisions and by the exit of two credit unions from this business. At the end of the year, loans

granted to legal entities amounted to EUR 64.9 million (LTL 224 million) and accounted for 24.6 per cent of the loan portfolio (down by 4.4 p.p. from the beginning of the year).

**Chart 22. Performance indicators of credit unions**



Source: Bank of Lithuania.

Credit unions took a more conservative approach towards the assessment of loan portfolios in accordance with the recent provisions of loan assessment requirements and formed specific provisions against potential loan impairment charges, which resulted in a more realistic picture of the quality of their loans. Notably, the indicators defining the quality of loans took a turn for the worse in 2014. The ratio between specific provisions formed by credit unions and their loans increased by 0.4 p.p. to 6.2 per cent, while the ratio of non-performing loans rose by 4.2 p.p. to 26.3 per cent of the total loan portfolio.

Credit unions continued to invest in government securities relying on available deposits as a source of funds. In 2014, credit unions' investment in government securities increased to EUR 221.3 million (LTL 764.2 million) and accounted for 35.9 per cent of their assets as of 1 January 2015. The focus of credit unions' investment, which was concentrated on the government securities of the European Union's Member States and the European Economic Area countries for two consecutive years, shifted back to the government securities of the Republic of Lithuania in the fourth quarter of 2014. While investing considerable amounts in lower-rated long-term securities, credit unions have to take the respective counterparty and market risks. Hence the Bank of Lithuania plans to put in place a range of supervisory and prudential measures individually set for the credit unions that have taken an aggressive stance towards investment in government securities. Moreover, the Bank of Lithuania intends to adopt the Regulations on Credit Union Investment in Non-Equity Securities, which lay down the requirements for the investment of temporary free funds as well as the valuation of investment portfolios and securities.

Deposits raised by credit unions represented the main source of their funding and accounted for the bulk of their liabilities. According to the reports submitted by credit unions, the amount of deposits decreased in the first half of 2014 as two credit unions in bankruptcy exited the market. In a reversal, this was followed by growth in the second half of the year. The deposit portfolio shrank by meagre 1.1 per cent over the year to reach EUR 535 million (LTL 1.8 billion) as of 1 January 2015. Presumably the growth of deposits was fuelled by the approaching euro changeover as demand deposits increased

more than fixed-term deposits. The deposits of natural persons continued to account for the bulk of deposits (97%).

According to the financial statements approved by the general meetings of the members of credit unions, the credit union sector in 2014 recorded an increase in income and decrease in costs compared to 2013. Interest income, which accounted for 60 per cent of the total income, was the largest single source of income for credit unions. A substantial portion of income was derived from one-off gains from operations with securities. In 2014, the operating result of credit unions was a profit of EUR 0.6 million (LTL 2.1 million) (vs. losses of EUR 11.4 million (LTL 39.4 million) in 2013). The credit unions that were profitable numbered 53 and another 21 operated at a loss.

It must be noted that most of the credit unions usually allocate their profits to reserve capital in order to reinforce their capital base. However, some of the unions disregarded this opportunity last year. Certain credit unions, in particular those keen on investing in securities, commissioned investment consulting or other services that were disproportionately expensive and hardly necessary and made hefty payments to the suppliers of those services, which swelled their expenses and had a negative effect on the credit unions' capital. That negative effect was further exacerbated by a decrease in credit unions' share capital. As the number of credit unions' members diminished, the share capital fell by nearly 15 per cent in 2014 to reach EUR 51.4 million (LTL 177.6 million) as of 1 January 2015. In line with the amendments to the Law on Credit Unions, credit unions now have an option of increasing capital through the acquisition of privileged shares by their members.

As of 1 January 2015, the capital adequacy ratio of the credit union sector was 22.65 per cent (above the minimum ratio of 13%<sup>15</sup>), and the liquidity ratio was 69.84 per cent (above the minimum ratio of 30%<sup>16</sup>). One credit union failed the capital adequacy requirement on the reporting date. However, it increased its capital sufficiently to meet that requirement in January 2015. In addition, certain credit unions fell short of the maximum exposure requirement. Most of them had made provisions, required for litas exchange into euro, on their banks accounts and therefore were able to meet the requirement as early as at the beginning of January 2015. Meanwhile, those who failed to do so were made (or will be made) subject to the corrective measures established in the Law on Credit Unions.

The main annual and quarterly performance indicators of each credit union, including its compliance with prudential requirements, are published on the website of the Bank of Lithuania.

As previously mentioned, the LCCU united 63 credit unions as its members as of 1 January 2015. Supported by growth in deposits, the assets of the LCCU increased by EUR 5.2 million (LTL 18.1 million) in 2014, to EUR 111.4 million (LTL 384.6 million). The loan portfolio increased as well to reach EUR 21.8 million (LTL 75.3 million) at the end of the year. Loans extended to LCCU member credit unions amounted to EUR 18.1 million (LTL 62.5 million) and the loan portfolio quality remained high. The LCCU liquidity support reserve decreased as a result of repayment of credit unions' funds and amounted to EUR 4.2 million (LTL 14.4 million) at the end of 2014. The balance of the Stabilisation Fund (a mechanism used to restore the solvency of credit unions (LCCU members)), which provided aid to three credit unions, decreased as well (to EUR 1.4 million, or LTL 4.7 million), even though the LCCU member credit unions

<sup>15</sup> For credit unions with a substantial share of loans extended to associate members in their loan portfolio this ratio shall be at least 18 per cent or 25 per cent.

<sup>16</sup> 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.



had made advance payments to this facility. Given that the credit unions have made the 2015–2017 contributions in advance, the LCCU may have difficulties in dealing with the issue of credit unions' solvency in the future.

As of 1 January 2015, the share capital of the LCCU totalled EUR 9.4 million (LTL 32.5 million). In spite of paying back the share contribution previously acquired by the Government of the Republic of Lithuania, the share capital of LCCU increased by nearly 6 per cent in 2014, thanks to additional share contributions made by LCCU members. According to audited statements, the operating result of LCCU last year was a profit of EUR 0.1 million (LTL 0.4 million) (EUR 0.3 million, or LTL 0.9 million, in 2013).

In the second half of 2014, the Bank of Lithuania carried out a targeted inspection of the LCCU, which involved checking of its governance and internal controls as well as its management of credit and operational risks.

## Other Financial Institutions

**Insurance brokerage firms.** The number of insurance brokerage firms has decreased to 97 as of 31 December 2014. Over 2014, the Bank of Lithuania issued two insurance brokerage licenses and revoked six licences: the licenses of four insurance brokerage firms were revoked at their own request; the license of one insurance brokerage firm was revoked because it joined another insurance brokerage firm; one insurance brokerage firm's license was revoked due to the firm's non-compliance with the minimum equity capital requirement, pursuit of operations despite the absence of valid mandatory professional indemnity insurance, provision of untrue information about the validity of such insurance to the Bank of Lithuania and breach of the Law on Insurance through the alleged forgery of documents to hide the firm's non-compliance with the requirements for the issue of the licence. In the second half of 2014, the Bank of Lithuania carried out inspections of two insurance brokerage firms. The Bank of Lithuania issued a warning to one of the insurance brokerage firms checked in relation to its accounting system, which, as established, failed to duly record financial and business operations and to show the firm's true financial status and performance in financial statements. As on 31 December 2014, one insurance brokerage firm fell short of the minimum equity capital requirement (capital shall be at least EUR 18,760 (LTL 64,775) or at least 4 per cent of the annual amount of insurance premiums received by insurance brokerage firms and payable to insurers). It was instructed to notify the Bank of Lithuania about the measures that would be taken to ensure compliance with the minimum equity capital requirement. In the second half of 2014, seven insurance brokerage firms made contributions to offset losses and another two increased their authorised capital. As of 31 December 2014, the assets of insurance brokerage firms totalled EUR 21.7 million (LTL 75 million) and the profit generated in the reporting period amounted to EUR 2.6 million (LTL 8.7 million). Over the year, insurance brokerage firms intermediated in the conclusion of 1.4 million contracts.

**Electronic money institutions.** No new licences authorising to issue electronic money were granted in 2014. As of 1 January 2015, 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. The average outstanding electronic money, calculated as the average of the total amount of financial liabilities related to the electronic money issued at the end of each day during the last 6 months, surged by 2.4 times, year-on-year, to reach EUR 9.5 million (LTL 32.9 million) as of 1 January 2015. In 2014, electronic money institutions generated EUR 2.9 million (LTL 10 million) in income from the issuance of electronic money and provision of payment services. As in the previous



year, increases in income from the issuance of electronic money and provision of payment services and in the average outstanding electronic money were driven by fast expansion pursued by one electronic money institution. In 2014, electronic money institutions complied with relevant prudential requirements (for the average outstanding electronic money and initial capital as well as the legislative requirements for own funds and safeguarding of funds obtained in exchange for electronic money issued and payment services provided). New non-banking providers of payment services executing payments in electronic money are expected to enter the payment market in 2015.

**Payment institutions.** As of 1 January 2015, 37 payment institutions were registered in the Public List of Payment Institutions. The licencing process of payment institutions continued in 2014. In particular, the Bank of Lithuania issued five licenses for the provision of payment services. Moreover, two payment institutions added new payment services to the scope of their licences. It is worth to mention that the scope of licences held by as much as 30 licenced payment institutions was limited to the provision of a single payment service, i.e. money remittances. The total turnover of payment transactions carried out by payment institutions in 2014 amounted to EUR 1.9 billion (LTL 6.81 billion), and income from the provision of payment services totalled EUR 20.8 million (LTL 72 million). The majority of payment institutions, in particular mobile communication networks operators, derived the bulk of their income from business activities and pursued the provision of payment services as a non-core activity. As in previous years, the payment institution system in 2014 was dominated by several payment institutions. In particular, three payment institutions together accounted for 71 per cent of income and 72 per cent of the total payment transaction turnover. As of 1 January 2015, all payment institutions complied with the requirements of the Republic of Lithuania Law on Payment Institutions relating to the safeguarding of funds of the users of payment services or the funds received from another provider of payment services, the minimum own funds and own funds. In 2014, two payment institutions increased their authorised capital in a bid to reinforce the own-funds base.

**Financial brokerage firms.** Eight financial brokerage firms operated in Lithuania as of 31 December 2014. Of these, one held a Category A licence of a financial brokerage firm, six – a Category B licence, and one — a Category C licence. In 2014, the Board of the Bank of Lithuania issued one Category C licence to the financial brokerage firm to *Evernord UAB* and revoked none. However, early in 2015 the Board of the Bank of Lithuania revoked the Category B licence of *UAB FMJ MRC Markets* at the firm's request. According to unaudited data, the assets of financial brokerage firms decreased by 13.8 per cent, compared to 2013, and amounted to EUR 5.3 million (LTL 18.3 million) as of 31 December 2014. As before, the assets of *UAB FMJ Orion Securities turtas* (EUR 3.1 million, or LTL 10.8 million) accounted for more than half of the sector's assets (59.1%). As of 31 December 2014, money holdings in banks accounted for the biggest share (31.7%) of assets of the financial brokerage firms.

According to unaudited financial statements, the operating result of financial brokerage firms last year was a loss of EUR 0.1 million (LTL 0.4 million) (down from the loss of EUR 0.2 million (LTL 0.6 million) in 2013). As of 31 December 2014, operations were profitable for four financial brokerage firms.

Financial brokerage firms are obliged to comply with the minimum initial capital requirement (EUR 730 thousand in Category A, EUR 125,000 in Category B and EUR 50,000 in Category C) and the minimum capital adequacy ratio of 8 per cent. All financial brokerage firms complied with the respective capital requirements as of 31 December 2014.

**Management companies.** As of 31 December 2014, 13 management companies, holding operating licences and acting in compliance with the Laws on Collective Investment Undertakings and on the Supplementary Voluntary Accumulation of Pensions, operated in Lithuania's market for financial instruments. The number of management companies decreased by one at the end of 2013 due to the revocation of the operating licence of *UAB Citadele investicijų valdymas* in January 2014 at the management company's request. No new licences were issued in 2014.

In November 2014, the Board of the Bank of Lithuania, acting on a request from *UAB Prudentis*, amended the scope of the management company's licence to include the right to manage the collective investment undertakings (CIUs) established pursuant to the Law on Collective Investment Undertakings Intended for Informed Investors, which entered into force on 1 July 2013. *UAB Prudentis* was the fourth management company to expand the scope of its licence pursuant to this piece of legislation after *UAB Synergy finance* and *UAB LORDS LB ASSET MANAGEMENT*, which had their licences amended in late 2013, and *UAB Orion Asset Management*, which did the same early in 2014.

Late in 2014, four management companies, managing the CIUs intended for informed investors and acting within the scope of the Law on Collective Investment Undertakings Intended for Informed Investors, operated in Lithuania. In December 2014, the Board of the Bank of Lithuania issued authorizations for the management of CIUs intended for informed investors to *UAB Žabolis ir partneriai kapitalo valdymas* and *UAB Mundus*. *UAB Investicijų valdymas Prosperus* and *UAB Ad ventum* were granted such authorisations early in the year. On 24 February 2015, the Board of the Bank of Lithuania authorised the fifth management company, i.e. *UAB Gerovės kūrimas*, as a manager of CIUs intended for informed investors.

In December 2014, the Board of the Bank of Lithuania issued an authorisation for *UAB NT plėtros fondas* to engage in investment firm activities pursuant to the Law on Collective Investment Undertakings Intended for Informed Investors under the management of the management company *UAB Synergy finance*. *UAB LT Development Fund* — another investment firm of this type managed by *UAB Synergy finance* — obtained its respective authorisation early in 2014.

As of 31 December 2014, management companies managed 23 pension funds for the accumulation (2<sup>nd</sup> pillar) of a portion of the state social insurance contribution, 12 funds for supplementary voluntary retirement saving (3<sup>rd</sup> pillar), 28 CIUs acting pursuant to the Law on Collective Investment Undertakings and 12 CIUs acting pursuant to the Law on Collective Investment Undertakings Intended for Informed Investors.

According to unaudited data, the assets of management companies in 2014, compared to 2013, decreased by 20.9 per cent to EUR 18.8 million (LTL 64.9 million) as of 31 December 2014, from EUR 23.8 million (LTL 82.1 million) as of 31 December 2013. At the end of 2014, more than a half (53.8%) of management companies' assets was held in settlement and fixed-term deposit accounts with banks. *UAB SEB investicijų valdymas* ranked largest in the sector in terms of assets.

Based on unaudited financial statements, the operating result of management companies in 2014 was a profit of EUR 3.6 million (LTL 12.6 million). In 2013, the aggregate profit of management companies amounted to EUR 3.7 million (LTL 12.7 million). As of 31 December 2014, most management companies (nine) operated at a profit led by *UAB SEB investicijų valdymas* and *UAB Swedbank investicijų valdymas*, which generated the biggest profits.

As of 31 December 2014, all management companies safely complied with the capital adequacy ratio, which shall be at least 1.0. The average capital adequacy ratio of

management companies fell to 2.7 as of 31 December 2014, from 3.2 in the previous quarter.

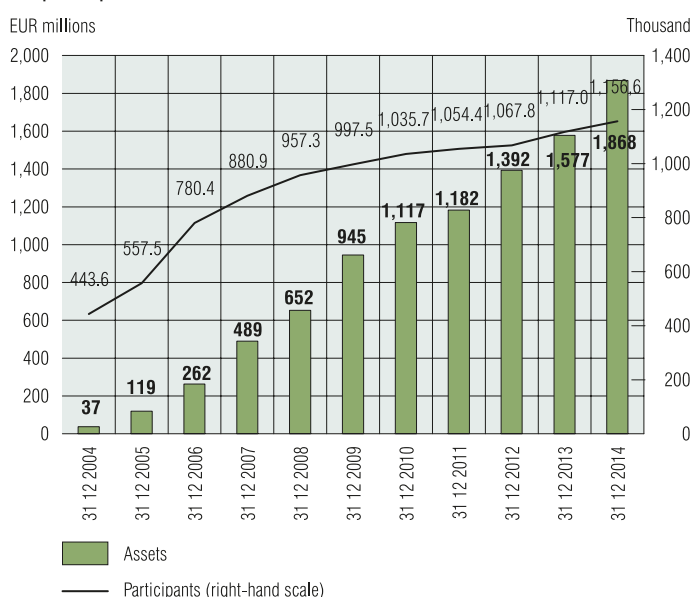
**Currency exchange operators.** With the entry into force of the Republic of Lithuania Law on Currency Exchange Operators on 1 November 2014, the activity of buying and/or selling foreign cash in Lithuania, previously reserved to banks, can now also be pursued by credit unions, payment and electronic money institutions provided that they hold licences issued by the Bank of Lithuania. A currency exchange operator may be a legal entity established in the Republic of Lithuania, a subdivision of a legal entity or of another organisation established in a foreign country managing a currency exchange office (offices), or a financial undertaking established in a European Economic Area country, which provides currency exchange services without establishing a subdivision in the Republic of Lithuania. Pursuant to the Law, currency exchange operators shall be entered into the list of currency exchange operators. Eight legal entities (private limited liabilities companies) registered in the Republic of Lithuania have applied to the Bank of Lithuania for the entry into the list of currency exchange operators and all of them have been put on the list.

## Financial Services and Markets, Their Supervision

### Pension Funds

In Lithuania, 26 2<sup>nd</sup> pillar pension funds operate. They are managed by seven retirement savings companies, including six management companies and one life assurance undertaking. In 2014, the assets managed by 2<sup>nd</sup> pillar pension funds increased by EUR 290.87 million, or LTL 1,004.30 million (18.45%), to reach EUR 1,867.69 million (LTL 6,448.77 million) at the end by December. The number of 2<sup>nd</sup> pillar pension funds participants rose by 3.55 per cent to 1,156.62 thousand.

**Chart 23. Developments in the participant numbers and assets of 2<sup>nd</sup> pillar pension funds**



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 52.7 per cent of the total number of participants and the value of their assets accounted for 52.1 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 286 thousand participants (24.8% of the market).

Despite the volatility observed in financial markets in the past 12 months, all 2<sup>nd</sup> pillar pension funds demonstrated positive performance and the unit values of funds increased, on average, by as much as 7.8 per cent. The unit values of conservative investment pension funds showed the smallest gain, of 4.0 per cent 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 8.2 per cent, of medium equity share pension funds — of 8.0 per cent, and of equity pension funds — of as much as 9.7 per cent.

As far as the investment portfolio of 2<sup>nd</sup> pillar pension funds is concerned, it should be noted that the bulk of investment (54.49%) consisted of investment in CIU units, including equity CIUs (EUR 0.70 billion, or LTL 2.43 billion) and debt security CIUs (EUR 0.29 billion, or LTL 0.99 billion), as of 31 December 2014. The assets of pension funds were mainly invested in euro (69.2% of the total). The share of investment in litas accounted for 15.7 per cent and in US dollar — for 10.6 per cent.

In 2014, the Supervision Service of the Bank of Lithuania cleared the transfer of the rights and obligations of *ERGO Life Insurance SE* arising from the retirement savings contracts of the participants of 2<sup>nd</sup> pillar pension funds *ERGO Konservatyvusis* and *ERGO Balansas* to the management company *UAB DNB investicijų valdymas*. The terms and conditions of retirement saving applied to the participants of the pension funds concerned remained unchanged and they had three months from the date of notification to exercise their right to switch to a pension fund managed by another retirement savings company without any additional charges.

In Lithuania, 12 supplementary voluntary retirement savings funds managed by five management companies operate. In 2014, the assets managed by 3<sup>rd</sup> pillar pension funds increased by more than one-fourth, or EUR 9.83 million (LTL 33.96 million), to reach EUR 47.58 million (LTL 164.30 million) at the end of December. The number of participants saving for their retirement in 3<sup>rd</sup> pillar pension funds increased by 16.64 per cent over 12 months and amounted to 39,933 at the end of the fourth quarter. 2014 was a successful year for 3<sup>rd</sup> pillar pension funds as their unit values increased by an average of 7.3 per cent.

Investment of 3<sup>rd</sup> pillar pension funds is similar in structure to that of 2<sup>nd</sup> pillar pension funds. As of 31 December 2014, the bulk of pension fund investment (63.24%) consisted of investment in CIU units or shares. Government securities ranked second among most popular investments and accounted for 24.76 per cent of the assets of 3<sup>rd</sup> pillar pension funds. Most of the assets of 3<sup>rd</sup> pillar pension funds (66.87%) were invested in euro. Investment in US dollar accounted for 15.62 per cent of pension fund assets, and investment in litas — for another 14.18 per cent.

In 2014, the Bank of Lithuania approved the rules of two new 3<sup>rd</sup> pillar pension funds: “DNB Supplementary Pension 25” and “DNB Supplementary Pension 50”.

### Collective Investment Undertakings

On 31 December 2014, there were 28 CIUs (including 27 investment funds and one investment company with variable capital) established in Lithuania by ten management companies. Last year, the assets managed by CIUs increased, contrary to the number of participants, which showed a decline. Since the beginning of 2014, the funds’ assets have increased by EUR 18.00 million, or LTL 62.16 million (7.42%), to EUR 260.69 million (LTL 900.11 million), yet the number of participants decreased by 14.51 per cent (or 2.6 thousand) to 15.3 thousand. Such a trend has been observed for a few years already

and the number of participants has been in decrease 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 2014, the unit values of CIUs showed positive developments with average growth of 3.8 per cent recorded. The unit values of mixed investment CIUs showed the biggest increase of 7.7 per cent, followed by equity CIUs with 2.2 per cent and debt security CIUs with 0.4 per cent.

As of 31 December 2014, investment in the units or shares of other CIUs comprised the bulk of CIU investment (30.97%), followed by investment in shares, which attracted 20.80 per cent of CIU assets as direct investment. As of late December 2014, more than half of CIU assets had been invested in euro. CIU investment in US dollar accounted for 9.72 per cent, and investment in litas — for 15.64 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.

During 2014, the number of market participants acting pursuant to the Law on Collective Investment Undertakings Intended for Informed Investors increased to 12, from 1, all managed by 4 management companies. Another 3 companies authorised to pursue the activity of management of CIUs intended for informed investors have not started operations yet by the end of 2014. At the end of the year, the assets of CIUs intended for informed investors amounted to EUR 53.19 million (LTL 183.66 million).

### Primary and Secondary Markets

Stock trading on the regulated market remains subdued. *OMX Vilnius* recorded a gain of 7 per cent for 2014, despite a 4 per cent fall in the second half of the year. As compared to 2013, the number of trades decreased by 19 per cent over the year and the turnover shrank by 10 per cent.

All in all, three issues of shares, worth a total of EUR 50 million (LTL 174 million), were placed on the primary market in 2014. *AB Agrowill Group*, which increased its authorised capital by EUR 30 million (LTL 103 million) last year, accounted for the bulk of that total. In 2013, the total issue price of the shares issued in the primary market amounted to EUR 38 million (LTL 131 million). Fifty issues of bonds with the total face value of EUR 122 million (LTL 423 million) were placed in 2014, including 21 issues (with the total face value of EUR 5 million, or LTL 16 million) placed in public offerings and 29 issues (with the total face value of EUR 118 million, or LTL 407 million) sold via private placements. By comparison, in 2013, bond issuers placed 69 issues with the total face value of EUR 175 million (LTL 604 million) and the issues sold via public offerings accounted for 5 per cent of the total face value. Interest rates, hovering at around 0.5 per cent, have remained unchanged for a while.

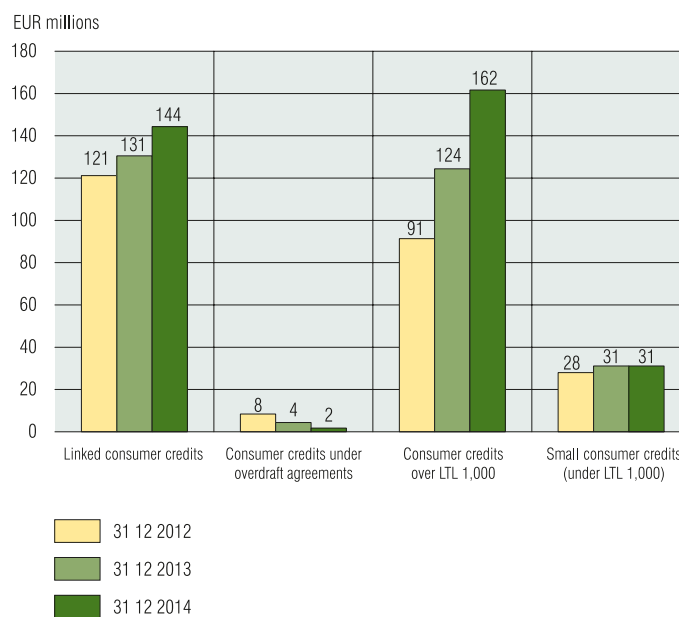
Over the year, the list of issuers supervised by the Bank of Lithuania increased by one entry. As of 31 December 2014, the Bank of Lithuania supervised 48 issuers, including 16 companies with stocks listed on the Main List of *AB NASDAQ OMX Vilnius*, 17 companies with stocks listed on the Secondary List (including one issuer with stocks also admitted to trading on the Warsaw Stock Exchange), four issuers with stocks admitted to trading on the Warsaw Stock Exchange, and one issuer with bonds listed on the Debt Securities List of *AB NASDAQ OMX Vilnius*. In addition, the list of issuers included 11 companies whose securities are not traded on regulated markets.

