

## Periodical Part

### Annual report of the Bank of Lithuania ; 2019

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**LIETUVOS BANKAS**  
EUROSISTEMA

2019

**Annual Report**

The 2019 Annual Report was approved by the Board of the Bank of Lithuania on 30 April 2020.  
The cut-off date for the data included in this report was 26 March 2020.

## ABBREVIATIONS

AB	public limited liability company	ICO	initial coin offering
ABSPP	asset-backed securities purchase programme	IT	information technology
AML	anti-money laundering	KID	key information document
API	application programming interface	KYC	know your customer
APP	asset purchase programme	LTRO	long-term refinancing operation
CBPP3	third covered bond purchase programme	MFI	monetary financial institution
CCyB	countercyclical capital buffer	MRO	main refinancing operation
CEPR	Centre for Economic Policy Research	MTPL	motor third party liability
CFD	contract for differences	O-SII	other systemically important institution
CIU	collective investment undertaking	P2P	peer-to-peer
CROE	Cyber Resilience Oversight Expectations	PSPP	public sector purchase programme
CSPP	corporate sector purchase programme	RegTech	regulatory technology
CTF	counter terrorist financing	SEPA	Single Euro Payments Area
ECB	European Central Bank	SMP	securities market programme
EEA	European Economic Area	SREP	Supervisory Review and Evaluation Process
ESCB	European System of Central Banks	TLTRO	targeted longer-term refinancing operation
EU	European Union	UAB	private limited liability company
GDP	gross domestic product	UK	United Kingdom
GovTech	government technology	US	United States of America
HICP	Harmonised Index of Consumer Prices		

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

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# Foreword



Under its mandate as the central bank of the Republic of Lithuania and seeking maximum transparency, the Bank of Lithuania presents its Annual Report for 2019, outlining the results achieved while implementing its strategic goals and objectives.

Whilst global growth has been hampered by international trade conflicts and prolonged uncertainty over Brexit, the recent outbreak of the coronavirus (COVID-19) has generated an unprecedented economic shock, adding yet another layer of uncertainty. Against this background, the Eurosystem central banks, including the Bank of Lithuania, have undertaken to maintain interest rates at low levels, preserve favourable lending conditions and ensure consistent implementation of other economic stimulus measures.

*Despite global headwinds, Lithuania's economy saw rapid growth in 2019, while exporters managed to successfully avoid potential deceleration traps. However, according to Bank of Lithuania estimations, 2020 is set to bring a significant contraction triggered by the coronavirus outbreak and a slump in economic activity due to the nationwide quarantine.*

For the first time in history, the assets of banks operating in Lithuania exceeded €30 billion. Such robust growth was underpinned by a record increase in resident deposits. In 2019, banks enhanced their resilience to potential losses by strengthening their capital positions. Soon after the outbreak of the pandemic, the Bank of Lithuania carried out a stress test which showed that the Lithuanian banking system is fully equipped to withstand even severe economic shocks.

The largest share of banks' income was earned from their main activities, namely – credit provision. Their willingness to lend varied, however: although banks remained generous in providing housing loans to residents, lending to businesses, especially small ones, has considerably tightened. Given the importance of small and medium-sized enterprises to the country's economy, the Bank of Lithuania, together with the Competition Council of the Republic of Lithuania, has launched a joint study in order to analyse the reasons behind such trends and find ways to facilitate access to financing for smaller businesses.

In 2019, we focused on the accessibility of payment services to residents, particularly outside the country's major cities. The Bank of Lithuania's surveys on resident habits in using payment services show that modern electronic payment methods are

gaining traction, although cash payments remain popular as well. The Bank of Lithuania regards both euro cash and non-cash as equally eligible means of payment for goods and services, which is also outlined in its position on payment and settlement in euro cash. However, rapid digitalisation brought a decline in the number of customer service offices. In this vein, we have been examining and discussing the issue at hand so as to find solutions to reconcile the technological progress with the needs of different society groups.

The Bank of Lithuania also devoted particular attention to innovation, which is set to bear fruit already in 2020. Our initiatives include LBCOIN – the world's first digital collector coin, LBChain – a unique blockchain-based sandbox that combines regulatory and technological infrastructures, as well as a revolutionary RegTech solution which will streamline reporting procedures, thus allowing financial market participants to submit supervisory reports in a more efficient manner. The Bank of Lithuania was one of the first to join discussions on central bank digital currencies, their demand and potential, a topic also widely discussed by the ECB.

Moreover, the Bank of Lithuania was the first central bank in the world to implement a progressive risk parity approach for strategic asset allocation. This approach not only mitigates the impact of short-term shocks on investment performance, but also helps achieve higher returns in the medium and long term, allowing for more profitable and riskier investments.

At the turn of the year, we celebrated the fifth anniversary of the euro in Lithuania. A study carried out by the Bank of Lithuania showed that although the euro introduction involved certain costs, its benefits clearly outweighed all the expenses incurred. Stronger economic and income growth, lower lending and payment costs, no more litas-euro exchange expenses – these are only some of the benefits brought by the euro. The country's full membership in the Eurosystem will also contribute to mitigating economic challenges in 2020 – most importantly, those related to the world-shattering coronavirus crisis: today, contrary to 2009, we have access to monetary and macroprudential policy measures as well as other instruments that may be used by euro area countries in order to boost their economies.

Seeking to respond to the economic developments that took place over the past decade, in 2020 the ECB launched a review of its monetary policy strategy and, together with the national central banks, is examining all aspects of its monetary policy. Due to current global challenges, the ECB is planning to publish the results of its strategy review in mid-2021.

Vitas Vasiliauskas

Chairman of the Board

# 1. To become a centre of excellence in economics and finance



Surveys show that the Bank of Lithuania is the most competent institution in the field of economics and finance.



The Bank of Lithuania contributed to the implementation of the pension system reform, provided suggestions on tax changes and took part in the working group on public sector wages.



The Bank of Lithuania organised 6 conferences on relevant economic and financial issues.



Publications: 14 working, 8 discussion and 7 occasional papers.



Bank of Lithuania economists made over 100 presentations on economics and financial stability and published more than 50 commentaries on relevant issues.



Sharing best practices, the Bank of Lithuania extended its involvement in international programmes.

With the aim of becoming the local centre of excellence in economics and finance, the Bank of Lithuania has been strengthening its research activities and actively communicating with the general public and market participants. In pursuit of its strategic goals, in 2019 the Bank of

Lithuania extended its range of analysis and research directions, and developed new tools for assessing and analysing the potential economic policy response to domestic economic problems. To present the results of research carried out at the Bank of Lithuania, its economists made more than 100 presentations on economic and financial stability issues whilst participating in various conferences (e.g. Lithuanian Economic Conference, Baltic Investors Forum, Employers 2019) as well as regional events and meetings with local businesses and institutions, experts and organisations. The Bank of Lithuania also published 14 working, 8 discussion and 7 occasional papers (45% more compared to 2018). Research papers by the Bank of Lithuania experts were published in scientific publications. The Bank of Lithuania organised 6 conferences on relevant economic and financial issues, including the economics conference "Labour Market in the 21st Century: The Way Forward" and the annual Real Estate Conference. The Bank of Lithuania also took part in arranging the Annual Lithuanian Conference on Economic Research and FinTech Inn 2019.

**The Bank of Lithuania has been actively cooperating with national and foreign authorities on relevant issues related to economic and financial policy.** In 2019, taking into account the challenges faced by the country's economy, the Bank of Lithuania contributed to the implementation of the pension system reform, provided suggestions on tax changes, took part in the working group on public sector wages and published an analysis of wages in the transportation sector.

**The Bank of Lithuania remains visible in foreign and national media and publications.** In 2019, Bank of Lithuania economists published more than 50 commentaries on economic and financial issues. The majority of media coverage on the Bank of Lithuania was related to supervision (41%) and economic reviews and projections (21%). The Bank of Lithuania was also cited in the foreign media and international scientific publications.

**The Bank of Lithuania extended its involvement in international cooperation initiatives.** The Bank of Lithuania continued sharing best practices and cooperating with foreign authorities, while its participation in the EU Twinning Project with the National Bank of the Republic of Belarus laid the foundations for new bilateral projects with Moldova, Ukraine and Georgia.

## Main goals



## 2. To become a financial sector partner, promoting innovation and sustainable growth



The Bank of Lithuania set out its response to the challenges and opportunities brought by digitalisation.



The use of the Newcomer Programme grew by 23%.



The Bank of Lithuania issued 28 fintech licences.



Financial innovations are already tested in the Bank of Lithuania's regulatory sandbox.



The development of LBChain has reached its final stages.



The Bank of Lithuania's RegTech solution is set to streamline reporting procedures.

**As a financial conduct authority, the Bank of Lithuania takes active measures to ensure that the road towards innovation and higher market competition remains open.** In light of the rapid digitalisation of the financial sector, the Bank of Lithuania continued implementing innovations in its day-to-day activities, taking a leadership position in this field. It also paid particular attention to adapting supervisory practices to the changing market needs.

The **Newcomer Programme** is a one-stop shop for information on

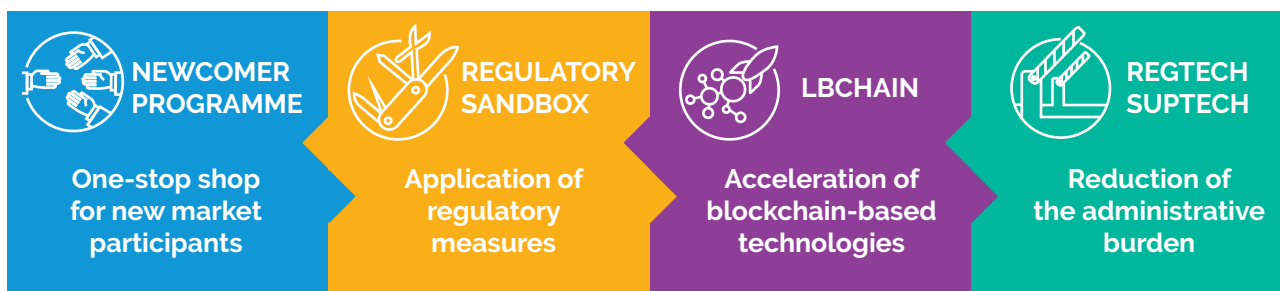
authorisation and regulatory procedures as well as consultations with potential market participants on business opportunities in Lithuania and compliance of their business models with legislative requirements. In 2019, the programme was used by 161 potential market participants (23% more compared to 2018) from over 40 countries, while the Bank of Lithuania issued 28 fintech licences.

### **The Bank of Lithuania launched its regulatory sandbox.**

At the end of 2018, the Bank of Lithuania developed an innovation-conducive environment, seeking to pave the way for faster and easier access to new financial products and solutions. All innovations tested in the sandbox can quickly become available beyond the controlled environment, thus increasing competition and offering consumers higher-quality, cheaper or altogether new financial services.

In 2019, the Bank of Lithuania's regulatory sandbox had one participant that tested a P2P insurance platform which allows its members to form groups of peers in order to protect themselves against losses.<sup>1</sup>

In 2019, the Bank of Lithuania created a prototype of the unique blockchain-based sandbox **LBChain** to help start-ups turn their ideas into reality in a faster and more cost-efficient way. Six companies used it to test their financial products, yet their testing objectives varied. Mature companies (such as FA Solutions or Ondato) sought to test the blockchain technology for services that are already available in the market and obtain the Bank of Lithuania's opinion on whether the improved processes and services meet legal requirements. Less mature companies (e.g. Sofitto or Businero) sought regulatory advice to serve as a basis for developing the technological architecture of their products. The companies were also interested in attracting investment: after the closing event of the second stage of the LBChain project, the developed products drew attention of several European start-up acceleration programmes. In 2019, the project entered into the third phase, where the Bank of Lithuania invited six fintech companies to test their products and receive regulatory and technological insights to help them bring their products to the market.



<sup>1</sup> Groups of peers make their own decisions on loss compensation using pooled funds and can get back the unused ones.

## 2. To become a financial sector partner, promoting innovation and sustainable growth

**The Bank of Lithuania's RegTech solution is set to streamline reporting procedures.** In order to ensure that higher regulatory standards and reporting requirements do not hinder the sustainable development of the financial system, the Bank of Lithuania seeks to employ new technologies to reduce compliance costs. Discussions with financial market participants, particularly fintech companies, on ways to abandon outdated reporting solutions are already bearing fruit. In 2019, the GovTech Lab<sup>2</sup> challenge drew the attention of private IT companies which provided numerous ideas on new reporting solutions to reduce the administrative burden for market participants and enhance cost efficiency. The two selected companies joined forces to create a smart solution prototype using API software – a key element of Open Banking. As a result, all financial reports will be generated automatically, thus avoiding conflicting interpretations of legislation, delays and any inaccuracies. The application limits

and implementation deadlines of this solution will be assessed in the course of 2020.

**The Bank of Lithuania has been strengthening partnership with financial market participants.** With a goal to maintaining regulatory hygiene, the Bank of Lithuania has been gradually abandoning excessive and outdated solutions. In collaboration with market participants, the Bank of Lithuania identified legislative acts to be amended and is dedicated to implementing the necessary changes. Seeking to ensure that its actions are predictable and communicated in advance, the Bank of Lithuania has made its plans for inspections and regulatory amendments publicly available as well as been organising periodic meetings with market participants. It also took up new ways of fulfilling its supervisory mandate (e.g. on-site visits).

<sup>2</sup> GovTech Lab seeks to adopt innovative tech solutions for public sector needs. Any public sector institution is able to identify challenges that startups, the private sector and the general public may provide solutions for. More information is available at [www.govtechlab.lt](http://www.govtechlab.lt).

### 3. To create a competitive and advanced payments market in Lithuania



The Payments Council's recommendations contribute to the development of instant payments and simplification of procedures for establishing business relationships between financial institutions and their customers.



Instant payments are becoming the new normal.



The issue of the uniform protection of customer funds held with e-money and payment institutions is addressed at EU level.

In 2019, the Payments Council put forward recommendations aimed at promoting the development of instant payments and simplifying procedures for establishing and maintaining business relationships between financial institutions and their customers. A number of recommendations have been successfully implemented, while others need time and more attention from government institutions. In 2019, the Payments Council published its reports on the development of instant payments in Lithuania, optimisation of KYC procedures, and introduction of new customer authentication instruments. The reports contain recommendations for stakeholders and market participants. In 2019, the Bank of Lithuania took action to implement recommendations that it received, namely presented the opportunities for instant payments to public sector entities and some private sector representatives as well as provided clarification as to how payment service providers may, in certain cases, update KYC information themselves. Furthermore, a new version of the Republic of Lithuania Law on the Prevention of Money Laundering and Terrorist Financing, which was adopted in 2019, has enabled financial institutions to reduce the need of physical contact with customers and make better use of existing remote authentication means. It is also essential that government institutions focus their attention on data in the registries

they administer and access thereto, including, in particular, improvements to the Register of Legal Entities, so that financial institutions could reap all of the related benefits. A proactive policy on electronic authentication means should also be pursued.

**Instant payments are becoming the new normal: currently roughly 80% of payment accounts in Lithuania are reachable for instant payments.** Since 2019, instant payment services have been available for customers of the following banks operating in Lithuania: AB SEB bankas, Swedbank, AB, AS Citadele banka Lithuanian branch, AB Šiaulių bankas (only to receive payments), and Paysera LT UAB. The Lithuanian branch of Luminor Bank AS intends to start providing this service in 2020. Major banks offer instant payments as a standard payment service; moreover, the pricing of instant payments for private customers is not different from that of usual credit transfers. In order to facilitate initiation of payments, in 2020 the largest commercial banks operating in Lithuania started using the [proxy lookup service](#) provided by the Bank of Lithuania. There will be no need for payers to enter the number of the beneficiary's account held with another bank in Lithuania, as it will be enough to know only their mobile phone number.

**The Bank of Lithuania analysed ways of improving the protection of customer funds held with e-money and payment institutions and underlined the importance of a uniform interpretation of this issue at EU level.** Non-banks, i.e. e-money and payment institutions, are more and more actively competing with market incumbents (banks) in the field of payment service provision; thus, residents and companies should be able to choose and trust any payment service provider, irrespective of its legal form. The Bank of Lithuania analysed possible ways for improving the protection of customer funds held with non-bank payment service providers, especially if a credit institution where customer funds are held becomes insolvent, and to that end launched a public consultation. The results of the consultation show that the impact of measures taken at national level would be limited, while the maximum impact would be achieved if a uniform approach is ensured throughout the EU. Representatives of the Bank of Lithuania will continue to address this issue in EU-level discussions on the EU deposit insurance scheme.

#### Priority issues





## 4. To enhance application of financial asset investment strategies



The Bank of Lithuania started investments in mortgage-backed securities.



The share of investments in Chinese government bonds was increased.



The quantitative investment project reached its final stages.

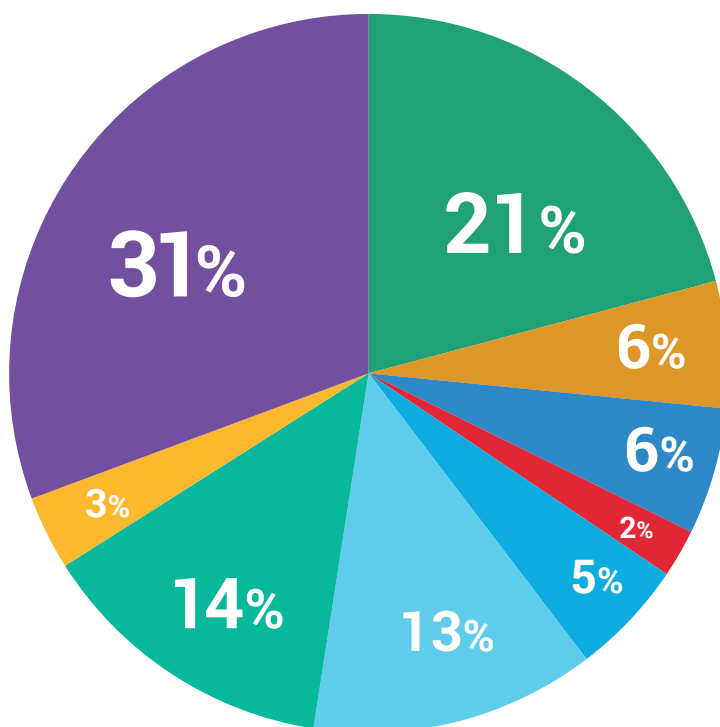


The Bank of Lithuania adopted a long-term strategy for the development of investment-supporting information systems.

The Bank of Lithuania follows the risk parity approach for strategic asset allocation. Having conducted a thorough analysis, it took a decision to increase risk diversification **by including mortgage-backed securities** and **increasing the share of investments in the government bonds of the People's Republic of China** in its strategic investment structure in early 2020.

**In 2019, the Bank of Lithuania consistently worked on the implementation of the quantitative investment project:** it digitalised market monitoring and entrusted carefully selected algorithms with part of investment decision-making. At the end of the year, the Bank of Lithuania adopted the quantitative investment guidelines that defined the underlying investment framework, objectives and guiding principles as well as the risk appetite.

In terms of managing its financial assets, **the Bank of Lithuania finished a feasibility study, which allowed adopting a long-term strategy for the development of investment-supporting information systems.** In the long run, the chosen alternative will ensure a healthy development of investment activities.



Composition of the strategic benchmark portfolio as at 31 December 2019

- Money market instruments
- US government bonds
- Canadian government bonds
- UK government bonds
- Chinese government bonds
- Inflation-linked bonds
- Corporate bonds in euro
- Corporate bonds in US dollars
- Equity

## 5. To be one of the top three most efficient central banks in the Nordic-Baltic region



The Bank of Lithuania continued the implementation of its infrastructural project aimed at concentrating all activities in one location – it selected the winning architectural visualisations for its new building complex.



The Bank of Lithuania finished the installation of the budget planning and control system.