## Consumer Credit Market

As of 31 December 2014, the public list of consumer credit providers included 60 companies (other than credit institutions) authorised to provide consumer credits. The number of consumer credits provided by those companies totalled 784 thousand at the end of 2014, a rise of 8.56 per cent from the 2013 figure of slightly more than 722 thousand. The amount of credits extended to consumer credit borrowers totalled EUR 338.89 million (LTL 1,170.11 million) as of 31 December 2014. Year-on-year, the credit portfolio increased by 16.69 per cent.

As of late 2014, the biggest amount granted to natural persons by consumer credit lenders was in consumer credits exceeding LTL 1,000, which totalled EUR 161.65 million (LTL 558.14 million). The second biggest category was credits provided under linked consumer credit agreements, which totalled EUR 144.34 million (LTL 498.36 million), a rise of 10.58 per cent at the end of 2013. The balance of small consumer credits amounted to EUR 31.16 million (LTL 107.58 million) at the end of the year and was virtually unchanged in annual terms (edged up by 0.14%). The amount extended to consumer credit borrowers under overdraft agreements fell by 60.27 per cent over the year to reach EUR 1.74 million (LTL 6.02 million) at the end of 2014.

**Chart 24. Amount of consumer credits by type of consumer credit agreement**



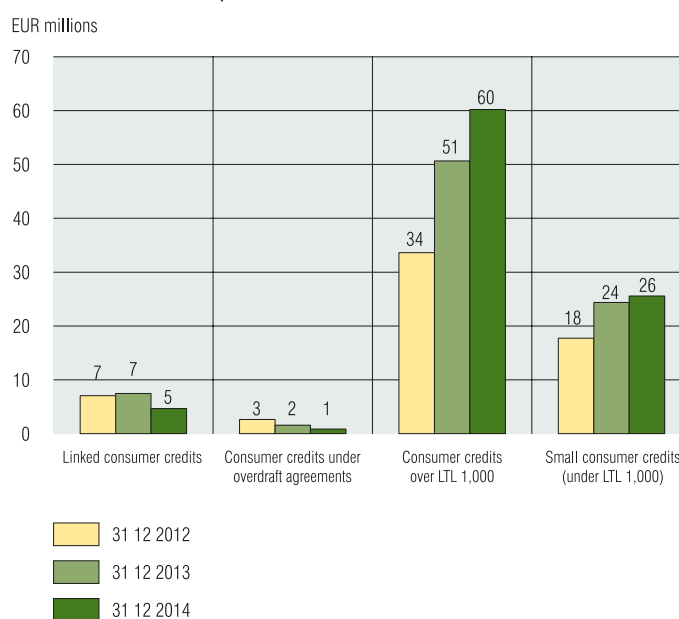
Source: Bank of Lithuania.

Substantial growth in the consumer credit market was fuelled by the increasing issuance of larger credits. Although the total number of credits issued in 2014 by consumer credit lenders decreased by 2.13 per cent, year-on-year, to 1,139.95 thousand, the total amount of credits disbursed in that period rose by 8.39 per cent to EUR 357.62 million (LTL 1,234.78 million), mostly due to an increase in consumer credits over LTL 1,000. In 2014, as compared to 2013, the number of such credits increased by 13.28 per cent to 196.91 thousand and their amount grew by 27.65 per cent to EUR 141.77 million (LTL 489.51 million). Meanwhile, the market of small consumer credits is shrinking. In 2014, lenders granted 706.15 thousand small consumer credits (9.29 per cent less, as compared to 2013 m.) to borrowers and disbursed EUR 77.89 million (LTL 268.93 million), i.e. 9.92 per cent less than in 2013. The average credit amount showed a marginal

decrease (EUR 0.77), to EUR 110.30 (LTL 380.83). At the end of 2014, small consumer credit lenders had 207.73 thousand customers, including 75.97 thousand (36.57%) individuals younger than 25 years. The average weighted annual percentage rate of charge applied to small consumer credits at the conclusion of agreements was 155 per cent and the average weighted annual interest rate was 99 per cent. The weighted annual percentage rate of charge applied to small consumer credits decreased from 164 per cent at the end of 2013 while the average weighted annual interest rate remained unchanged, year-on-year.

As compared to late 2013, the number of delinquencies (with payments overdue by more than 60 consecutive days) increased by 7.99 per cent to reach 179.90 thousand at the end of the year, while the total amount of arrears (including interest charged for late payment, penalties and other amounts payable under agreements) increased by 8.61 per cent, to reach EUR 91.32 million (LTL 315.30 million) as of 31 December 2014. The largest amount of overdues was recorded in respect of consumer credits over LTL 1,000. The arrears under such credit agreements soared by an annual 18.90 per cent (which was the biggest increase as compared to other types of credit agreements) to reach EUR 60.22 million (LTL 207.93 million) at the end of 2014. 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.

**Chart 25. Total delinquent amounts\***



Source: Bank of Lithuania.

\* By type of consumer credit agreement, with payments overdue by more than 60 consecutive days.

The Bank of Lithuania puts a very strong focus on the supervision of consumer credit lenders. In particular, it monitors advertising activity of these entities, carries out inspections, examines consumer complaints and probes violations of the Law on Consumer Credit. The most frequent violations identified by the Bank of Lithuania include inadequate assessment of the consumer credit borrower's solvency and non-compliance with the principles of responsible lending, as well as non-compliance with the requirement to apply thresholds for overdue penalties. In 2014, the Bank of Lithuania identified a total of about 50 violations and imposed corrective measures on consumer credit lenders in 11 cases.



## Settlement of Disputes

In 2014, the Bank of Lithuania received and examined 457 applications regarding disputes resulting from contractual relations with financial services providers. The total number of applications examined remained basically unchanged as compared to 2013 (decreased by 3%).

Most of the applications regarding disputes concerned the insurance sector. In 2014, the share of such applications increased by 8 p.p. year-on-year to 58 per cent of the total. As shown by the analysis of the results achieved in examination of applications regarding disputes with insurance undertakings, the consumers and the insurance undertakings concerned managed to resolve their disputes by means of an amicable agreement in 11.4 per cent of cases (down from 12.4% in 2013). In cases where disputes with the insurance undertakings were considered on their merits and decisions in relation thereto were made by the Bank of Lithuania, 36 per cent of consumer claims were found justified or at least partly so, hence the Bank of Lithuania made decisions in favour of consumers (down from 42% in 2013). In other cases, where consumer claims were found unjustified, applications were turned down. Even though the decisions made by the Bank of Lithuania in relation to disputes are recommendatory and not binding, most of its decisions satisfying consumer claims in full or in part were executed (83%) last year. In 2013, the share of decisions executed was broadly similar (81%).

Applications regarding disputes with banks (137) accounted for 30 per cent of the total number of applications examined in 2014. In 2013, disputes with banks accounted for a larger share, or 40 per cent, of the total. Amicable settlements were reached in mere 6.6 per cent of consumers' disputes with banks, which, in those cases, satisfied consumer claims or found another solution (down from 10.7% in 2013). As far as disputes with banks are concerned, the Bank of Lithuania made final decisions in relation to the matter in dispute in 28 cases, nearly all of which were decided against the consumers (91% in 2013). The Bank of Lithuania satisfied one and only claim, which arose from an agreement on a credit to finance living costs during the period of studies. The Bank's decision in this case has been executed.

Also in 2014, the Bank of Lithuania examined 57 applications regarding disputes with other financial market participants (12% of all disputes). As compared to 2013 (48 applications, 10% of all disputes), the total number of applications in this sector increased slightly last year, as did their percentage share. In the period under review, disputes between consumers and other financial market participants were resolved by means of an amicable agreement in four cases (down from six in 2013). As regards final decisions taken by the Bank of Lithuania in relation to the matters in dispute (five cases), one consumer claim, which arose due to modifications to the terms and conditions of a consumer credit agreement, was satisfied in part while in other four cases, consumer claims were dismissed (consumer claims satisfied in part in two cases, no cases dismissed in 2013). The aforementioned decision which favoured the consumer has been executed.

Some of the applications regarding disputes (30%), which were submitted to the Bank of Lithuania last year, were never examined or the examination was discontinued due to relevant procedural obstacles, such as the hearing of the dispute in court (either ongoing or closed), misidentification of parties to the dispute (the consumer and the financial market participant are not actual parties to the dispute), missing of the deadline for the examination of the dispute, etc.



## Financial Education

As part of its financial education initiatives, the Bank of Lithuania last year teamed up with media partners for a social campaign *Nepaslysk ant Paskolos* (“Don’t slip on a loan”), during which the Bank of Lithuania, in collaboration with media partners, spread information related to problems with borrowing, organised broadcasts and provided guidance to a wide range of people, including both those who still have to decide whether or not to take a loan and those who are trying to break free from the vicious circle of debts. The social campaign, which involved the airing of 12 radio broadcasts and publication of more than 100 articles and information materials during February, the month of the campaign, was joined by 18 media partners.

On 10–17 March 2014, Lithuania and the rest of the world celebrated the Global Money Week — the week of children’s financial education. The activities of the week, which were organised by the Bank of Lithuania in cooperation with financial education partners and involved lessons, excursions, meetings, competitions and quizzes, brought together about 8 thousand children all across Lithuania. The Bank of Lithuania organised a competition to choose the mascot of the Global Money Week. In 2015, in a continuation of this tradition of children’s financial education, children and teachers will be invited to the events of the financial education week by an eagle-owl — a mascot created by the children.

In autumn 2014, the Bank of Lithuania organised the first ever national financial literacy test, as a fascinating way for people to check their knowledge in managing personal finances. More than 8,500 people all across Lithuania took the test.

Moreover, the Bank of Lithuania organised a cycle of free seminars dedicated to responsible management of personal finances. In November 2014, financial experts visited three cities — Vilnius, Kaunas and Klaipėda — to share their knowledge of successful ways to manage personal finances, including financial instruments, which should be chosen at different stages in life, proper ways to take care of personal financial security and the financial security of the family and to be effective in pursuit of personal financial ambitions.

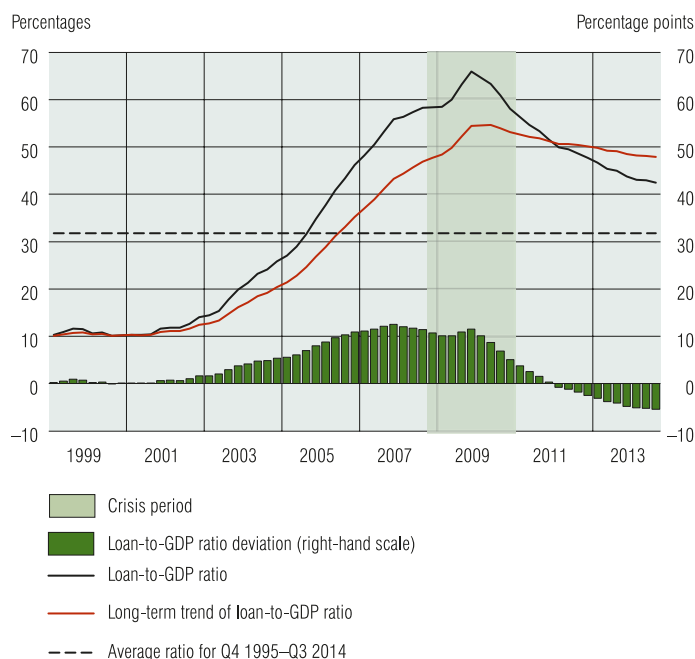
Late in 2014, more than 200 schools around the country and nearly 5 thousand school-children watched an e-lesson broadcast online by *Pinigų bite* (“Money Bee”), a financial education initiative of the Bank of Lithuania. The purpose of the lesson was to provide guidance on proper ways to manage personal finances and, first and foremost, to introduce the euro to children.

## Macro-Prudential Policy

### Analysis of Systemic Risks

The leverage of Lithuania’s non-financial sector showed balanced developments in 2014. The ratio between credit to the private sector and GDP, calculated in accordance with international methodology to show the level of Lithuania’s corporate and household leverage, last year decreased by 1.9 p.p. to 59.9 per cent (see Chart 26) as a result of both a 1.4 per cent year-on-year decrease in the portfolio of loans granted by MFIs to the non-financial sector and a 3.8 per cent increase in nominal GDP. As compared to the peak level recorded in 2010, the credit-to-GDP ratio has fallen by one fourth and its deviation from the long-term trend remains significantly negative. In this context, the level of credit to the Lithuanian private non-financial sector and its developments can now be regarded as sustainable.

**Chart 26. Long-term trend of MFI loan-to-GDP ratio and deviation therefrom**  
(Q1 1999–Q4 2014)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Note: the long-term trend is computed using a one-sided HP filter with a smoothing parameter of 400,000; before applying the filter, the credit-to-GDP ratio is modelled for the next five-year window using a four-quarter moving average.

**The market for the credit of non-financial corporations showed no signs of systemic risks building.**

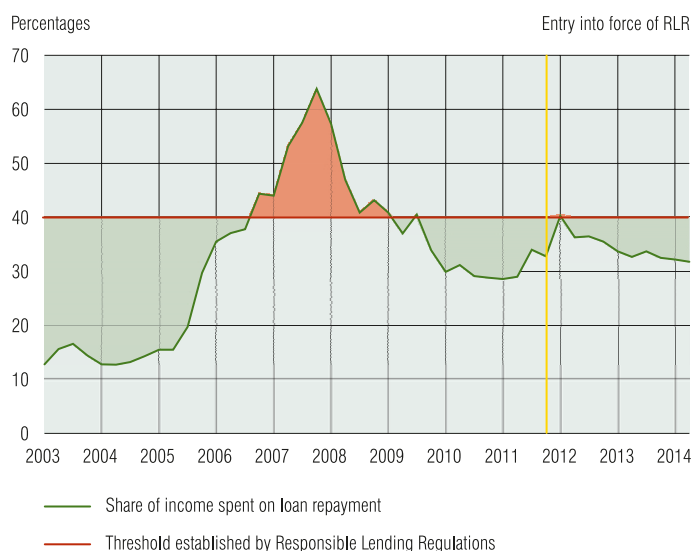
In 2014 the outstanding debt of non-financial corporations to credit institutions continued to decline and showed an annual decrease of 3.2 per cent at the end of the year. At the same time, the aggregate profit of non-financial corporations increased by 9.2 per cent in 2014, which brought down their total level of leverage. The growth of credit to non-financial corporations is unlikely to go out of balance in the near future, in particular as the banks continue to take a cautious approach to certain types of economic activities, such as construction or real estate operations, and credit demand is suppressed as a result of uncertainty driven by the armed conflict in Ukraine and related economic sanctions. Moreover, corporations kept increasing their capital in 2014 hence the probability of their default continued to diminish.

**Despite the growth of housing loan portfolio, the level of household leverage remains balanced.**

In 2014, lending for house purchase increased by 0.6 per cent, which was more than offset by a 5.9 per cent decrease in the portfolio of loans for consumption and other loans. Hence the MFI portfolio of loans to households remained broadly unchanged in 2014, which helped avoid the emergence of systemic risks. Although the annual growth of housing loan portfolio has been recorded since as far back as late 2013, its increase last year lagged behind the gains in domestic average wages (2.3%) hence it can be described as balanced. Moreover, the share of household income spent on loan repayment has been decreasing thanks to the growth of household income and low interest rate environment (see Chart 27). On the other hand, households have recently been more inclined to borrow for consumption from other providers of consumer loans and leasing companies rather than from banks. In the first three quarters of 2014, the amount borrowed from those institutions totalled EUR 30 million and basically offset the decline in loans issued for consumption by MFIs. Such a trend

is disadvantageous for the consumption loan takers as they find themselves saddled with a burden of interest, which is extra-heavy and, in many cases, underestimated, and, eventually, start sinking into debt.

**Chart 27. Share of income spent on loan repayment by households with housing loans (DSTI ratio)**  
(Q1 2003–Q2 014)



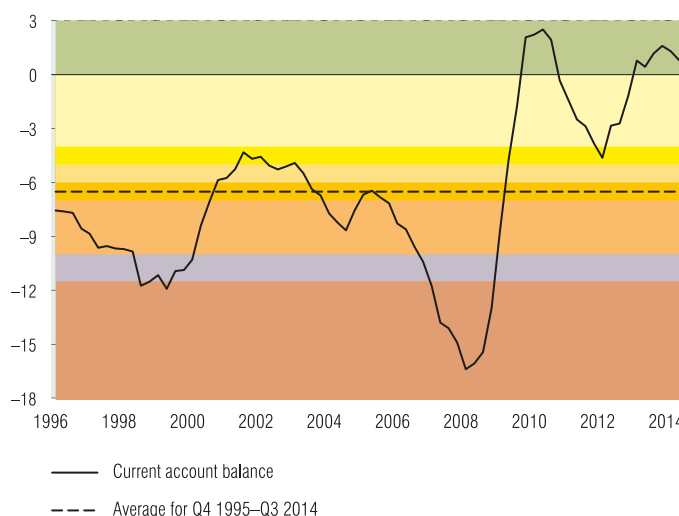
Sources: Household Financial Monitoring Information System and Bank of Lithuania calculations.  
RLR stands for Responsible Lending Regulations.

**A number of factors shaping the credit market do not signal any build-up of systemic risks in the near future.** The external liabilities of the national economy, which contributed to the growth of loan portfolio in Lithuania before the economic downturn, are not following an upward path at present and there is no reason to believe that they might render credit growth unsustainable in the near time. In 2014, the current account showed a surplus (see Chart 28), which mainly reflected contributions from the exports of services and migrant remittances to Lithuania. According to the macroeconomic forecasts published by the Bank of Lithuania in December, the current account should be balanced in 2014. Moreover, the level of leverage in the private sector is likely to continue decreasing in the future. Even if the optimistic forecasts made by commercial banks in the survey, conducted by the Bank of Lithuania in October 2014, were to materialise, the level of leverage would not increase since the growth of loan portfolio would broadly match the projected growth of nominal GDP.

**Chart 28. Current account balance**

(Q1 1996–Q3 2014; four quarter moving total, compared to GDP)

Percentages of GDP



Sources: Statistics Lithuania and Bank of Lithuania calculations

Note: the level of risk is measured based on S. M. Reinhart and V. R. Reinhart, 2008, Capital Flow Bonanzas: An Encompassing of the Past and Present. NBER Working Paper, 14321

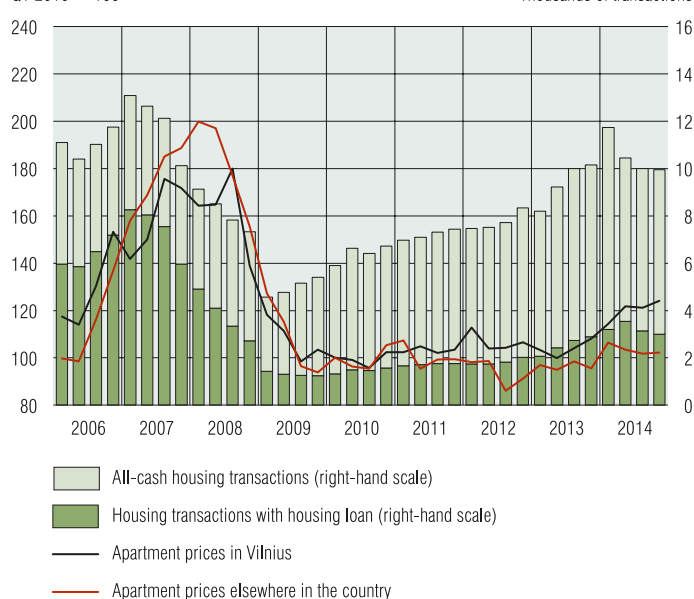
**The property market experienced no imbalances in 2014.** Although the gap between residential property prices and their long-term equilibrium narrowed down in 2014, it still remained negative. The burst of activity observed in the domestic property market in the first half of the year proved to be short-lived and was mainly triggered by households' expectations related to the adoption of the euro and by their efforts to convert cash on hand into tangible assets. Although the demand waned after this spree, it was enough for property prices to increase by an average of 7.0 per cent across the country and by 14.9 per cent in Vilnius alone in 2014 (see Chart 29). Still, the real estate developers responded to that spike in demand with an increase of supply. As reported by market participants, the inventory of unsold new apartments in the country rose to 6.3 thousand by the end of the year (from 3.3 thousand), including as many as 4.4 thousand apartments in the capital city. With supply being this high, a substantial rise in prices in 2015 is hardly likely. Moreover, the share of home transactions involving a loan was slightly below a third on average in 2014 (e.g. in 2007, such deals accounted for 63.6% of the total), hence, as things stand now, there are no grounds for an imbalanced growth of house prices related to borrowed funds.

**Chart 29. Real estate market activity and house prices**

(Q1 2007–Q4 2014)

Q1 2010 = 100

Thousands of transactions



Sources: State Enterprise Centre of Registers, Aruodas.lt, Central Mortgage Office and Bank of Lithuania calculations.

**The risk of a drop in external demand continued to rank as one of the top risks for the Lithuanian financial system in 2014.**

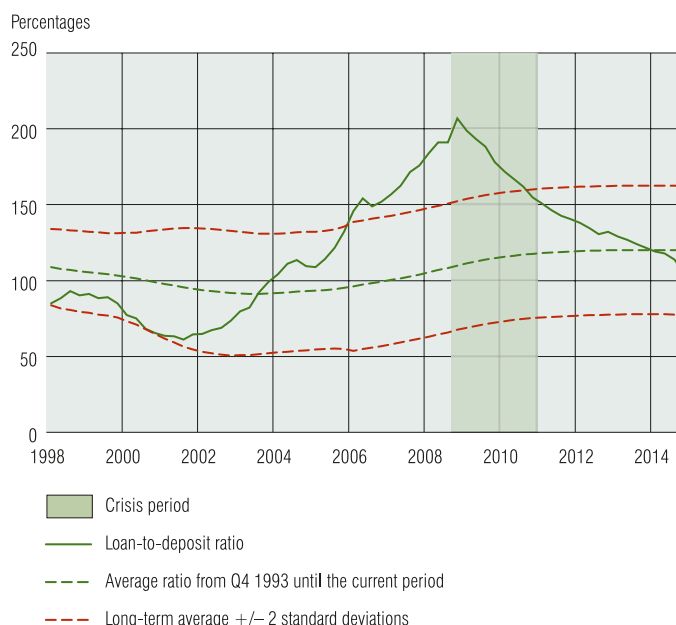
The persistently slow recovery of the euro area's economies and the continued economic deterioration in Russia increase the credit risk of the Lithuanian export-related enterprises. Many of the large EU countries as well as the Baltic countries had their economic growth forecasts from various international institutions revised down in 2014. Even larger downward revisions were made for Russia, whose economy was hard hit by the sanctions imposed by the Western countries and the free fall of prices for energy resources. With geopolitical tensions in the East staying high and crude prices still hovering low, Russia is likely to fall into recession in the coming year, which will have negative implications for the region's economy (as estimated by the IMF, Russia's economy will contract by 3% in 2015). In 2014, loans to foreign trade-oriented enterprises comprised nearly half of MFI portfolio of loans to businesses while the economic sectors hardest hit by Russia's sanctions, i.e. transport, food industry and accommodation, accounted for approximately 5.5 per cent of the total MFI loan portfolio at the end of the year. On the other hand, the data for the final quarter of 2014 shows that the companies of these sectors have managed to adapt to this changed environment. In particular, their profits rose by a total of 6.1 per cent year-on-year.

**Systemic risks related to high concentration of Scandinavian banks in Lithuania remain important, yet the probability of direct contagion from the financial system of the Nordic countries diminished in 2014.**

In 2014 the banks operating in Lithuania stepped up the use of domestic resources to finance their activities and therefore became less dependent on funding provided by Scandinavian parent banks. At the end of the year, the banks' loan-to-deposit ratio (seasonally adjusted) reached 105 per cent and was below its long-term average of 120 per cent (see Chart 30), largely due to a rapid growth in retail deposits fuelled by the approaching euro adoption. On the other hand, if Scandinavian banks were to get into financial troubles, the Lithuanian financial system might be affected via a confidence channel, which, for example, might trigger a retail deposit run. The Scandinavian economies may potentially be threatened by a combination of high real estate prices and

high leverage of the private sector. Still, the macro-prudential policy measures, which are implemented by the financial market regulators of the Nordic countries or are still in the pipeline, mitigate the risk of financial imbalance in these economies.

**Chart 30. Ratio between MFI loans to the private sector and the private sector's deposits (seasonally adjusted)**  
(Q1 1998–Q4 2014)



Source: Bank of Lithuania calculations.

Note: the ratio develops in a balanced way if it does not deviate from its long-term average by more than two standard deviations. Standard deviations are computed on the basis of Q4 1993–Q1 2006 data covering the period of moderate changes in the ratio.

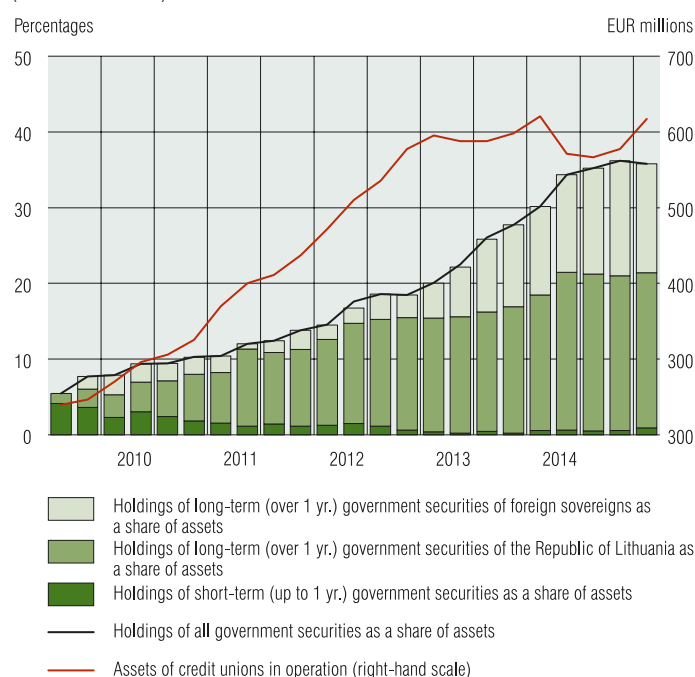
**Driven down by the ultra-accommodative monetary policies pursued by the world's major central banks, risk premia continued to contract in 2014, which further elevated the risk of their snapback.** Such policies keep investors searching for yield through riskier assets, which has sent their prices soaring to the levels that basically do not reflect their underlying risk. A sudden fall of risk premia would trigger a decrease in the prices of assets valued at mark-to-market, which would translate into losses for the financial institutions holding such assets. At the end of 2014, the share of mark-to-market assets of the banks operating in Lithuania was relatively small (6.6%). By contrast, the share of debt securities held by credit unions increased by an annual 5.7 p.p. in the third quarter, to 35.8 per cent of their assets (see Chart 30). On the back of weaker-than-expected global economic activity, geopolitical tensions and the political situation in Greece, volatility in markets for debt securities increased in the second half of 2014, as did the probability of a sharp re-pricing of risk premia.

**A prolonged low interest environment lulls households into believing that this level of interest is a new normal, undermines their savings capacity and creates incentives for buying property for investment.** Such an environment of low interest rates may trigger changes in households' expectations about the future as the households opting for variable interest in their borrowing decisions may unreasonably overlook a probability that interest rates will start to rise with the improvement of economic indicators (e.g. an increase in inflation). As an example, the average interest rate on new loans for house purchase (in euro) was 1.9 per cent early in 2015, i.e. twice lower than the average rate of the past ten years. Under low interest rates, the financial assets of households grow more slowly, thus opportunities to save — decrease. This is coupled

with a growing risk of unsustainable property price increases in the mid- or long-term since the households may come to believe that the acquisition of property is a viable alternative to financial investment<sup>17</sup> amid lack of profitable financial instruments. As the ECB remains committed to its accommodative monetary policy stance, the low interest rate environment is expected to continue for the near future. Even so, improvements in the financial health of obligors of the Lithuanian banks last year mitigated the risk of low interest rates and, simultaneously, the credit risk of loan portfolio.

**Chart 31. Developments in credit unions' investment in government securities**

(Q1 2009–Q4 2014)



Source: Bank of Lithuania calculations.

Note: maturity of government securities shown in the chart means maturity at the time of purchase.

The financial health of municipal authorities and unbalanced performance of credit unions continue to be seen as challenges to the Lithuanian financial system. Firstly, increases in leverage last year were recorded in 44 out of 60 municipalities and the still-high level of leverage of the municipality of Vilnius remained the biggest source of concern. On the other hand, the debt and accounts payable of the latter municipality decreased by 6.1 per cent in 2014 while the revenue increased by one-fifth. As a result, the ratio of its debt and payables to income last year decreased by 21.0 p.p. to 125.4 per cent, which was below the ceiling set for the municipality. Secondly, credit unions became more sensitive to price fluctuations in securities as their securities portfolio continued to grow in size (to 35.8% of total assets, from 30.1%, over the year) (see Chart 31). Non-LCCU members have been particularly keen in investing in securities, which makes these credit unions the most vulnerable to a potential depreciation of the securities portfolio.

## Macro-Prudential Policy Instruments

Systemic risks need to be addressed as they may have a negative effect on the financial industry in Lithuania, the EU and globally and, simultaneously, may impact their economic

<sup>17</sup> In January 2015, even the average interest rate on new longest fixed-term deposits (over 2 yrs.) was 1.6 per cent whereas the annual yield of a standard new 60 m<sup>2</sup> apartment in the capital city ranged between 4 and 5 per cent.

growth, which was highlighted in particular by the recent financial crisis, which erupted in 2008 when difficulties in one financial institution sent shockwaves through the entire financial system. Supervision and regulation of individual financial institutions is not sufficient to ward off system-wide risks, which require additional regulation, i.e. macro-prudential policy. The Law on the Bank of Lithuania<sup>18</sup> on 24 September 2014 mandated the Bank to implement macro-prudential policy.

In addition, pursuant to the Law on the Bank of Lithuania, on 12 March 2015 the Bank adopted<sup>19</sup> the Macro-Prudential Policy Strategy, which defined the ultimate and intermediate macro-prudential policy objectives, instruments, processes of decision-making, communication and cooperation with other authorities in the context of macro-prudential policy.

The ultimate objective of macro-prudential policy, as defined in the Macro-Prudential Policy Strategy adopted by the Bank of Lithuania, is to contribute to the safeguarding of the stability of the financial system, including by means of strengthening its resilience and mitigating a build-up of systemic risk, in order to ensure a sustainable contribution of the financial sector to economic growth. This objective is subdivided into five intermediate objectives<sup>20</sup>:

- 1) to limit and prevent excessive credit growth and leverage;
- 2) to limit and prevent excessive maturity mismatch, excessive currency and liquidity risk in the financial system;
- 3) to limit exposure concentrations by type of economic activity, asset class or other criteria;
- 4) to limit the systemic impact of misaligned incentives of financial institutions, with a view to reducing their moral hazard;
- 5) to strengthen the resilience of financial market infrastructure.

The Bank of Lithuania will have at its disposal at least one macro-prudential policy instrument for each intermediate objective, which will be pursued. Many of the macro-prudential policy instruments are governed by CRD IV, a new EU piece of legislation adopted on 26 June 2013. Its key provisions were transposed into Lithuania's national law through the required legislative amendments in March 2015. This Directive regulates new capital buffers for the mitigation of structural risks and countercyclical buffers, establishes the rates of these buffers and the terms of their entry into force as well as the transitional period. Many of these measures will be introduced between 2015 and 2018.

Back in 2011, the Bank of Lithuania introduced a set of Responsible Lending Regulations, which established a number of instruments, such as the loan-to-value (LTV) ratio and the debt-service-to-income (DSTI) ratio. These instruments may be tightened or eased depending on the financial cycle. Hence, if widely applied, they can help mitigate cyclical risks. Moreover, the introduction of certain minimum thresholds would help manage structural risks. In 2015, the Bank of Lithuania spearheaded amendments to the Responsible Lending Regulations, which would ensure responsible lending practices by credit institutions and responsible borrowing practices by consumers in view of the risks of low interest rates.

## Cash Management

In exercising its exclusive right to issue currency, the Bank of Lithuania puts into and withdraws from circulation the currency of the Republic of Lithuania, organises the

<sup>18</sup> Law No I-678 of 1 December 1994, as amended and supplemented.

<sup>19</sup> Approved by Resolution No 03-31 of 12 March 2015 of the Board of the Bank of Lithuania.

<sup>20</sup> These intermediate objectives are defined in the Macro-Prudential Policy Strategy.



production, transportation and storage of currency and builds up the reserves of banknotes and coins under a statutory procedure.

## Currency Issue and Withdrawal

In 2014, the value of currency in circulation, including collector (commemorative) coins and numismatic sets, decreased by LTL 6,096.3 million, with LTL 6,954.7 million put into circulation and LTL 13,051.0 million withdrawn. Over the year, the value of cash slumped by 51.2 per cent (after an increase of 4.3% in 2013). As of 31 December, currency in circulation amounted to LTL 5,805.8 million (down from LTL 11,902.1 million a year before).

**Table 6. Net currency issue or withdrawal (–)**

LTL millions

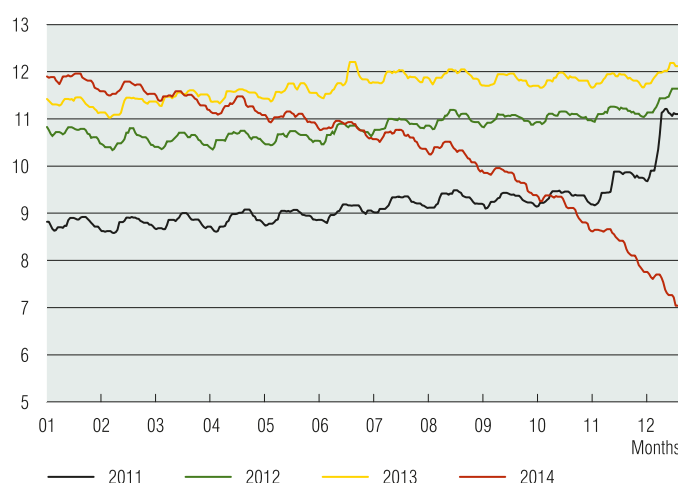
Year	Quarter				
	I	II	III	IV	I–IV
2011	–143.9	298.3	248.0	1,600.7	2,003.1
2012	–376.7	270.5	239.4	456.3	589.5
2013	106.2	317.9	–122.6	184.1	485.5
2014	–623.6	–619.3	–1,186.3	–3,667.1	–6,096.3

Source: Bank of Lithuania.

In 2014, the value of currency in circulation decreased steadily, in particular in the second half of the year, i.e. before the adoption of the euro in the Republic of Lithuania.

**Chart 32. Litas in circulation**

LTL billions



Source: Bank of Lithuania.

As of 31 December 2014, banknotes in circulation totalled 56.4 million pcs., worth a total of LTL 5,591.1 million. From the beginning of the year, the amount of banknotes in circulation decreased by 36.5 million pcs. (39.3%) and their value fell by LTL 6.0 billion (51.9%). The value of the average banknote in circulation decreased to LTL 99.1 during the year, from LTL 125.0.

The amount of cash in circulation decreased in 2014 as the Bank of Lithuania frontloaded a smaller amount of banknotes and accepted a larger amount, as compared to the previous year. In particular, it frontloaded 131.8 million pcs. (down from 153.5 million pcs. in 2013) and accepted 168.3 million pcs. (up from 151.8 million pcs. in 2013).

In 2014, banknotes returned to the Bank of Lithuania an average of 2.2 times (up from 1.8 times in 2013). Of the banknotes returned to the Bank of Lithuania, 78 per cent, on average, were taken out of use (up from 18% in 2013). Of 168.3 million pcs. of banknotes accepted to the Bank of Lithuania over the year, 125.9 million banknotes were destroyed (up from 30.6 million pcs. in 2013).

As of 31 December, the number of circulation coins in circulation made up 1,089.9 million pcs., with a total value of LTL 196.1 million. From the beginning of the year, the number of coins in circulation decreased by 76.0 million pcs. (6.5%) and their value fell by LTL 67.9 million (25.7%).

**Table 7. Banknotes and coins in circulation**

Deomination	31/12/2013		31/12/2014		31/12/2013		31/12/2014	
	LTL millions	Percentage	LTL millions	Percentage	Pcs., millions	Percentage	Pcs., millions	Percentage
<b>Banknotes</b>								
LTL 1	2.6	0.0	2.6	0.1	2.6	2.8	2.6	4.7
LTL 2	2.6	0.0	2.6	0.1	1.3	1.4	1.3	2.3
LTL 5	2.2	0.0	2.2	0.0	0.4	0.5	0.4	0.8
LTL 10	98.8	0.9	83.8	1.5	9.9	10.6	8.4	14.8
LTL 20	237.6	2.0	189.5	3.4	11.9	12.8	9.5	16.8
LTL 50	408.5	3.5	310.6	5.6	8.2	8.8	6.2	11.0
LTL 100	1,920.2	16.5	1,079.1	19.3	19.2	20.7	10.8	19.1
LTL 200	7,198.8	61.9	3,135.1	56.1	36.0	38.7	15.7	27.8
LTL 500	1,750.1	15.1	785.7	14.1	3.5	3.8	1.6	2.8
Total banknotes	11,621.5	100.0	5,591.1	100.0	93.0	100.0	56.4	100.0
<b>Coins</b>								
1 ct.	4.6	1.7	4.5	2.3	455.1	39.0	447.9	41.1
2 ct.	4.9	1.8	4.5	2.3	243.5	20.9	226.2	20.8
5 ct.	4.5	1.7	4.2	2.1	90.2	7.7	83.2	7.6
10 ct.	16.7	6.3	15.9	8.1	166.7	14.3	158.5	14.5
20 ct.	16.6	6.3	15.1	7.7	82.9	7.1	75.4	6.9
50 ct.	12.8	4.9	11.4	5.8	25.7	2.2	22.8	2.1
LTL 1	51.0	19.3	41.3	21.0	51.0	4.4	41.3	3.8
LTL 2	67.8	25.7	49.5	25.3	33.9	2.9	24.8	2.3
LTL 5	85.2	32.3	49.9	25.4	17.0	1.5	10.0	0.9
Total circulation coins	264.0	100.0	196.1	100.0	1,165.9	100.0	1,089.9	100.0
Collector (commemorative) coins and numismatic sets	16.6		18.5		0.4		0.5	

Source: Bank of Lithuania.

At the end of 2014, the average number of circulation litas and centas coins per capita was 363 pcs. (down from 389 coins at the end of 2013), of which 149 pcs. (152 pcs. at the end of 2013) were 1 centas coins.

## Collector (Commemorative) Coins

In 2014, the Bank of Lithuania issued seven collector (commemorative) coins (of *proof* quality, with mirror surface and matt relief) and one collector (commemorative) circulation coin of *proof-like* quality. Six collector (commemorative) coins were minted from sterling silver (925) and one from 999 gold, while the collector (commemorative) circulation coin was made from an alloy of copper, aluminium, zinc and ir tin.

Also issued were two numismatic sets of circulation coins of the 2014 issue, including one set with a commemorative sign dedicated to the 10<sup>th</sup> anniversary of Lithuania's membership in the EU and NATO and another set dedicated to the litas.

All these coins were minted at UAB Lithuanian Mint. For more details see the Annex.

### Counterfeit Banknotes and Coins

In 2014, the number of counterfeit banknotes identified in Lithuania decreased by 8 per cent, year-on-year, to 494 pcs. (from 536 pcs. in 2013). Most of the counterfeits were of LTL 200 denomination of the 1997 issue. These banknotes accounted for 34 per cent of all counterfeits. Counterfeit LTL 50 banknotes of the 2003 issue accounted for 31 per cent and counterfeits of LTL 100 banknotes of the 2000 issue — for another 10 per cent.

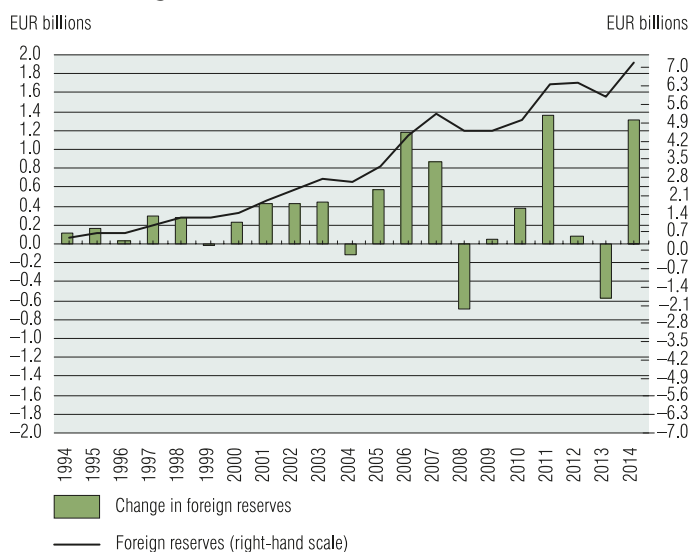
In most cases, counterfeits were produced using inkjet printers and sometimes imitating banknote security features (such as a watermark, security thread as well as the security features fluorescent under UV light). The counterfeits were of poor quality, thus they could be easily distinguished from the genuine currency by using the “feel-look-tilt” test and comparing them with genuine banknotes.

The counterfeits detected in Lithuania in 2014 accounted for approximately 0.0006 per cent of the total number of banknotes in circulation, i.e. one counterfeit banknote per 150 thousand banknotes in circulation (19 thousand pcs. in the euro area). The overall level of currency counterfeiting in Lithuania was substantially lower as compared to the euro area countries.

### Financial Asset Investment Management

The primary objective of the Bank of Lithuania is to maintain price stability hence, while managing financial assets before the adoption of the euro, the Bank of Lithuania sought to ensure a sufficient amount of liquid financial resources for undertaking imperative interventions in the domestic foreign exchange market.

Chart 33. Foreign reserves



Source: Bank of Lithuania.

As of 31 December 2014, foreign reserves amounted to EUR 7,176.0 million (LTL 24,777.3 million). The amount of reserves increased by EUR 1,308.0 million

(LTL 4,516.3 million), or 20.2 per cent, over the year, mainly as a result of foreign exchange operations conducted by the depositors of the Bank of Lithuania.

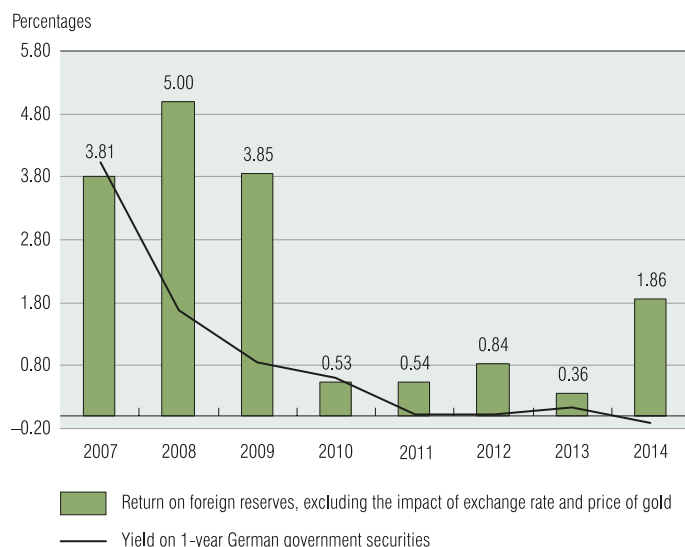
The priority in managing the financial assets of the Bank of Lithuania is to ensure safety (and — until the adoption of the euro — liquidity). The Bank of Lithuania pursues wider diversification of investment risks and higher expected yields from investment over a 3-year investment horizon through the addition of new types of investment to its portfolio and the expansion of its investment geography. To achieve these goals, the Bank of Lithuania augments investment in debt securities issued by investment-grade corporates as well as in longer-maturity bonds and equity securities (shares). Moreover, it was one of the first of the ESCB banks to start investing in China's government securities.

Chart 34. Changes in investment composition



A risk budget has been established to limit the risks of volatility in financial markets. It helps to limit the amount of one-year expected loss from adverse fluctuations in market prices. The risk budget of EUR 100 million or value at risk (VaR), as established in the financial asset management policy, implies that there is a 95 percent probability that the total negative return on financial assets over a one-year horizon will not exceed EUR 100 million. As of 31 December 2014, the VaR of the investment portfolio was EUR 61 million.

Chart 35. Return on foreign reserves and yield of 1-year German government bonds



Source: Bank of Lithuania.

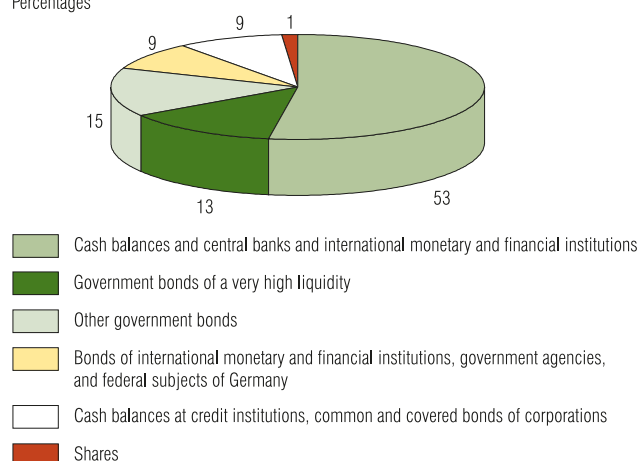
When the financial assets are being invested safely, investment performance mostly depends on the interest rates paid on the safest and most liquid investments. In 2014, investment performance was determined by low yields, which ebbed even lower over the year, in euro area countries with the lowest credit risk, as well as by yield spreads for debt securities of other euro area countries (credit risk premiums), which narrowed down substantially, and by increased stock prices in global markets. In 2014 the financial assets return was 1.86 per cent.

### Liquidity and Safety of Financial Assets

Following the principle of liquidity, the Bank of Lithuania manages its financial assets in such a way as to be able, where necessary, to sell investments at short notice without taking substantial losses. As of 31 December 2014, investment in highly-liquid sovereign bonds and cash balances at other central banks and international monetary and financial institutions accounted for 66 per cent of the total investment. At the end of the year, the sovereign bonds of Germany, France and the Netherlands were classified as highly liquid bonds.

**Chart 36. Breakdown of investment by financial instrument**  
(31 December 2014)

Percentages



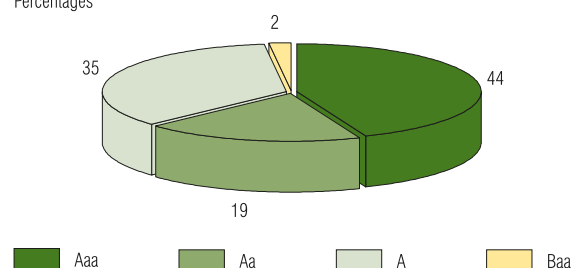
Source: Bank of Lithuania.

In order to limit credit risk, the Bank compiles and regularly updates the lists of eligible counterparties and issuers of securities that have a low probability of default and applies limits on investment concentration. The share of the Bank of Lithuania's investment in the highest-rated financial instruments fell to 44 per cent over the year, from 57 per cent, due to a decrease in investment in German government securities.

**Chart 37. Breakdown of investment by rating**

(31 December 2014)

Percentages



Source: Bank of Lithuania.

The Bank of Lithuania, like most other central banks, is exposed to foreign exchange risk and gold price risk. Before the adoption of the euro, the Bank of Lithuania's financial assets (excluding gold) unrelated to foreign exchange liabilities were almost fully invested in euro or, if invested in other currencies, were hedged against potential foreign exchange risk, simultaneously in order to mitigate the foreign exchange risk. Financial assets corresponding to liabilities were invested in the currencies of those liabilities.

As of 31 December, gold accounted for 2.9 per cent of financial assets unrelated to foreign exchange liabilities. Over the year, the amount of gold remained unchanged at 5.8 tonnes. Its price in euro rose by 13.2 per cent over the year.

The Bank of Lithuania is also exposed to the interest rate risk since the market value of its assets tends to vary due to fluctuations in interest rates in the market. Longer-term, riskier investments provide higher returns, yet at times those returns over a one-year horizon may become negative due a rise in interest rates. In order to manage interest rate risks, the Bank of Lithuania sets benchmarks for individual portfolios of its financial assets and the maximum allowable deviations of the modified duration (MD) of the real portfolio investment from their corresponding benchmarks' MD. Over the year, the MD of financial assets was reduced to 0.87 per cent, down from 1.14 per cent.

## Handling of Statistics

The Bank of Lithuania is the country's top authority in charge of financial statistics. In 2014, as part of implementation of new or amended international and European statistical standards and preparations for the adoption of the euro in Lithuania, the Bank of Lithuania developed the statistics on money and finance, external and financial accounts, reviewed its compilation and dissemination, including publication of statistical information on the Bank of Lithuania's website and in bulletins, its provision to the ECB and other international organisations. It continued to compile and disseminate the MFI balance sheet statistics and the statistics on 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. This data is required for the purposes of monetary policy, financial stability, macroeconomic analysis and studies. It is also used by international organisations, financial market participants, the media and the general public.

In 2014, as part of implementation of the new European System of National and Regional Accounts (ESA 2010) and the ECB guidelines, the Bank of Lithuania successfully compiled the statistical data of quarterly financial accounts and general government finance, recalculated the historical data series, provided statistical information in a new format and within the terms established by the ECB and published updated quarterly financial accounts data on its website.