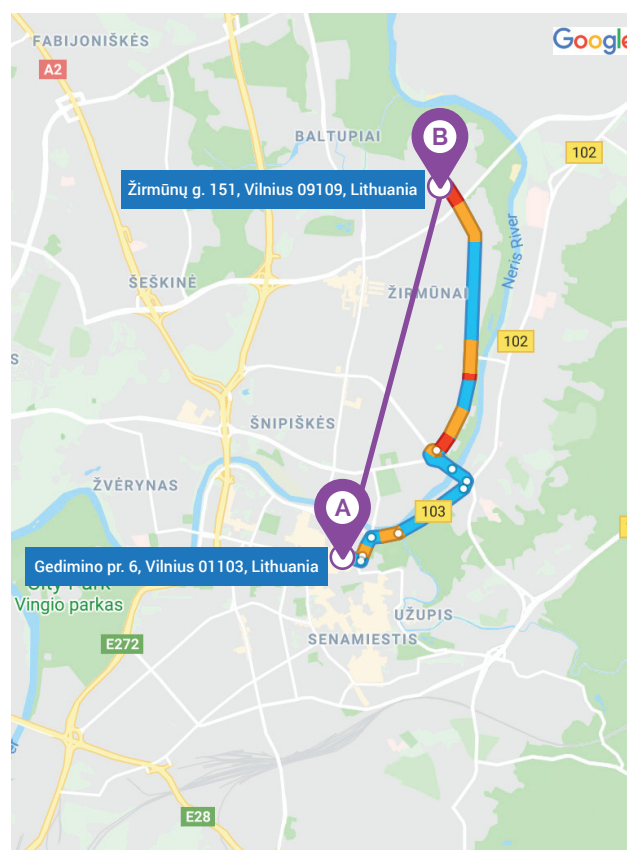


The Bank of Lithuania overhauled its e-shop for numismatic items.

**Aiming to optimise internal and operational costs, the Bank of Lithuania has been carrying out an infrastructural project aimed at concentrating all of the central bank's activities in one location (Žirmūnų g. 151, Vilnius).** In 2019, the Bank of Lithuania selected the winning architectural visualisations for its new building complex. In the course of the year, it also reviewed and updated internal legislative processes, removing redundant procedures. Having centralised the management of the purchased market data, the Bank of Lithuania reduced its subscription costs.

**Keeping up to date with the latest technology trends, the Bank of Lithuania continued reviewing its IT infrastructure, looking for standard market solutions and implementing them in practice.** In 2019, the Bank of Lithuania upgraded the credit register, implemented the budget planning and control systems, as well as overhauled its e-shop for numismatic items. Modern information systems allow for more flexibility, acceleration of operating procedures and more efficient service provision.

**While managing its internal activities, the Bank of Lithuania has been strengthening its competence in process management.** In 2019, the central bank enhanced the use of



LEAN system tools in order to objectively evaluate performance indicators, assess and effectively address emerging issues, as well as plan and manage business processes in a more efficient manner. The Bank of Lithuania has been also reviewing and improving its project management processes. Taking into account operational risks, it strengthened its personnel management processes and implemented a pilot tool for shift planning and management, thus ensuring sustainability of existing competences, smooth business continuity, adequate scope of pre-planned job selections and internal staff rotation as well as reducing the risk of losing key staff members.

# Real economy



Lithuania's economy grew by 3.9% in 2019.



Domestic demand was the main driver of strong economic growth.



Household consumption was mostly underpinned by favourable labour market developments.



Investments were still increasing quite rapidly despite the unfavourable international economic climate.



Relatively rapid economic expansion led to a widening output gap.

## In 2019, Lithuania's economy managed to overcome the headwinds expected to drag down economic growth.

Foreign trade, which was faltering due to trade wars, the still unrecovered EU industry and challenges to the transportation sector did not significantly dampen Lithuania's economic growth, which was supported by household consumption and investments. Meanwhile, exports of goods and services, which saw rapid growth in the first half of 2019, started to slow down – in the last quarter, their growth was nearly twice below the levels recorded in the first half-year. At the end of 2019, such economic expansion did not warrant changing the cyclical assessment – the relatively rapid economic expansion has led to a widening output gap that shows the

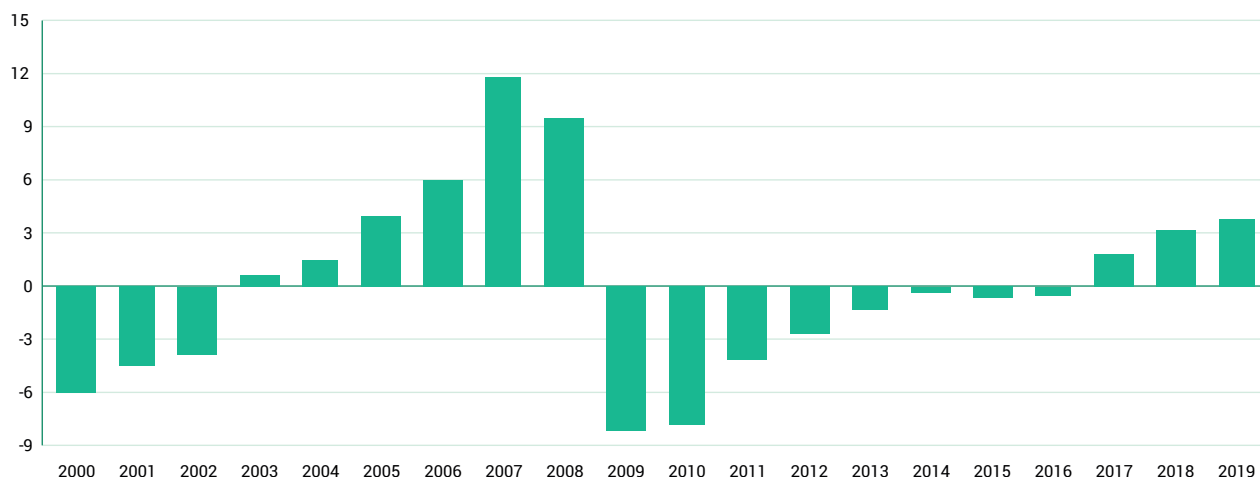
extent to which the current economic development has deviated from its sustainable path and may create potential imbalances.

**Household consumption was mostly supported by favourable labour market developments.** Increasing number of jobs and rising wages were still among the most important factors contributing to the increase in household income. Weaker inflation for goods and services provided an even stronger boost to the purchasing power of households. It should be noted, however, that households were not keen on increasing their consumption to the extent of their income growth. This might be partly related to their inclination to increase savings, as in 2018 household expenditure exceeded household income. This is also evident from the results of the European Commission's consumer survey: in 2019 households' saving expectations for the present moment and over the next 12 months were among the highest since the data was first started publishing in 2001.

**In 2019, investments were increasing at a similar rate as in 2017–2018 despite the unfavourable international economic climate.** Growth in material investments was mainly stimulated by companies engaged in manufacturing, real estate activities, general government-related activities, energy, and transportation, as they invested more in both machinery and equipment and buildings and structures. Investments in non-residential buildings and structures were largely influenced by increasing EU funding for investment projects, which in 2019 grew by almost 25%. In the second half of 2019, investments in information and communication technology facilities significantly increased, with their respective share in total investments being the highest over the last seven years. At the same time, however, investments in vehicles dropped. This was mainly a result of the higher uncertainty with regard to future prospects in the transportation sector, which forced Lithuanian road freight transport companies to reconsider their further business strategies.

## Output gap

Percentage of GDP



Sources: Statistics Lithuania and Bank of Lithuania calculations.

# Price dynamics



Average annual inflation in Lithuania stood at 2.2% in 2019.



Food prices (including alcohol and tobacco) increased by 3.5% on average.



Service prices accounted for more than half of average annual inflation.



Service prices grew at a slightly more robust pace compared to 2018, with their annual change standing at around 5%.



Prices of fuels and lubricants put downward pressure on inflation, leading to a 2.4% decrease.



Administered prices increased by 2.3%.

**Consumer price inflation moderated and stood at 2.2% in 2019.** Weaker growth was mainly affected by the shifting trends in the crude oil market.

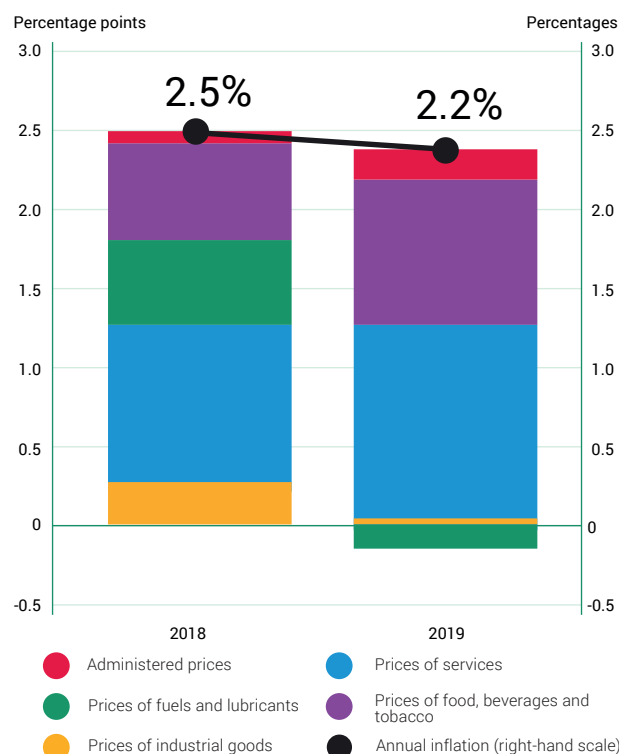
**The fall in oil prices in 2019 put downward pressure on inflation.** Such developments were partly led by global uncertainty surrounding international trade. Tensions caused by trade wars increased uncertainty regarding the extent to which further escalation of these conflicts would dampen economic growth, which might in turn lead to a lower demand for oil. Excess oil supply due to higher US oil output was also an important factor, accounting for roughly a 10% fall in oil prices in 2019.

**Due to economic developments in Lithuania, service prices in 2019 increased slightly faster, yet at a quite similar rate as in 2018.** Service price inflation was still driven by rapid wage increases which outpaced labour productivity growth. Moreover, rising wages put additional upward pressure on service prices through growing demand for services, which in turn contributed to a roughly 5% increase in service prices (compared to 4.2% in

2018). It should be noted, however, that prices of some services grew at a more robust pace, for instance, prices of fast food and takeaway services rose by more than 9%, while those of paid household services, including home cleaning, increased by more than 20%. Nevertheless, an average consumer tends to spend less than 1% of their income on such services.

**Growth in food prices (including alcohol and tobacco) accelerated in 2019.** This was in part attributable to an increase in vegetable prices which, due to adverse weather conditions, went up by 1/6. The overall rise in food prices was also driven by global changes in prices of food commodities, e.g. meat, which were led by their insufficient supply in some regions of the world and increased demand caused by the outbreak of the African swine fever in China. Another driving factor behind rising food prices was the increase in the excise duty rate for ethyl alcohol in March 2019.

## HICP inflation and its contributions



Sources: Statistics Lithuania and Bank of Lithuania.

# Labour market



Tensions in the labour market stabilised.



Net emigration of Lithuanian citizens markedly declined.



The unemployment rate slightly increased.



Wages rose rapidly, albeit at a slower pace than in 2018.

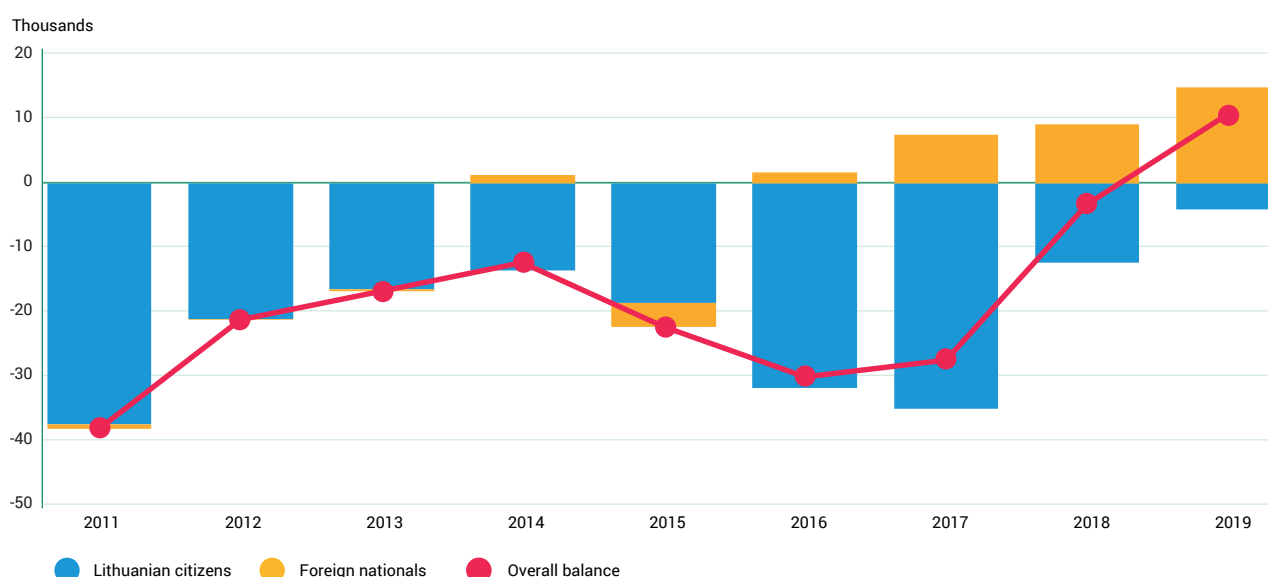
**Favourable migration trends contributed to the stabilisation of tensions in the labour market.** Immigration exceeded emigration by 10 thousand people in 2019. The migration balance has markedly increased and the number of incoming and departing Lithuanians essentially converged at the end of the year. Such migration developments stem from favourable labour market conditions in Lithuania. The odds of finding a job regardless of the slightly higher unemployment rate are favourable, while real wages have increased by as much as 56%

compared to the beginning of the post-crisis period in 2011. The difference in remuneration<sup>3</sup> in Lithuania and the most popular countries for emigration has dropped from 3 to 2 times over the last seven years. The improvement in the migration balance could have also stemmed from the less attractive UK labour market due to Brexit and the slowdown of economic growth in other EU countries.

**The unemployment rate slightly increased.** It stood at 6.3% in 2019, a year-on-year increase of 0.2 percentage point. This might have been led by a more reserved attitude of firms towards expansion, more favourable migration trends in Lithuania, and certain developments in economic policies related to social benefits.

**Increased uncertainty regarding the international environment, stalling tensions in the labour market, and technical factors dampened growth in wages.** In 2019, wages in Lithuania increased by 8.8%, while private sector wages saw a 7.4% rise (approx. 2.2 percentage points less than the average in 2017–2018). The main contributing factors were the heightened uncertainty regarding the international environment, which encouraged firms to be more cautious about their further expansion, and the stabilisation of tensions in the labour market stemming from more favourable migration trends. The slowdown was also attributable to the floor of social security contributions established two years ago. This gave a significant boost to wage increases in 2018, yet in 2019 had no influence, hence wages were increasing at a slower pace.

## Contributions to the migration balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

<sup>3</sup> Taking into account the purchasing power.



# Monetary policy of the Eurosystem

## Decisions



In 2019 and early 2020, the Eurosystem continued to maintain a strong accommodative monetary policy stance to ensure the continued convergence of inflation to a level sufficiently close to, but below, 2% over the medium term:

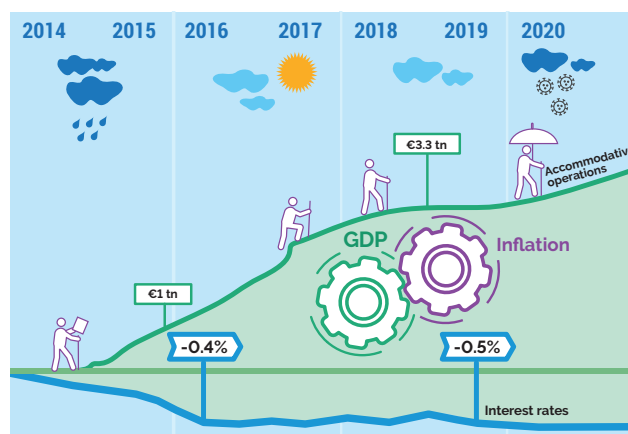
- » In the summer of 2019, the Governing Council announced that it expects the key ECB interest rates not to increase for an extended period of time.
- » In December 2019, the Governing Council announced a reduction of interest rates, more favourable conditions for TLTROs and the restart of the expanded APP.
- » In March 2020, the Governing Council decided on an additional comprehensive package of monetary policy measures.

**In the summer of 2019, due to global risks surrounding the euro area growth outlook, the Governing Council of the ECB decided not to raise the key ECB interest rates at least through the first half of 2020.** At its meeting held in Vilnius in June 2019, the Governing Council decided to extend its forward guidance on interest rates to mid-2020, indicating that it expects the key ECB interest rates to remain at their present levels during that period, with further adjustment in July stating that the interest rates may also go down.

**In September 2019, due to the projected fall in inflation, the Governing Council further strengthened its accommodative monetary policy stance.** The interest rate on the deposit facility was decreased by 10 basis points to -0.5%. It was expected to remain at its present or lower level until the inflation outlook has robustly converged to a level sufficiently close to, but below, 2%, and such convergence has been consistently reflected in underlying inflation dynamics. Part of banks' holdings of excess liquidity has been exempted from the negative deposit facility rate, which reduced banks' costs and provided preconditions for further reduction of interest rates on loans to the real economy. At the same time, the modalities of new TLTROs were improved by decreasing borrowing rates and extending the maturity of the operations from two to three years. However, most attention was drawn to the Governing Council's decision to restart net purchases under the expanded APP at a monthly pace of €20 billion as from 1 November for an unlimited period of time. The Governing Council expects them to end shortly before it starts raising the key ECB interest rates.

**At its meeting in March 2020, the Governing Council decided on urgent additional monetary policy measures as a response to the coronavirus outbreak and the risks that it posed to euro area growth and the inflation outlook.** First, it was decided to conduct, temporarily (until June 2020), additional TLTROs to

Volume of accommodative monetary policy operations (asset purchases and targeted refinancing operations) and short-term interest rate evolution



Factual euro area macroeconomic indicators and their March 2020 projections  
(annual percentage change)

	2019	2020	2021	2022
Real GDP	1.2	0.8	1.3	1.4
HICP	1.2	1.1	1.4	1.6
Unemployment rate	7.6	7.6	7.6	7.5
Compensation per employee	2.1	1.9	2.3	2.4

Source: March 2020 ECB staff macroeconomic projections for the euro area.

Note: These projections only to a small extent include the impact of the spread of the coronavirus on economic development.

provide immediate liquidity support to the euro area financial system at particularly favourable terms, i.e. by applying the average rate on the deposit facility, which was equal to -0.5% as from September 2019. Second, considerably more favourable terms were applied to TLTROs to support bank lending to those affected most by the spread of the coronavirus. For instance, for banks that maintain their levels of credit provision, the rate applied in these operations can be as low as 25 basis points below the average interest rate on the deposit facility. Third, a temporary envelope of additional net asset purchases of €120 billion will be added until the end of the year. On 18 March, in the light of the further spread of the coronavirus pandemic and enhanced quarantine measures imposed by euro area governments, the Governing Council announced a pandemic emergency purchase programme of private and public sector securities, which is set to have an overall envelope of €750 billion. Purchases will be conducted until the end of 2020 and will include short-term commercial papers. The Governing Council also decided to ease the Eurosystem's collateral standards. Amid heightened uncertainty, these measures will support favourable financing conditions for the real economy, in particular small and medium-sized enterprises.

# Monetary policy of the Eurosystem

## Measures



To implement its objectives, the Eurosystem uses a set of monetary policy instruments, consisting of open market operations, standing facilities and minimum reserves.

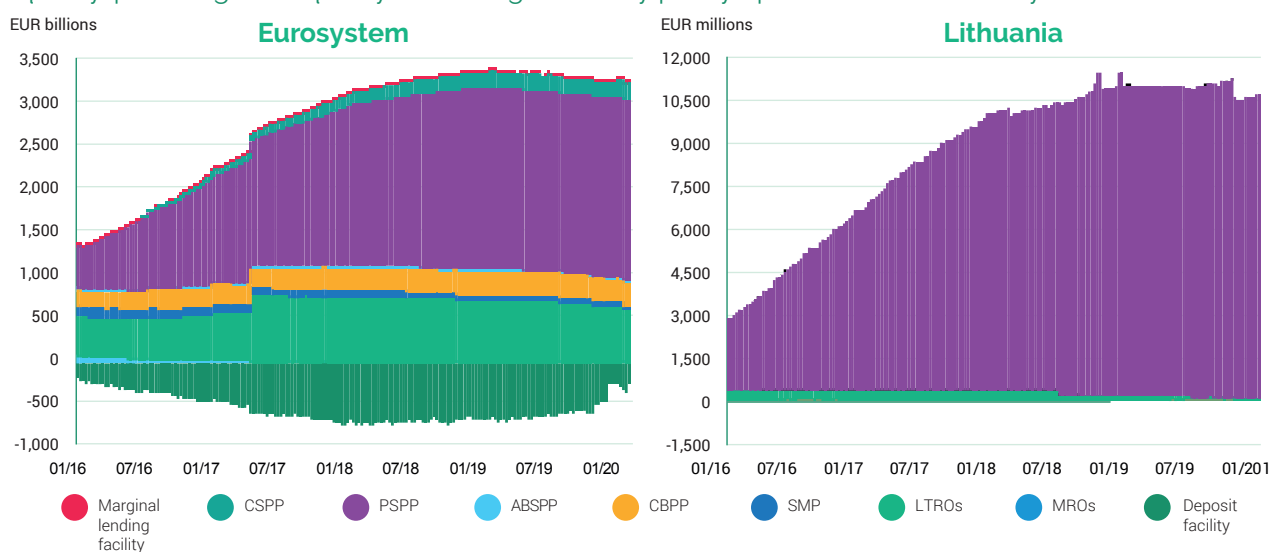


The Eurosystem did not carry out any net purchases under the APP between January and October 2019, yet they were renewed in November. Compared to 2018, counterparties borrowed less in 2019, resulting in a €133.7 billion decrease in liquidity provided through Eurosystem operations (€0.33 billion in Lithuania).

In 2019, the Eurosystem carried out 118 open market operations via tenders. At the end of 2019, the outstanding amount of funds borrowed under MROs was €1.47 billion, through LTROs (including TLTROs) – €616.19 billion. On a year-on-year basis the latter was lower as counterparties started to repay their TLTRO II borrowings early and borrowed less under TLTRO III. The Bank of Lithuania counterparties had also made early repayments (€0.13 billion), thus the total amount of funds borrowed decreased to €0.05 billion. In the period under review, the Bank of Lithuania counterparties took recourse to MROs on several occasions and borrowed, on average, €6.5 million. They also took recourse to the marginal lending facility and borrowed, on average, €0.6 million.

The size of the Eurosystem's monetary policy portfolios under the expanded APP - which includes the CBPP3, the ABSPP, the CSPP and the PSPP – temporarily decreased by €19.3 billion, to €2,639.2 billion, due to reinvestment specifics. The Bank of Lithuania's securities portfolio decreased by €0.2 billion to €10.6 billion, of which government bonds of the Republic of Lithuania accounted for €2.4 billion, euro area sovereign bonds – €8.2 billion. This was mainly the result of euro area supranational bond redemptions and the redistribution of supranational bond purchases within the Eurosystem with the aim of increasing the efficiency of purchases.

## Liquidity-providing and liquidity-absorbing monetary policy operations of the Eurosystem



Sources: ECB and Bank of Lithuania calculations.

## Minimum reserves, current account holdings, recourse to deposit and marginal lending facilities

Indicator	Region	Volume at the end of the year, EUR	Annual change, %	Annual average, EUR	Highest value, EUR	Lowest value, EUR
Minimum reserves	Eurosystem	134.5 billion	5.6	130.8 billion	134.5 billion	127.4 billion
	Lithuania	229.7 million	3.6	226.1 million	229.7 million	221.7 million
Current account holdings	Eurosystem	1,597.0 billion	22.9	1,410.4 billion	1,708.4 billion	1,230.2 billion
	Lithuania	7,214.8 million	20.3	5,604.4 million	7,214.8 million	4,865.5 million
Recourse to deposit facility	Eurosystem	249.2 billion	-59.4	527.4 billion	207.6 billion	673.0 billion
	Lithuania	0.0 million	0.0	0.0 million	0.0 million	0.0 million
Recourse to marginal lending facility	Eurosystem	0.1 billion	170.0	0.1 billion	3.7 billion	0.0 billion
	Lithuania	0.0 million	-100.0	0.6 million	33.8 million	0.0 million

Source: Bank of Lithuania calculations.

# Monetary policy of the Eurosystem

## Impact



In both 2019 and early 2020, the Eurosystem's accommodative monetary policy stance continued to exert a positive impact on the economies of Lithuania and other euro area countries:

- » Bank funding costs fell to a record low level.
- » The cost of borrowing in financial markets for governments and corporations declined significantly.
- » The cost of bank lending to the real economy remained low.

### In 2019, short-term interbank lending rates hit record lows.

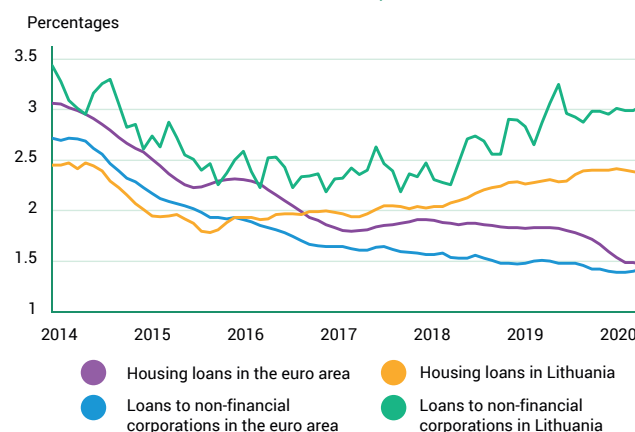
Following the Governing Council's decision in September 2019 to lower the interest rate on the deposit facility (by 10 basis points to -0.5%), short-term interbank lending rates decreased to a similar extent.

**In 2019, the cost of borrowing in financial markets for governments and firms decreased in most euro area countries and was significantly lower than in mid-2014.** The yields of euro area and Lithuanian government bonds have been on a deep downward trend since 2014, when market expectations regarding the adoption of non-standard monetary policy measures heightened. Amid a deteriorating economic situation in 2019, along with growing expectations for additional monetary stimulus, the yields of bonds issued by the majority of euro area governments decreased significantly. For instance, the yields of ten-year German government bonds dropped by 0.4 percentage point, the Italian and Portuguese counterparts – by as much as 1.4 percentage points, while ten-year Lithuanian government bonds – by 0.7 percentage point. The yields of euro area corporate bonds (both high-yield and investment-grade) also declined significantly in 2019. At the beginning of 2020, the yields of both euro area government and corporate bonds continued to decline. In March, however, yields in some countries rose amid market uncertainty due to the spread of the coronavirus.

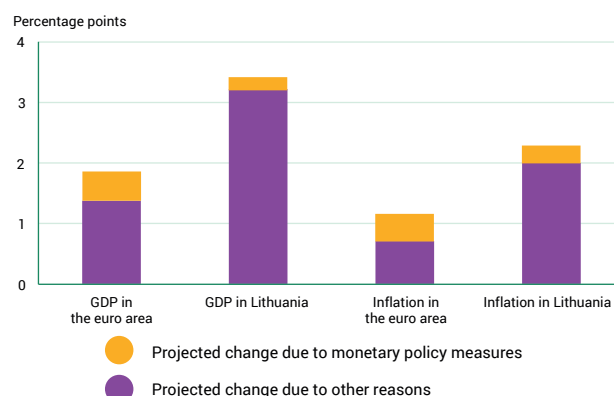
### The Eurosystem's accommodative monetary policy measures have remained a contributing factor to low interest rates in the euro area and Lithuania.

Interest rates on bank loans in the euro area have been decreasing over the recent years (especially in the housing loan market), hitting all-time lows. After several years of growth, average interest rates on new loans in Lithuania have stabilised, remaining above the euro area average (especially those for non-financial corporations). Higher interest rates in Lithuania are likely a result of reduced competition in the banking sector due to higher concentration and of increased risks of new loans. Without the Eurosystem's accommodative monetary policy stance, interest rates on loans

## Average interest rates on new MFI housing loans and loans to non-financial corporations



## Impact of the Eurosystem's accommodative monetary policy on real GDP growth and inflation in the euro area and Lithuania in 2016-2019 (yearly average)



in Lithuania would most probably be even higher.

**The Eurosystem's accommodative monetary policy contributed to the acceleration of economic growth in Lithuania and the euro area.** ECB staff estimated that in 2016-2019 the Eurosystem's accommodative monetary policy added 1.9 percentage points to the levels of both euro area GDP and prices. According to the estimates of the Bank of Lithuania, it translated into 1.0 and 1.3 percentage points for Lithuania respectively. The more pronounced impact on the euro area may be explained by higher debt levels and more developed financial markets. The accommodative policy stimulates Lithuania's economy mainly through the tradable sector – the stronger demand in the euro area as well as the depreciation of the euro have opened up more possibilities for the country's exporters.

# Macprudential policy

## Analysis of systemic risks



Potential correction of imbalances in the Nordic countries whose banks play an important role in the Lithuanian banking sector



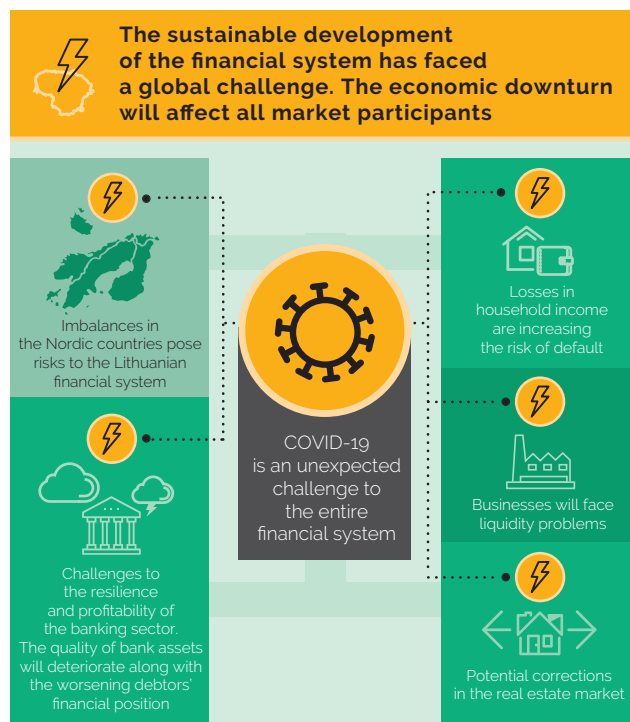
Slowdown in the residential real estate sector which, supported by rapid lending for house purchase, has reached historical-highs



COVID-19 challenges

**Despite weakening links with parent banks, the Lithuanian banking sector remains sensitive to a potential correction of imbalances in the Nordic countries.** While banks operating in the country have become less likely to use foreign credit institutions' deposits as a source of funding, they still remain dependent on group-level decisions. Amid high concentration in the Lithuanian banking sector, the importance of individual banks has been increasing. Therefore, if the current situation in Sweden worsens, decisions taken by Swedish parent banks could also weigh on lending activities in Lithuania. Although household indebtedness and house price growth in Sweden stabilised in 2019, the deteriorating economic environment could have a negative impact on the Swedish banking sector and lead to a correction of real estate prices, should the COVID-19 crisis drag on. Moreover, Swedish banks are also vulnerable due to the fact that a large bulk of their funding comes from international markets. The COVID-19 pandemic has shaken global financial markets, thus weakening investor confidence which has already been shattered by money laundering scandals. This in turn is making funding for Nordic banks more expensive. Although the capital adequacy ratio of the Swedish banking sector remains sufficient, the relatively high level of financial leverage creates additional vulnerabilities.

**Supported by the rapid lending for house purchase, the activity levels in the residential real estate market reached historical highs in 2019.** However, under the present conditions, the number of transactions, along with house prices, is set to scale down. Although growth of the housing loan portfolio during the last three years remained relatively robust and the number of real estate transactions kept rising, reaching historical-highs, house prices continued to grow at a moderate rate, showing no significant signs of overheating. However, the latest trends have shown that the economic downturn can no longer be contained, which in turn will affect households and activity levels in the real estate market. As housing loans have



gained traction over the recent years, a sharp decline in lending and transactions is likely to lead to a correction in real estate prices, while the economic slowdown will increase the level of uncertainty and may worsen the financial position of borrowers. All this will result in a decrease in loans for house purchase. On the other hand, the proposed package of economic stimulus measures should slightly mitigate the adverse effects.

**The global shutdown due to the COVID-19 pandemic will significantly affect not only the Lithuanian economy, but its financial system as well.** Businesses operating in Lithuania will face certain challenges, as they are closely interdependent both due to the rapid increase in trade credits in recent years and corporate loans to other firms. Therefore, financial difficulties faced by companies in one sector might quickly spill over to another. In addition, available data shows that entities engaged in accommodation, construction, arts, manufacturing, transport and trade activities are potentially more vulnerable in the short term, as their abilities to raise financial resources have been more limited due to low profitability compared to other activities. Loans granted to some of these companies (transport, trade, manufacturing, accommodation) account for around 20% of the total bank loan portfolio and as much as 50% of all corporate loans. It should be noted, that the banks operating in the country have adequate buffers to absorb potential losses, however their reserves would drop significantly if faced with a severely adverse scenario.

# Macprudential policy

## Credit and the real estate market



In 2019, credit in Lithuania continued to grow, mainly supported by lending to households.



Corporate lending contracted, albeit the financial leverage of firms grew due to increased funding from other sources.



The growth of the housing loan portfolio remained among the strongest in Europe, but household debt was still one of the lowest.



House prices continued to rise rapidly in 2019, showing no signs of overvaluation.

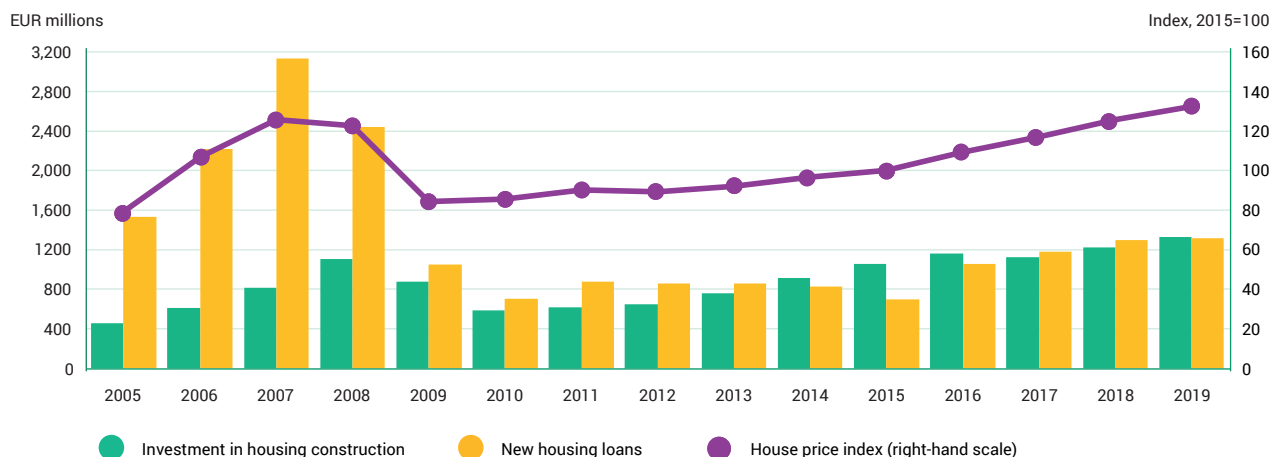


Activity in the real estate market was still at historical highs, although the contribution of housing loans somewhat reduced.

In 2019, credit provision in Lithuania was still active, however the growth rate of the portfolio of MFI loans to the private non-financial sector decreased by nearly half – to 3.1%. Growth was supported mostly by active mortgage lending, which saw a year-on-year increase of 8.7% at the end of 2019. On the other hand, the portfolio of loans to non-financial corporations contracted by an annual 1.4%, likely due to stricter lending conditions by some banks and greater concentration within the banking sector. Although bank lending to firms dropped, their total liabilities grew since they had been financing with alternative sources – loans from other firms, debt securities, and trade credits which reached historical highs. In general, lending growth was sustainable as it grew in line with corporate and private income as well as the value added created in Lithuania.

**The number of housing transactions in Lithuania increased by 5% in 2019 and was the highest in more than a decade; however the contribution of lending slightly declined.** Amid increasing activity in the housing market, house prices rose by 6.4% in 2019, similar to the growth rate observed in 2018. There were also no significant regional differences in house price changes, as observed in previous years: in Vilnius, house prices increased by 5.9%, similar to other parts of the country (6.5%). Although activity levels in the housing market were still historically high, relative housing market indicators showed no overvaluation in house prices. In 2019, the house price-to-income ratio was 20%, while the house price-to-rent ratio – 12% lower than the respective long-term averages. The average annual share of housing transactions with mortgage, compared to all housing transactions, somewhat decreased and amounted to 39.9% in the third quarter of 2019 (average for 2018 – 41.1%).

## Housing loan and market developments







Sources: Statistics Lithuania and Bank of Lithuania.

Notes: The latest observations are for Q3 2019. Loans since 2015 do not include renegotiations.



# Macroprudential policy

## Macroprudential policy instruments










	The CCyB rate was reduced from 1% to 0%.
	The Bank of Lithuania launched a public consultation on ways to boost competition in the housing loan market.
	An analysis on funding of small and medium-sized enterprises has been initiated.
	The Rules for the Formation of Capital Buffers are to be amended.

As the economic upswing in Lithuania was impeded by COVID-19 challenges, in March 2020 the Bank of Lithuania reduced the countercyclical capital buffer (CCyB) rate from 1% to 0%. The relaxed CCyB requirement came into force on 1 April 2020 (since 30 June 2019, banks operating in the country had been subject to a 1% CCyB rate). The CCyB requirement is intended to ensure that the banking sector accumulates sufficient capital to be able to cover potential losses in case of cyclical systemic risk or during periods of economic downturn or stress. The €86 million reserve that banks accumulated during an upswing will help them ensure stable operation and give a stronger footing to maintain sufficient lending to the real economy. The relaxed CCyB rate helps mitigate credit cyclicality and increase the ability of credit institutions to maintain credit supply, thus diminishing the negative impact of the COVID 19 outbreak on the country's economy.

In light of the developments in the housing loan market, the Bank of Lithuania launched a public consultation aimed at identifying the most efficient ways to boosting competition in the housing loan market. In November 2019, the Bank of Lithuania issued a document outlining preliminary proposals on how to attract newcomers to the lending market, facilitate the search for the best housing loan proposal and encourage refinancing of housing loans. The Bank of Lithuania is currently initiating discussions with stakeholders to review the ideas and suggestions provided during the consultation and will take further steps to implement the most viable proposals.

The Bank of Lithuania, together with the Competition Council of the Republic of Lithuania, has initiated an analysis aimed at identifying funding issues faced by small and medium-sized enterprises and determining the reasons behind them. With some signs pointing to a decline in lending to small and medium-sized enterprises, in February 2020 the Bank of Lithuania and the Competition Council established a joint interinstitutional

## Macroprudential policy instruments implemented in Lithuania

		
Down payment requirement <b>15%</b>		Interest rate rise test <b>50%</b>
	<b>Borrower protection</b>	
Maximum monthly loan instalment <b>40%</b>		Maximum loan maturity <b>30 years</b>
		
Countercyclical capital buffer <b>0%</b>		Other systemically important institutions buffer <b>1-2 %</b> (to be applied to three banks as of 31/12/2020; currently stands at 0.5-2%)
	<b>Bank resilience</b>	
Capital conservation buffer <b>2.5%</b>		

working group which has initiated an analysis on funding of such businesses.

After assessing the results, the institutions are planning to issue guidelines on the improvement of legal regulation and other measures to be taken in order to facilitate access of smaller companies to funding sources and substantially strengthen the supply of external financing in Lithuania.

In the context of the amended Capital Requirements Directive, the Rules for the Formation of Capital Buffers will be reviewed as well. According to these amendments, the maximum size of the capital buffer set for other systemically important institutions (O-SIIs) will be increased from 2% to 3%. Moreover, credit institutions will be allowed to use systemic risk buffers for lending to specific sectors – this will improve the ability to react to structural and cyclical risks that arise in certain lending segments (e.g. the segment of loans collateralised by residential or commercial real estate). The O-SII buffer and the systemic risk buffer will have to be used to address different risks, while their aggregate amount will not be allowed to exceed 5% of the risk-weighted assets<sup>4</sup>.

<sup>4</sup> A combined buffer requirement exceeding 5% is subject to the approval of the European Commission.

# Management of financial assets

## Investment policy



In managing financial assets, the Bank of Lithuania seeks to ensure the stability of the financial system, create conditions for smooth monetary policy implementation, ensure financial independence and provide a buffer against economic shocks.