While making arrangements for the adoption of the euro in Lithuania, the Bank of Lithuania in 2014 performed a large amount of work related to reengineering of monetary and financial statistics. To implement the requirements of ECB regulations on MFI balance sheet and interest rate statistics, the Board of the Bank of Lithuania adopted a number of resolutions amending the statistical reporting requirements for reporting agents, brought the compilation of these statistics fully into line with the statistics of the euro area, made arrangements for their dissemination starting from the January 2015 data, compiled and submitted historical data to the ECB. Moreover, the Bank of Lithuania substantially revised its monetary statistics, which, starting from January 2015, are published as Lithuania's

contribution into the euro area's monetary statistics. Also, the Bank of Lithuania amended the statistical reporting requirements for collective investment undertakings in order to implement the ECB regulation concerning statistics on the assets and liabilities of investment funds and to lower the statistical reporting burden on management companies by avoiding overlaps between statistical reporting requirements and supervisory requirements. In addition, the Bank of Lithuania recalculated the historical statistical data on investment funds and made arrangements to start compiling this data as a euro area country from 2015 onward. As part of efforts to implement the ECB's guideline on monetary and financial statistics, the Bank of Lithuania in 2014 started compiling monthly statistics on securities issuance and quarterly statistics on insurance corporations and pension funds. Also, it made arrangements to compile other monetary and financial statistics pursuant to the requirements established for the Eurosystem's central banks.

Pursuant to the requirements in the field of external statistics as established in the ECB guideline and the sixth edition of the IMF's Balance of Payments Manual (BPM6), the Bank of Lithuania in 2014 compiled the reported monthly and quarterly data and recalculated historical data, which was submitted to international organisations and published on the Bank's website. In 2014, the Bank of Lithuania also sought to improve the management of databases on securities and external debt statistics. It introduced data processing, report generation and communication tools in the statistical information systems of securities issues and of holdings of securities, in view of the adoption of the euro, new requirements of the ECB and customer needs. As part of efforts to reduce the statistical reporting burden on economic entities, the Bank of Lithuania cross-linked the securities database with other databases and started compiling the statistics on the assets and liabilities of investment funds, on issues and holdings of securities and on the external sector. In addition, it started compiling the country's quarterly financial accounts.

The Bank of Lithuania continued to maintain its Loan Risk Database as it sought to ensure efficient functioning of the credit system and its right of access to information required for the purposes of supervision, the analysis of monetary policy and financial stability and statistics. Natural persons made ample use of the public e-services platform installed by the Bank of Lithuania as a means to provide convenient access to information about personal data processed in the Loan Risk Database. The Bank of Lithuania, in its turn, consulted natural and legal persons on all issues arising in relation to the information stored in the Loan Risk Database. Early in 2014, the Bank started publishing the data on loans to non-financial corporations by economic activity, compiled on the basis of the information available in the Loan Risk Database, on its website. The Loan Risk Database development project launched in 2014 will be continued in 2015. As part thereof, the needs of the Bank of Lithuania and the participants of the Lithuanian financial market will be aligned with the *AnaCredit* (analytical granular credit and credit risk dataset) project being implemented by the ECB.

As part of efforts to enhance the dissemination of statistics handled by the central bank, the Bank of Lithuania increased the level of detail of the financial and macroeconomic statistical data published on its website. At the end of the year, those figures were converted into euro and are currently displayed in two currencies, i.e. the euro and the litas. Late in 2014, the Bank of Lithuania started developing a new template for its electronic monthly bulletin. Its first published issue contained January 2015 data. In addition, as part of preparations for membership in the euro area, the Bank updated the content of its website section dedicated to national aggregates ("Economic and Financial Data for Lithuania") in view of changes in information content.

## Payment and Securities Settlement Systems

One of the main functions of the Bank of Lithuania is to encourage sound 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 activity of economic entities of Lithuania during the implementation of national and international projects. When providing settlement services, the Bank of Lithuania together with other Eurosystem central banks manages the euro real time gross settlement system TARGET2. The Bank of Lithuania is responsible for the component of this system — the payment system TARGET2-LIETUVOS BANKAS. The Bank of Lithuania also manages the retail payment system LITAS-MMS.

### Litas Payment Systems

Before the adoption of the euro, the Bank of Lithuania managed the real-time gross settlement system LITAS-RLS and the designated time retail payment system LITAS-MMS. They were dedicated to processing litas interbank settlements. The Bank of Lithuania performed the function of their operator: ensured reliable operation of the systems, consulted their participants, maintained business continuity of the systems and performed other system and participant administration works.

On 31 December 2014, the system LITAS-RLS had 21 participants: the Bank of Lithuania, seven commercial banks, five foreign bank branches, the Central Securities Depository of Lithuania (CSDL), the Central Credit Union of Lithuania, five financial brokerage companies and the payment card scheme MasterCard International Incorporated. All these participants, with the exception of the payment card scheme operator, participated in the system LITAS-MMS as well.

**Table 8. LITAS-RLS and LITAS-MMS payments**

Year	Volume of transactions, thousand			Value of transactions, LTL million		
	Total	Daily average	Concentration level*, US	Total	Daily average	Concentration level, %
2013	529	2.1	65.7	242,048	964.3	56.5
	LITAS-RLS					
	31,403	125.1	77.7	187,199	745.8	64.4
2014	LITAS-MMS					
	599	2.4	58.3	300,553	1,192.7	53.0
	LITAS-RLS					
	32,956	130.8	77.5	188,642	748.6	64.9
	LITAS-MMS					

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 operation of the payment system of the Bank of Lithuania LITAS-RLS was discontinued on 1 January 2015. The migration went smoothly and system participants directed their payment flows to the payment system TARGET2-LIETUVOS BANKAS and the retail payment system LITAS-MMS, which was adapted to process payments in euro (for more detailed information, see the section “Adoption of the Euro in Lithuania: Reform of Payment Systems”).

### Euro Payment System

After the adoption of the euro, the euro real time gross settlement system TARGET2-LIETUVOS BANKAS is used for performing Eurosystem monetary policy operations and the



settlement of cash operations between the Bank and Lithuania and credit institutions. In addition, this payment system provides the infrastructure for domestic financial institutions to provide express euro settlement services to their customers and for the CSDL to make fund transfers when performing settlements of securities transactions in the Securities Settlement System (SSS). TARGET2-LIETUVOS BANKAS is the so-called TARGET2 national component system — a part of the TARGET2 system that is managed by the Eurosystem, which provides the euro real time gross settlement service using central bank money.

At the end of the year, the system TARGET2-LIETUVOS BANKAS had 15 participants: the Bank of Lithuania, seven commercial banks, five foreign bank branches, the Central Securities Depository of Lithuania and the Central Credit Union of Lithuania.

**Table 9. TARGET2-LIETUVOS BANKAS payments**

Year	Volume of transactions			Value of transactions, EUR million		
	Domestic payments	Cross-border payments sent	Cross-border payments received	Domestic payments	Cross-border payments sent	Cross-border payments received
2013	27,160	80,217	132,904	2,906	72,606	72,187
2014	33,863	71,534	128,467	5,654	72,679	72,396

Source: Bank of Lithuania.

## Oversight of Payment and Securities Settlement Systems

To ensure solid and efficient operation of payment and securities settlement systems, the Bank of Lithuania conducts the oversight of systems: registers systems not operated by the Bank of Lithuania, monitors the activity of these systems and the systems of the Bank of Lithuania and assess them according to supervisory standards and recommendations applied to the systems.

In the second half year of 2014, the systems supervised by the Bank of Lithuania operated in a stable manner (without critical incidents), and their operators complied with the requirements established by the Republic of Lithuania Law on Settlement Finality in Payment and Securities Settlement Systems.

After completing the assessment of the SSS of the CSDL and its link to the securities settlement system of the international securities depository *Clearstream Banking Luxembourg Plc* operating in Luxembourg in the second half of 2014, on 9 October 2014, the Governing Council of the ECB recognised the SSS of the CSDL and its link as eligible for performing Eurosystem credit operations. The assessment was performed on the basis of the Framework for the Assessment of SSSs and Links to Determine Their Eligibility for Use in Eurosystem Credit Operations, January 2014,<sup>21</sup> adopted by the ECB. In its assessment report, the ECB provided the recommendation to the CSDL on stronger protection of the interests of the SSS participants, when they use the SSS link to foreign central securities depositories. The CSDL implemented the recommendation in December 2014.

In 2014, the Bank of Lithuania reviewed the assessment of the SSS of the CSDL performed in 2011 to check its compliance with the recommendations for SSSs adopted by the European System of Central Banks (ESCB) and the Committee of European Securities Regulators (CESR). The assessment showed that the SSS observed 16 out of 19 recommendations (in 2011, it observed 15 out of 19 recommendations). The SSS broadly observed other recommendations, whereas some recommendations were not applicable to it. New

<sup>21</sup> <http://www.ecb.europa.eu/pub/pdf/other/frameworkfortheassessmentofsecuritiessettlementsystems201401en.pdf>

recommendations were formulated to increase SSS reliability, taking into account the changes in the legal environment, i.e. the adoption of the EU regulation on the activities of central securities depositories (CSDs)<sup>22</sup> and the implementation of infrastructure projects.

Since 1 January 2015, when conducting the oversight of payment and securities settlement systems, the Bank of Lithuania adheres to the documents adopted by the Eurosystem — Regulation (EU) No 795/2014 on oversight requirements for systemically important payment systems (ECB/2014/28), the oversight standards for euro retail payment systems adopted by the ECB and the description of the procedures of the payment and settlement systems oversight adopted by the Resolution of the Board of the Bank of Lithuania No. 03-204 of 30 October 2014, which complies with the said standards. When conducting the oversight of payment and securities settlement systems, the Bank of Lithuania cooperates with the ECB, national central banks of the countries that adopted the euro and competent institutions of other countries responsible for the oversight of systems.

### Single Euro Payments Area

From 1 January 2016, Lithuania will have to implement the SEPA regulation requirements, which obligate payment service providers and their customers to use payment instruments of similar format according to similar rules. Therefore, economic entities will not divide euro payments into domestic and cross-border payments. This will allow abandoning redundant internal processes and expanding the geography of service provision and create conditions for the competition among payment service providers not only at the national, but also at the international level.

In 2014, the Bank of Lithuania, as a competent authority responsible for ensuring proper compliance with the SEPA regulation provisions, assessed the level of readiness of payment service providers (PSP) to meet SEPA requirements. In order to explain PSPs how readiness for SEPA requirements will be assessed and to encourage PSPs to take more active actions, the Bank of Lithuania set the expectations regarding the SEPA project stages in 2015. In the opinion of the Bank of Lithuania, PSPs have to adapt their internal systems and links with customers by 1 July 2015, so that economic entities can gradually migrate to SEPA formats during the remaining time.

To increase SEPA awareness, the Bank of Lithuania administered a specialised SEPA website, where the information important to payment service users is published. The Bank of Lithuania also chairs the SEPA Coordination Committee (hereinafter — SEPA Committee). This committee was established to solve issues related to the provision of information about SEPA and technical preparation. In the second half of 2014, the SEPA Committee presented its comments to the European Payments Council regarding the proposals to change SEPA credit transfer schemes and prepared technical documents that will allow economic entities to properly implement the ISO 20022 XML payment message format established by the SEPA regulation.

In the beginning of 2015, together with the SEPA Committee, the cycle of specialised meetings with payment service users — SEPA forums — was started. It will be continued the whole year, if needed. The documents prepared by the SEPA Committee working groups were published on the SEPA website. These documents are needed to ensure a technologically smooth migration of enterprises from the LITAS-ESIS format to the

<sup>22</sup> Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

ISO 20022 XML standard compatible format and will allow applying the ISO 20022 XML standard messages when implementing SEPA credit transfers and account information services in the “customer-bank” environment. Close attention will be paid the whole year to the provision of information about SEPA requirements and monitoring of the preparation of market participants.

### **TARGET2-Securities Project**

TARGET2-Securities (T2S) is the project implemented by the Eurosystem, which is dedicated to the establishment of a technical platform, which will help consolidating the transfers of securities and related funds when settling securities transactions in Europe. T2S will create a possibility to make both domestic and cross-border securities settlements in euro and other currencies, if central banks issuing these currencies agree to that. Currently, only the central bank of Denmark made a decision to allow settlements in Danish krone in the T2S technical platform (from 2018), whereas all other settlements will be made in euro.

The T2S platform will start its operation from 22 June 2015. Connection to the T2S will be organised in groups of CSDs. Four groups of connecting CSDs were formed. The CSDL, together with the Latvian and Estonian CSDs are in the last group, which will start using the T2S platform in February 2017. The Bank of Lithuania plans to join the T2S at the same time. The Bank of Lithuania will open fund accounts for the participants of the payment system TARGET2-LIETUVOS BANKAS at the T2S platform for securities settlements.

### **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 2014 the Bank of Lithuania continued to administer litas and foreign currency accounts of the State Treasury. The state monetary resources held in these accounts are managed by the Ministry of Finance. The resources 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. The Bank of Lithuania also administered litas and foreign currency accounts of other state institutions, EU institutions, foreign central banks and international financial institutions (hereinafter — institutions). Monetary resources in the State Treasury accounts managed by the Ministry of Finance made up the largest share of funds held in all accounts.

On 31 December 2014, 163 accounts of the State Treasury and institutions were administered by the Bank of Lithuania (194 on 31 December 2013), of which, 57 were litas accounts and 106 — foreign currency accounts (respectively 77 and 117 in 2013). These accounts were opened and administered at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania and the Bank of Lithuania.

The Bank of Lithuania provides the following banking services to the State Treasury and institutions: payment services, foreign exchange transactions, account statements and other reporting services.

### **Participation of the Bank of Lithuania in the ESCB and International Cooperation**

The Bank of Lithuania participated in the decision-making processes of the EU and the ESCB, represented the Republic of Lithuania in international financial organisations, maintained relations with central banks of other countries and rating agencies.

## Participation in the ESCB

The Bank of Lithuania is the member of the Eurosystem, which consists of the ECB and national central banks of all EU Member States. Until 1 January 2015, when the Bank of Lithuania was not yet a member of the Eurosystem, it cooperated with the ECB and other EU national central banks by participating in the activity of the ECB General Council and the ESCB committees.

The Chairman of the Board of the Bank of Lithuania participates in the ECB General Council meetings four times per year. In 2014, the ECB General Council discussed the macro-economic situation of the EU Member States, monetary and financial market developments, operation of the ERM II, calculation of benchmarks of convergence criteria and other issues.

The daily work of the ESCB is performed by the participation of representatives of the EU national central banks in the activity of the ESCB committees and their working groups. In 2014, representatives of the Bank of Lithuania and other national central banks of non-euro area Member States participated in the activity of 12 ESCB committees, the Human Resources Conference and working groups established by them.

Following the Decision of the EU Council of 23 July 2014 on Lithuania's adoption of the euro as of January 2015, the Bank of Lithuania was invited to attend the meetings of the ECB Governing Council and Supervisory Board in an observer capacity.

In 2014, the ECB Governing Council meetings took place twice per month: monetary policy issues were discussed in the first meeting of the month and various other issues of the Eurosystem were considered in the second meeting. The ECB Supervisory Board meetings usually took place twice per month. The ECB Supervisory Board discussed issues related to banks directly supervised by the ECB.

Following the Decision of the EU Council on the adoption of the euro in Lithuania, representatives of the Bank of Lithuania started their participation as observers in the meetings of the ESCB committees in their Eurosystem composition, as well as in five new committees that operate only in the Eurosystem composition: Controlling, Eurosystem IT Steering, Organisational Development, Risk Management and Budget.

The Bank of Lithuania also monitors how the ESCB decisions are made on the basis of a written procedure by assessing their potential impact, provides comments and proposals. During the preparation for the adoption of the euro, consultations took place with the ECB regarding the amendments to the laws of the Republic of Lithuania required to ensure legal convergence. Following the Decision of the EU Council on the adoption of the euro in Lithuania, consultations took place with the ECB regarding amendments to the laws, which ensure performance of the Eurosystem functions from the date of the adoption of the euro. In preparation for the adoption of the euro, the agreements or their amendments were signed with the ECB to ensure full participation in the Eurosystem: on TARGET2, ERM II, euro banknote production, etc.

## Participation in the Activities of EU Institutions

The Bank of Lithuania maintained its close dialogue with the EU Economic and Financial Affairs (ECOFIN) Council and the European Commission and provides, within its competence, opinions and assessments when forming the position of the Republic of Lithuania on the issues discussed at the ECOFIN Council. Chairman of the Board of the Bank of Lithuania participates in the informal ECOFIN Council meetings. In these

meetings, finance ministers and governors of central banks discuss important economic and financial issues and agree on the necessary legal and political decisions. In addition, representatives of the Bank of Lithuania participate in the activity of the Economic and Financial Committee (EFC), which contributes to the preparation of the work of the ECOFIN Council.

During the informal ECOFIN Council meetings that took place in 2014, close attention was paid to the issues of long-term financing of the European economy and establishing a Banking Union. The EFC meetings further discussed international cooperation in the area of financial services, implementation of the SSM, as well as legal acts, on the basis of which the establishment of the Banking Union is finalised, i.e. on the Single Resolution Mechanism (SRM) and the establishment of the procedure for the calculation of contributions and their collection in the resolution funds.

The Bank of Lithuania also participates in the work of the ESRB General Board and its Advisory Technical Committee. The main objective of the ESRB is to ensure effective macro-prudential supervision of the EU financial system. The entry into force of the CRD IV and the CRR package on 1 January 2014 allowed to use the set of macro-prudential instruments for the management of the systemic risk arising from the banking sector. Taking this into account, the ESRB improved the criteria and principles, on the basis of which institutions should apply certain instruments, strengthened the set of these instruments and expanded their coverage. Moreover, it established the procedure for the publication of opinions and/or recommendations related to the use of the macro-prudential instruments set forth in the CRD IV and the CRR. In order to ensure that banks become more resilient to pro-cyclical dynamics, the ESRB recommendation on guidance for setting countercyclical buffer rates was adopted.

When conducting supervision of the financial market, the Bank of Lithuania actively participates in the activity of the European institutions responsible for micro-prudential supervision (European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA)), when decisions are made on the issues important to the EU market, in order to present the position of the Bank of Lithuania.

### **Cooperation with the IMF and Other International Institutions**

The Bank of Lithuania closely cooperated with the IMF and international organisations, rating agencies and national central banks. Particularly active cooperation was maintained with the IMF, as the Republic of Lithuania is represented by the Chairman of the Board of the Bank of Lithuania in its highest management body — Board of Governors.

Lithuania's bilateral cooperation with the IMF is based on annual economic consultations under Article IV of the IMF Articles of Agreement. During Lithuania's economic consultations of 2014, which took place at the Executive Board of the IMF in May 2014, the economic policy pursued by Lithuania was evaluated favourably, as it determined balanced economic growth, enhanced public finance and created good conditions for Lithuania to adopt the euro from 1 January 2015. The IMF positively evaluated the steps of the Bank of Lithuania taken to urgently solve bank and credit union problems and stressed that effective financial sector supervision strengthened resilience of Lithuania's financial system. In 2014, the IMF, in close cooperation with the Bank of Lithuania and central banks of other Baltic states, conducted the Baltic Cluster Report. The research covered the analysis of economic links of the Nordic and Baltic States, overview of the

integration of the Baltic States in the global supply chain and foreign trade, investment, unemployment and labour migration analysis. Much attention in this regional project was paid to the issues of economic recovery and credit growth in the Baltic States

The annual meetings of the IMF and the World Bank were held in October 2014 in Washington. During these meetings, the issues of global economic outlook, financial stability, international financial architecture and the role of international financial institutions in its enhancement were discussed. The issues of the international macro-economic environment, monetary policy adjustment and financial system reform prevailed in the agenda of the meetings. Much attention was paid to the enhancement of regional monitoring.

In April 2014, the Bank of Lithuania organised the international economics conference “Convergence Dynamics in the EU after the Economic Crisis”. Representatives of central banks of the EU Member States, the ECB, the European Commission, the IMF and private sector financial institutions, as well as the academic community discussed important issues related to the EU economic development and financial sector reforms. As the adoption of the euro in Lithuania approached, a high-level international conference “Euro in Lithuania: Single Market, Single Currency, Common Future” was organised in September 2014. During the conference dedicated to the future membership of Lithuania in the euro area, the issues of deepening economic and financial integration and other issues related to membership in the euro area were discussed.

## IV. ORGANISATION OF ACTIVITIES OF THE BANK OF LITHUANIA

### Mission, Values and Ethics

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 daily work of the Bank of Lithuania is based on the following institutional 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.

The ethics are regulated by the Code of Ethics for the staff of the Bank of Lithuania. The principles of the Code were established to create a creative and benevolent work environment, foster respect to co-workers and other persons, ensure independence and good reputation, increase public confidence in the Bank of Lithuania and increase authority of employees.

### Staff

In 2014, the Bank of Lithuania paid particular attention to staff training, in order to ensure a successful process of the adoption of the euro in the Republic of Lithuania, active participation in the ECB monetary policy and readiness to operate in the conditions of the Single Supervisory Mechanism.

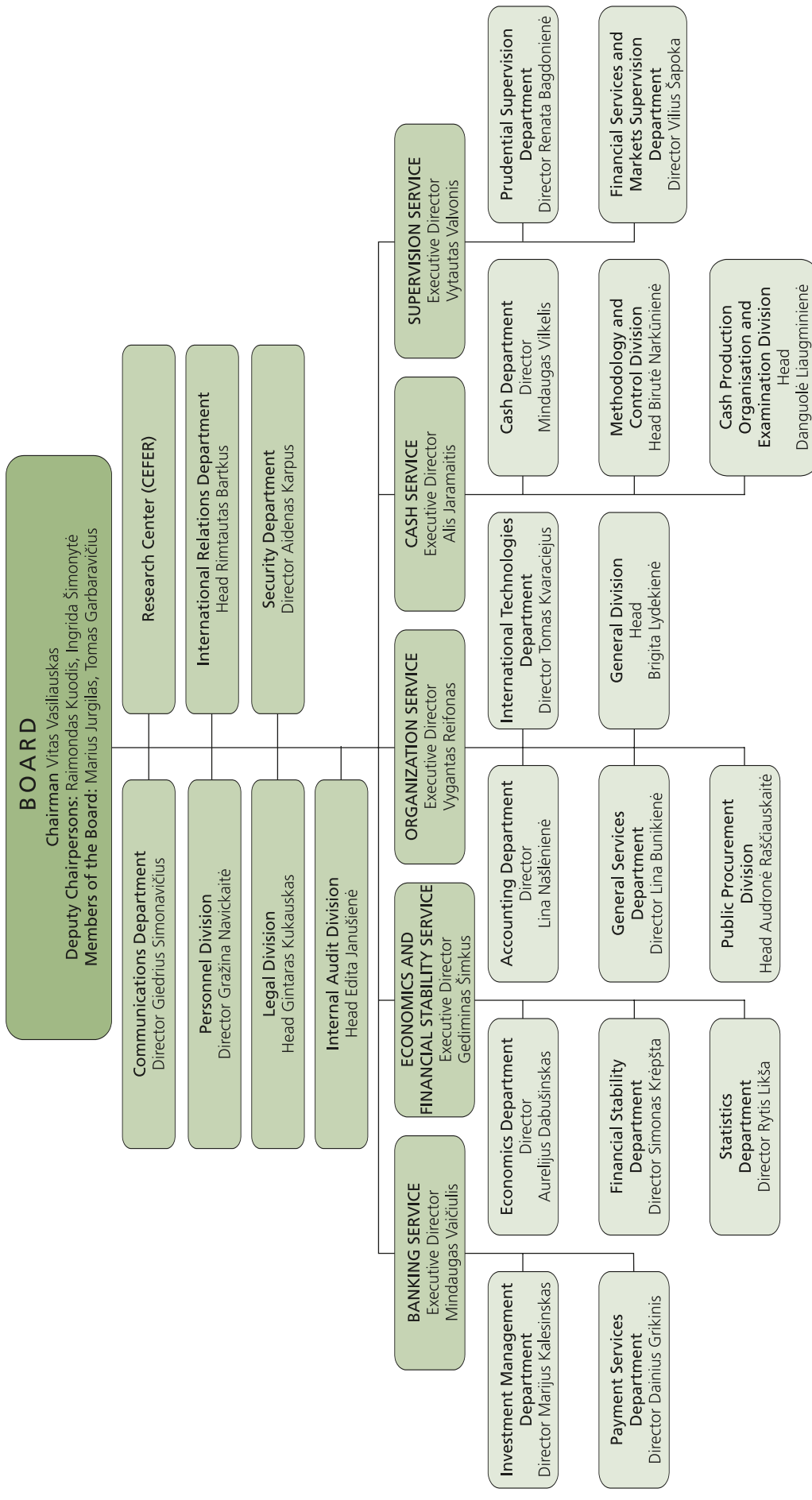
On 31 December 2014, the Bank of Lithuania employed 628 staff members (of whom, 49 worked under fixed-term employment contracts).<sup>23</sup> The majority of staff members under fixed-term contracts were employed due to the implementation of the euro adoption project. In preparation for the participation in the ECB monetary policy and implementation of the macro-prudential policy, the Monetary Policy Division was established.

To encourage scientific research in the area of banking and finance and to increase the scientific potential of economics, the Research Centre was established at the Bank of Lithuania and the agreement on cooperation in this area was signed with Vilnius University.

<sup>23</sup> This number does not include 19 staff members, who were on maternity/paternity leave or unpaid leave during their work at the ECB or the IMF.



Chart 38. Organisational structure



Note: the data as of 16 December 2014.



The competition of scientific works for the students of higher education establishments “New Ideas in Economics” was organised for the third time to train economists of a new generation, encourage dissemination of economic ideas and strengthen financial literacy.

The annual Vladas Jurgutis awards were granted to two best full-time students of banking and finance studying in the Lithuanian universities.

## **Transparency of Activities and Provision of Information to the Public**

In observance of the public accountability principle, the Bank of Lithuania ensures transparency of its activities using various information provision media. Thus, it strengthens confidence in the central bank of the Republic of Lithuania and the domestic financial system.

Twice per year, the Chairman of the Board of the Bank of Lithuania presents reports to the Seimas of the Republic of Lithuania on the implementation of the primary objective of the Bank of Lithuania, performance of its functions and the situation in the banking system. Reports are published on the website of the Bank of Lithuania.

The website of the Bank of Lithuania ([www.lb.lt](http://www.lb.lt)) is one of the most important sources of information about the central bank. The website provides the following information in Lithuanian and English: resolutions of the Board, financial statistics, payments information, financial stability reviews, reviews of the activities of credit institutions operating in Lithuania, survey reports, information on the investigation of disputes between financial institutions and their customers, the Bank’s participation in the ESCB and its international relations. New Lithuanian economic reviews and macroeconomic projections were published regularly and presented in press conferences.

The Bank of Lithuania paid constant attention to the credit union sector and informed about the measures proposed for its enhancement.

The Bank of Lithuania published information on the fast consumer credit market and the fines for inappropriate consumer credit advertisements and proposed complex regulation changes required for ensuring sustainable consumer credit market expansion.

Information was also actively presented on the activities in other areas: the Research Centre established by the Bank of Lithuania in cooperation with Vilnius University, investment of the Bank of Lithuania in the capital market of China.

The Bank of Lithuania encouraged users of financial services to be cautious with regard to the use of virtual currencies and warned investors about a public offering of securities that infringed legal acts.

For the third consecutive year, the Bank of Lithuania organised the competition of scientific works of students “New Ideas in Economics” and awarded its winners. The competition contributes to the increase of financial and economic literacy of the country’s academic youth and encourages them to follow economic issues more closely.

Global and national history of money was introduced and information about the central bank of the Republic of Lithuania was provided to the visitors to the Money Museum of the Bank of Lithuania. The Money Museum in Vilnius was visited by 43 thousand visitors in 2014. Information about the Money Museum is provided in the special regularly updated Facebook account and on other websites.

The Bank of Lithuania produces and disseminates publications about its activities and the most important economic phenomena. Periodic publications provide monetary and

banking statistics, the balance of payments and financial statistics, reviews of the operation of the supervised financial market participants, other information.

**Table 10. Publications of the Bank of Lithuania in 2014**

<a href="#">Report on the Implementation of the Primary Objective of the Bank of Lithuania, Performance of its Functions and the Situation in the Banking System</a> (to be presented to the Seimas of the Republic of Lithuania twice a year)
Annual Report of the Bank of Lithuania 2013 ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Monthly Bulletin of the Bank of Lithuania (No. 1–12, <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Annual Financial Statements of the Bank of Lithuania. 2013 ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Financial Stability Review 2014 ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Lithuanian Economic Review (quarterly publication, <a href="#">in Lithuanian</a> and <a href="#">in English</a> )
Working Paper Series publications ( <a href="#">in English</a> )
Occasional Paper Series publications ( <a href="#">in Lithuanian</a> )
Banking Activity Review (quarterly and annual; <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Activities of Credit Unions and the Central Credit Union of Lithuania (quarterly; <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Activities of Payment Institutions (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Review of the Activities of Electronic Money Institutions (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Review of Lithuania's Insurance Market (quarterly, <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of Lithuania's 2 <sup>nd</sup> and 3 <sup>rd</sup> Pillar Pension Funds and of the Market of Collective Investment Undertakings (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Review of the Operational Results of Issuers (quarterly and annual; <a href="#">in Lithuanian</a> )
Survey of the Financial Situation of Households with Loans ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Consumer Credit Market (annual; <a href="#">in Lithuanian</a> )
Review of the Activities of Insurance Brokerage Firms (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Survey of Risks to Lithuania's Financial System ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Bank Lending Survey ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Survey of Non-Financial Enterprises on Business Financing ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Survey of the Financial Behaviour of Households ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Review of the Survey of the Habits of Lithuanian Residents in Using Payment Services ( <a href="#">in Lithuanian</a> )
Review of the Activities of Financial Brokerage Firms (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Review of the Activity of Management Companies (quarterly; <a href="#">in Lithuanian</a> ; <a href="#">in English</a> for Q4 only)
Payments Market Review ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Booklets of collector (commemorative) coins to present the collector (commemorative) coins issued into circulation in 2014 ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )
Catalogue Lithuanian Collector Coins 1993-2014 ( <a href="#">in Lithuanian</a> and <a href="#">English</a> )

As a part of the ESCB, the Bank of Lithuania closely cooperated with the ECB staff and in 2014 prepared the following ECB publications in Lithuanian together with them: the Annual Report 2013, introductory statements of the Monthly Bulletins, introductory statements and summaries of the quarterly versions of the Monthly Bulletins, the Convergence Report (May 2014) and the Annual Report of the European Systemic Risk Board 2013. The electronic versions of all the above publications are available on the website of the Bank of Lithuania.

Public presentations of seven new litas coins took place in 2014. A 50 litas collector (commemorative) coin dedicated to the 300<sup>th</sup> birth anniversary of Kristijonas Donelaitis was introduced on 28 January in the Lithuanian Literature and Folklore Institute in Vilnius, where excerpts from the most famous work of Kristijonas Donelaitis *Metai* ("The Seasons") were read. The 10 litas collector (commemorative) coin dedicated to cinema was presented on 31 March at the film festival *Kino pavasaris*, which took place in Vilnius, with the participation of a large number of cinema lovers. On 23 April, the 50 litas silver collector (commemorative) coin dedicated to the 25<sup>th</sup> anniversary of restoration of the Vytautas Magnus University was presented at the Vytautas Magnus University in Kaunas. The presentation of the 10 litas collector (commemorative) coin dedicated to the Baltic

studies was held on 17 June in the Hall of the Aesti of Vilnius University. Two (25 litas and 50 litas) collector coins dedicated to the 25<sup>th</sup> anniversary of the Baltic Way were presented to the public on 19 August at the Gediminas Castle Tower in Vilnius — in the place, where the historical Baltic Way started 25 years ago. The 50 litas collector (commemorative) coin dedicated to the 500<sup>th</sup> anniversary of the Battle of Orsha — one of the largest battles of the Grand Duchy of Lithuania — was presented to the public in the Vytautas Magnus Military Museum in Kaunas on 8 September. The event of the presentation of 50 litas silver coin “Form” — the last collector (commemorative) litas coin — took place on 16 December in the Vilnius Academy of Arts, where all creators of litas collector coins were honoured.

The Bank of Lithuania regularly provides information to the media, performs its monitoring, conducts public opinion polls and examines their results. The latter are taken into account when forming and implementing the public information and communication policy.

On the initiative of the Bank of Lithuania, the cycle of five seminars was organised for journalists. The experts gave lectures on the planned changes of money transfers in Lithuania, the single supervision of European banks and its application in the banking sector of Lithuania, introduced the management of financial assets of the Bank of Lithuania and provided information on the adoption of the euro.

A large part of communication activities of the Bank of Lithuania in 2014 consisted of the provision of information to the public about preparations for the adoption of the euro and the presentation of the new currency. The detailed information about it is presented in the section of this Report “Adoption of the Euro in Lithuania”.

## V. THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA 2014

## 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 2014, profit and loss account 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 2014, 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



Arūnas Užbalis  
Lithuanian Certified Auditor  
Licence No. 000543

Vilnius, Republic of Lithuania  
28 April 2015

## BALANCE SHEET OF THE BANK OF LITHUANIA

LTL millions

	Notes	31 December 2014	31 December 2013
<b>ASSETS</b>			
<b>1. Gold</b>	<b>1</b>	<b>637.12</b>	<b>563.98</b>
<b>2. Claims on foreign institutions denominated in foreign currency</b>		<b>26,633.14</b>	<b>20,053.93</b>
2.1. Receivables from the International Monetary Fund	2	564.80	532.63
2.2. Deposits, securities and other investments denominated in foreign currency	3	26,068.35	19,521.30
<b>3. Claims on domestic institutions denominated in foreign currency</b>	<b>4</b>	<b>173.18</b>	<b>168.60</b>
<b>4. Securities of domestic institutions held for monetary policy purposes, denominated in litas</b>	<b>5</b>	<b>18.25</b>	<b>18.46</b>
<b>5. Other assets</b>		<b>509.75</b>	<b>382.39</b>
5.1. Tangible and intangible fixed assets	6	104.75	105.78
5.2. Investments into non-marketable equity instruments	7	17.37	17.32
5.3. Off-balance sheet instruments revaluation differences	17	265.35	86.64
5.4. Accruals and prepaid expenses	8	102.07	153.94
5.5. Sundry	9	20.21	18.71
<b>Total</b>		<b>27,971.45</b>	<b>21,187.36</b>
<b>LIABILITIES</b>			
<b>6. Banknotes and coins in circulation</b>	<b>10</b>	<b>5,761.86</b>	<b>11,902.07</b>
<b>7. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas</b>	<b>11</b>	<b>14,371.11</b>	<b>4,519.17</b>
<b>8. Liabilities to other domestic institutions denominated in litas</b>	<b>12</b>	<b>894.41</b>	<b>419.24</b>
<b>9. Liabilities to foreign institutions denominated in litas</b>	<b>13</b>	<b>116.62</b>	<b>32.70</b>
<b>10. Liabilities to domestic institutions denominated in foreign currency</b>	<b>14</b>	<b>3,819.02</b>	<b>1,954.74</b>
<b>11. Liabilities to foreign institutions denominated in foreign currency</b>	<b>14</b>	<b>147.16</b>	<b>37.03</b>
<b>12. Counterpart of special drawing rights allocated by the International Monetary Fund</b>	<b>2</b>	<b>564.38</b>	<b>532.24</b>
<b>13. Items in the course of settlement</b>	<b>15</b>	<b>98.18</b>	<b>26.34</b>
<b>14. Other liabilities</b>	<b>16</b>	<b>47.88</b>	<b>10.16</b>
14.1. Off-balance sheet instruments revaluation differences	17	38.62	8.25
14.2. Accruals and income collected in advance		5.04	1.40
14.3. Sundry		4.21	0.51
<b>15. Provisions</b>	<b>18</b>	<b>117.03</b>	<b>49.48</b>
<b>16. Revaluation accounts</b>	<b>19</b>	<b>566.03</b>	<b>285.99</b>
<b>17. Capital</b>	<b>20</b>	<b>1,397.56</b>	<b>1,397.56</b>
17.1. Authorised capital		200.00	200.00
17.2. Reserve capital		1,197.56	1,197.56
<b>18. Profit for the year</b>	<b>31</b>	<b>70.22</b>	<b>20.64</b>
<b>Total</b>		<b>27,971.45</b>	<b>21,187.36</b>


## PROFIT AND LOSS ACCOUNT OF THE BANK OF LITHUANIA

LTL millions

	Notes	2014	2013
1.1. Interest income	21	102.33	96.94
1.2. Interest expense	22	(3.32)	(1.37)
<b>1. Net interest income</b>		<b>99.01</b>	<b>95.57</b>
2.1. Realised gains (losses) arising from financial operations	23	67.07	46.51
2.2. Unrealised losses from revaluation	24	(2.22)	(28.56)
2.3. Transfer to provisions for risks		(62.00)	(42.00)
<b>2. Net result of financial operations, revaluation losses and provisions for risks</b>		<b>2.85</b>	<b>(24.06)</b>
3.1. Fees and commissions income		25.45	21.06
3.2. Fees and commissions expense		(2.72)	(3.04)
<b>3. Net income from fees and commissions</b>	25	<b>22.73</b>	<b>18.02</b>
<b>4. Dividend income</b>	26	<b>31.96</b>	<b>14.98</b>
<b>5. Other income</b>	27	<b>46.39</b>	<b>1.18</b>
<b>TOTAL NET INCOME</b>		<b>202.93</b>	<b>105.69</b>
<b>6. Staff costs</b>	28	<b>(52.24)</b>	<b>(46.36)</b>
<b>7. Administrative expenses</b>	29	<b>(27.19)</b>	<b>(23.47)</b>
<b>8. Depreciation and amortisation of tangible and intangible fixed assets</b>	6	<b>(7.85)</b>	<b>(8.30)</b>
<b>9. Banknote and coin production services and circulation expenses</b>	30	<b>(45.44)</b>	<b>(6.92)</b>
<b>PROFIT FOR THE YEAR</b>	31	<b>70.22</b>	<b>20.64</b>

The Annual Financial Statements 2014 of the Bank of Lithuania were approved on 23 April 2015 by Resolution No. 03-74 of the Board of the Bank of Lithuania.

Chairman of the Board



Vitas Vasiliauskas

Director of the Organization Service  
Accounting Department



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;
- conduct a policy aimed towards contributing to securing the stability of the entire financial system, including enhancement of the resilience of the financial system and mitigation of systemic risk in order to ensure a sustainable contribution of the financial sector to economic growth.

### 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 a national central bank of the Member State which has not yet adopted the euro. If a specific accounting treatment is not laid down in the 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 2013 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 in the Annual Financial Statements are presented at the official exchange rate<sup>1</sup> 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), interest rate and forward transactions in securities derivatives (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.

<sup>1</sup> 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.

### *The official litas and foreign currency, with which the Bank of Lithuania holds the material positions, exchange rates announced by the Bank of Lithuania*

Litas (LTL) per unit

Currency	Code	31 December 2014	31 December 2013
Euro	EUR	3.4528	3.4528
Swiss Franc	CHF	2.8702	2.8155
US Dollar	USD	2.8387	2.5098
100 Japanese Yen	JPY	2.3698	2.3823
Special drawing rights (SDR)	XDR	4.1124	3.8782
10 Chinese Yuan Renminbi	CNY	4.5718	4.1406
10 Czech Koruna	CZK	1.2463	1.2577

The average rate of foreign currency is recalculated on a daily basis in case of an increase of a respective foreign currency position. When the foreign currency position decreases — the realised result is calculated.

In the event of the 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 foreign exchange forward and swap transactions is recognised as interest income or expense and is accrued on a daily basis over the remaining duration of the transaction.

The non-deliverable foreign exchange forwards are recorded at notional amount calculated based on the forward exchange rate in the off-balance sheet accounts from the trade date to the maturity date. These transactions are revalued at their market price on the last business day of a month. Unrealised loss recognised as expense at the end of the financial year is presented as write downs on the balance sheet liabilities accounts. The difference between the forward exchange rate and the spot rate at the settlement date of the transaction, taking into account any accumulated impairment losses, is recognised as realised income or expense.

## 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 or discounts.

The nominal value of inflation-linked securities is indexed to the inflation index on a daily basis from the settlement date of purchase transaction to the maturity date or settlement date of sale transaction. The nominal value change is recognised as interest income or expense.

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.

Coupons purchased together with debt security are presented in a separate balance sheet item as other assets and are not included in the acquisition cost of the security.

The amount of dividends, 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 par value — discount or premium — is recognised as income or expense according to the straight-line method on a daily basis from the purchase settlement date to the maturity date or sale settlement date.

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

Tangible fixed assets include such tangible assets whose acquisition cost (including VAT) is not less than LTL 7,000 and whose useful life is longer than one year. The Museum stocks, pieces of art and tangible assets included into the list of cultural valuables are also treated as tangible assets with no regard to their acquisition cost. Intangible fixed assets include items without physical substance whose useful life is no less than one year and whose acquisition cost is no less than LTL 7,000. Tangible and intangible fixed assets are recorded in the balance sheet at cost less accumulated depreciation (amortisation). Depreciation (amortisation) is calculated on a straight-line basis over the expected useful life of assets. 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	2.5–10
Cash count and computer equipment	8–50
Vehicles	20
Furniture, office equipment and other inventories	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

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.

Banknotes and coins in circulation are presented at nominal value as liabilities in the balance sheet.

In 2014, pursuant to a resolution of the Board of the Bank of Lithuania, there was a change in accounting policy provisions on the litas banknotes and coins in circulation: having established, that the Bank of Lithuania's obligation to accept the litas banknotes and coins withdrawn from circulation and which ceased to be legal tender is measured using the calculated probability of the return of these banknotes and coins to the Bank of Lithuania. When assessed that the probability of return is negligibly low, the nominal value of such litas banknotes and coins is derecognised from the balance sheet item "Banknotes and Coins in Circulation". Provisions shall be established for the assessed value of probable return. The difference between the nominal value derecognised and provisions made shall be credited to income. It is assumed that the probability of the return of collector's (commemorative) coins and sets of coins is negligibly low as of day of issuance. This change in accounting policy was applied retrospectively.

## 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 gains and losses arising from financial operations denominated in foreign currency are taken to the Profit and Loss Account on the trade date, except for the gains and losses on securities, which are recognised on the settlement date.

Unrealised revaluation 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.

Dividends of marketable equity instruments are booked upon their announcement, while dividends of non-marketable equity instruments are booked upon having received them or having received a notification on their distribution.

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.

## PROVISIONS FOR COVERING FINANCIAL RISKS

The provisions for expected foreign exchange rate, interest rate and credit risks (hereinafter — provisions for risks) are formed by the Board of the Bank of Lithuania, seeking for the Bank of Lithuania to have sufficient financial resources to offset certain risks arising from the management of financial assets and safeguard the Bank of Lithuania's capital and the real

value of financial assets. These provisions are formed in accordance to the provisions of the ECB Guidelines on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) and they are the basis for the rules established by the Bank of Lithuania.

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

## 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 which the Bank of Lithuania is exposed to different types of financial risk such as market, credit, liquidity and settlement risk.

The value at risk indicator became the most important tool for the management of financial risks, which cannot exceed the risk budget for financial assets investments, i.e. the maximum allowable amount of 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. A model considering the past patterns and forecasted macroeconomic environment in the most important financial markets for the Bank of Lithuania is used for the calculation of the value at risk indicator. As at 31 December 2014 the value at risk amounted to EUR 61 million (on 31 December 2013 — EUR 21 million).

Appropriate investment allocation plays an important role in financial risk management seeking to reduce the concentration of investment. The Bank of Lithuania in 2014 still increased diversification of investments by beginning to invest in Chinese government debt securities, increasing investment in equities and debt securities with investment grade, 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 they 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 managing the foreign exchange rate and interest rate risks, the Bank of Lithuania uses also financial derivatives. All financial derivatives are included in the measurement of the Bank of Lithuania's financial assets 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.

Liquidity risk is managed by setting liquidity ratios and a minimum share of highly liquid financial instruments in financial assets.

Various correspondent account management instruments are applied to diminish settlement risks: the delivery-versus-payment principle, matching of debt and credit turnovers, ISDA Master Agreement.

## ADOPTION OF THE EURO IN LITHUANIA

On 23 July 2014 the Council of the European Union, with its decision 2014/509/EU, made in accordance with Article 140(2) of the Treaty on the Functioning of the European Union, assented that the Republic of Lithuania, as of 1 January 2015 would adopt the single currency

of the European Union — the euro — and become a member of the euro area. The 2014 financial statements of the Bank of Lithuania are prepared in the national currency — litas. As of 1 January 2015, financial accounting is managed and financial reporting is prepared in the single currency of the European Union — the euro.

During the frontloading and sub-frontloading of euro banknotes and coins, ending 31 December 2014, cash euro banknotes and coins at the nominal value of EUR 620.80 million were delivered to the country's commercial banks in accordance with the procedure set forth by the Board of the Bank of Lithuania. Commercial banks, in exchange for the euro banknotes and coins, pledged to the Bank of Lithuania LTL 465.81 million in securities, LTL 1,014.14 million in settlement accounts and LTL 750 million in fixed-term deposits.

On 1 January 2015 the Bank of Lithuania became part of the Eurosystem and according to the provisions of Articles 48 and 30 of the Statute of the ESCB and of the ECB, the established contributions in gold and USD to the ECB foreign reserve assets (equivalent to EUR 338,656,541.82), ECB capital (EUR 43,051,594.36) and into the ECB reserves and provisions equivalent to reserves (EUR 162,454,492.54) were paid in 2015.

## NOTES

### Note 1. Gold

	31 December 2014	31 December 2013
Gold holdings in:		
Troy ounces	187,149.51	187,026.59
Kilograms	5,821.00	5,817.18
Price of one Troy ounce, USD	1,199.25	1,201.50
<b>Value of gold, LTL millions</b>	<b>637.12</b>	<b>563.98</b>

Gold holdings in 2014, compared to 2013, increased due to differences in the weight of gold bars arising on settlements of gold investment transactions.

### Gold investment

Troy ounces

	31 December 2014	31 December 2013
Fixed-term deposits	78,195.07	–
Non-invested reserves	66,296.36	187,026.59
Swaps	42,658.07	–
<b>Total</b>	<b>187,149.51</b>	<b>187,026.59</b>

On 31 December 2014 the Bank of Lithuania entered into gold futures transactions seeking to safeguard the value of market-purchased gold, to be transferred to the ECB foreign reserve assets, from the fluctuations in gold market prices.

### Note 2. Receivables from the International Monetary Fund

LTL millions

	31 December 2014	31 December 2013
Balance in Special Drawing Rights account with the International Monetary Fund	564.65	532.50
Reserve tranche position in the International Monetary Fund	0.14	0.13
<b>Total</b>	<b>564.80</b>	<b>532.63</b>

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.

The increased balance in the SDR account with the IMF as at 31 December 2014, compared to 31 December 2013, was due to changes in foreign currency exchange rates.

### Reserve tranche position in the International Monetary Fund

SDR millions

	31 December 2014	31 December 2013
Lithuania's quota in the IMF (total value)	183.90	183.90
Promissory notes of the government of the Republic of Lithuania	(183.35)	(183.36)
Cash funds in IMF accounts with the Bank of Lithuania	(0.52)	(0.50)
<b>Reserve tranche position in the IMF</b>	<b>0.03</b>	<b>0.03</b>

A large part of the quota of Lithuania was 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 564.38 million) allocated by the IMF in 2009. Their counterpart 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

	EUR	CHF	CNY	CZK	JPY	Other	Total
<b>31/12/2014</b>							
Debt securities	9,568.91	–	281.73	–	–	472.62	<b>10,323.25</b>
Balances in current accounts	3,713.97	2,217.03	0.16	2,062.18	694.01	45.61	<b>8,732.97</b>
Reverse repurchase agreements	–	–	–	–	4,873.49	–	<b>4,873.49</b>
Marketable equity securities	1,903.91	–	–	–	–	–	<b>1,903.91</b>
Claims on the ECB (TARGET2 account)	234.72	–	–	–	–	–	<b>234.72</b>
<b>Total</b>	<b>15,421.52</b>	<b>2,217.03</b>	<b>281.89</b>	<b>2,062.18</b>	<b>5,567.50</b>	<b>518.23</b>	<b>26,068.35</b>
<b>31/12/2013</b>							
Debt securities	11,983.76	–	–	–	1,481.76	206.05	<b>13,671.57</b>
Balances in current accounts	1,158.81	2,220.78	–	–	0.16	7.34	<b>3,387.08</b>
Reverse repurchase agreements	–	–	–	–	75.27	6.53	<b>81.80</b>
Marketable equity securities	823.38	–	–	–	–	–	<b>823.38</b>
Claims on the ECB (TARGET2 account)	1,212.19	–	–	–	–	–	<b>1,212.19</b>
Fixed-term deposits	345.28	–	–	–	–	–	<b>345.28</b>
<b>Total</b>	<b>15,523.41</b>	<b>2,220.78</b>	<b>–</b>	<b>–</b>	<b>1,557.19</b>	<b>219.92</b>	<b>19,521.30</b>

The Bank of Lithuania, in implementing the updated financial assets management policy that came into effect at the end of 2013, increased diversification of investments: expanded investments in marketable equities, debt securities with investment grade, began to invest in China's government securities, expanded the geographical diversity of investments, and also invested more in higher yield longer-term bonds.

This consistent investment structure change is executed by reacting to European and global economic and financial market developments, when the return on particularly secure government securities and other financial instruments decreased and in 2014 became negative. In addition, there was an increase in funds in accounts held in foreign currencies other than euro.

The marketable equity instruments article indicated investments in exchange traded fund units, replicating corporate debt or equity securities indexes. The equity securities index replicating investment market value at the end of 2014 amounted to LTL 390.28 million (in 2013 — 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.