## Investment composition



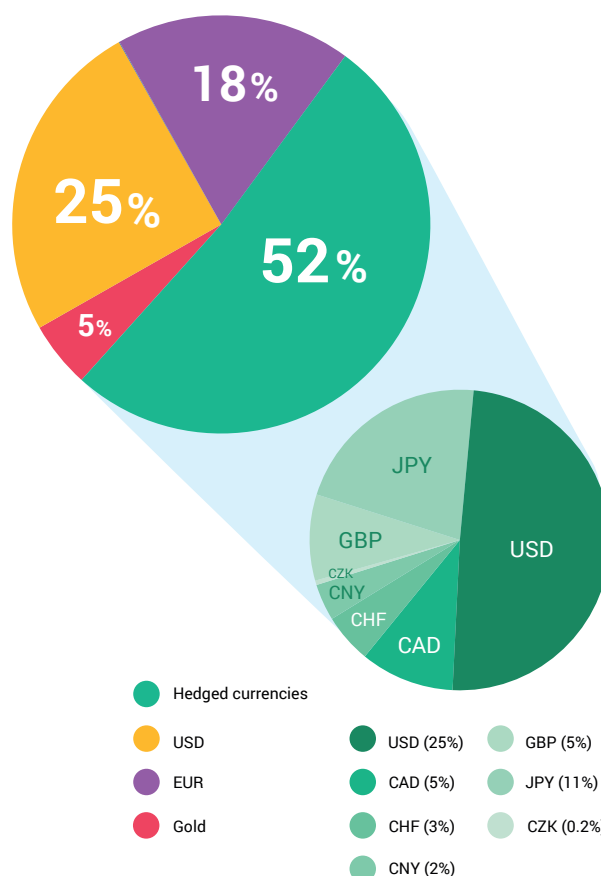
The main bulk of the Bank of Lithuania's financial assets is invested in money market instruments and US government bonds. The Bank of Lithuania holds 5.8 tonnes of gold.

In 2019, the main bulk of the Bank of Lithuania's investments was in euro and other currencies (US dollar, Japanese yen, pound sterling, Czech koruna, Chinese renminbi, Swiss franc, Canadian dollar) with hedged currency risk. Aiming at higher investment diversification, the currency risk of some investments (in 2019 – 30% on average) was not hedged. The majority of investments with unhedged currency risk were in US dollars.

**Security of financial assets is ensured through diversifying investments, concluding transactions with investment-grade rating financial institutions that are of good repute, and investing only in debt securities with an investment grade rating.** The investment grade rating assigned to financial institutions and issuers of debt securities by international rating agencies indicates low probability of default on their liabilities. At the end of 2019, 32% of investments were rated AAA (the highest rating), 55% – A, while the remaining part – AA.

**In terms of financial instruments, the majority of investments made in 2019 were in government bonds and money market instruments.** The Bank of Lithuania invested in securities issued by various governments, government agencies, international organisations and municipalities. Money market instruments mainly consisted of deposits in other central banks and international organisations. Lithuania's gold is held at the Bank of England. Under favourable market conditions, gold is invested in gold deposits, thus earning interest, or through gold swaps, i.e. temporarily exchanging gold into other currencies and then investing them.

## Average investment composition by currency



## Average investment composition

### Percentages

1.6	Mortgage-backed securities
17.4	Money market instruments
40.7	US government bonds
2.1	Chinese government bonds
9.9	Other government bonds
2.9	Agency bonds, municipal bonds and international organisation bonds
22.3	Corporate bonds
3.2	Equity

# Management of financial assets

## Investment goals and results



The Bank of Lithuania aims at diversifying risk and increasing expected return over a rolling three-year investment horizon.



The three-year return was 4.71%, or €231.0 million.

**The Bank of Lithuania invests financial assets with the aim of diversifying risk and increasing expected return over a rolling three-year investment horizon.** Due to potentially higher returns in the medium term, the Bank of Lithuania tolerates the risk of short-term loss, the size of which, with high probability, should not exceed the risk budget predefined in its investment policy.

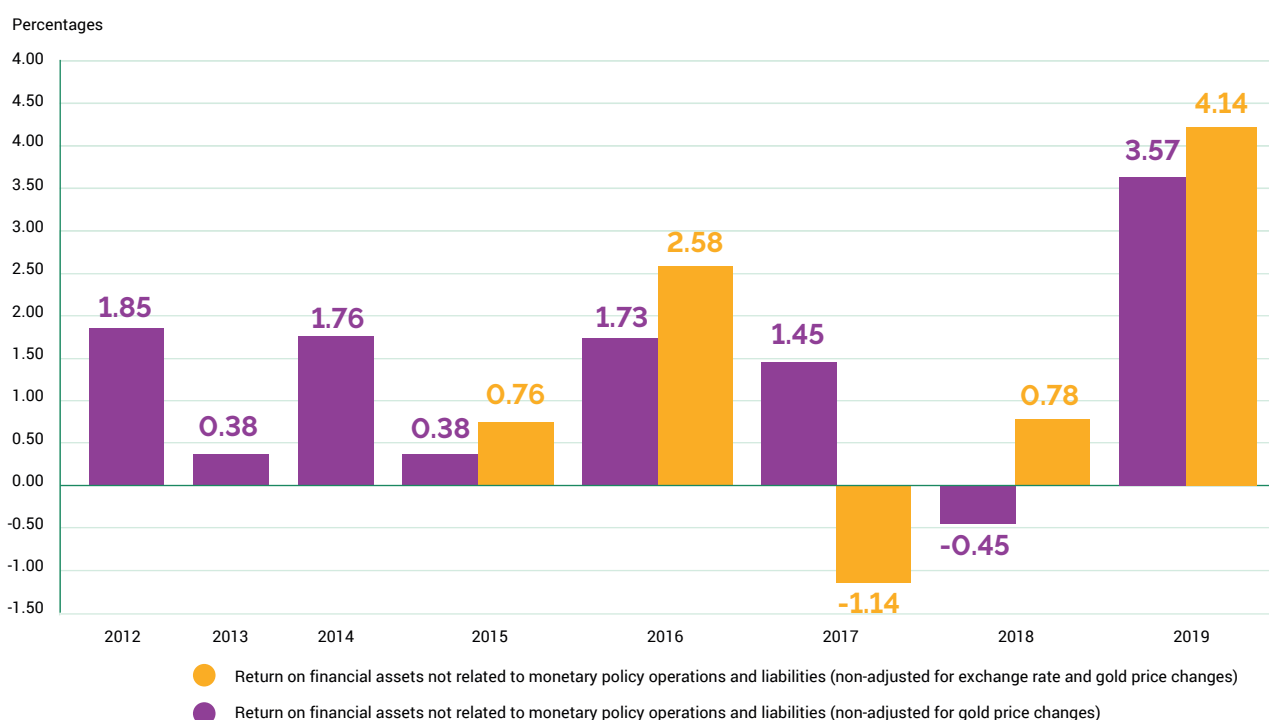
**The three-year return on the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities was 4.71%, or €231.0 million.**

**In 2019, the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities amounted to, on average, €4,313 million.** Return on these assets in euro (adjusted for exchange rate changes but non-adjusted for gold price changes) reached 4.15%, a year-on-year increase of 3.37 percentage points. Return on financial assets not related to monetary policy operations and liabilities (non-adjusted for exchange rate and gold price changes) was 3.57% in 2019 (-0.45% in 2018).

**The Bank of Lithuania's gold reserves remained unchanged and amounted to 5.8 tonnes,** however, due to a leap in the gold market value and the fact that the US dollar appreciated by an annual 2.3%, return on the gold portfolio reached 20.59%.

**Financial market developments in 2019 supported Bank of Lithuania investments.** The increase in the market price of gold, the appreciation of the US dollar, the decline in government bond yields and the sharp rise in equity prices had a positive effect on investment return. However, most market developments that boosted return on investment in 2019 have been significantly undermining the prospects for return in 2020. The rapid spread of the coronavirus has been quickly becoming a major source of uncertainty across global financial markets.

## Return on investment



# Payments



The number of payments executed via CENTROlink increased significantly.



More attention is given to the cyber resilience of CENTROlink.



The Bank of Lithuania coordinates Lithuanian market participants' preparation for the consolidation of TARGET2 and T2S.



The activities of Nasdaq CSD SE depository are being expanded: it now has a new link with an international depository and is extending its services to Iceland.

**The number of payments executed via CENTROlink, a payment system operated by the Bank of Lithuania, increased significantly. CENTROlink users include credit, payment and e-money institutions not only from Lithuania, but also from other EEA countries.** In 2019, they initiated 25.2 million and received 17.7 million SEPA payments (credit transfers, instant credit transfers and direct debits). The number of SEPA transfers more than doubled (up by 109%) compared to 2018. In August 2018, institutions using CENTROlink started offering their clients the instant payments service. In 2019, they initiated roughly 3 million and received nearly 900 thousand instant payments. In the period under review, 47 financial institutions started using CENTROlink services, which added up to a total of 103 financial institutions (86 of which were e-money or payment institutions) at the end of 2019.

**In 2019, the Bank of Lithuania, the Lithuanian banking community and the Lithuanian branch of Nasdaq CSD SE initiated projects to prepare for important financial market infrastructure changes that are taking place in Europe.** The ECB, together with other Eurosystem central

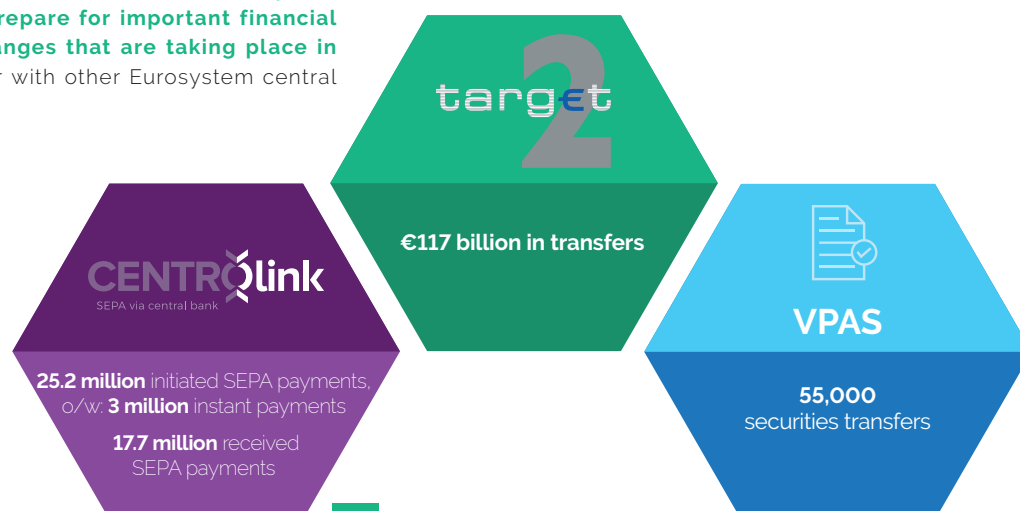
banks, is currently managing TARGET2, a real time system for gross settlements in euro, and T2S, a central standardised securities settlement platform. In order to improve the resilience of European financial market infrastructures and increase operational efficiency, the activities of T2S and TARGET2 are set to be consolidated, by November 2021, by transferring TARGET2 functionalities to a newer platform and thus optimising costs. Ultimately only one consolidated platform would be kept operational in the future. As part of this consolidation project, the Bank of Lithuania has not only to adapt its internal systems, but also ensure timely preparation of Lithuania's financial market participants. To this end, a group of market participants chaired by the Bank of Lithuania was set up in 2019. In the period under review, TARGET2-LIETUVOS BANKAS, a component operated by the Bank of Lithuania, processed 88 thousand payments, amounting to a total of €117 billion.

**More attention is given to the cyber resilience of CENTROlink.** The assessment of CENTROlink highlighted the importance of the Cyber Resilience Oversight Expectations (CROE) approved by the ECB, which enable the assessment of the cyber resilience maturity of financial market infrastructures. A comprehensive assessment of compliance of CENTROlink with CROE provisions will be carried out in 2020.

**Nasdaq CSD SE is extending its services to Iceland. In 2019, Nasdaq CSD SE initiated a merger with Nasdaq CSD Iceland hf., which would make Nasdaq CSD Iceland hf. a branch of Nasdaq CSD SE.** The Bank of Lithuania, together with the Latvian and Estonian supervisory authorities that supervise the activities of Nasdaq CSD SE, assessed this merger, seeking to ensure that it would not have a negative impact on the activities of the depository and would not jeopardise the reliable and efficient functioning of the securities settlement system.

**Securities issued in Lithuania became more easily accessible to foreign investors.** On 2 December 2019, a direct link between Clearstream Banking AG, the German central securities depository, and Nasdaq CSD SE was activated. It will facilitate cross-border settlements and give foreign investors easier and more efficient access to the Baltic securities market.

Market infrastructures in Lithuania and transactions executed



# Payments



Consumers started using more secure means to access online banking and authorise payments.



Lithuanian payment service providers implemented Open Banking interfaces, which allow providing new payment initiation and account information services.



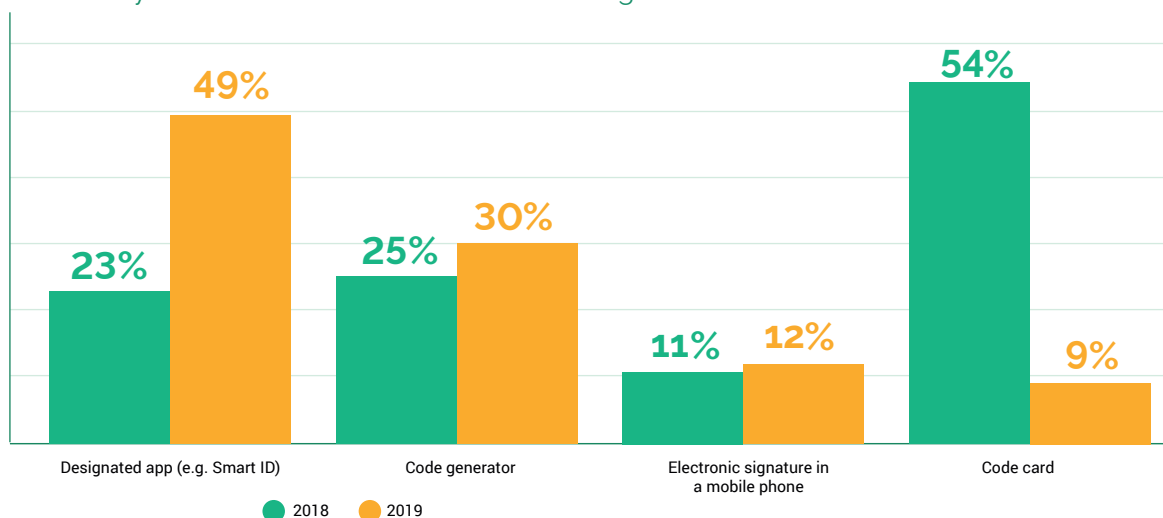
On the initiative of the Bank of Lithuania, the technical specification for utility and other bill payment collection services has been extended for another three years.

**In 2019, the majority of residents changed their means of access to online banking to more secure ones.** For the purpose of implementing the requirements of the EU directive concerning more secure customer authentication procedures, a large number of consumers shifted to new means of access to online banking. Commercial banks operating in Lithuania withdrew code cards and encouraged their customers to use a smartphone app (Smart ID), which became the most popular authentication and transaction authorisation tool in the country. The share of those using code generators also increased due to the rapid drop in the use of code cards. The transition to new means of access to online banking took place in stages for almost one year and was overall smooth.

**Lithuanian payment service providers implemented Open Banking interfaces, which allow them to provide payment initiation and account information services.** After several months of optimisation works, most interfaces are already functioning properly and are used for online payments (e.g. utility payments). These interfaces are accessible to other payment service providers free of charge and have opened the doors for the development of new payment and account management solutions. The Bank of Lithuania promotes further development of Open Banking by exploiting the potential of APIs for other services. To this end, an ad hoc working group comprising market participants was set up within the framework of the Payments Council.

**The Lithuanian technical specification (LST TS 2009:2016) intended to adapt SEPA credit transfer orders for utility and other bill payment collection services has been extended for another three years.** The technical specification was drawn up to help payment service providers and companies collecting utility and other bill payments through specialised forms via online banking to become more efficient and ensure compliance of utility and other bill payment collection services with legal requirements. The use of the technical specification has been expanding: it is now being used for making more than 70% of all utility and other bill payments. In line with the practice of the Lithuanian Standards Board, technical specifications need to respond to market needs and correspond to the latest state of the art; therefore, they are reviewed every three years. The stakeholders concerned – payment service providers and companies using utility and other bill payment collection services – welcomed the use of the technical specification and supported its extension. The Bank of Lithuania initiated the submission of the necessary information to the Lithuanian Standards Board so as to ensure further validity of the specification.

## Means used by Lithuanian residents for online banking access



Source: Survey of the Habits of Lithuanian Residents in Using Payment Services commissioned by the Bank of Lithuania.



# Supervision

## Financial market



The Bank of Lithuania supervises more than 650 market participants whose assets exceed €47.5 billion.



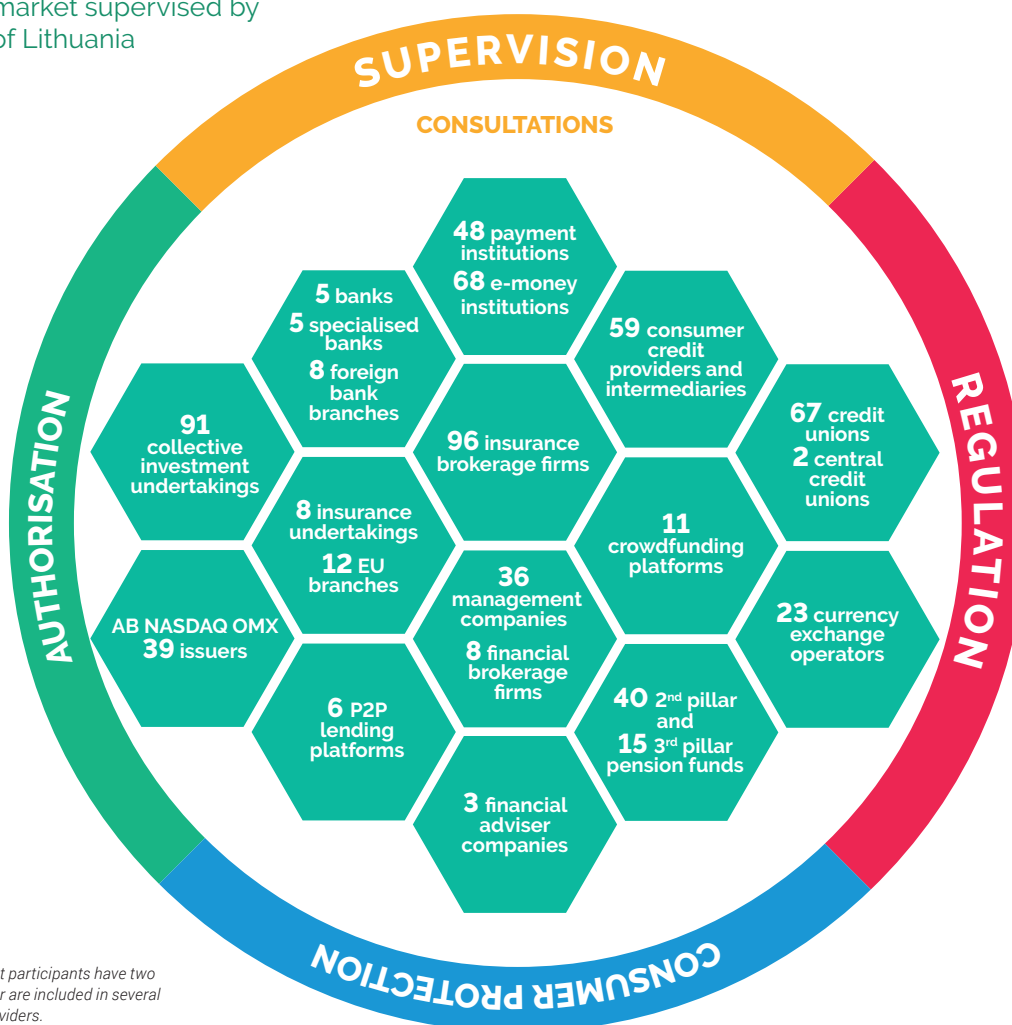
Information on market participants and their operating results as well as reviews on their activities are published on the Bank of Lithuania's [website](#).

**At the end of 2019, four banks and three foreign bank branches were active in Lithuania.** The ECB granted a banking licence to PayRay UAB and a specialised bank licence to

UAB General Financing and AB Fjord Bank, however the new market participants have not yet started their operations. In the meanwhile, three foreign bank branches ceased their activities in Lithuania, while the Lithuanian branch of AS Inbank, a bank established in Estonia, commenced its operation.

**In 2019, the Bank of Lithuania was actively engaged with potential market participants, issuing 35 new licences.** In the course of the year the Bank of Lithuania held over 160 meetings with those interested in acquiring authorisation in Lithuania – mainly foreign-capital fintech companies from the UK, EU countries, Israel and Asia – as such licences allowed providing services across the EU. The strongest interest was shown in e-money and payment institution licences (105), followed by banking and specialised bank licences (31). The Bank of Lithuania expects to receive more than 140 applications for authorisation in 2020, primarily for e-money and payment institution licences.

Financial market supervised by the Bank of Lithuania



*Note: Some market participants have two or more licences or are included in several lists of service providers.*

# Supervision

## Consultations



The Bank of Lithuania provides consultations to market participants within its supervisory competence.



Seeking to improve the supervisory environment, the Bank of Lithuania consults with financial market participants.



Financial market participants are informed in advance of the planned regulatory changes.



The Bank of Lithuania conducted a periodical survey to determine financial market participants' views on the quality of its supervisory practices.

**Seeking to create an advanced and attractive regulatory and supervisory environment**, for the fourth consecutive year the Bank of Lithuania [published](#) the schedule and scope of its routine inspections and investigations, thus allowing financial market participants to make necessary preparations. In 2020, stronger focus will be directed to compliance with AML requirements. The Bank of Lithuania also made [public announcements](#) regarding the intended regulatory changes within the financial market in order to inform and enable relevant stakeholders to prepare for consultations.

**The Bank of Lithuania held annual meetings** with the supervised financial market participants so as to discuss annual results and present plans for the next year, including intended regulatory changes. In cooperation with associations of financial market participants, the Bank of Lithuania inquired about the need for consultations and their topics. The most frequently requested topics included money laundering risk management, compliance with the requirements of payment and insurance legislation, as well as reporting. In the light of the information received, the Bank of Lithuania plans to organise training events, conferences and consultations in order to address the most relevant issues. The majority of consultations, mainly on current operational and reporting issues, were given individually via phone, email or in writing. In 2019, representatives from the Bank of Lithuania met with a number of compliance officers to discuss relevant regulatory issues related to financial and insurance services (e.g. regulation of investment, asset management, insurance, crowdfunding and credit services, pension system reform). Potential market participants were consulted, among other things, about business opportunities, the content and



structure requirements for licensing documents, requirements for specific activities, supervisory arrangements in respect of new market participants and online document submission.

**Within the framework of its consulting activities, the Bank of Lithuania continued publishing guidelines and recommendations** on relevant regulatory issues, thus aiming to enhance clarity with regard to the content of existing legal requirements and supervisory expectations as well as to formulate best practices.

**In 2019, the Bank of Lithuania imposed 35 enforcement measures on market participants for violations of legislative acts.** The majority of market participants breached new legislation that is not yet fully clear. In certain cases questions arose over the application of requirements not only on the national, but also EU level as competent EU authorities had not prepared sufficient explanations or guidelines. Breaches in the credit union sector resulted from the lack of competence, carelessness or negligence on the part of the management bodies or other staff. Some credit unions failed to adapt to the regulatory changes implemented following the reform of the sector. The Market Abuse Regulation was infringed by persons who engaged in unlawful trading on a stock exchange for personal benefit, i.e. to earn more money, avoid losses or reduce tax liabilities. There were some cases when listed companies avoided publicity and failed to provide all relevant information to investors.

# Supervision

## Prudential supervision



In carrying out financial market supervision, the Bank of Lithuania mainly focused on areas exposed to highest risk.



The Bank of Lithuania carried out the annual Supervisory Review and Evaluation Process (SREP).



Under the Solvency II Directive, the Bank of Lithuania conducted an annual comprehensive risk assessment of insurance undertakings.

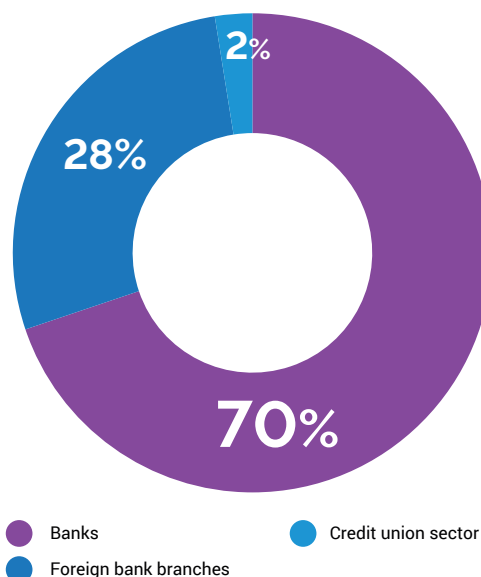
**In 2019, Lithuania's banking sector remained stable:** the composition of assets and liabilities of banks were still broadly unchanged, with loans and deposits accounting for the largest share of assets and liabilities respectively. The overall profit of the banking sector somewhat decreased due to reorganisations; however, incumbent banks not undergoing any major changes continued to increase their profit from credit activities. All banks complied with their minimum capital adequacy requirements, while resident and corporate deposits – the main financing source for banks – continued to grow, thus ensuring their strong liquidity position.

**The insurance market grew moderately in 2019, while total insurance premiums reached nearly €0.95 billion.** Non-life insurance premiums increased by an annual 7.2%, life assurance premiums – 8.9%. Slower growth in the non-life insurance market underpinned weaker growth across the entire market: it grew by 7.7%, a decrease of 3.1 percentage points compared to 2018. In terms of insurance premiums, non-life insurance accounted for more than 71% of the entire insurance market. Despite the fast growth in health and property insurance premiums, transport insurance comprised more than 62% of the non-life insurance portfolio. Unit-linked life assurance accounted for more than 63% of the life assurance portfolio. In the reporting period, all insurance undertakings registered in Lithuania operated at a profit, earning €45.4 million. All undertakings complied with their compulsory solvency capital requirements. Activities of insurance brokerage firms were also profitable, earning them €3.4 million, a year-on-year decrease of 14.7%.

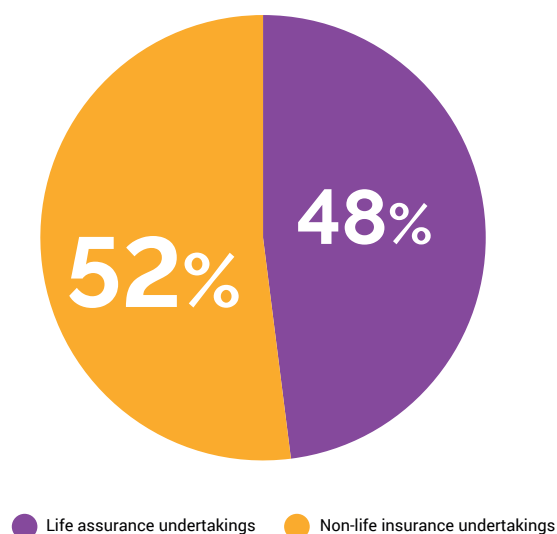
**Lending in the credit union sector accelerated,** which led to an increase in the share of loans in assets and waning investments in securities. The changing composition of credit union assets and more active credit provision had a positive impact on the

sector's operating results. In 2019, the credit union sector earned €3.9 million in unaudited profits. There are currently four credit unions in the process of restructuring into specialised banks. The restructuring process should be completed by 1 January 2023. In 2019, credit unions undergoing restructuring were consistent in fulfilling the interim financial objectives set in their reorganisation plans, while their assets increased at a robust pace.

## Banking and credit union sector by assets



## Insurance market by assets



# Supervision

## Licensing



1 banking licence and 2 specialised bank licences were granted in Lithuania.



The Bank of Lithuania authorised 27 e-money and payment institutions, 1 financial brokerage firm, 4 management and investment companies.



49 companies were included in the public lists of, for example, crowdfunding and P2P lending platform operators, consumer credit providers and intermediaries.



10 licences were revoked, 6 licences were changed and 14 companies were removed from public lists.



The Bank of Lithuania approved 176 candidates for management positions and assessed 20 acquisitions.



In early 2020, the Bank of Lithuania was assessing 1 application for a banking licence, 2 applications for a specialised bank licence and 57 applications for an e-money or payment institution licence.

In 2019, the Bank of Lithuania received 1 application for a **banking licence** and carried out a preliminary assessment of 4 applications for a specialised bank licence. It is important to note that licences for specialised banks are issued by the ECB.

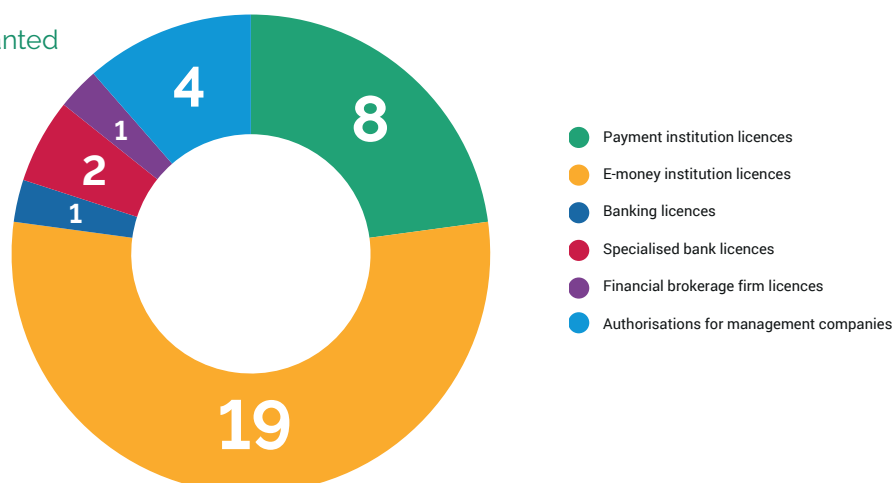
**Fintech companies were issued 28 licences in the course of 2019 (exactly the same as in 2018).** The said fintech companies included banks, specialised banks, e-money and payment institutions (except for institutions holding a licence for restricted activity) as well as crowdfunding platform and P2P lending platform operators. Having met with more than 160 potential market participants to discuss the possibilities of setting up in Lithuania, currently the Bank of Lithuania is assessing more than 58 applications.

**With a view to making Lithuania the fintech hub in the Nordic-Baltic region, the Bank of Lithuania created a fintech-conducive environment that attracts new market players and encourages product development in the country.** The Bank of Lithuania has already created a one-stop shop, set up a dedicated email for all queries on setting up in Lithuania, allowed foreign citizens to submit documents necessary for obtaining a licence in English, and provided both the Lithuanian and English versions of its Licensing Guide. The Bank of Lithuania's website has a section dubbed the [Newcomer Programme](#), which presents key information for new market entrants in a concise and clear manner.

**UAB Workpower has become the first company to enter the Bank of Lithuania's regulatory sandbox and test its P2P insurance platform.** This platform is based on the principles of the sharing economy, where its members form groups of peers in order to protect themselves against losses, make their own decisions on loss compensation using pooled funds and get back the unused ones. The Bank of Lithuania has undertaken to supervise and consult UAB Workpower throughout the entire testing process which is set to last for 6 months, yet may be extended for up to 12 months.

**The Bank of Lithuania launched an e-licensing tool,** allowing all companies to take care of the necessary paperwork and procedures electronically.

## Authorisations granted



# Supervision

## Supervision of financial services



The Bank of Lithuania devoted even more attention to financial consumer protection and public interests.



Market abuse is not tolerated.



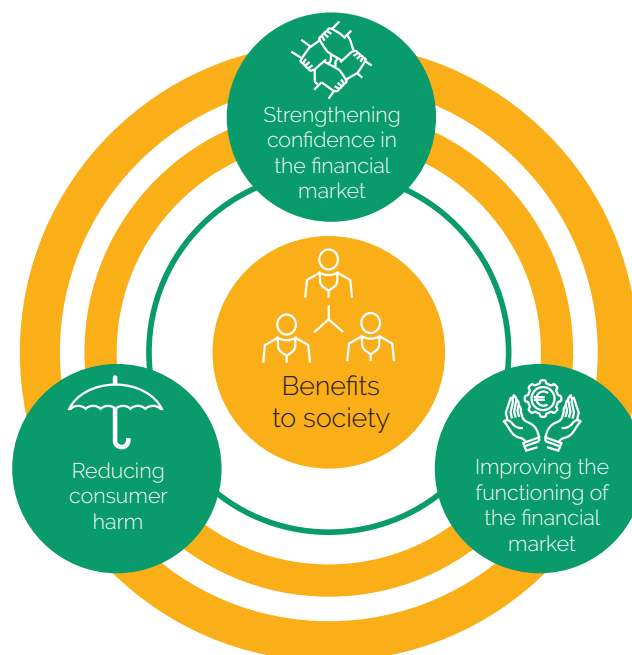
Active steps and measures were taken to curb illegal provision of financial services.

**In order to protect the interests of retail investors, the Bank of Lithuania restricted the distribution of complex financial instruments in Lithuania.** In August 2019, the Board of the Bank of Lithuania published a resolution that transposed into national law restrictions on the distribution of binary options and contracts for differences (CFDs) to retail investors in Lithuania. This resolution prohibited the distribution of high-risk binary options and limited the level of risk of CFDs.

**Severe sanctions were imposed for stock-exchange trading infringements.** Two natural persons were sanctioned for infringements of the Market Abuse Regulation (use of inside information) by imposing a fine of €25,000 and €200,000 respectively. These were the very first infringements after the Market Abuse Regulation had entered into force. Infringements of the Market Abuse Regulation are liable to a fine up to €5 million. The provisions of this regulation have been applicable in Lithuania since 28 June 2017. The Bank of Lithuania has, on numerous occasions, drawn the attention of market participants to the regulatory changes and the sanctions for non-compliance with the requirements laid down in this regulation.

**Extensive measures were applied in respect of persons operating illegally in the financial services market.** 65 companies were entered on the list of companies offering and possibly providing financial (mostly investment) services without the required licence. The Bank of Lithuania blocked the access to 30 websites linked to unauthorised provision of financial services in Lithuania. It also investigated 22 cases of possibly illegal credit-granting activities; of these, 17 entities responded to the requests of the Bank of Lithuania immediately

## Objectives with regard to the supervision of financial services



(either terminated their activities or registered in the required list). Information about possibly illegal activities of 10 companies obtained on the basis of complaints or through monitoring was transmitted to law enforcement authorities. The Bank of Lithuania also provided expertise and consultations to police officers conducting investigations into possibly illegal activities and fraud, as well as discussed possibilities for enhancing cooperation with law enforcement authorities and associations of financial market participants.

**The Bank of Lithuania continued to monitor credit advertising and applied measures to prevent the dissemination of inappropriate ads.** In 2019, the Bank of Lithuania investigated 13 cases regarding possibly inappropriate consumer credit advertising; of these, seven financial market participants remedied the deficiencies highlighted by the Bank of Lithuania, two market participants were subject to enforcement measures, while consultations proved to be sufficient for the rest. The main irregularities (deficiencies) included improper presentation of the representative example and promotion of irresponsible borrowing in advertising.

# Supervision

## Supervision of financial services



In 2019, the Bank of Lithuania received nearly 1,770 complaints and inquiries regarding compliance with legislative requirements (slightly more than 1,500 in 2018).



The Bank of Lithuania published guidelines and recommendations for market participants.



To assess the situation in the financial services market, the Bank of Lithuania conducted thematic reviews.

**In response to changing market conditions, the Bank of Lithuania approved the Guidelines on Security Token Offering.** The Guidelines reflect the Bank of Lithuania's approach to tokens as a financial instrument. They are aimed at providing greater regulatory clarity for market participants and ensuring higher investor protection. Rather than creating a new regulatory framework, the Guidelines are intended to explain how to comply with the existing regulatory framework where companies raise funds by issuing tokens that have features of securities. The Bank of Lithuania was one of the first regulators in the world to issue such guidelines. Previously, the Bank of Lithuania published and subsequently updated its position on initial coin offering (ICO).

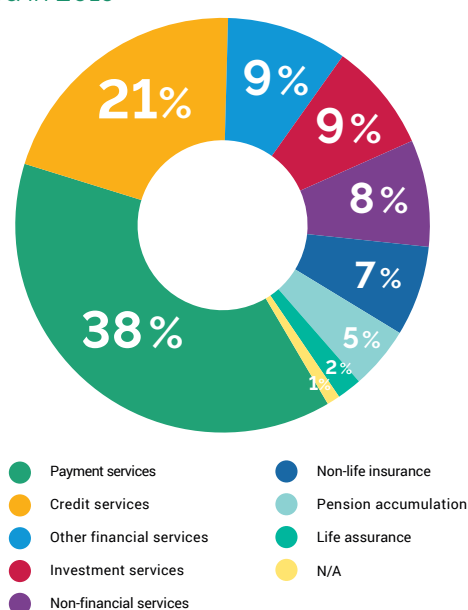
**At the end of 2019, the Bank of Lithuania prepared the draft Guidelines on the Provision of Payment Services,** which were presented to market participants for comments and proposals at the beginning of 2020. The Guidelines are aimed at formulating good practices in the provision of payment services, which would be based on uniform understanding and application of the Republic of Lithuania Law on Payments and other legislation regulating the provision of payment services.

In order to assess the quality of key information documents (KIDs) for investment and insurance products and identify best market practices, **the Bank of Lithuania conducted an analysis of KIDs for investment products distributed in Lithuania, such as CIU and financial derivatives, as well as an analysis of information documents for non-life insurance products drawn up by insurers.** Both analyses were conducted from publicly available data and concerned investment and insurance products for which KIDs must be drawn up and published. Companies whose KIDs had deficiencies were informed thereof, instructed to correct them and also provided with examples of

the identified good practices.

Taking into account consumer queries, **the Bank of Lithuania conducted an analysis of practices in providing replacement vehicles (under compulsory MTPL insurance) as well as put forward recommendations to insurers and a memo to consumers regarding vehicle replacement.** It was established that practices of insurance undertakings in this area differ and are undefined; however, the Bank of Lithuania was able to identify specificities of better and worse practices. In the opinion of the Bank of Lithuania, the provision of a replacement vehicle through the insurer's partners has advantages compared to cases where insurers pay car rental invoices submitted by the injured party; insurance undertakings were therefore recommended to consider the possibility of concluding cooperation agreements with companies providing vehicle rental services. Furthermore, given that the process of providing a replacement vehicle is usually not defined, the Bank of Lithuania recommended that insurers describe the said procedure and the process of reimbursing related expenses in their internal rules and publish them on their websites. The Bank of Lithuania also received applications regarding cases where insurers fail to give a concrete answer as to whether replacement vehicle rental expenses will be reimbursed; insurers were therefore recommended to set specific conditions for the reimbursement of vehicle rental expenses (e.g. responsible party, maximum rental price, period set in a particular case) and inform the person concerned about them in detail.

## Distribution of complaints and inquiries received in 2019



Note: N/A if a specific financial service was not specified or the question was too general.



# Out-of-court settlement of disputes between consumers and financial market participants



The Bank of Lithuania settled 500 disputes.



The Bank of Lithuania took 165 decisions on the substance of a dispute.



Financial market participants implemented 92% of recommendations given by the Bank of Lithuania – the highest number since 2012.



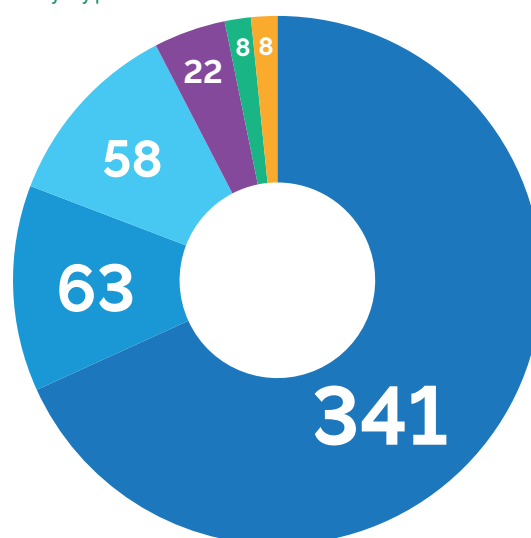
The average duration of dispute settlement was 62 calendar days (in 2018 – 68).

In 2019, 67% of all disputes settled at the Bank of Lithuania involved insurance undertakings, disputes with banks accounted for 21%, while the remaining 12% involved other financial market participants. The majority of disputes with insurers were over compulsory MTPL insurance (117), property insurance (87) and land vehicles (other than railway rolling stock) insurance (CASCO) (45). Most disputes in the banking sector generally concerned payment (57) and credit (35) services.

The Bank of Lithuania always aims at ensuring that the parties to the dispute reach an amicable settlement. In 2019, 90 disputes ended in peaceful resolution, a year-on-year increase of nearly 6%.

During the reporting period, a total of 30% of Bank of Lithuania decisions was made in favour of consumers, while financial market participants implemented 92% of recommendations given by the Bank of Lithuania (the highest number since 2012). Four recommendations were not implemented (three by insurance undertakings, one by a bank). The list of depersonalised [decisions of the Bank of Lithuania regarding the substance of a dispute](#) and [financial market participants that have not implemented the recommendations specified in these decisions](#) is published on the website of the Bank of Lithuania. More information on the settlement of consumer disputes in 2019 is available in the [Report on the Out-of-Court Settlement of Consumer Disputes](#).