**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 2014	31 December 2013
Euro area EU Member States	10,439.66	13,398.22
Non-euro area EU Member States	3,150.16	1,591.72
International financial institutions	4,536.28	432.22
Japan	4,873.62	1,557.19
Switzerland	2,216.18	2,204.52
China	281.90	–
Norway	204.58	106.67
Other countries	365.96	230.76
<b>Total</b>	<b>26,068.35</b>	<b>19,521.30</b>

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

LTL millions

	31 December 2014	31 December 2013
Demand	8,967.69	4,599.27
Up to 1 year	7,641.98	7,947.69
1–3 years	1,456.66	1,757.60
3–5 years	3,996.72	2,190.28
Over 5 years	2,101.39	2,203.06
Without term	1,903.91	823.38
<b>Total</b>	<b>26,068.35</b>	<b>19,521.30</b>

**Note 4. Claims on domestic institutions denominated in foreign currency**

LTL millions

	31 December 2014	31 December 2013
The Republic of Lithuania government securities, excl. classified as held-to-maturity	130.02	126.07
The Republic of Lithuania government securities, classified as held-to-maturity	43.11	42.50
Claims on domestic credit institutions	0.06	0.03
<b>Total</b>	<b>173.18</b>	<b>168.60</b>

Securities of the government of the Republic of Lithuania were acquired in the secondary market. As at 31 December 2014 the market value of securities classified as held-to-maturity amounted to LTL 45.51 million.

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

This balance sheet item presents securities purchased in 2011–2012 during securities purchase auctions arranged for regulation of the liquidity purposes of the banking system. The debt securities are presented at market price. In 2014 the Bank of Lithuania earned LTL 0.82 million (LTL 1.90 million in 2013) in interest income on the securities purchased in these auctions.

LTL millions

	31 December 2014	31 December 2013
The Republic of Lithuania government securities	18.25	18.46
<b>Total</b>	<b>18.25</b>	<b>18.46</b>

**Note 6. Tangible and intangible fixed assets**

LTL millions

	Tangible assets				Intangible assets (including assets under construction)	Total
	Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled)	Vehicles	Other tangible assets (including assets under construction)		
Acquisition cost as at						
31 December 2013	125.38	58.40	5.60	23.02	18.34	<b>230.74</b>
Additions in 2014	–	5.15	–	0.76	0.91	<b>6.82</b>
Disposals in 2014	–	(7.41)	(0.54)	(0.45)	–	<b>(8.40)</b>
Acquisition cost as at						
31 December 2014	125.38	56.14	5.06	23.33	19.25	<b>229.16</b>
Accumulated depreciation as at 31 December 2013	(38.69)	(46.94)	(5.60)	(17.26)	(16.47)	<b>(124.96)</b>
Depreciation in 2014	(3.00)	(3.30)	–	(0.63)	(0.92)	<b>(7.85)</b>
Depreciation of disposed assets in 2014	–	7.40	0.54	0.45	–	<b>8.40</b>
Accumulated depreciation as on						
31 December 2014	(41.69)	(42.84)	(5.06)	(17.43)	(17.39)	<b>(124.41)</b>
<b>Net carrying amount as at 31 December 2014</b>	<b>83.69</b>	<b>13.31</b>	<b>–</b>	<b>5.90</b>	<b>1.86</b>	<b>104.75</b>
<b>Net carrying amount as at 31 December 2013</b>	<b>86.69</b>	<b>11.46</b>	<b>–</b>	<b>5.76</b>	<b>1.88</b>	<b>105.78</b>

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 2014	31 December 2013
Paid-up share of the capital of the ECB	5.79	5.74
Bank for International Settlements shares	11.51	11.51
SWIFT shares	0.07	0.07
<b>Total</b>	<b>17.37</b>	<b>17.32</b>

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. It is adjusted every five years on the basis of population and GDP data provided by the European Commission.

In implementing the adjustment of the ECB capital key in accordance with Article 29 of the Statute of the ESCB and the ECB, as at 1 January 2014 the shares of the national central banks in the subscribed capital of the ECB were adjusted. The Bank of Lithuania, with its share

in the capital of the ECB having increased on 1 January 2014 up to 0.4132 per cent (prior to the adjustment — 0.4093%), additionally paid EUR 15.83 thousand into the ECB capital.

#### Key for subscription of the capital of the ECB

%

Central bank	As at 31 December 2013	From 1 January 2014
<i>Nationale Bank van België /</i>		
<i>Banque Nationale de Belgique</i>	2.4176	2.4778
<i>Deutsche Bundesbank</i>	18.7603	17.9973
<i>Eesti Pank</i>	0.1780	0.1928
<i>Banc Ceannais na hÉireann / Central Bank of Ireland</i>	1.1111	1.1607
<i>Bank of Greece</i>	1.9483	2.0332
<i>Banco de España</i>	8.2533	8.8409
<i>Banque de France</i>	14.1342	14.1792
<i>Banca d'Italia</i>	12.4570	12.3108
<i>Central Bank of Cyprus</i>	0.1333	0.1513
<i>Latvijas Banka</i>	—	0.2821
<i>Banque centrale du Luxembourg</i>	0.1739	0.2030
<i>Bank Ċentrali ta'Malta / Central Bank of Malta</i>	0.0635	0.0648
<i>De Nederlandsche Bank</i>	3.9663	4.0035
<i>Oesterreichische Nationalbank</i>	1.9370	1.9631
<i>Banco de Portugal</i>	1.7636	1.7434
<i>Banka Slovenije</i>	0.3270	0.3455
<i>Národná banka Slovenska</i>	0.6881	0.7725
<i>Suomen Pankki – Finlands Bank</i>	1.2456	1.2564
<b>Total (euro area central banks)</b>	<b>69.5581</b>	<b>69.9783</b>
<i>Българска народна банка</i> (Bulgarian national bank)	0.8644	0.8590
<i>Česká národní banka</i>	1.4539	1.6075
<i>Danmarks Nationalbank</i>	1.4754	1.4873
<i>Hrvatska narodna banka</i>	0.5945	0.6023
<i>Latvijas Banka</i>	0.2742	—
<i>Lietuvos bankas</i>	0.4093	0.4132
<i>Magyar Nemzeti Bank</i>	1.3740	1.3798
<i>Narodowy Bank Polski</i>	4.8581	5.1230
<i>Banca Națională a României</i>	2.4449	2.6024
<i>Sveriges Riksbank</i>	2.2612	2.2729
<i>Bank of England</i>	14.4320	13.6743
<b>Total (non-euro area central banks)</b>	<b>30.4419</b>	<b>30.0217</b>
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>

As Lithuania on 31 December 2014 had not yet adopted the euro, the transitional provisions of Article 47 of the Statute of the ESCB and of the ECB were applied. According to it, the Bank of Lithuania should be paid 3.75 per cent of the subscribed capital of the ECB held by the Bank of Lithuania. 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. After 1 January 2015, when the Republic of Lithuania adopted euro, the Bank of Lithuania paid up the remaining part of the ECB capital (see “Adoption of the Euro in Lithuania”).

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

Euro

Central bank	Subscribed capital of the ECB until 31 December 2013	The ECB's paid-up capital until 31 December 2013	Subscribed capital from 1 January 2014	Paid-up capital from 1 January 2014
<i>Nationale Bank van België / Banque Nationale de Belgique</i>	261,705,370.91	261,705,370.91	268,222,025.17	268,222,025.17
<i>Deutsche Bundesbank</i>	2,030,803,801.28	2,030,803,801.28	1,948,208,997.34	1,948,208,997.34
<i>Eesti Pank</i>	19,268,512.58	19,268,512.58	20,870,613.63	20,870,613.63
<i>Banc Ceannais na hÉireann / Central Bank of Ireland</i>	120,276,653.55	120,276,653.55	125,645,857.06	125,645,857.06
<i>Bank of Greece</i>	210,903,612.74	210,903,612.74	220,094,043.74	220,094,043.74
<i>Banco de España</i>	893,420,308.48	893,420,308.48	957,028,050.02	957,028,050.02
<i>Banque de France</i>	1,530,028,149.23	1,530,028,149.23	1,534,899,402.41	1,534,899,402.41
<i>Banca d'Italia</i>	1,348,471,130.66	1,348,471,130.66	1,332,644,970.33	1,332,644,970.33
<i>Central Bank of Cyprus</i>	14,429,734.42	14,429,734.42	16,378,235.70	16,378,235.70
<i>Latvijas Banka</i>	–	–	30,537,344.94	30,537,344.94
<i>Banque centrale du Luxembourg</i>	18,824,687.29	18,824,687.29	21,974,764.35	21,974,764.35
<i>Bank Ċentrali ta' Malta / Central Bank of Malta</i>	6,873,879.49	6,873,879.49	7,014,604.58	7,014,604.58
<i>De Nederlandsche Bank</i>	429,352,255.40	429,352,255.40	433,379,158.03	433,379,158.03
<i>Oesterreichische Nationalbank</i>	209,680,386.94	209,680,386.94	212,505,713.78	212,505,713.78
<i>Banco de Portugal</i>	190,909,824.68	190,909,824.68	188,723,173.25	188,723,173.25
<i>Banka Slovenije</i>	35,397,773.12	35,397,773.12	37,400,399.43	37,400,399.43
<i>Národná banka Slovenska</i>	74,486,873.65	74,486,873.65	83,623,179.61	83,623,179.61
<i>Suomen Pankki – Finlands Bank</i>	134,836,288.06	134,836,288.06	136,005,388.82	136,005,388.82
<b>Total (euro area central banks)</b>	<b>7,529,669,242.48</b>	<b>7,529,669,242.48</b>	<b>7,575,155,922.19</b>	<b>7,575,155,922.19</b>
<i>Българска народна банка (Bulgarian National Bank)</i>	93,571,361.11	3,508,926.04	92,986,810.73	3,487,005.40
<i>Česká národní banka</i>	157,384,777.79	5,901,929.17	174,011,988.64	6,525,449.57
<i>Danmarks Nationalbank</i>	159,712,154.31	5,989,205.79	161,000,330.15	6,037,512.38
<i>Hrvatska narodna banka</i>	64,354,667.03	2,413,300.01	65,199,017.58	2,444,963.16
<i>Latvijas Banka</i>	29,682,169.38	1,113,081.35	–	–
<i>Lietuvos bankas</i>	44,306,753.94	1,661,503.27	44,728,929.21	1,677,334.85
<i>Magyar Nemzeti Bank</i>	148,735,597.14	5,577,584.89	149,363,447.55	5,601,129.28
<i>Narodowy Bank Polski</i>	525,889,668.45	19,720,862.57	554,565,112.18	20,796,191.71
<i>Banca Națională a României</i>	264,660,597.84	9,924,772.42	281,709,983.98	10,564,124.40
<i>Sveriges Riksbank</i>	244,775,059.86	9,179,064.74	246,041,585.69	9,226,559.46
<i>Bank of England</i>	1,562,265,020.29	58,584,938.26	1,480,243,941.72	55,509,147.81
<b>Total (non-euro area central banks)</b>	<b>3,295,337,827.14</b>	<b>123,575,168.51</b>	<b>3,249,851,147.43</b>	<b>121,869,418.02</b>
<b>Total</b>	<b>10,825,007,069.62</b>	<b>7,653,244,410.99</b>	<b>10,825,007,069.62</b>	<b>7,697,025,340.21</b>

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. The Bank of Lithuania received dividends of LTL 0.90 million for these BIS shares in 2014 (LTL 1.34 million in 2013).

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 2014	31 December 2013
Accrued interest income	68.58	104.45
Accrued debt securities coupon	66.00	103.48
Accrued interest on financial derivatives	1.66	0.95
Other accrued interest	0.92	0.02
Debt securities coupon payment purchased	28.91	44.13
Other accruals	3.24	2.55
Prepaid expenses	1.34	1.53
Dividend purchased with equity securities	–	1.28
<b>Total</b>	<b>102.07</b>	<b>153.94</b>

## Note 9. Sundry

LTL millions

	31 December 2014	31 December 2013
Dividend receivable	13.86	8.04
Loans to the staff of the Bank of Lithuania	2.97	9.52
Advances and other receivables	2.80	0.19
Short-term assets	0.58	0.96
<b>Total</b>	<b>20.21</b>	<b>18.71</b>

Pursuant to a resolution of the Board of the Bank of Lithuania, loans to the Bank of Lithuania's employees are no longer issued as of 2009. Outstanding credits to the Bank of Lithuania employees significantly decreased due to their refinancing at credit institutions.

The largest share of the advance payments and other received amounts was the LTL 2 million advance payment for the minting of coins.

## Note 10. Banknotes and coins in circulation

LTL millions

	31 December 2014	31 December 2013
Banknotes	5,569.09	11,621.49
Circulation coins	192.77	263.99
Collector (commemorative) coins and sets of coins	–	16.59
<b>Total</b>	<b>5,761.86</b>	<b>11,902.07</b>

The decrease in litas banknotes and coins in circulation over 2014 was a result of the changed behaviour of Lithuania's population and corporations due to the approaching euro adoption: they aimed to exchange litas to euro more simply — money deposited in bank accounts was exchanged automatically and free of charge.

As at 31 December 2014, there were in circulation LTL 5,591.15 million banknotes, LTL 196.14 million circulation coins, and LTL 18.53 million collector's (commemorative) coins and sets of coins (at nominal value). In implementing the Bank of Lithuania's accounting policy's provisions on litas banknotes and coins accounting (see the Accounting Policy section "Banknotes and Coins in Circulation") and assessing, that as of 31 December 2014 probability of the return to the Bank of Lithuania and related obligation to accept the banknotes and coins, which were withdrawn from circulation and ceased to be legal tender between 1994 and 2007, is negligibly low, therefore LTL 22.06 million in banknotes, LTL 3.37 million in

circulation coins and LTL 18.53 million in collector's (commemorative) coins and sets of coins at their nominal value were derecognised from the balance sheet liability item "Banknotes and Coins in Circulation". Provisions of LTL 2.10 million were established for the assessed probable return of the litas banknotes and coins at their nominal value. The remaining amount of value was recognised in 2014 as the Bank of Lithuania's income (see Note 27).

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

LTL millions

	31 December 2014	31 December 2013
Accounts (including required minimum reserves)	9,506.11	4,519.17
Fixed-term deposits	4,865.00	–
<b>Total</b>	<b>14,371.11</b>	<b>4,519.17</b>

In preparing for the euro adoption in Lithuania as of 1 January 2015, the Bank of Lithuania aimed to decrease the incentive of banks to exchange in euro surplus funds in litas and avoid sudden fluctuations in the Bank of Lithuania's foreign reserve assets and forced sale of part of investments due to temporary changes in the amount of cash. Seeking this goal the Bank of Lithuania did not apply negative interest rates for banks' reserve surplus in litas and renewed fixed-term deposit auctions.

In 2014, a 3 per cent required reserve ratio was applied to credit institutions. Until June 2014 interest on required reserves held by commercial banks was paid by applying the ECB established deposit facility rate. As of June 2014, the higher of the deposit facility rate laid down by the ECB and 0 per cent was applied. In 2014, the interest rate on commercial banks' required reserves, paid by the Bank of Lithuania, amounted to 0 per cent (in 2013 it fluctuated from 0 to 0.75%). The fixed-term deposit rate fluctuated from 0.01 to 0.25 per cent. The Bank of Lithuania from the accepted fixed-term deposits in 2014 incurred LTL 0.58 million in interest expense.

**Note 12. Liabilities to other domestic institutions denominated in litas**

LTL millions

	31 December 2014	31 December 2013
Liabilities to government institutions	767.04	346.26
Liabilities to other domestic institutions	127.37	72.99
<b>Total</b>	<b>894.41</b>	<b>419.24</b>

**Note 13. Liabilities to foreign institutions denominated in litas**

LTL millions

	31 December 2014	31 December 2013
Balances in current accounts of international organisations	116.62	32.64
Balances in current accounts of foreign banks	–	0.06
<b>Total</b>	<b>116.62</b>	<b>32.70</b>

## Note 14. Liabilities denominated in foreign currency

### *Liabilities to domestic institutions denominated in foreign currency*

LTL millions

	31 December 2014	31 December 2013
Balances in current accounts of government institutions	3,584.95	879.61
Fixed-term deposits of government institutions	–	566.26
Balances in current accounts of TARGET2 participants	234.07	499.67
Fixed-term deposits of other domestic institutions	–	9.20
<b>Total</b>	<b>3,819.02</b>	<b>1,954.74</b>

### *Liabilities to foreign institutions denominated in foreign currency*

LTL millions

	31 December 2014	31 December 2013
Gold swaps	137.82	–
Balances in current accounts of international organisations	9.34	37.03
<b>Total</b>	<b>147.16</b>	<b>37.03</b>

## Note 15. Items in the course of settlement

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

## Note 16. Other liabilities

LTL millions

	31 December 2014	31 December 2013
Off-balance sheet instruments revaluation differences (see Note 17)	38.62	8.25
Accruals and deferred income	5.04	1.40
Accrued expenses	4.86	0.33
Deferred income	0.18	1.07
Other liabilities	4.21	0.51
<b>Total</b>	<b>47.88</b>	<b>10.16</b>

## 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 interest rate derivatives and non-deliverable foreign exchange forward transactions.

### *Off-balance sheet instruments revaluation differences*

LTL millions

	31 December 2014		31 December 2013	
	Gain	Loss	Gain	Loss
Currency swaps	262.61	36.19	86.47	8.18
Non-deliverable foreign exchange forwards	2.74	–	–	–
Interest rate swaps	–	0.29	0.16	0.07
Currency spot transactions	–	2.14	–	–
<b>Total</b>	<b>265.35</b>	<b>38.62</b>	<b>86.64</b>	<b>8.25</b>



**Note 18. Provisions**

LTL millions

	31 December 2014	31 December 2013
Provisions for risks	104.00	42.00
Provisions to liabilities related to labour relations	10.93	7.48
Provisions for exchanging of derecognised litas banknotes and coins	2.10	–
<b>Total</b>	<b>117.03</b>	<b>49.48</b>

The Board of the Bank of Lithuania, based on the assessed level of risk exposure, applying the selected risk assessment model, which takes into account the current and projected size of the Bank of Lithuania's financial assets and interest rate development in the financial markets, as well as the adopted strategy for reaching the size for the set provisions for risks in the long-term, in 2014 made the decision for the establishment of an additional LTL 62 million provisions for risks.

***Provisions to liabilities related to labour relations***

LTL millions

	31 December 2013	Established over 2014	Used over 2014	31 December 2014
Provisions for:				
Termination benefits, payable for staff who will qualify for the state social insurance pension while working at the Bank of Lithuania	4.14	2.57	(0.05)	6.66
Wages and salaries payable for annual leave	3.15	5.00	(4.26)	3.89
Termination benefits to the members of the Board as provided in the Law on the Bank of Lithuania	0.10	0.10	–	0.20
Termination benefits by agreements payable for the staff in subsequent years	0.09	0.14	(0.05)	0.18
<b>Total</b>	<b>7.48</b>	<b>7.81</b>	<b>(4.36)</b>	<b>10.93</b>

Provisions for termination benefits, payable for staff who will qualify for the state social insurance pension while working at the Bank of Lithuania, are assessed using actuary valuations. Their size is valued at the termination benefits', earned by the employee upon retirement, calculated according to the employee change dynamics and wages growth preconditions, discounted using the long-term lending interest rates in the Republic of Lithuania.

Other provisions related to obligations to employees are not discounted due to the relatively short period from the creation of these provisions to their use.

**Note 19. Revaluation accounts**

Revaluation accounts present unrealised revaluation gain of gold, debt and equity securities, off-balance sheet financial instruments and foreign currency. A large share of foreign currency revaluation gain is from Chinese Renminbi Yuan revaluation, the currency rate exposure of which was managed using non-deliverable foreign exchange forwards.

LTL millions

	31 December 2014	31 December 2013
Revaluation accounts		
Gold	324.64	251.95
Debt securities	131.62	33.55
Equity securities	94.16	0.30
Foreign currency	12.87	0.03
Financial derivatives	2.74	0.16
<b>Total</b>	<b>566.03</b>	<b>285.99</b>

Unrealised revaluation losses, recognised as expenses at the last working day of 2014, are presented in Note 24.

## Note 20. Capital

### Statement of changes in equity for 2014

LTL millions

	31 December 2013	2013 profit distribution	31 December 2014
Capital			
Authorised capital	200.00	–	200.00
Reserve capital	1,197.56	–	1197.56
<b>Total</b>	<b>1,397.56</b>	<b>–</b>	<b>1397.56</b>

## Note 21. Interest income

LTL millions

	2014	2013
Interest income from foreign institutions on:	93.34	89.98
Debt securities	85.33	85.25
Financial derivatives	6.50	3.49
Balances in current accounts and fixed-term deposits	1.16	1.14
Reverse repurchase and repurchase agreements	0.35	0.11
Interest income from institutions of the Republic of Lithuania on:	8.71	6.53
Balances in current accounts	3.52	–
Securities of the government of the Republic of Lithuania classified as held-to-maturity	2.25	2.58
Securities of the government of the Republic of Lithuania other than those classified as held-to-maturity	2.12	2.05
Securities related to monetary policy operations	0.82	1.90
Other interest income	0.28	0.43
<b>Total</b>	<b>102.33</b>	<b>96.94</b>

In 2014, 98.9 per cent (in 2013 — 97.6%) of interest income was earned in foreign currency.

## Note 22. Interest expense

LTL millions

	2014	2013
Interest expense on:		
Financial derivatives	1.43	1.05
Fixed-term deposits of government institutions	0.64	0.07
Monetary policy instruments	0.58	0.24
Balances in current accounts	0.35	0.01
Gold swaps	0.18	–
Other	0.13	–
<b>Total</b>	<b>3.32</b>	<b>1.37</b>

In 2014, 82.2 per cent (in 2013 — 82.6 %) of interest expense was incurred in foreign currency.

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

LTL millions

	2014	2013
Realised gains (losses) arising from:		
Transactions in securities	270.36	31.82
Interest rate derivatives	(186.23)	14.82
Other transactions in gold and foreign currency	(17.05)	(0.13)
<b>Total</b>	<b>67.07</b>	<b>46.51</b>

The decline in market interest rates and related growth in the price of securities in 2014, resulted in the increase of net realised income from securities and increase of the net realised expense from interest rate derivatives.

**Note 24. Unrealised losses from revaluation**

LTL millions

	2014	2013
Unrealised revaluation losses on:		
Foreign currency	1.73	0.21
Interest rate derivatives	0.29	0.00
Securities	0.20	28.35
<b>Total</b>	<b>2.22</b>	<b>28.56</b>

A large share of unrealised foreign currency revaluation losses (LTL 1.66 million) related to the revaluation of USD position.

**Note 25. Net income from fees and commissions**

LTL millions

	2014	2013
Fees and commissions income	25.45	21.06
Contributions of supervised financial market participants	14.84	11.11
Settlement services	7.22	7.43
Sale of numismatic valuables	3.28	2.28
Other services	0.11	0.24
Fees and commissions expense	(2.72)	(3.04)
<b>Net income from fees and commissions remunerations</b>	<b>22.73</b>	<b>18.02</b>

Pursuant to the Law on the Bank of Lithuania, costs of the financial market supervision are funded by contributions of supervised financial market participants and own funds of the Bank of Lithuania. In 2014, the amount contributions of financial market participants covered around 68 per cent of the Bank of Lithuania's expenses, related to the function of financial market supervision (in 2013 — 75%).

## Note 26. Dividend income

LTL millions

	2014	2013
Dividend income from:		
Marketable equity securities	31.06	13.64
Non-marketable equity securities	0.90	1.34
<b>Total</b>	<b>31.96</b>	<b>14.98</b>

## Note 27. Other income

LTL millions

	2014	2013
Income from derecognition of litas banknotes and coins (at their nominal value), which in 1994–2007 were announced as withdrawn from circulation and ceased to be legal tender (see Note 10)	23.33	–
Income from derecognition of collector's (commemorative) coins and sets of coins (at their nominal value) (see Note 10)	18.52	–
Income from sale of scrap litas coins withdrawn from circulation	3.22	–
Other various income	1.32	1.18
<b>Total</b>	<b>46.39</b>	<b>1.18</b>

## Note 28. Staff costs

LTL millions

	2014	2013
Expenses on wages and salaries:	33.64	30.97
to the members of the Board	1.16	0.97
to the heads of structural divisions	2.59	2.53
to other staff of the Bank of Lithuania	29.89	27.47
Other emoluments	0.33	0.40
Contributions to State Social Insurance Fund	10.46	9.69
Expenses on provisions related to liabilities to the staff (see Note 18)	7.81	5.30
<b>Total</b>	<b>52.24</b>	<b>46.36</b>

The Board of the Bank of Lithuania consists of: a Chairman, two Deputy Chairs and two Members.

As at 31 December 2014 at the Bank of Lithuania there have been operating five services, three autonomous departments and three autonomous divisions. On 31 December 2014, the Bank of Lithuania employed 628 staff members (in 2013 — 596) of which 49 (in 2013 — 22) were on fixed-term labour contract. In addition 19 employees were on parental leave or unpaid leave for the term of their contracts with the ECB and IMF (on 31 December 2013 — 15).

In 2014 costs of the salaries of the members of the board were 20 per cent higher compared to 2013, due to the change of one Deputy Chair and two Members of the Board when their terms ended, on average only four Members of the Board (instead of five) were working in 2013. In 2014 the Members of the Board were paid LTL 0.13 million salaries for annual leaves out of the accrued provisions (in 2013 — LTL 0.16 million salaries for annual leaves and LTL 0.47 million in termination benefits at the end of term of office for one Deputy Chair and two Board Members).