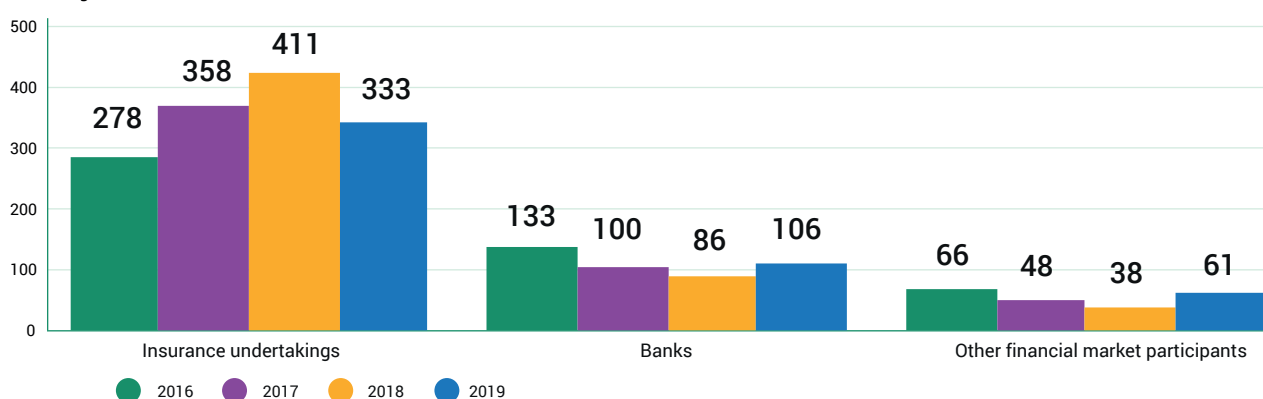
Disputes by type of financial service



- Non-life insurance
- Payment services
- Credit services
- Life assurance
- Other financial services
- Non-financial services

Disputes by financial market participant

Percentages



Source: Bank of Lithuania.

# Bank resolution



In 2019, the Single Resolution Fund accumulated €33 billion in contributions paid by euro area banks.



The Bank of Lithuania drafted and approved resolution plans covering around 97% of Lithuania's banking sector.

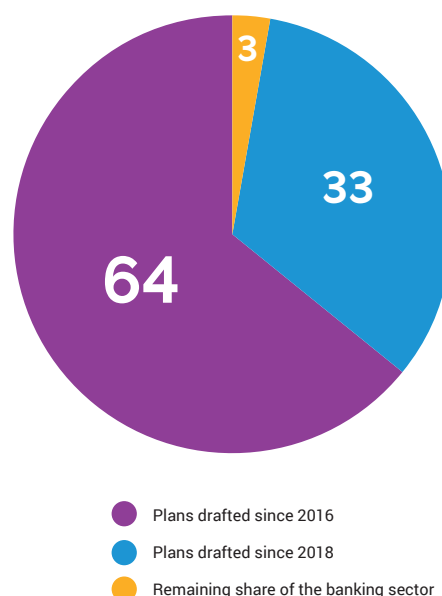


Binding MREL requirements and individual transition periods for reaching MREL targets were set for the first time for four banks operating in Lithuania



The Bank of Lithuania has been carrying out an analysis of regulatory changes in order to properly prepare for the implementation of the BRRD2.

Drafting of bank resolution plans  
(market share by assets, %)



**In 2019, the Single Resolution Fund accumulated €33 billion in contributions paid by euro area banks and certain investment companies.** Banks operating in Lithuania paid €75 million in ex-ante contributions (all 19 euro area banks – €7.8 billion), which were transferred to the Single Resolution Fund. The Single Resolution Fund will be gradually built up over eight years (2016–2023). Its target level to be reached by 31 December 2023 is at least 1% of the amount of covered deposits of all credit institutions within the banking union.

**In carrying out its mandate as a resolution authority, the Bank of Lithuania helps to ensure efficient resolution and continuous operation of failing banks without the government's assistance.** To this end, in 2019 the Bank of Lithuania revised and approved the second wave plans for two Lithuanian banks, namely AB Šiaulių bankas and UAB Medicinos bankas. Furthermore, together with the Single Resolution Board as well as the Swedish, Danish, Estonian and Latvian resolution authorities, the Bank of Lithuania drafted resolution plans for other international banking groups. In 2019, resolution plans for Sweden's SEB and Swedbank, Latvia's Citadele, Estonia's Luminor and Denmark's Danske banking groups, including subsidiaries operating in Lithuania, were updated.

**For the first time, four banks operating in Lithuania (of which three are systemically important – AB SEB bankas, Swedbank, AB and AB Šiaulių bankas) were set binding minimum requirements for own funds and eligible liabilities**

**(MREL) as well as individual transition periods for reaching specific MREL targets.** In line with the decision of the Single Resolution Board, the Bank of Lithuania set binding MREL targets at sub-consolidated level for the Lithuanian subsidiaries of Sweden's SEB and Swedbank groups. Moreover, consolidated MREL targets were also imposed on two Lithuanian banks – AB Šiaulių bankas and UAB Medicinos bankas. The total amount of MREL set for the three systemically important banks and their remaining MREL gap stood at €2,134 million and €601 million respectively, comprising 11.17% and 3.15% of their total liabilities and own funds recorded at the end of 2018.

The two largest banks in Lithuania (AB SEB bankas and Swedbank, AB) will have to meet their MREL targets already in 2020, while AB Šiaulių bankas – within four years (by the end of 2023). The MREL is an additional financial measure to ensure that banks encountering operational difficulties have sufficient resources to absorb losses and recapitalise. This financial backstop tool must ensure their efficient resolution.

**The Bank of Lithuania continued to analyse regulatory changes, seeking to properly prepare for the implementation of the Bank Recovery and Resolution Directive amendments (BRRD2) adopted in mid-2019.** The new regime should enter into force at the end of 2020. Until then, the Bank of Lithuania experts will have to help draft amendments to relevant laws.

# Cash



The value of euro banknotes and coins issued into circulation by the Bank of Lithuania has been increasing at a steady pace.



The Bank of Lithuania exchanged into euro LTL 10.7 million, bringing the total value of litas in circulation to LTL 427 million as at 31 December 2019.



The Bank of Lithuania issued 8 collector and 2 commemorative euro coins as well as a numismatic set of circulation coins.



3,078 counterfeit euro banknotes and coins were withdrawn from circulation.



Since 19 December 2019, the Bank of Lithuania has been also checking the authenticity of foreign banknotes.

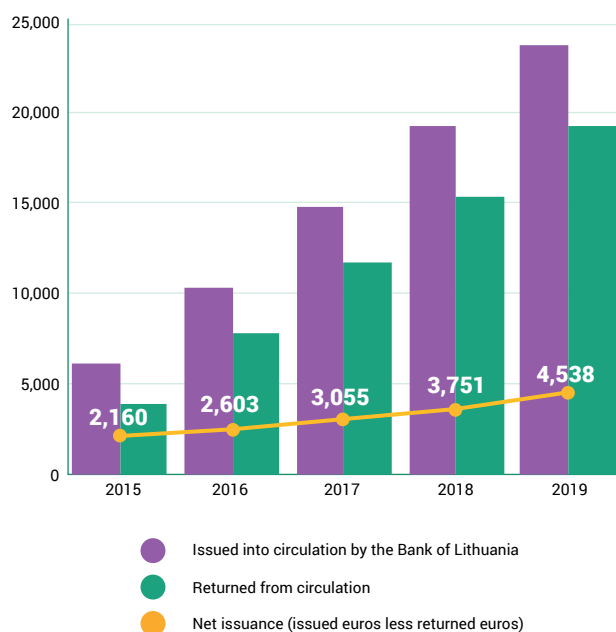
**The value of euro banknotes and coins issued into circulation by the Bank of Lithuania has been increasing at a steady pace**, which means that cash in Lithuania is still a popular means of payment and store of value. In 2019, the total value of euro banknotes and coins in circulation increased by 21%, to stand at €4,538 million.

The new €100 and €200 banknotes with enhanced security features were issued into circulation on 28 May 2019, thus completing the Europa series.

**In 2019, the Bank of Lithuania issued 8 collector and 2 commemorative euro coins as well as a numismatic set of circulation coins.** Numismatic items commemorate

## Euro banknotes and coins

EUR millions



prominent figures and anniversaries of historical events that mark Lithuania's achievements and traditions or draw attention to current events of historic importance. They can be purchased on the Bank of Lithuania's e-shop at [www.coins.lb.lt](http://www.coins.lb.lt).

**3,078 counterfeit euro banknotes and coins were withdrawn from circulation in 2019 (3,574 in 2018).** In total, the Bank of Lithuania detected 2,879 counterfeit euro banknotes and 199 counterfeit euro coins. The majority of counterfeit notes (68%) were the so-called movie money<sup>5</sup> (counterfeit euro banknotes of different denominations). Throughout the year, the Bank of Lithuania examined 53,000 notes and coins upon receiving applications from natural and legal persons to exchange worn or damaged currency.

**The Bank of Lithuania has also started checking the authenticity of foreign banknotes:** in December 2019, it signed a cooperation agreement with the Police Department.

<sup>5</sup> Movie money means illegal copies of euro banknotes printed without complying with the reproduction rules for euro banknotes set out in Decision ECB/2013/10 of 19 April 2013 on the denominations, specifications, reproduction, exchange and withdrawal of euro banknotes (OJ L 118, 30.4.2013, p. 37). Movie money is used in films and games. Copies of banknotes usually bear the following disclaimers: "movie money", "copies", "props", "play", "prank money", "not legal tender" or "to be used only for movies or props".

# Statistics



The number of statistics webpage clicks continued to increase.



The Bank of Lithuania implemented its statistics programme for 2019.



The Bank of Lithuania released new statistics and improved the timeliness of data publication.

**Dissemination of statistics: the number of statistics webpage clicks continued to increase steadily after the Bank of Lithuania started compiling new financial statistical data and using social media.** In 2019, the website alone recorded 100,000 new pageviews, a 9% increase as compared to the previous year.

Particular attention was given to improving the understanding of statistics. Application of infographics facilitated the presentation of complex statistics, displaying them in a simple, informative and attractive manner.

Taking into account the increasing demand for comprehensive financial statistics, the Bank of Lithuania started publishing data on financial corporations engaged in lending, which gave a better picture of the size of non-bank lending in Lithuania.

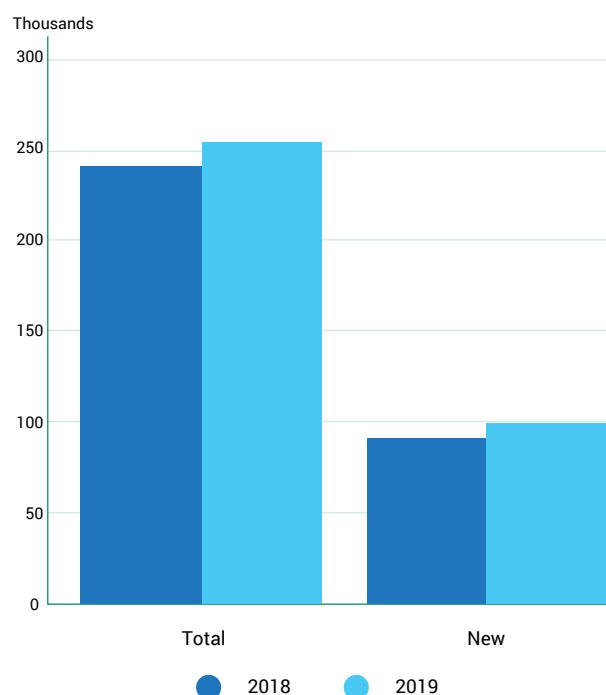
Innovative tools were introduced to publish statistical lists of Lithuanian financial institutions, thus providing easier access to information on financial institutions currently operating in Lithuania as well as to their historical lists.

The timeliness for the publication of Lithuania's quarterly financial accounts statistics was reduced by a week.

**Under its statistics programme for 2019, the Bank of Lithuania compiled monetary, financial, external, quarterly financial account and other statistical information, and published it according to the data release calendar.** Under this programme, the Bank of Lithuania also **started producing the following financial statistics:**

- » statistical data on holdings of debt securities, broken down by sector, issuer and residence of the holder, which were released and presented not only in a time series format, but also in tables covering separate reporting periods compiled on the basis of the from-whom-to-whom principle;

Bank of Lithuania statistics webpage clicks



- » high-quality and EU-wide comparable statistical data on Lithuanian pension funds, broken down by type of life-cycle pension funds, which were released to users for carrying out monetary and financial analysis as well as financial system stability assessments. This data provides more information on types of financial assets, regions and sectors in which the funds of Lithuanian residents held in pension funds are invested;
- » granular credit and credit risk data of Lithuanian credit institutions and other credit providers, as well as reference data on other credit-related counterparties. They will be used in carrying out the functions of the Bank of Lithuania and other Lithuanian institutions, as well as the tasks of the Eurosystem and the European Systemic Risk Board, such as monetary policy analysis and operations, risk management, financial stability, macroprudential policy, research, as well as banking and other credit providers' supervision. This data is also used by Lithuanian lenders to assess the creditworthiness of existing and potential borrowers.

# Treasury agent

## Administration of the accounts of the State Treasury and other institutions



The Bank of Lithuania administered euro and foreign currency accounts of the Ministry of Finance, EU institutions and international organisations.



The Bank of Lithuania executed 427 thousand credit transfers, amounting to €19.6 billion.



The Bank of Lithuania started providing cash account services to non-euro area national central banks within the ERMS framework.

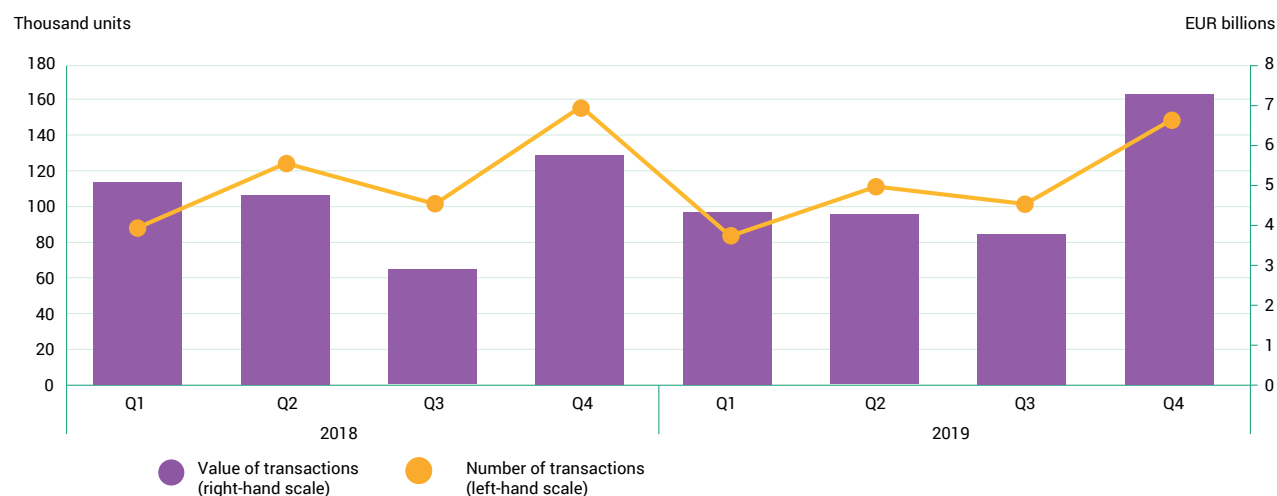
Acting as a State Treasury agent under the Republic of Lithuania Law on the Bank of Lithuania, **in 2019 the Bank of Lithuania administered euro and foreign currency accounts of the State Treasury.** The state monetary resources held in these accounts are managed by the Ministry of Finance. The resources are accumulated and used in accordance with the procedure set forth in the Republic of Lithuania State Treasury Law and other legal acts. The Bank of Lithuania also managed euro accounts of EU and international financial institutions (hereinafter – other 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.

**As at 31 December 2019, the Bank of Lithuania administered 71 accounts of the State Treasury and other institutions** (as at 31 December 2018 – 67). These accounts have been opened and administered at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania, the Bank of Lithuania and the ECB.

**The following banking services are offered to the State Treasury and other institutions: payment services, foreign exchange transactions, account statements and other reporting services.** In the course of 2019, the Bank of Lithuania executed 427 thousand credit transfers made by the Ministry of Finance and other institutions; their total value amounted to €19.6 billion.

By decision of the Board of the Bank of Lithuania, in the second half of 2019 the Bank of Lithuania **started providing cash account services to non-euro area national central banks within the Eurosystem Reserve Management Services (ERMS) framework.**

## Payment transactions by the Ministry of Finance and other institutions



# Organisation of activities



## Staff and the working environment



The Bank of Lithuania strengthened professional, managerial and leadership competencies of its staff as well as continued applying measures for streamlining operations.



On 31 December 2019, the number of actual staff positions at the Bank of Lithuania stood at 617.<sup>6</sup>



The overall staff turnover rate was 9.5%.



The Bank of Lithuania established the Market Infrastructure Department and restructured the IT Department.



The Description of the Implementation of Gender Equality Policy at the Bank of Lithuania was approved.

## The Bank of Lithuania employees improved their competence in the field of central banking, exchanged ideas and shared best practices with ECB experts.

In 2019, ten Bank of Lithuania staff members had a unique opportunity to work at the ECB as well as international organisations and EU institutions. The Bank of Lithuania employees also took part in the Schuman Programme, which is aimed at encouraging short-term (6–9 months) mobility among the European central banks, gaining international experience and contributing to the activities of

other central banks.

## In 2019, the Bank of Lithuania continued to strengthen and develop its employees' management and leadership competences and implement practical tools to streamline its operations.

The Bank of Lithuania continued its management development programme and trainings on organisational culture: during the annual Management Day, staff members in management positions discussed the role of management and the importance of feedback in developing organisational culture. In order to increase operational efficiency, the Bank of Lithuania continued to implement one of the key LEAN methods – the Asaichi system. In 2019, the Bank of Lithuania organised the second Personal Growth Academy and initiated the first mentoring programme. Both of them are aimed at training competent, responsible, result-oriented and motivated leaders – specialists, experts and future members of the management staff.

## In 2019, the Bank of Lithuania approved the Description of the Implementation of Gender Equality Policy at the Bank of Lithuania.

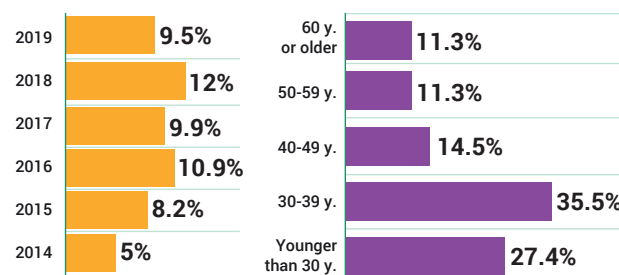
It also created the Gender Equality Monitoring Committee to identify issues related to ensuring equal opportunities at the central bank and provide possible solutions to the Personnel Division.

## The Bank of Lithuania established the Market Infrastructure Department and restructured the IT Department.

The Bank of Lithuania has four services, namely the Banking Service, the Economics and Financial Stability Service, the Supervision Service, and the Organisation Service. Expanding research capacities in both applied and basic research falls under the domain of the Centre for Excellence in Finance and Economic Research. The central bank's organisational structure also includes five autonomous departments and four autonomous divisions. The Market Infrastructure Department was established in 2019 with the aim to mobilise market infrastructure professionals in a single structural unit, thus ensuring the efficient development of a competitive and advanced payments market in Lithuania. The IT Department was restructured in line with the Bank of Lithuania's strategic directions for 2017–2020 and its aim to become one of the top three most efficient central banks in the Nordic-Baltic region. The department now comprises four divisions.



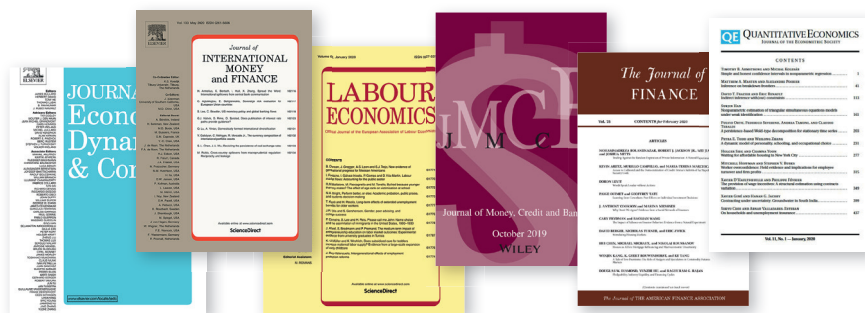
## Staff turnover (left chart) and staff distribution by age (right chart)



<sup>6</sup> The number does not include 15 staff members who were on maternity/paternity leave and 10 employees who were on unpaid leave during their work at other institutions.



# Research activities



Economic research at the Bank of Lithuania is primarily conducted at the Center for Excellence in Finance and Economic Research (CEFER) and the Applied Macroeconomic Research Division (TMTS).



In cooperation with Vilnius University (VU) and Kaunas University of Technology (KTU), CEFER aims to attract internationally acclaimed researchers, thus raising the quality of economic and financial research, changing the academic culture, stimulating expert discussions and ultimately positioning itself as the hub of economic and financial sciences in the Baltic region.



Research carried out at TMTS plays a notable role in the central bank's decision-making process.



Main fields of expertise:

- » Macroeconomic modelling and Dynamic Stochastic General Equilibrium (DSGE) models
- » International economics and macrofinance
- » Impact of debt on the economy and households; household consumption and income inequality
- » Labour economics and reform assessment

In 2019, CEFER and TMTS produced a number of high-level scientific publications. These include 21 working, occasional and discussion papers, 8 articles in top-tier international journals, such as Quantitative Economics, the International Journal of Finance and Economics, and the Journal of International Development, and 2 book chapters. The researchers' work was also featured on CEPR's [VoxEU](#) portal and the World Economic Forum's [website](#).

**High-level conferences, seminars and workshops.** The **International Panel Data Conference** – the world's largest event on this particular topic that includes 20 discussion sessions – was held in Vilnius in July 2019. The keynote speeches were given by four most prominent econometricians from Princeton, Boston

and Zurich Universities as well as the Center for Monetary and Financial Studies (CEMFI) in Madrid. In December 2019, the Bank of Lithuania invited Lithuanian economists from all over the world to its **Annual Lithuanian Conference on Economic Research** where participants had an opportunity to take part in four discussion sessions on financial markets, private consumption, application of new research methods and corporate decision-making processes amid high uncertainty.

## Promotion of quality research in economics and finance.

To this end, the Bank of Lithuania has been hosting the Visiting Researcher Programme as well as organising invited speaker seminar series and research seminars open to the Bank of Lithuania staff members, external researchers and experts. To encourage high-quality research, the Bank of Lithuania also grants two awards for research activities: the Vlasdas Jurgutis Award (€10 thousand) and the Bank of Lithuania Award for Dissertation in the Field of Economics (€5 thousand). At the beginning of 2020 they were awarded for two research works, namely "Spillovers from US Monetary Policy: Evidence from a Time Varying Parameter Global Vector Autoregressive Model" (the paper employed modern macroeconometric models and provided insights into the role of financial globalisation to monetary policy, and the US impact on the euro area economies and monetary policy decisions) and "Essays in Economics of Education and Econometric Theory" (the dissertation provided important insights in the field of education policy and economics as well as contributed to the improvement of econometric techniques).

**Lectures and updated study programmes.** In cooperation with CEFER, VU offers a bachelor's programme in **Quantitative Economics**. It is a social studies programme intended for the most motivated and highest-scoring students aiming for international education. The programme is taught by Bank of Lithuania researchers with PhDs from leading US and European universities. It combines the CORE project, which helps to develop economic intuition, with a unique blend of mathematics, statistics, economics and data science. Moreover, CEFER took the initiative to organise joint PhD courses in the field of econometrics and methodology at VU and KTU, as well as various seminars and workshops. In 2019, it started the Invited Lecture Series – the first one given by Professor Klaus Adam from the University of Oxford delved into the topic of learning and expectations formation in macroeconomics and finance.

In 2019, the Bank of Lithuania completed the first wave of the **Household Finance and Consumption Survey in Lithuania**. The survey results allowed assessing the distribution of household wealth for the first time in the history of Lithuania. Along with other financial indicators, the survey revealed a composite picture of the structure of household assets, liabilities, income and consumption. In 2020, the results of the survey conducted in Lithuania will be presented in the Bank of Lithuania publications, while those of all Eurosystem countries will be published in the ECB report. The analysed data will enable specialists to assess Lithuanian household income and wealth, the degree of inequality, the reasons behind it, financial resilience of households to economic shocks, and potential future developments of these variables.

# Other important events



A consortium of the national central banks of Germany, Lithuania and Poland successfully implemented the EU Twinning Project "Strengthening the National Bank of Belarus".



The Governing Council of the ECB held its external meeting in Vilnius.



The Bank of Lithuania, in cooperation with the Ministry of Finance, organised the 17+1 High Level Fintech Forum.



The Bank of Lithuania joined the Global Financial Innovation Network (GFIN).

In July 2019, the implementation of the EU Twinning Project "Strengthening the National Bank of Belarus", which was set to run for 18 months, was completed by a consortium of the national central banks of Germany, Lithuania and Poland. The project aimed to enhance the capacity of the National Bank of the Republic of Belarus to effectively pursue its core responsibilities in the field of financial stability, banking supervision, payment systems, consumer protection, and communication policy. First of its kind in Belarus, it was also the first EU Twinning Project that the Bank of Lithuania contributed to implementing. In spring 2019, the Bank of Lithuania, together with the ECB and other national central banks from the ESCB, launched the EU-funded "Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the Integration to the ESCB", which is set to run for two years.

On 5–6 June 2019, the Governing Council of the ECB held its external meeting in Vilnius, hosting the ECB Executive Board



The ECB Governing Council at the Bank of Lithuania

and the governors of the national central banks of the euro area countries. This was the first time the Governing Council took its monetary policy decisions in Lithuania.

On 27 November 2019, participants of the 17+1 High Level Fintech Forum, which was held in Vilnius for the very first time and brought together the representatives from the ministries of finance and central banks of China and the 17 Central and Eastern European countries, decided to launch a fintech coordination centre. It will act as a platform for discussion, enabling the exchange of current information between policymakers and regulators as well as allowing to assess the opportunities offered within the sector, ensure cooperation, encourage the adoption of state-of-the-art technologies and more efficient risk management, as well as foster economic growth, trade and tourism between the regions. The Forum was organised by the Bank of Lithuania and the Ministry of Finance of the Republic of Lithuania.



17+1 High Level Fintech Forum in Vilnius

At the beginning of 2019, the Bank of Lithuania joined the GFIN which enables companies across the globe to test their financial innovations in international markets. Five companies expressed their interest in joining the Bank of Lithuania's regulatory sandbox. Most of the applications to participate in the global sandbox project were submitted by RegTech and crypto-asset firms. The GFIN brings together 35 global organisations from over 15 jurisdictions (including Australia, Hong Kong, the UK and Singapore).

In line with the principle of transparency, the Bank of Lithuania keeps Lithuanian and foreign residents up to date with its activities, events and other important news. The primary channel for information on the Bank of Lithuania and its activities is its website [www.lb.lt](http://www.lb.lt) that generated 5.5 million pageviews in 2019. Social media platforms also played an important informative role, allowing the Bank of Lithuania to reach over 3 million Facebook users, more than 0.9 million LinkedIn users, and 392 thousand Twitter users in the course of the year.



# Annual Financial Statements of the Bank of Lithuania

**2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Seimas of the Republic of Lithuania  
Opinion

We have audited the accompanying financial statements of the Bank of Lithuania (hereinafter the Bank), which comprise the balance sheet as at 31 December 2019, the profit and loss account for the year then ended and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Bank's financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and its financial performance for the year then ended in accordance with Guideline (EU) 2016/2249 of the European Central Bank (ECB) on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and amendments, adopted by the Governing Council of the ECB, the Law on the Bank of Lithuania and the Accounting Policy of the Bank approved by the Board of the Bank of Lithuania.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on audit of financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Guideline (EU) 2016/2249 of the European Central Bank (ECB) on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and amendments, adopted by the Governing Council of the ECB, the Law on the Bank of Lithuania and the Accounting Policy of the Bank approved by the Board of the Bank of Lithuania, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

UAB ERNST & YOUNG BALTIC  
Audit Bank's licence No. 001335

Jonas Akelis  
Auditor's licence  
No. 000003

(signed with electronic signature)  
3 April 2020



# Balance Sheet of the Bank of Lithuania

EUR thousands

	Notes	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>1. Gold and gold receivables</b>	<b>1</b>	<b>253,498</b>	<b>209,811</b>
<b>2. Claims on non-euro area residents denominated in foreign currency</b>		<b>5,010,639</b>	<b>5,461,691</b>
Receivables from the IMF	2	226,506	200,940
Balances with banks and security investments, external loans and other external assets	3	4,784,132	5,260,751
<b>3. Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	<b>2,707</b>	<b>71,990</b>
<b>4. Claims on non-euro area residents denominated in euro</b>	<b>5</b>	<b>6</b>	<b>1,006</b>
<b>5. Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>6</b>	<b>48,000</b>	<b>189,166</b>
Main refinancing operations		–	–
Longer-term refinancing operations		48,000	173,000
Fine-tuning reverse operations		–	–
Structural reverse operations		–	–
Marginal lending facility		–	16,166
Credits related to margin calls		–	–
<b>6. Other claims on euro area credit institutions denominated in euro</b>	<b>7</b>	<b>3,325</b>	<b>360</b>
<b>7. Securities of euro area residents denominated in euro</b>		<b>11,283,026</b>	<b>11,641,412</b>
Securities held for monetary policy purposes	8	10,552,676	10,755,562
Other securities	9	730,350	885,850
<b>8. General government debt denominated in euro</b>		<b>–</b>	<b>–</b>
<b>9. Intra-Eurosystem claims</b>		<b>2,957,053</b>	<b>3,446,946</b>
Participating interest in the ECB	10	206,393	207,183
Claims equivalent to the transfer of foreign reserves	11	235,223	239,454
Net claims related to the allocation of euro banknotes within the Eurosystem	12	2,515,437	3,000,309
Other claims within the Eurosystem (net)		–	–
<b>10. Items in course of settlement</b>		<b>–</b>	<b>–</b>
<b>11. Other assets</b>		<b>141,832</b>	<b>161,939</b>
Tangible and intangible fixed assets	13	30,007	29,668
Other financial assets	14	11,431	4,368
Off-balance-sheet instruments revaluation differences	15	28,576	55,324
Accruals and prepaid expenses	16	70,449	70,200
Sundry	17	1,369	2,380
<b>TOTAL ASSETS</b>		<b>19,700,085</b>	<b>21,184,321</b>

# Balance Sheet of the Bank of Lithuania

EUR thousands

	Notes	31 December 2019	31 December 2018
<b>LIABILITIES</b>			
<b>1. Banknotes in circulation</b>	<b>18</b>	<b>6,935,561</b>	<b>6,648,124</b>
<b>2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>19</b>	<b>7,214,771</b>	<b>6,016,113</b>
Current accounts (covering the minimum reserve system)		7,214,771	5,997,113
Deposit facility		–	–
Fixed-term deposits		–	–
Fine-tuning reverse operations		–	–
Deposits related to margin calls		–	19,000
<b>3. Other liabilities to euro area credit institutions denominated in euro</b>	<b>20</b>	<b>15,675</b>	<b>–</b>
<b>4. Debt certificates issued</b>		<b>–</b>	<b>–</b>
<b>5. Liabilities to other euro area residents denominated in euro</b>	<b>21</b>	<b>2,452,759</b>	<b>1,011,590</b>
General government		2,019,092	893,165
Other liabilities		433,667	118,425
<b>6. Liabilities to non-euro area residents denominated in euro</b>	<b>22</b>	<b>348,999</b>	<b>123,074</b>
<b>7. Liabilities to euro area residents denominated in foreign currency</b>	<b>23</b>	<b>215,983</b>	<b>216,245</b>
<b>8. Liabilities to non-euro area residents denominated in foreign currency</b>	<b>24</b>	<b>–</b>	<b>47,475</b>
<b>9. Counterpart of special drawing rights allocated by the IMF</b>	<b>2</b>	<b>169,339</b>	<b>166,800</b>
<b>10. Intra-Eurosystem liabilities</b>		<b>861,406</b>	<b>5,728,138</b>
Net liabilities related to the allocation of euro banknotes within the Eurosystem		–	–
Other liabilities within the Eurosystem (net)	25	861,406	5,728,138
<b>11. Items in course of settlement</b>	<b>26</b>	<b>250</b>	<b>3,691</b>
<b>12. Other liabilities</b>		<b>299,764</b>	<b>319,155</b>
Off-balance-sheet instruments revaluation differences	15	46,742	78,275
Accruals and income collected in advance	27	16,402	17,409
Sundry	28	236,621	223,472
<b>13. Provisions</b>	<b>29</b>	<b>291,239</b>	<b>123,554</b>
<b>14. Revaluation accounts</b>	<b>30</b>	<b>382,843</b>	<b>281,606</b>
<b>15. Capital</b>	<b>31</b>	<b>486,052</b>	<b>465,146</b>
Authorised capital		60,000	60,000
Reserve capital		426,052	405,146
<b>16. Profit for the year</b>	<b>42</b>	<b>25,445</b>	<b>33,610</b>
<b>TOTAL LIABILITIES</b>		<b>19,700,085</b>	<b>21,184,321</b>

# Profit and Loss Account of the Bank of Lithuania

EUR thousands

	Notes	2019	2018
Interest income		143,774	120,513
Interest expense		(46,556)	(40,343)
<b>1. Net interest income</b>	<b>32</b>	<b>97,218</b>	<b>80,171</b>
Realised gains (losses) arising from financial operations		101,167	(25,544)
Write-downs on financial assets and positions		(6,392)	(23,527)
Transfer to provisions for risks		(167,450)	(16,000)
<b>2. Net result of financial operations, write-downs and risk provisions</b>	<b>33</b>	<b>(72,676)</b>	<b>(65,071)</b>
Fees and commissions income		7,705	7,426
Fees and commissions expense		(2,189)	(3,049)
<b>3. Net income from fees and commissions</b>	<b>34</b>	<b>5,516</b>	<b>4,377</b>
<b>4. Income from equity instruments</b>	<b>35</b>	<b>28,355</b>	<b>20,685</b>
<b>5. Net result of pooling of monetary income</b>	<b>36</b>	<b>823</b>	<b>25,007</b>
<b>6. Other income</b>	<b>37</b>	<b>3,252</b>	<b>3,078</b>
<b>TOTAL NET INCOME</b>		<b>62,489</b>	<b>68,247</b>
<b>7. Staff costs</b>	<b>38</b>	<b>(18,612)</b>	<b>(16,403)</b>
<b>8. Administrative expenses</b>	<b>39</b>	<b>(11,294)</b>	<b>(9,853)</b>
<b>9. Depreciation of tangible and intangible fixed assets</b>	<b>13</b>	<b>(4,036)</b>	<b>(4,280)</b>
<b>10. Banknote production services</b>	<b>40</b>	<b>(1,596)</b>	<b>(1,837)</b>
<b>11. Other expenses</b>	<b>41</b>	<b>(1,506)</b>	<b>(2,264)</b>
<b>PROFIT FOR THE YEAR</b>	<b>42</b>	<b>25,445</b>	<b>33,610</b>

The Annual Financial Statements for 2019 of the Bank of Lithuania were approved on 26 March 2020 by Resolution No 03-75 of the Board of the Bank of Lithuania.

Chairman of the Board

Vitas Vasiliauskas  
(signed electronically)

Director of the Accounting Department  
Organisation Service

Lina Našlėnienė  
(signed electronically)

# Explanatory Notes

## 1. BASIS FOR PREPARATION AND PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

As of 1 January 2015, Lithuania is a member of the euro area.

The financial accounting of the Bank of Lithuania is managed and the Annual Financial Statements are prepared in accordance with Guideline (EU) 2016/2249 of the European Central Bank (ECB) on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), adopted by the Governing Council of the ECB, recast (hereinafter – Accounting Guideline), the Law on the Bank of Lithuania and the Accounting Policy approved by the Board of the Bank of Lithuania. If a specific accounting treatment is not laid down in the Accounting Guideline and the Accounting Policy of the Bank of Lithuania and in the absence of 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 (EU).

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.

## 2. ACCOUNTING POLICY

### 2.1. GENERAL PRINCIPLES

In managing financial accounting, the Bank of Lithuania follows the following basic accounting assumptions: going concern basis, accrual principle, post-balance sheet events.

The qualitative characteristics in drawing up the financial statements of the Bank of Lithuania are as follows: economic reality and transparency, prudence, materiality, consistency and comparability.

Gold, marketable securities and other on-balance-sheet and off-balance-sheet assets and liabilities that comprise financial assets (hereinafter – financial items) in financial accounting are recorded at acquisition cost (transaction price), and in the Annual Financial Statements are presented at market price (except for non-marketable equity instruments presented as other financial assets and debt securities valued at amortised cost). The results arising from revaluation at market prices of gold, marketable debt and equity securities, including exchange traded fund units (on a code-by-code basis), and derivatives (on an item-by-item basis) are accounted for separately.

In the Annual Financial Statements, financial items denominated in foreign currency are presented in euro at market rates.<sup>1</sup> Results arising from revaluation of foreign currency (on a currency-by-currency basis) at market rates are accounted for separately.

For recognition of unrealised revaluation results, the Bank of Lithuania uses the asymmetric approach established in the Accounting Guideline. Pursuant to this approach, unrealised revaluation loss arising at the end of the financial year from revaluation of a separate financial item at market price or market 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 the 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 market rate or offset by the revaluation gain of another type of 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 market rate is presented in 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.

<sup>1</sup> Market rate – euro and foreign currency reference rate, based on the daily concertation procedure between central banks within and outside the ESCB, published by the ECB.

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. Income and expense in foreign currency are recognised in euro at market rates prevailing on the day of their recognition in accounting; they influence a respective foreign currency position on that date.

## 2.2. FOREIGN CURRENCY

The market rates of the euro and foreign currency with which the Bank of Lithuania holds material positions

Foreign currency per EUR 1

Currency	Code	31 December 2019	31 December 2018	Change (%)
Swiss franc	CHF	1.08540	1.12690	-3.7
US dollar	USD	1.12340	1.14500	-1.9
Chinese yuan	CNY	7.82050	7.87510	-0.7
British pound	GBP	0.85080	0.89453	-4.9
Special Drawing Rights (SDR)	XDR	0.81044	0.82277	-1.5
Japanese yen	JPY	121.940	125.850	-3.1
Czech koruna	CZK	25.4080	25.7240	-1.2

The average rate of foreign currency is recalculated on a daily basis in consideration of an increase of a respective foreign currency position and of the average costs of all purchases (if the position is long), or of all sales (if the position is short) of the same foreign currency made during the day. When the foreign currency position decreases – the realised result is calculated.

The allocation of the Bank of Lithuania's net assets (liabilities) by foreign currency is disclosed in Note 44 "Assets and liabilities of the Bank of Lithuania by foreign currency".

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 market rate on the last business day of the financial year.

## 2.3. GOLD

In the Annual Financial Statements, gold is presented in euro at the market price of one Troy ounce, prevailing on the last business day of the financial year.

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 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.

## 2.4. MARKETABLE SECURITIES

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

Securities held for monetary policy purposes, as well as debt securities classified as held-to-maturity, are presented in the Balance Sheet at amortised cost subject to impairment. Other marketable securities are presented in the Balance Sheet either at the mid-market prices (99% of the fair value as at 31 December 2019 and 87% – as at 31 December 2018) or on the basis of the relevant yield curve (1% of the fair value as at 31 December 2019 and 13% – as at 31 December 2018) prevailing on the last business day of the financial year. Revaluation results of securities related to changes in the market price of securities and the market rate of the foreign currency are presented in separate revaluation accounts.

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.

A coupon purchased together with debt securities is presented in a separate Balance Sheet item as other assets and is not included in the acquisition cost of the securities.

Dividends, bought together with equity securities, are included in the acquisition cost of the securities. Dividends bought in the period after the dividend receivable is announced are 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 settlement

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

The discount on non-coupon bearing debt securities is amortised according to the internal rate of return (IRR), and the 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 issue of securities is recognised as an 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.

## 2.5. NON-MARKETABLE EQUITY INSTRUMENTS

Non-marketable equity instruments are long-term investments in 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 subject to impairment.

## 2.6. INCOME AND EXPENSE

In the Profit and Loss Account, interest on a separate financial item or instrument is presented on a net basis (interest income is netted against interest expense on the same financial item or instrument).

Realised income and expense related to sold foreign currency, gold and securities are recognised in the income and expense accounts. Such income and expense are calculated considering the average rate or average price of the corresponding financial item.

Unrealised revaluation gain of financial items 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 recognised as expense at the end of the financial year.