In 2014 the increase in staff cost is related to the increase in additional work volumes and additional temporary positions due to the euro adoption as well as staff incentives for the work results.

#### Note 29. Administrative expenses

LTL millions

	2014	2013
Administrative expenses		
Maintenance expenses	10.70	9.68
Participation in international organisations fees	3.09	2.50
Equipment and office supply	2.50	1.97
Business trips	2.26	2.17
Information subscription expenses	1.81	1.78
Public relations	1.71	0.52
Mail and communication	1.54	1.36
Training of the staff	1.13	1.16
Other	2.44	2.33
<b>Total</b>	<b>27.19</b>	<b>23.47</b>

In 2014 the largest impact on the increase in administrative expenses was due to rise in public relations, business trips, mail and communication expenses related to the euro adoption (LTL 2.50 million).

#### Note 30. Banknote and coin production services and circulation expenses

LTL millions

	2014	2013
Coin minting expenses	43.99	6.62
Cash circulation expenses	1.44	0.31
<b>Total</b>	<b>45.44</b>	<b>6.92</b>

The increase in coin minting expenditure in 2014 is related to the minting of circulation euro coins.

The Bank of Lithuania, in preparing to adopt the euro, in 2014 signed a euro banknotes borrowing agreement with one of the Eurosystem's national central banks. Banknotes of analogous value should be printed from the Bank of Lithuania's funds and returned in 2016 to the borrower. According to preliminary assessments, the production, supervision and control expenses for euro banknotes will amount to EUR 12.27 million.

#### Note 31. Distribution of the profit of the Bank of Lithuania

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

- 1) The net distributable profit (loss), which consists of the 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) The 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;
- for the authorised capital up to the amount specified in the Law on the Bank of Lithuania;
- for 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.

On 1 January, with the coming into force of the new version of Article 20 of the Law of the Bank of Lithuania, the Bank of Lithuania's authorised capital should amount to EUR 60 million or LTL 207.17 million (according to the version of the Law valid until 31 December 2014 — LTL 200 million), therefore a respective amount of the Bank of Lithuania's profit for 2014 will be allocated to increase the authorised capital up to the specified amount.

The Board of the Bank of Lithuania in 2015 made a decision to increase the reserve capital up to the specified amount, provided that the annual increase pace shall be proportionally close to the Bank of Lithuania's projected medium-term period in the Republic of Lithuania's GDP (calculated in comparative prices) annual average growth.

#### ***Profit distribution***

LTL

	2014	2013	2012
Profit distribution			
Allocation to the authorised capital of the Bank of Lithuania	7,168,000	–	–
Allocation to the reserve capital of the Bank of Lithuania	37,028,443	–	–
Transfer to the state budget	26,023,770	20,643,310	20,666,921
<b>Total</b>	<b>70,220,213</b>	<b>20,643,310</b>	<b>20,666,921</b>

**Note 32. Assets and liabilities of the Bank of Lithuania by currency**

LTL millions

	LTL	EUR	CHF	USD	JPY	XAU	Other	Total
<b>31 December 2014</b>								
<b>ASSETS</b>								
<b>Gold</b>	–	–	–	–	–	637.12	–	<b>637.12</b>
<b>Claims on foreign institutions denominated in foreign currency</b>	–	15,421.52	2,217.03	459.11	5,567.50	–	2,967.99	<b>26,633.14</b>
Receivables from the International Monetary Fund	–	–	–	–	–	–	564.80	<b>564.80</b>
Debt securities	–	9,568.91	–	418.80	–	–	335.54	<b>10,323.25</b>
Equity financial instruments	–	1,903.91	–	–	–	–	–	<b>1,903.91</b>
Deposits and other investments	–	3,948.69	2,217.03	40.31	5,567.50	–	2,067.65	<b>13,841.18</b>
<b>Claims on domestic institutions denominated in foreign currency</b>	–	53.91	–	119.27	–	–	–	<b>173.18</b>
<b>Securities of domestic institutions related to monetary policy operations denominated in litas</b>	18.25	–	–	–	–	–	–	<b>18.25</b>
<b>Other assets</b>	127.98	104.01	0.31	9.53	253.81	–	14.11	<b>509.75</b>
<b>Total on-balance sheet assets</b>	<b>146.23</b>	<b>15,579.44</b>	<b>2,217.34</b>	<b>587.91</b>	<b>5,821.31</b>	<b>637.12</b>	<b>2,982.10</b>	<b>27,971.45</b>
<b>LIABILITIES</b>								
<b>Banknotes and coins in circulation</b>	5,761.86	–	–	–	–	–	–	<b>5,761.86</b>
<b>Liabilities to domestic credit institutions related to monetary policy operations denominated in litas</b>	14,371.11	–	–	–	–	–	–	<b>14,371.11</b>
<b>Liabilities to other domestic institutions denominated in litas</b>	894.41	–	–	–	–	–	–	<b>894.41</b>
<b>Liabilities to foreign institutions denominated in litas</b>	116.62	–	–	–	–	–	–	<b>116.62</b>
<b>Liabilities to domestic institutions denominated in foreign currency</b>	–	3,799.88	0.07	14.66	–	–	4.40	<b>3,819.02</b>
<b>Liabilities to foreign institutions denominated in foreign currency</b>	–	147.16	–	–	–	–	–	<b>147.16</b>
<b>Counterpart of special drawing rights allocated by the International Monetary Fund</b>	–	–	–	–	–	–	564.38	<b>564.38</b>
<b>Items in the course of settlement</b>	98.17	–	–	–	–	–	–	<b>98.17</b>
<b>Other liabilities</b>	8.90	0.55	7.46	30.29	–	–	0.67	<b>47.88</b>
<b>Provisions</b>	117.03	–	–	–	–	–	–	<b>117.03</b>
<b>Revaluation accounts</b>	338.33	216.64	–	7.37	–	–	3.68	<b>566.03</b>
<b>Capitals</b>	1,397.56	–	–	–	–	–	–	<b>1,397.56</b>
<b>Profit</b>	70.22	–	–	–	–	–	–	<b>70.22</b>
<b>Total on-balance sheet liabilities</b>	<b>23,174.21</b>	<b>4,164.24</b>	<b>7.53</b>	<b>52.32</b>	<b>–</b>	<b>–</b>	<b>573.14</b>	<b>27,971.45</b>
<b>NET ON-BALANCE SHEET ASSETS (LIABILITIES)</b>	<b>(23,027.98)</b>	<b>11,415.19</b>	<b>2,209.80</b>	<b>535.59</b>	<b>5,821.31</b>	<b>637.12</b>	<b>2,408.97</b>	<b>0.00</b>
<b>Off-balance sheet assets included into currency position</b>								
Receivables under foreign exchange transactions	–	11,004.35	–	1,204.94	–	–	17.81	<b>12,227.11</b>
<b>Off-balance sheet liabilities included into currency position</b>								
Payables under foreign exchange transactions	–	1,222.76	2,209.79	835.85	5,817.97	–	2,140.75	<b>12,227.11</b>
<b>Net off-balance sheet assets (liabilities) included into currency position</b>	<b>–</b>	<b>9,781.60</b>	<b>(2,209.79)</b>	<b>369.10</b>	<b>(5,817.97)</b>	<b>–</b>	<b>(2,122.93)</b>	<b>0.00</b>
<b>NET ASSETS (LIABILITIES)</b>	<b>(23,027.98)</b>	<b>21,196.79</b>	<b>0.01</b>	<b>904.69</b>	<b>3.34</b>	<b>637.12</b>	<b>286.03</b>	<b>0.00</b>
<b>31 December 2013</b>								
<b>Total on-balance sheet assets</b>	<b>151.13</b>	<b>15,787.12</b>	<b>2,221.35</b>	<b>287.45</b>	<b>1,642.62</b>	<b>563.98</b>	<b>533.70</b>	<b>21,187.36</b>
<b>Total on-balance sheet liabilities</b>	<b>18,621.93</b>	<b>2,019.21</b>	<b>8.25</b>	<b>4.63</b>	<b>0.03</b>	<b>–</b>	<b>533.31</b>	<b>21,187.36</b>
<b>NET ON-BALANCE-SHEET ASSETS (LIABILITIES)</b>	<b>(18,470.80)</b>	<b>13,767.91</b>	<b>2,213.10</b>	<b>282.83</b>	<b>1,642.59</b>	<b>563.98</b>	<b>0.39</b>	<b>0.00</b>
<b>Off-balance sheet assets included into currency position</b>	<b>–</b>	<b>5,214.76</b>	<b>1,035.84</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,250.60</b>
<b>Off-balance sheet liabilities included into currency position</b>	<b>51.79</b>	<b>1,035.84</b>	<b>3,245.63</b>	<b>275.53</b>	<b>1,641.81</b>	<b>–</b>	<b>–</b>	<b>6,250.60</b>
<b>Net off-balance sheet assets (liabilities) included into currency position</b>	<b>(51.79)</b>	<b>4,178.92</b>	<b>(2,209.79)</b>	<b>(275.53)</b>	<b>(1,641.81)</b>	<b>–</b>	<b>–</b>	<b>0.00</b>
<b>NET ASSETS (LIABILITIES)</b>	<b>(18,522.60)</b>	<b>17,946.84</b>	<b>3.31</b>	<b>7.29</b>	<b>0.78</b>	<b>563.98</b>	<b>0.39</b>	<b>0.00</b>

## ANNEXES

### **Resolutions adopted by the Board of the Bank of Lithuania published in the Register of Legal Acts (RLA) in 2014**

Resolution No 03-356 of the Board of the Bank of Lithuania of 30 December 2014 on the approval of the regulations for the performance of authenticity checks of suspicious litas banknotes, coins, cent coins and euro banknotes, coins, euro cent coins in the Bank of Lithuania and for handing over the counterfeit and suspicious currency to the territorial city (district) police headquarters;

Resolution No 03-355 of the Board of the Bank of Lithuania of 30 December 2014 on the amendment to Resolution No 03-164 of the Board of the Bank of Lithuania of 8 October 2013 on the approval of the policy of management of financial assets of the Bank of Lithuania;

Resolution No 03-354 of the Board of the Bank of Lithuania of 30 December 2014 on the implementation of the main principles of insurance approved by the International Association of Insurance Supervisors;

Resolution No 03-353 of the Board of the Bank of Lithuania of 30 December 2014 on the amendment to Resolution No 03-136 of the Board of the Bank of Lithuania of 31 July 2014 on the approval of requirements for the publicly disclosed information;

Resolution No 03-352 of the Board of the Bank of Lithuania of 30 December 2014 on the amendment to Resolution No 145 of the Board of the Bank of Lithuania of 23 November 2006 on the approval of the general regulations for the internal capital adequacy assessment process and of the general regulations for the supervisory review and evaluation process;

Resolution No 03-348 of the Board of the Bank of Lithuania of 23 December 2014 on the approval of samples of collector coins of 20 euro and 5 euro denomination dedicated to the 25th anniversary of the restoration of the independence of Lithuania (from series "Lithuania's Road to Independence") and on the announcement of their issuance into circulation;

Resolution No 03-347 of the Board of the Bank of Lithuania of 23 December 2014 on the amounts of contributions of the supervised market participants;

Resolution No 03-343 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 140 of the Board of the Bank of Lithuania of 9 November 2006 on the regulations on validation and its assessment;

Resolution No 03-342 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 152 of the Board of the Bank of Lithuania of 7 December 2006 on the procedure for granting the permission to use the internal ratings based credit assessment approach and the advanced operational risk assessment method;

Resolution No 03-341 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 149 of the Board of the Bank of Lithuania of 25 September 2008 on the regulations for the organisation of internal control and assessment (management) of risk;

Resolution No 03-340 of the Board of the Bank of Lithuania of 23 December 2014 repealing Resolution No 1 of the Board of the Bank of Lithuania of 29 January 2004 on the liquidity of banks;

Resolution No 03-333 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 03-159 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the rules on the preparation and submission of reports on activities of the financial brokerage firms and credit institutions providing investment services;

Resolution No 03-332 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 03-155 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the rules for the use of benchmark indices.



Resolution No 03-331 of the Board of the Bank of Lithuania of 23 December 2014 on the amendment to Resolution No 03-154 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the preparation and provision of the information of the collective investment undertakings and pension funds;

Resolution No 03-330 of the Board of the Bank of Lithuania of 15 December 2014 on the approval of the table of the base pension annuity amounts;

Resolution No 03-329 of the Board of the Bank of Lithuania of 15 December 2014 on the issuance into circulation of the sets of euro and euro cent circulation coins with the national side of Lithuania issued in 2015;

Resolution No 03-328 of the Board of the Bank of Lithuania of 15 December 2014 on the approval of the sample and on the issuance into circulation of the collector coin of 20 euro denomination dedicated to the 500th anniversary of the birth of Mikolaj "the Black" Radziwiłł;

Resolution No 03-327 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the regulations on sales by way of e-auctions of numismatic valuables not used for representation needs of the Bank of Lithuania;

Resolution No 03-326 of the Board of the Bank of Lithuania of 9 December 2014 on the amendment to Resolution No 03-154 of the Board of the Bank of Lithuania of 24 September 2013 on the approval of the rules on sales of numismatic valuables of the Bank of Lithuania;

Resolution No 03-324 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the rules of the Eurosystem monetary policy operations carried out by the Bank of Lithuania;

Resolution No 03-322 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the sample and on the issuance into circulation of the collector coin of 50 euro denomination dedicated to the coinage of coins in the Grand Duchy of Lithuania (GDL);

Resolution No 03-320 of the Board of the Bank of Lithuania of 9 December 2014 on the amendment to Resolution No 135 of the Board of the Bank of Lithuania of 24 December 2003 on the approval of the procedure of investment of the temporarily free funds and of accounting for mortgage credits and other additional assets;

Resolution No 03-319 of the Board of the Bank of Lithuania of 9 December 2014 repealing Resolution No 214 of the Board of the Bank of Lithuania of 10 December 1998 on the preparation of reports on cash turnovers;

Resolution No 03-318 of the Board of the Bank of Lithuania of 9 December 2014 on repealing of certain resolutions of the Board of the Bank of Lithuania;

Resolution No 03-317 of the Board of the Bank of Lithuania of 9 December 2014 on repealing of certain resolutions of the Board of the Bank of Lithuania;

Resolution No 03-316 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the rules of exchange of worn and damaged litas banknotes and coins and cent coins;

Resolution No 03-303 of the Board of the Bank of Lithuania of 2 December 2014 repealing Resolution No 148 of the Board of the Bank of Lithuania of 8 November 2007 on the approval of the rules on granting of euro-denominated intraday credits;

Resolution No 03-302 of the Board of the Bank of Lithuania of 2 December 2014 repealing Resolution No 137 of the Board of the Bank of Lithuania of 18 October 2007 on the approval of the operating rules of LITAS-PHA system;

Resolution No 03-301 of the Board of the Bank of Lithuania of 2 December 2014 on the amendment to Resolution No 136 of the Board of the Bank of Lithuania of 18 October 2007 on the approval of the operating rules of TARGET2 – Bank of Lithuania payment system;

Resolution No 03-300 of the Board of the Bank of Lithuania of 27 November 2014 on the amendment to Resolution No 03-127 of the Board of the Bank of Lithuania of 17 July on the regulations for the use of digital images and models of publications for publishing and information needs and for their transfer;

Resolution No 03-291 of the Board of the Bank of Lithuania of 27 November 2014 on the use of images of litas banknotes and litas and cent coins;

Resolution No 03-290 of the Board of the Bank of Lithuania of 27 November 2014 on the approval of the rules on sales of numismatic valuables of the Bank of Lithuania;

Resolution No 03-289 of the Board of the Bank of Lithuania of 18 November 2014 on the amendment to Resolution No 16 of the Board of the Bank of Lithuania of 26 February 2004 on the approval of the Rules for concluding and executing the litas and anchor currency — the euro exchange transactions between the Bank of Lithuania and banks;

Resolution No 03-284 of the Board of the Bank of Lithuania of 13 November 2014 on the approval of the operating rules of the LITAS-RPS Retail Payment System;

Resolution No 03-283 of the Board of the Bank of Lithuania of 13 November 2014 on the closure of operations of the LITAS-RTS Retail Payment System;

Resolution No 03-282 of the Board of the Bank of Lithuania of 13 November 2014 on the amendment to Resolution No 173 of the Board of the Bank of Lithuania of 28 December 2006 on the approval of the operating rules of LITAS-RLS payment system and LITAS-MMS retail payment system;

Resolution No 03-281 of the Board of the Bank of Lithuania of 13 November 2014 on the amendment to Resolution No 03-168 of the Board of the Bank of Lithuania of 8 October 2013 on the approval of the guidelines for the selection of the temporary administrator and bankruptcy administrator;

Resolution No 03-279 of the Board of the Bank of Lithuania of 13 November 2014 on the amendment to Resolution No 03-57 of the Board of the Bank of Lithuania of 7 April 2011 on the approval of the regulations on granting the Vladas Jurgutis Award;

Resolution No 03-277 of the Board of the Bank of Lithuania of 30 October 2014 repealing Resolution No 54 of the Board of the Bank of Lithuania of 22 June 1995 on the approval of the regulations on the granting of loans to commercial banks;

Resolution No 03-276 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-64 of the Board of the Bank of Lithuania of 24 April 2014 on the approval of the description of procedure on the list of documents submitted for the performance of assessment of a person, who acquires shares in an insurance or reinsurance undertaking, and of the proposed acquisition and on the submission of information on the change of persons directly or indirectly holding shares in an insurance or reinsurance undertaking;

Resolution No 03-275 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-248 of the Board of the Bank of Lithuania of 6 December 2012 on the approval of the rules for providing to the Bank of Lithuania the mandatory information of consumer creditors;

Resolution No 03-274 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-245 of the Board of the Bank of Lithuania of 29 November 2012 on the approval of the rules of calculation of the annual percentage rate of charge;

Resolution No 03-273 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-69 of the Board of the Bank of Lithuania of 8 May 2014 on the approval of the rules on capital requirements for a regulated market operator and for the Central Securities Depository of Lithuania;

Resolution No 03-272 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-124 of the Board of the Bank of Lithuania of 19 July 2013 on the 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;

Resolution No 03-271 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-51 of the Board of the Bank of Lithuania of 28 February 2013 on the approval of the rules on the notifications of transactions in the issuer's securities concluded by managers of issuers;

Resolution No 03-270 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-47 of the Board of the Bank of Lithuania of 28 February 2013 on the approval of the rules on the drawing up and approval of a takeover bid circular and on the implementation of a takeover bid;

Resolution No 03-269 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-45 of the Board of the Bank of Lithuania of 28 February 2013 on the 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;

Resolution No 03-268 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-44 of the Board of the Bank of Lithuania of 28 February 2013 on the approval of

the rules on the preparation and approval of the securities' prospectus and on the public disclosure of information;

Resolution No 03-267 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-264 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules for the issue and revocation of licenses, organisation of activities and provision of investment services of the financial advisory firms;

Resolution No 03-266 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules on the licensing of the brokerage firms;

Resolution No 03-265 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-249 of the Board of the Bank of Lithuania of 6 December 2012 on the approval of the methodology for the calculation of the base annuity rates for pensions;

Resolution No 03-264 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-168 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the calculation of capital adequacy requirements for the financial brokerage firms and management companies;

Resolution No 03-263 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-165 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the preparation and provision of information of the pension associations;

Resolution No 03-262 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-159 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the rules on the preparation and submission of reports on activities of the financial brokerage firms and credit institutions providing investment services;

Resolution No 03-261 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-154 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the preparation and provision of the information of the collective investment undertakings and pension funds;

Resolution No 03-260 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-153 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the methodology for the calculation of net asset value;

Resolution No 03-259 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for granting, replacement and revocation of licenses for the activities of the management company or the investment company;

Resolution No 03-258 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to 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;

Resolution No 03-257 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 1k-20 of the Securities Commission of the Republic of Lithuania of 7 December 2011 on the approval of the forms of financial statements of the financial brokerage firms and management companies for supervisory purposes;

Resolution No 03-256 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 1k-14 of the Securities Commission of the Republic of Lithuania of 1 September 2011 on the approval of the acquisition of the block of shares of the Central Securities Depository of the Republic of Lithuania and of the requirements for managers;

Resolution No 03-255 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 1K-2 of the Securities Commission of the Republic of Lithuania of 5 March 2009 on the approval of guidance for the financial brokerage firms, investment companies, management companies and depositories aimed at the prevention of money laundering and/or terrorist financing;

Resolution No 03-254 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 20 of the Securities Commission of the Republic of Lithuania of 18 December 2003 on the rules for the liquidation of parent investment undertakings;

Resolution No 03-253 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-64 of the Board of the Bank of Lithuania of 24 April 2014 on the approval of the description of procedure on the list of documents submitted for the assessment of a person, who acquires shares in an insurance or reinsurance undertaking, and of the proposed acquisition and on the submission of information on the change of persons directly or indirectly holding shares in an insurance or reinsurance undertaking

Resolution No 03-252 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-22 of the Board of the Bank of Lithuania of 6 February 2014 on the approval of on the description of procedure for the completion and submission of statistical report forms of compulsory insurance of civil liability in the respect of the use of motor vehicles;

Resolution No 03-251 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-11 of the Board of the Bank of Lithuania of 17 January 2014 on the approval of on the description of procedure for the completion and submission of statistical report forms of insurance and reinsurance business;

Resolution No 03-250 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to 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;

Resolution No 03-249 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-227 of the Board of the Bank of Lithuania of 29 December 2012 on approval of the rules of compulsory civil liability insurance of the contactor;

Resolution No 03-248 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to 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;

Resolution No 03-247 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-225 of the Board of the Bank of Lithuania of 23 October 2012 on the approval of the rules of compulsory civil liability insurance of the designer of a construction works;

Resolution No 03-246 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-133 of the Board of the Bank of Lithuania of 14 June 2012 on the approval of the rules of compulsory civil liability insurance of a property or business appraisal company or of an independent property of business appraiser;

Resolution No 03-245 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-122 of the Board of the Bank of Lithuania of 22 May 2012 on the approval of the description of the procedure of the professional civil liability insurance of audit companies;

Resolution No 03-244 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-532 of the Insurance Supervisory Commission of the Republic of Lithuania of 29 December 2009 on the approval of the regulations for the identification and assessment of underinsurance contracts;

Resolution No 03-243 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-108 of the Insurance Supervisory Commission of the Republic of Lithuania of 12 December 2006 on the approval of on the description of procedure for statistical reports on the compulsory insurance business and for the completion of such reports;

Resolution No 03-242 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-81 of the Insurance Supervisory Commission of the Republic of Lithuania of 3 May 2005 on the approval of on the description of procedure for the drawing up of the report of the chief actuary;

Resolution No 03-241 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-108 of the Insurance Supervisory Commission of the Republic of Lithuania of 12 December 2006 on the approval of on the description of procedure for the statistical reports of compulsory insurance business and for the completion of such reports;

Resolution No 03-240 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-30 of the Insurance Supervisory Commission of the Republic of Lithuania of 15 February 2005 on the approval of the list of the insurance and mediation market statistics to be made public by the Insurance Supervisory Commission of the Republic of Lithuania;

Resolution No 03-239 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-117 of the Insurance Supervisory Commission of the Republic of Lithuania of 1 October 2004 on the approval of the methodology for the calculation of amounts of technical provisions for insurance;

Resolution No 03-238 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-108 of the Insurance Supervisory Commission of the Republic of Lithuania of 14 September 2004 on the approval of reports on the investment of funds of the insurance undertaking;

Resolution No 03-237 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-66 of the Insurance Supervisory Commission of the Republic of Lithuania of 25 May 2004 on the approval of the description of procedure for using a deposit of foreign insurance undertaking's branch established in the Republic of Lithuania for the fulfilment of the obligations arising from insurance contracts;

Resolution No 03-236 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-48 of the Insurance Supervisory Commission of the Republic of Lithuania of 23 April 2004 on the approval of the supplementary supervision methodology for insurance undertakings belonging to a group of undertakings;

Resolution No 03-235 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-40 of the Insurance Supervisory Commission of the Republic of Lithuania of 13 April 2004 on the approval of the methodology for the calculation of the solvency margin;

Resolution No 03-234 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-8 of the Insurance Supervisory Commission of the Republic of Lithuania of 3 February 2004 on the approval of requirements for the reinsurance and of the criteria for the selection of the reinsurer;

Resolution No 03-233 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania of 3 February 2004 on financial statements of insurance undertakings;

Resolution No 03-232 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-25 of the Board of the Bank of Lithuania of 6 February 2014 on the approval of the regulations for the organisation of internal control and assessment (management) of risk of credit unions;

Resolution No 03-231 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-181 of the Board of the Bank of Lithuania of 14 November 2012 on the 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;

Resolution No 03-230 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to 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;

Resolution No 03-229 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-73 of the Board of the Bank of Lithuania of 28 March 2012 on the approval of the description of the methodology for the calculation of contributions of the supervised financial market participants and of their payment procedure;

Resolution No 03-228 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-46 of the Board of the Bank of Lithuania of 23 February 2012 on financial statements of the electronic money and payment institutions;

Resolution No 03-227 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-1 of the Board of the Bank of Lithuania of 3 January 2012 on the information provided by the administrators of banks;

Resolution No 03-226 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the responsible lending regulations;

Resolution No 03-225 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-160 of the Board of the Bank of Lithuania of 2 December 2010 on the approval of key principles of financial accounting and accountability policy of credit unions;

Resolution No 03-224 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 247 of the Board of the Bank of Lithuania of 30 December 2009 on requirements for payment institutions with regard to internal control, management of risk and protection of received funds;

Resolution No 03-223 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 240 of the Board of the Bank of Lithuania of 24 December 2009 on the regulations for the calculation of own funds of payment institutions;

Resolution No 03-222 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 238 of the Board of the Bank of Lithuania of 24 December 2009 on licenses issued by the Bank of Lithuania to electronic and payment institutions;

Resolution No 03-221 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 92 of 2009 on the notification of the acquisition and disposal of a qualifying holding of the authorised capital of and/or voting rights the bank;

Resolution No 03-220 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 38 of the Board of the Bank of Lithuania of 26 March 2009 on the approval of the minimum loan assessment requirements for credit unions;

Resolution No 03-219 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 37 of the Board of the Bank of Lithuania of 26 March 2009 on the calculation of prudential requirements for credit unions;

Resolution No 03-218 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 35 of the Board of the Bank of Lithuania of 26 March 2009 on the approval of the forms of financial statements;

Resolution No 03-217 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 202 of the Board of the Bank of Lithuania of 16 December 2008 on the approval of the rules for the calculation of maximum exposure to one borrower and large exposures of credit unions;

Resolution No 03-216 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 82 of the Board of the Bank of Lithuania of 15 May 2008 on the money laundering and/or terrorist financing prevention guidelines for credit, electronic money and payment institutions;

Resolution No 03-215 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 133 of the Board of the Bank of Lithuania of 11 October 2007 on the approval of the general regulations for stress testing;

Resolution No 03-214 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 128 of the Board of the Bank of Lithuania of 22 July 2004 on the approval of the rules on consolidation of financial accounts of the group and on joint (consolidated) supervision;

Resolution No 03-213 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 105 of the Board of the Bank of Lithuania of 17 June 2004 on the approval of the rules on the election or appointment of bank managers;

Resolution No 03-212 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 129 of the Board of the Bank of Lithuania of 17 October 2002 on the approval of the form of statement on the interest margin calculation;

Resolution No 03-211 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 127 of the Board of the Bank of Lithuania of 19 July 2001 on the procedure for granting authorisations to foreign banks branches to set up branches and representative offices in the Republic of Lithuania and on issuing licenses for their activities;

Resolution No 03-210 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 123 of the Board of the Bank of Lithuania of 19 July 2001 on granting a license for the activities of the central credit union;

Resolution No 03-209 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 225 of the Board of the Bank of Lithuania of 23 October 1997 on the approval of the form for the submission of information on largest deposits held with a bank;

Resolution No 03-208 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 105 of the Board of the Bank of Lithuania of 3 November 1995 on the prudential requirements for credit unions;



Resolution No 03-205 of the Board of the Bank of Lithuania of 30 October 2014 on the approval of statistical reports on securities in possession and safekeeping of monetary financial institutions and managers of accounts;

Resolution No 03-204 of the Board of the Bank of Lithuania of 30 October 2014 on the approval of on the description of procedure for the supervision of payment and securities settlement systems;

Resolution No 03-203 of the Board of the Bank of Lithuania of 30 October 2014 on the approval of the sample and issuance into circulation of the 50 litas denomination collector (commemorative) coin "FORM";

Resolution No 03-202 of the Board of the Bank of Lithuania of 30 October 2014 on the amendment to Resolution No 03-151 of the Board of the Bank of Lithuania of 16 September 2013 on the approval of the procedure for the balancing of public and private interests at the Bank of Lithuania;

Resolution No 03-199 of the Board of the Bank of Lithuania of 21 October 2014 on the approval of the description of coin creation procedure in the Bank of Lithuania;

Resolution No 03-198 of the Board of the Bank of Lithuania of 21 October 2014 on the amendment to 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;

Resolution No 03-197 of the Board of the Bank of Lithuania of 21 October 2014 on the approval of the description of procedure for the provision of information on managers of the operators of a currency exchange office to the Bank of Lithuania;

Resolution No 03-196 of the Board of the Bank of Lithuania of 21 October 2014 on the approval of the inspection regulations of persons applying for being inscribed on the list of operators of a currency exchange office;

Resolution No 03-195 of the Board of the Bank of Lithuania of 21 October 2014 on the approval of the list of operators of a currency exchange office;

Resolution No 03-193 of the Board of the Bank of Lithuania of 17 October 2014 on the amendment to Resolution No 03-1 of the Board of the Bank of Lithuania of 3 January 2012 on the information provided by bank administrators;

Resolution No 03-192 of the Board of the Bank of Lithuania of 17 October 2014 on the amendment to Resolution No 153 of the Board of the Bank of Lithuania of 7 December 2006 on the approval of the rules on consolidation of accounts and on joint (consolidated) supervision of the financial group;

Resolution No 03-191 of the Board of the Bank of Lithuania of 17 October 2014 on the amendment to Resolution No 85 of the Board of the Bank of Lithuania of 20 May 2004 on the approval of the rules for supervision of foreign bank branches and cooperation with supervisory authorities of other European Union Member States carrying out the supervision of branches.

Resolution No 03-190 of the Board of the Bank of Lithuania of 17 October 2014 on the financial accounts;

Resolution No 03-187 191 of the Board of the Bank of Lithuania of 17 October 2014 on the amendment to Resolution No 125 of the Board of the Bank of Lithuania of 21 December 1995 on the approval of the rules for managing the loan risk database;

Resolution No 03-186 of the Board of the Bank of Lithuania of 17 October 2014 on the amendment to Resolution No 65 of the Board of the Bank of Lithuania of 6 May 2004 on the approval of the rules for the imposition of sanctions for the violations of the provision of statistical information;

Resolution No 03-185 of the Board of the Bank of Lithuania of 17 October 2014 on the reporting of collective investment undertakings' statistics;

Resolution No 03-182 of the Board of the Bank of Lithuania of 17 October 2014 repealing 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);

Resolution No 03-181 of the Board of the Bank of Lithuania of 17 October 2014 on the rules of fixing the reference exchange rates of the euro and foreign currencies;

Resolution No 03-179 of the Board of the Bank of Lithuania of 7 October 2014 on the amendment to Resolution No 03-28 of the Board of the Bank of Lithuania of 13 February 2014 on the reporting of the interest rate statistics of monetary financial institutions;

Resolution No 03-178 of the Board of the Bank of Lithuania of 7 October 2014 on the amendment to Resolution No 03-27 on the amendment to Resolution No 03-28 of the Board of the Bank of Lithuania of 13 February 2014 on the reporting of the balance sheet statistics of monetary financial institutions;

Resolution No 03-172 of the Board of the Bank of Lithuania of 30 September 2014 on the minimum security requirements for online payments;

Resolution No 03-169 of the Board of the Bank of Lithuania of 23 September 2014 on the fixing of the sales price of a starter kit of coins for the general public;

Resolution No 03-168 of the Board of the Bank of Lithuania of 23 September 2014 on the approval of the regulations for the calculation of the base and amount of required reserves of credit institutions;

Resolution No 03-167 of the Board of the Bank of Lithuania of 23 September 2014 of the Board of the Bank of Lithuania of 14 March 2002 on the approval of the regulations on required reserves of credit institutions;

Resolution No 03-166 of the Board of the Bank of Lithuania of 23 September 2014 on the amendment to Resolution No 03-23 of the Board of the Bank of Lithuania of 26 January 2012 on the approval of the description of procedure on the settlement of disputes of consumers and financial market participants;

Resolution No 03-162 of the Board of the Bank of Lithuania of 16 September 2014 on the approval of the description of procedure for the authenticity and fitness checking and recirculation of euro banknotes and coins;

Resolution No 03-158 of the Board of the Bank of Lithuania of 2 September 2014 on the approval of the forms of statistical reporting;

Resolution No 03-143 of the Board of the Bank of Lithuania of 21 August 2014 on the approval of the lists of subdivisions of credit unions, banks and foreign bank branches;

Resolution No 03-142 of the Board of the Bank of Lithuania of 21 August 2014 on the approval of the description of procedure for the frontloading and sub-frontloading of euro banknotes and coins;

Resolution No 03-139 of the Board of the Bank of Lithuania of 5 August 2014 on the amendment to Resolution No 03-32 of the Board of the Bank of Lithuania of 15 March 2011 on approval of the methodology of statistical survey of the financial condition of households with loans;

Resolution No 03-136 of the Board of the Bank of Lithuania of 31 July 2014 on the requirements for the information made available to the public;

Resolution No 03-133 of the Board of the Bank of Lithuania of 31 July 2014 on the approval of the regulations for the management of funds of customers of the insurance brokerage firms;

Resolution No 03-131 of the Board of the Bank of Lithuania of 17 July 2014 on the amendment to Resolution No 136 of the Board of the Bank of Lithuania of 18 October 2007 on the approval of the operating rules of TARGET2 – Bank of Lithuania payment system;

Resolution No 03-128 of the Board of the Bank of Lithuania of 17 July 2014 on the amendment to Resolution No 03-222 of the Board of the Bank of Lithuania of 20 December 2013 on the approval of the standard terms and conditions of the pension accumulation agreement;

Resolution No 03-127 of the Board of the Bank of Lithuania of 17 July 2014 on the approval of the regulations for the use of digital images and models of publications for publishing and information needs and for their transfer;

Resolution No 03-124 of the Board of the Bank of Lithuania of 8 July 2014 on the drawing up of the list of regulated markets operating in the Republic of Lithuania;

Resolution No 03-123 of the Board of the Bank of Lithuania of 8 July 2014 on the approval of the regulations for making available of the trade data;

Resolution No 03-122 of the Board of the Bank of Lithuania of 8 July 2014 on the approval of the regulations for making available of the information on holders of financial instruments;

Resolution No 03-109 of the Board of the Bank of Lithuania of 12 June 2014 on the amendment to Resolution No N-108 of the Insurance Supervisory Commission of the Republic of Lithuania of 12 December 2006 on the approval of the description of procedure for the reporting of compulsory insurance business statistics and for the completion of such statistical reports;



Resolution No 03-108 of the Board of the Bank of Lithuania of 12 June 2014 on the amendment to Resolution No N-108 of the Insurance Supervisory Commission of the Republic of Lithuania of 14 September 2004 on the approval of reports on the investment of funds of the insurance undertaking;

Resolution No 03-107 of the Board of the Bank of Lithuania of 12 June 2014 on the amendment to Resolution No N-40 of the Insurance Supervisory Commission of the Republic of Lithuania of 13 April 2004 on the approval of the methodology for the calculation of the solvency margin;

Resolution No 03-106 of the Board of the Bank of Lithuania of 12 June 2014 on the amendment to Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania of 3 February 2004 on financial statements of insurance undertakings;

Resolution No 03-101 of the Board of the Bank of Lithuania of 10 June 2014 on the amendment to Resolution No 137 of the Board of the Bank of Lithuania of 18 October 2007 on the approval of the operating rules of LITAS-PHA system;

Resolution No 03-98 of the Board of the Bank of Lithuania of 10 June 2014 on the amendment to Resolution No 38 of the Board of the Bank of Lithuania of 14 March 2002 on the approval of the regulations on required reserves of credit institutions;

Resolution No 03-96 of the Board of the Bank of Lithuania of 20 May 2014 on the amendment to Resolution No 224 of the Board of the Bank of Lithuania of 17 December 1998 on the implementation of the core principles for effective banking supervision approved by the Basel Committee on Banking Supervision;

Resolution No 03-95 of the Board of the Bank of Lithuania of 29 May 2014 on the approval of the regulations for the transparent, reliable and prudential governance of insurance undertakings;

Resolution No 03-92 of the Board of the Bank of Lithuania of 29 May 2014 on the amendment to Resolution No 03-73 of the Board of the Bank of Lithuania of 28 March 2012 on the approval of the description of the methodology for the calculation of contributions of the supervised financial market participants and of their payment procedure;

Resolution No 03-90 of the Board of the Bank of Lithuania of 20 May 2014 on the approval of the sample, the declaration as legal tender and on the issuance into circulation of the numismatic (commemorative) coin of 50 litas denomination dedicated to the 500th anniversary of the battle of Orsha;

Resolution No 03-88 of the Board of the Bank of Lithuania of 20 May 2014 on the amendment to Resolution No 03-156 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of requirements for the assets of harmonised collective investment undertakings;

Resolution No 03-87 of the Board of the Bank of Lithuania of 20 May 2014 on the amendment to Resolution No 03-150 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations on the content and submission of the prospectus and key investor information document of the collective investment undertakings;

Resolution No 03-86 of the Board of the Bank of Lithuania of 20 May 2014 on the amendment to Resolution No 03-147 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for assessing and managing the risks of undertakings for collective investment and for calculating the extent of assumed risks of financial instruments and the counterparty risk;

Resolution No 03-85 of the Board of the Bank of Lithuania of 20 May 2014 on the approval of requirements for index tracking collective investment undertakings, exchange traded funds and other additional collective investment undertakings;

Resolution No 03-83 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 121 of the Board of the Bank of Lithuania of 28 September 2006 on financial statements;

Resolution No 03-82 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 03-209 of the Board of the Bank of Lithuania of 27 September 2012 on the rules for providing the information about the internal governance and activities of banks to the Bank of Lithuania;

Resolution No 03-81 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for granting, replacement and revocation of licenses for the activities of the management company or the investment company;

Resolution No 03-80 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules on licensing the brokerage firms;

Resolution No 03-79 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 03-144 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the organisation and performance of activities of the management companies;

Resolution No 03-78 of the Board of the Bank of Lithuania of 15 May 2014 on the amendment to Resolution No 03-158 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the organisation of activities of financial brokerage firms;

Resolution No 03-77 of the Board of the Bank of Lithuania of 15 May 2014 on the code of ethics of employees of the Bank of Lithuania;

Resolution No 03-76 of the Board of the Bank of Lithuania of 8 May 2014 on the approval of the rules on the examination of applications, appeals and notices of the individuals and on the provision of services to them in the Bank of Lithuania;

Resolution No 03-71 of the Board of the Bank of Lithuania of 8 May 2014 on the approval of the regulations on making available the information of the Central Securities Depository of Lithuania to the Bank of Lithuania;

Resolution No 03-70 of the Board of the Bank of Lithuania of 8 May 2014 on the approval of the regulations on making available of the information of the regulated market and multilateral trading system operators to the Bank of Lithuania;

Resolution No 03-69 of the Board of the Bank of Lithuania of 8 May 2014 on the approval of the rules on capital requirements of the regulated market operator and the Central Securities Depository of Lithuania;

Resolution No 03-65 of the Board of the Bank of Lithuania of 24 April 2014 on the reporting of payments statistics;

Resolution No 03-64 of the Board of the Bank of Lithuania of 24 April 2014 on the approval of the description of procedure for the list of documents submitted for the performance of assessment of a person, who acquires shares in an insurance or reinsurance undertaking, and of the proposed acquisition and on the submission of information on the change of persons directly or indirectly holding shares in an insurance or reinsurance undertaking;

Resolution No 03-63 of the Board of the Bank of Lithuania of 24 April 2014 on the approval of the description of procedure for the approval by the Bank of Lithuania of the nominated candidatures;

Resolution No 03-62 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 03-124 of the Board of the Bank of Lithuania of 19 July 2013 on the 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;

Resolution No 03-61 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 03-123 of the Board of the Bank of Lithuania of 19 July 2013 on the 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;

Resolution No 03-60 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 03-264 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules for the issue and revocation of licenses, organisation of activities and provision of investment services of the financial advisory firms;

Resolution No 03-59 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules on licensing the brokerage firms;

Resolution No 03-58 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 03-152 „of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for granting, replacement and revocation of licenses for the activities of the management company or the investment company;

Resolution No 03-57 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 238 of the Board of the Bank of Lithuania of 24 December 2009 on licenses issued by the Bank of Lithuania to electronic and payment institutions;

Resolution No 03-56 of the Board of the Bank of Lithuania of 24 April 2014 on the amendment to Resolution No 195 of the Board of the Bank of Lithuania of 16 December 2008 on licenses issued by the Bank of Lithuania to credit unions;

Resolution No 03-55 of the Board of the Bank of Lithuania of 24 April 2014 repealing Resolution No 106 of the Board of the Bank of Lithuania of 17 June 2004 on the form of the questionnaire of a credit institution manager;

Resolution No 03-53 of the Board of the Bank of Lithuania of 17 April 2014 on the declaration as legal tender and on the issuance into circulation of the numismatic (commemorative) circulation coin of 50 litas denomination and of the numismatic (commemorative) coin of 25 litas denomination dedicated to the 25th anniversary of the Baltic Way (from series "Lithuania's Road to Independence");

Resolution No 03-51 of the Board of the Bank of Lithuania of 17 April 2014 on the declaration as legal tender and on the issuance into circulation of the numismatic (commemorative) coin of 10 litas denomination (from series "Lithuanian Science");

Resolution No 03-49 of the Board of the Bank of Lithuania of 4 April 2014 on the declaration as a means of payment and settlement and on the issuance into circulation of the numismatic (commemorative) coin of 50 litas denomination dedicated to the 25th anniversary of the re-establishment of Vytautas Magnus University;

Resolution No 03-47 of the Board of the Bank of Lithuania of 4 April 2014 on the amendment to 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;

Resolution No 03-45 of the Board of the Bank of Lithuania of 28 March 2014 on the amendment to Resolution No 03-153 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the methodology for the calculation of net asset value;

Resolution No 03-44 of the Board of the Bank of Lithuania of 28 March 2014 on the regulations for research carried out by the Bank of Lithuania;

Resolution No 03-43 of the Board of the Bank of Lithuania of 28 March 2014 on the regulations for the inspection of financial market participants supervised by the Bank of Lithuania;

Resolution No 03-42 of the Board of the Bank of Lithuania of 28 March 2014 on the approval of the guidelines on cash changeover;

Resolution No 03-33 of the Board of the Bank of Lithuania of 6 March 2014 on the declaration as a means of payment and settlement and on the issuance into circulation of the numismatic (commemorative) coin of 10 litas denomination dedicated to the cinema (from series "Lithuanian Culture");

Resolution No 03-28 of the Board of the Bank of Lithuania of 13 February 2014 on the reporting of the interest rate statistics of monetary financial institutions;

Resolution No 03-27 of the Board of the Bank of Lithuania of 13 February 2014 on the reporting of the balance sheet statistics of monetary financial institutions;

Resolution No 03-26 of the Board of the Bank of Lithuania of 6 February 2014 on the amendment to Resolution No 149 of the Board of the Bank of Lithuania of 25 September 2008 on the regulations for the organisation of internal control and assessment (management) of risk;

Resolution No 03-25 of the Board of the Bank of Lithuania of 6 February 2014 on the approval of the regulations for the organisation of internal control and assessment (management) of risk of credit unions;

Resolution No 03-22 of the Board of the Bank of Lithuania of 6 February 2014 on the approval of on the description of procedure for the completion and submission of statistical report forms of compulsory insurance of civil liability in the respect of the use of motor vehicles

Resolution No 03-17 of the Board of the Bank of Lithuania of 30 January 2014 on the national side (averse) of euro cents and euro coins intended for circulation;

Resolution No 03-11 of the Board of the Bank of Lithuania of 17 January 2014 on the approval of on the description of procedure for the completion and submission of statistical report forms of insurance and reinsurance business;

Resolution No 03-10 of the Board of the Bank of Lithuania of 17 January 2014 on the amendment to Resolution No 37 of the Board of the Bank of Lithuania of 26 March 2009 on the calculation of prudential requirements for credit unions;

Resolution No 03-9 of the Board of the Bank of Lithuania of 17 January 2014 on the approval of the rules on the inclusion of subordinated loans into the additional (tier II) capital of a credit union and on their early repayment;

Resolution No 03-6 of the Board of the Bank of Lithuania of 17 January 2014 on the declaration as a means of payment and settlement and on the issuance into circulation of the numismatic (commemorative) coin of 50 litas denomination dedicated to the 300th anniversary of the birth of Kristijonas Donelaitis;

Resolution No 03-4 of the Board of the Bank of Lithuania of 9 January 2014 on the amendment to Resolution No 03-48 of the Board of the Bank of Lithuania of 28 February 2013 on the approval of the rules for the preparation and submission of the periodic and additional information;

Resolution No 03-3 of the Board of the Bank of Lithuania of 9 January 2014 on the statistical reporting of collective investment undertakings;

Resolution No 03-2 of the Board of the Bank of Lithuania of 9 January 2014 on the amendment to Resolution No 116 of the Board of the Bank of Lithuania of 24 July 2008 on the interbank lending and borrowing and foreign currency market statistical reporting.

## Collectors (Commemorative), Collectors (Commemorative) Circulation Coins and Coin Sets Issued In 2014

On 28 March a coin set with a commemorative sign, dedicated to the 10<sup>th</sup> anniversary of Lithuania's accession of the European Union and joining the NATO, and on 11 November — the last set of circulation litas and centas coins, dedicated to the litas, were issued. Quality of the coin sets and the commemorative sign — brilliant plane and relief surface (quality *BU*), mintage — 4,000 pcs. of each.

**Chart 1. Numismatic 2014 coin sets of circulation coins**



On 28 January, a 50 litas silver coin, dedicated to the 300<sup>th</sup> anniversary of the birth of Kristijonas Donelaitis, was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage 3,000 pcs. Designed by Tadas Žebrauskas and Giedrius Paulauskis.

**Chart 2. 50 litas silver coin dedicated to the 300<sup>th</sup> anniversary of the birth of Kristijonas Donelaitis**



On 31 March, a 10 litas silver coin, dedicated to Cinema (from the series "Lithuanian Culture"), was issued. Diameter — 28.70 mm, weight — 12.44 g, quality — *proof*, mintage 4,000 pcs.

Designed by Rūta Ničajienė.

**Chart 3. 10 litas silver coin dedicated to Cinema (from the series "Lithuanian Culture")**



On 23 April, a 50 litas silver coin, dedicated to the 25<sup>th</sup> anniversary of the re-establishment of the Vytautas Magnus University, was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage 3,000 pcs.

Designed by Rolandas Rimkūnas and Giedrius Paulauskis.



**Chart 4. 50 litas silver coin dedicated to the 25<sup>th</sup> anniversary of the re-establishment of the Vytautas Magnus University**



On 17 June, a 10 litas gold coin from the series “Lithuanian Science” was issued. Coin dedicated to Baltic Studies. Diameter — 13.92 mm, weight — 1.244 g, quality — *proof*, mintage 5,000 pcs. Designed by Vaidotas Skolevičius.

**Chart 5. 10 litas gold coin from the series “Lithuanian Science”**



On 19 August, coins dedicated to the 25<sup>th</sup> anniversary of the Baltic Way (from the series “Lithuania’s Road to Independence”) were issued. 50 litas collectors (commemorative) silver coin and 25 litas collectors (commemorative) circulation coin, from a copper/aluminium/ zinc/tin alloy. The diameter of the silver coin — 38.61 mm, weight 28.28 g, quality — *proof*, mintage 4,000 pcs. The diameter of the coin, a copper/aluminium/zinc/tin alloy, is 28.00 mm, weight — 10.00 g, quality — *proof-like*, mintage 25,000 pcs.

Designed by Eglė Ratkutė and Giedrius Paulauskis.

**Chart 6. 50 litas silver coin and 25 litas coin from copper/aluminium/zinc/tin alloy, dedicated to the 25<sup>th</sup> anniversary of the Baltic Way (from the series “Lithuania’s Road to Independence”)**



On 8 September, a 50 litas collectors (commemorative) silver coin, dedicated to the 500<sup>th</sup> anniversary of the Battle of Orsha, was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage 3,000 pcs.

Designed by Rolandas Rimkūnas and Giedrius Paulauskis.

**Chart 7. 50 litas silver coin dedicated to the 500<sup>th</sup> anniversary of the Battle of Orsha**



On 16 December, a 50 litas collectors (commemorative) silver coin “Form” was issued. Weight — 28.28 g, quality — *proof*, mintage 3,000 pcs.

Designed by Agnė Dautartaitė-Krutulė.

**Chart 8. 50 litas silver coin “Form”**



All coins bear the logo of the Lithuanian Mint.

### Circulation euro coins with the Lithuanian national side

Circulation euro coins with the Lithuanian national side were minted in eight denominations. Sets of circulation euro coins with the Lithuanian national side, quality — *proof* and *BU*, were produced: the mintage of the *proof* quality — 7,000 pcs., *BU* quality — 35,000 pcs.

**Chart 9. The national side of the circulation euro coins of 2015 issue (2 euro, 1 euro; 50, 20, 10 euro cents and 5, 2, 1 euro cents)**



**Chart 10. Sets of circulation coins of 2015 issue: quality — *proof* and *BU***



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