Impairment losses are recognised as expense and are not reversed in subsequent years unless the impairment decreases and this decrease can be related to an observable event that occurred after the impairment was first recorded.

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

## 2.7. REVERSE TRANSACTIONS

Reverse transactions are operations whereby the Bank of Lithuania buys or sells assets under a repurchase agreement or conducts credit operations against collateral.

Repurchase agreements are presented as collateralised deposits of the counterparty 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. Collateral provided in the form of cash is presented on the asset side of the Balance Sheet.

Reverse repurchase agreements are presented as collateralised loans on the asset side of the Balance Sheet. The collateral acquired (bought with a subsequent sale under these agreements) is not reported in the Balance Sheet and is not revalued during the transaction period. Collateral received in the form of cash is presented on the liabilities side of the Balance Sheet.

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

Seeking to support bond and repurchase agreement market liquidity, the Bank of Lithuania, together with the ECB and other Eurosystem national central banks (NCBs), lends securities purchased under the public sector purchase programme. The Bank of Lithuania lends securities via its lending agent, as well as under the fail mitigation programme and the strategic lending programme provided by its securities depository. In the case of security lending transactions, the securities remain on the asset side of the Balance Sheet throughout the duration of transactions.



## 2.8. FOREIGN EXCHANGE TRANSACTIONS

Foreign currency to be received or paid, under foreign exchange spot, forward and swap transactions, influences a respective foreign currency's position on the 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.

Non-deliverable foreign exchange forwards are recorded in the off-balance-sheet accounts from the trade date to the maturity date at notional amount based on the forward exchange rate. In the Balance Sheet, the value of these transactions is presented at market prices prevailing on the last business day of the financial year. Unrealised loss recognised as expense at the end of the financial year is presented as off-balance-sheet instruments revaluation difference on the Balance Sheet liabilities side. The difference between the forward 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.

## 2.9. 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. In the Balance Sheet, the value of these transactions is presented at the forward market price prevailing on the last business day of the financial year.

On the settlement date of forward transactions in securities, the 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.

## 2.10. INTEREST RATE TRANSACTIONS

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

Interest rate swaps are recorded in off-balance-sheet accounts at contractual amount from the trade date to the closing or maturity date. In the Balance Sheet, the value of these transactions is presented at market prices, prevailing on the last business day of the financial year. Unrealised loss recognised as expense at the end of financial year is presented as off-balance-sheet instruments revaluation difference on the Balance Sheet liabilities side 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.

## 2.11. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets include such tangible assets whose useful life is longer than one year and whose acquisition cost (including VAT) is no less than €2,000. 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 €2,000. Tangible and intangible fixed assets are recorded in the Balance Sheet at cost less accumulated depreciation (amortisation) and are subject to impairment. Internally generated tangible and intangible assets are recorded as fixed assets if they comply with the recognition criteria. The initial cost of such assets consists of the direct staff cost, the cost of assets and services acquired or depreciated (amortised) in order to develop the assets. The fixed assets under construction, pieces of art, museum stocks and tangible assets included in the list of cultural valuables (excluding buildings) are not depreciated (amortised). Depreciation (amortisation) of other fixed assets is calculated on a straight-line basis over the expected useful life of the assets.

### Useful lives of tangible and intangible fixed assets

Fixed assets	Years
Tangible assets	
Buildings	44–59
Cash processing equipment	5–15
Computer equipment	3–7
Other assets (furniture, office equipment and other)	5–30
Intangible assets	2–10

The residual depreciation (amortisation) period is reviewed having assessed that the useful life of the fixed assets have changed significantly.

When fixed assets are sold, the difference between the value of sale and the value presented in the Balance Sheet is recognised as income or expense.

Maintenance and repair costs of fixed assets are recognised as an expense at the time they are incurred.

## 2.12. LEASES

Right-of-use assets are recorded as fixed assets if they comply with the recognition as tangible fixed assets criteria (see section 2.11 of the Explanatory Notes "Tangible and intangible fixed assets"). Right-of-use assets are valued at cost less depreciation. Depreciation is calculated on a straight-line basis over the lease term of the right-of-use assets. At the end of 2019, useful lives of right-of-use assets are 1–4 years.

The lease liability is initially measured at the value of the future lease payments, including amounts expected to be payable at the end of lease term under residual value guarantees, discounted to the present value using interest rate implicit in the lease contract. If the previous one is not set in the lease contract, the interest rate on the Eurosystem main refinancing operations is used.

Right-of-use assets and lease liability are presented on the Balance Sheet items "Tangible and intangible fixed assets" and "Sundry" (liabilities), respectively. The interest paid for the lease liability is presented in the Profit and Loss Account item "Interest expense" as other interest expense.

Until the end of 2018, the Bank of Lithuania recorded costs related to rental contracts in the Profit and Loss Account item "Administrative expenses". Following the issue of the International Financial Reporting Standard 16 Leases, the Bank of Lithuania has modified its accounting policy: as from 1 January 2019, all rental contracts involving fixed assets, if they meet the definition of a lease, were recognised as tangible fixed assets using the modified retrospective approach, according to which a right-of-use asset is equal to the related lease liability. As a result, the comparative information has not been restated.

The resulting right-of-use assets and lease liabilities recognised on the Balance Sheet as at 1 January 2019 are as follows:

EUR thousands

	Balance as at 31 December 2018	Adjustment due to policy change	Balance as at 1 January 2019
Tangible and intangible fixed assets (see Note 13)	29,668	683	30,350
Sundry (liabilities) (see Note 28)	537	683	1,220

## 2.13. BANKNOTES AND COINS IN CIRCULATION

The euro area NCBs and the ECB, which together comprise the Eurosystem, issue euro banknotes.<sup>2</sup> The total value of euro banknotes in circulation is allocated to the Eurosystem NCBs on the last business day of each month in accordance with the banknote allocation key.<sup>3</sup>

The ECB is allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% is allocated to NCBs according to the Eurosystem capital key. The share of banknotes allocated to each NCB is disclosed in their Balance Sheet under liability item 1 "Banknotes in circulation".

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation is presented as remunerated intra-Eurosystem balance.<sup>4</sup> The remuneration of this balance is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.<sup>5</sup>

The interest income or expense on this balance is disclosed in the Profit and Loss Account item 1 "Net interest income" (see Note 32 "Net interest income").

Seeking to avoid fluctuations in monetary income after new members join the Eurosystem, the net intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted by the compensatory amount, which is applied for the new entrants from the euro adoption year and gradually reduced over the following five years. For the Bank of Lithuania, the period for which the above-mentioned adjustments are applicable

<sup>2</sup> Decision of the ECB of 13 December 2010 on the issue of euro banknotes (recast) (ECB/2010/29), OJ L 35, 9.2.2011, p. 26, as amended.

<sup>3</sup> Banknote allocation key means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in such total.

<sup>4</sup> Decision of the ECB of 3 November 2016 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2016/36), OJ L 347, 20.12.2016, p. 26.

<sup>5</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2018 and 2019.

will terminate on 31 December 2020. As from 1 January 2021, the interest income will be calculated on the whole position of the net claims related to the allocation of euro banknotes.

The nominal value of euro circulation coins issued into circulation by the Bank of Lithuania is presented in the Balance Sheet liability item 12 "Other liabilities" (see Note 28 "Sundry").

The nominal value of litas<sup>6</sup> banknotes and litas circulation coins issued into circulation by the Bank of Lithuania and not returned from circulation after the euro adoption is presented in the Balance Sheet liability item 12 "Other liabilities".

The sale price (excluding VAT) of collector euro coins and other numismatic valuables is recognised as income.

The cost of printing banknotes and minting coins, as well as other expenses associated with the issue of banknotes and coins into circulation, are recorded as expenses when incurred, irrespective of when the coins and banknotes were put into circulation.

## 2.14. PROVISIONS FOR COVERING FINANCIAL RISKS AND LIABILITIES

Provisions for expected market, liquidity and credit risks (hereinafter – provisions for financial risks) are formed by the Board of the Bank of Lithuania, in order for the Bank of Lithuania to have sufficient financial resources to offset the negative change in value arising from the financial assets, including the financial assets acquired in connection with monetary policy operations of the Eurosystem, as well as the financial liabilities related to the management of these assets, and in such way safeguard the Bank of Lithuania's capital and the real value of financial assets. These provisions are formed according to the rules established by the Board of the Bank of Lithuania. The aim of these provisions is to cover the assessed level of risk, which is set in accordance with the risk assessment methodology approved by the Governing Council of the ECB. The expected shortfall at a 99% confidence level (ES99%) is used to define the target amount of risk provisions. Provisions for financial 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).

Provisions for termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania, are assessed using actuary calculations. Their value is determined as termination benefits earned by the employee upon retirement and calculated based on the employee change dynamics and wage growth preconditions, discounted using the long-term lending interest rates in the Republic of Lithuania.

Other provisions for liabilities, such as provisions for wages and salaries payable for annual leave, provisions for termination benefits or provisions related to the exchange of litas banknotes and coins, are not discounted due to the relatively short period from the formation of these provisions to their use.

Provisions for financial risks and liabilities are formed as at year-end and recognised as an expense.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1. MANAGEMENT OF FINANCIAL RISK RELATED TO MONETARY POLICY OPERATIONS

The risk related to monetary policy assets and operations is managed within the Eurosystem on an integral basis. The Bank of Lithuania takes part in this risk management process via its representative in the Risk Management Committee of the ECB, which is responsible for the management of financial risk related to monetary policy operations and investment of foreign reserves of the ECB.

Credit, market and liquidity risks are the key risks encountered in conducting monetary policy operations. Credit operations conducted by the Eurosystem are mainly exposed to credit risk, arising from potential default of counterparty. To manage the counterparty's credit risk, credibility requirements for counterparties, with which these operations can be executed, are established and monetary policy lending operations are conducted only against collateral. Collateral should match the established requirements for suitability and other risk management instruments. In case of insolvency of the counterparty, the Eurosystem will face the collateral issuer's or debtor's credit risk, market risk arising from the changes in collateral market value and liquidity risk (particularly if the Eurosystem wanted to sell a large part of asset position).

To mitigate the risk of securities purchase operations, requirements for securities, which can be acquired by the Eurosystem under adopted securities purchase programmes, and limits on their acquisition are set.

<sup>6</sup> The national currency used as legal tender until the adoption of the euro.

The Bank of Lithuania ensures that financial institutions registered in Lithuania and participating in monetary policy operations as well as collateral provided under monetary policy operations would match established requirements, and it controls fulfilment of established risk limits.

### **3.2. MANAGEMENT OF FINANCIAL RISK RELATED TO THE INVESTMENT OF THE BANK OF LITHUANIA**

Investments made by the Bank of Lithuania, not related to monetary policy operations, are mainly exposed to financial risks, such as market (foreign exchange rate, equity securities and gold price, interest rate), credit (insolvency, credit rating downgrade, counterparty, settlement) and liquidity risks.

Value-at-risk is the basic tool for the evaluation and management of the market risk of the investment portfolio, which is the largest part of financial assets, not related to monetary policy operations. This indicator, also called the risk budget, is calculated for a one year period at a 95% confidence level and cannot exceed €150 million. The application of the risk budget ensures integral management of market risk, more flexible use of various investment strategies as well as one indicator for the overall assessment of both equity and debt securities risk. The model used for the calculation of value-at-risk considers past patterns and the forecasted macroeconomic environment. As at 31 December 2019, the risk value of the investment portfolio amounted to €117 million and was €16 million higher than at the end of 2018.

In pursuit of a credible risk management system, other market risk management instruments are combined with the risk budget instrument.

For managing foreign exchange rate risk related to financial assets, which do not correspond to liabilities in foreign currencies, limits for open currency positions (except for a separate reserve portfolio denominated in US dollars, with an exchange rate risk that is not hedged) are established. In 2019, the maximum allowable reserve portfolio risk budget of \$25 million was set. At the end of the year, its value stood at \$16 million.

Exchange rate risk related to financial assets corresponding to liabilities in foreign currencies is eliminated by investing in the currency of liabilities. For managing foreign exchange rate and interest rate risks, the Bank of Lithuania widely uses financial derivatives.

Credit risk is managed by dealing only with reliable financial institutions, investing only in investment grade financial instruments. Taking into account the credibility of the counterparty or issuer, limits on the liabilities to the Bank of Lithuania by issuers, counterparties and their groups are established. These limits help diversify credit risk.

Seeking to ensure the liquidity of financial assets, which do not correspond to liabilities in foreign currencies, a part of such financial assets is invested in very safe and liquid government debt securities. Liquidity risk related to financial assets that are linked to liabilities is managed by combining the duration of liabilities and corresponding investments.

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

Appropriate investment allocation plays an important role in financial risk management, seeking to reduce the concentration of investment. To ensure diversification, the Bank of Lithuania uses the risk parity strategy. The Bank of Lithuania also invests in exchange traded funds linked to well-diversified equity and debt securities market indexes.

All financial derivatives are included in the measurement of the market and credit risk of the Bank of Lithuania's financial assets investment.

## **4. FINANCIAL ACCOUNTING PRINCIPLES ON OPERATIONS RELATED TO PARTICIPATION IN THE EUROSISTEM**

This chapter covers the accounting principles of claims and liabilities as well as income, and expenses arising from operations related to participation in the Eurosystem.

### **4.1. PARTICIPATING INTEREST IN ECB CAPITAL**

The shares of NCBs in the subscribed capital of the ECB depend on the established key for ECB capital subscription, which is adjusted, in accordance with Article 29 of the Statute of the European System of Central Banks (hereinafter – ESCB) and of the ECB, every five years, on the basis of population and GDP data provided by the European Commission. The most recent adjustment came into effect on 1 January 2019.

## Participating interest of NCBs of the EU Member States in the ECB capital

NCB	Capital key as at 31 December 2019, %	Paid-up capital as at 31 December 2019, EUR	Eurosystem capital key as at 31 December 2019, %
Nationale Bank van België / Banque Nationale de Belgique	2.5280	273,656,179	3.63127
Deutsche Bundesbank	18.3670	1,988,229,048	26.38270
Eesti Pank	0.1968	21,303,614	0.28269
Banc Ceannais na hÉireann / Central Bank of Ireland	1.1754	127,237,133	1.68837
Bank of Greece	1.7292	187,186,022	2.48385
Banco de España	8.3391	902,708,165	11.97844
Banque de France	14.2061	1,537,811,329	20.40590
Banca d'Italia	11.8023	1,277,599,809	16.95304
Central Bank of Cyprus	0.1503	16,269,986	0.21589
Latvijas Banka	0.2731	29,563,094	0.39229
Lietuvos bankas	0.4059	43,938,704	0.58304
Banque centrale du Luxembourg	0.2270	24,572,766	0.32607
Bank Ċentrali ta'Malta / Central Bank of Malta	0.0732	7,923,905	0.10515
De Nederlandsche Bank	4.0677	440,328,813	5.84292
Oesterreichische Nationalbank	2.0325	220,018,269	2.91952
Banco de Portugal	1.6367	177,172,891	2.35099
Banka Slovenije	0.3361	36,382,849	0.48278
Národná banka Slovenska	0.8004	86,643,357	1.14971
Suomen Pankki – Finlands Bank	1.2708	137,564,190	1.82540
<b>Subtotal for euro area NCBs</b>	<b>69.6176</b>	<b>7,536,110,122</b>	<b>100.00000</b>
Българска народна банка (Bulgarian National Bank)	0.8511	3,454,936	–
Česká národní banka	1.6172	6,564,826	–
Danmarks Nationalbank	1.4986	6,083,383	–
Hrvatska narodna banka	0.5673	2,302,885	–
Magyar Nemzeti Bank	1.3348	5,418,457	–
Narodowy Bank Polski	5.2068	21,136,368	–
Banca Națională a României	2.4470	9,933,297	–
Sveriges Riksbank	2.5222	10,238,562	–
Bank of England	14.3374	58,200,921	–
<b>Subtotal for non-euro area NCBs</b>	<b>30.3824</b>	<b>123,333,636</b>	<b>–</b>
<b>Total</b>	<b>100.0000</b>	<b>7,659,443,757</b>	<b>100.00000</b>

The contribution of the Bank of Lithuania to the ECB capital is presented in Note 10 "Participating interest in the ECB".

## 4.2. FOREIGN RESERVES TRANSFERRED TO THE ECB

Pursuant to Article 48 and Article 30 of the Statute of the ESCB and of the ECB, the NCBs, when joining the Eurosystem, transfer their share of foreign reserves to the ECB, applying the ratio of the number of shares subscribed by the NCB concerned and the number of shares already paid up by the other NCBs.

Given the adjustment to the capital key on 1 January 2019, foreign reserve assets, transferred by the NCBs, comprise the amount of €40,344 million (until 31 December 2018 they amounted to €40,793 million). The share of foreign reserve assets, transferred to the ECB by the Bank of Lithuania, is reported under "Claims equivalent to the transfer of foreign reserves" (see Note 11).

The remuneration of foreign reserves transferred to the ECB (except for the gold component) is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.<sup>7</sup>

#### 4.3. LENDING TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

**Main refinancing operations.** These are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. These operations play a key role in achieving the aims of the steering interest rate, managing market liquidity and signalling the monetary policy stance.

**Longer-term refinancing operations.** These operations aim to provide counterparties with additional longer-term refinancing. In 2019, operations with maturities between 3 and 48 months were conducted. In 2016, the Governing Council of the ECB introduced a series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of full or partial repayment after two years. Additionally, in 2019 the Governing Council of the ECB introduced a new series of seven quarterly targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of full or partial repayment after two years. According to the decisions taken by the Governing Council of the ECB, the final interest rate applicable to each TLTRO III operation can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Given that the rate for accruing interest will only be known starting from 2021 and that a reliable estimate is not possible until that time, the deposit facility rate is used for calculating the TLTRO III interest for 2019, as this was deemed a prudent approach.

**Fine-tuning reverse operations.** They aim to regulate the market liquidity situation and steer interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, they are executed on an *ad hoc* basis.

**Structural reverse operations.** These are reverse open-market transactions through standard tenders to enable the Eurosystem to adjust its structural liquidity position *vis-à-vis* the financial sector.

**Marginal lending facility.** The marginal lending facility is a standing facility provided by the Eurosystem, which may be used by counterparties to obtain overnight liquidity from NCBs at a pre-specified interest rate against eligible assets.

**Credits related to margin calls.** They refer to cash paid to counterparties in those instances where the market value of the collateral exceeds an established trigger point implying an excess of collateral with respect to outstanding monetary policy operations.

As at 31 December 2019, the total Eurosystem NCB's holding of monetary policy assets amounted to €624,233 million (as at 31 December 2018 – €734,382 million). The share of monetary policy assets held by the Bank of Lithuania is presented in Note 6 "Lending to euro area credit institutions related to monetary policy operations denominated in euro".

Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. For specific collateral, which can be accepted by the NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

#### 4.4. SECURITIES HELD FOR MONETARY POLICY PURPOSES

As at 31 December 2019, the securities held by the ECB and NCBs amounted to €2,632,056 million (as at 31 December 2018 – €2,651,281 million); they were acquired within the scope of three covered bond purchase programmes, the Securities Markets Programme, the asset-backed securities purchase programme, the public sector purchase programme<sup>8</sup> and the corporate sector purchase programme.

On 1 November 2019 the Eurosystem restarted its net purchases of securities under the asset purchase programme<sup>9</sup> at a monthly pace of €20 billion on average. This followed a period of ten months since the end of 2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under the asset purchase programme. The Governing Council of the ECB expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council of the ECB also intends to continue the reinvestments for an extended period of time past the date when the Governing Council of the ECB starts raising the key ECB interest rates, and in any case, for as long as necessary, maintain favourable liquidity conditions and an ample degree of monetary accommodation.

<sup>7</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2018 and 2019.

<sup>8</sup> Decision of the ECB of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121, 14.5.2015, p. 20.

<sup>9</sup> The asset purchase programme consists of the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector purchase programme and the corporate sector purchase programme. Further information on the asset purchase programme can be found on the [ECB website](#).



Securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment. In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from holdings of securities purchased under the third covered bond purchase programme, the Securities Markets Programme and the corporate sector purchase programme, as well as securities of supranational organisations purchased under the public sector purchase programme (totalling €695,824 million as at 31 December 2019), if they were to be materialised, are shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key. Losses from holdings of securities purchased under the first and second covered bond purchase programmes, as well as securities of government purchased under the public sector purchase programme are covered by the NCBs concerned.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under all these programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end. Upon assessing that the value of a security is impaired, in accordance with the prudence principle, a provision against losses in monetary policy operations is established. Impairment losses materialising from securities held for monetary policy purposes, which are proportionally shared in full by all the Eurosystem NCBs, are recognised as part of the net result of monetary income pooling (see Note 29 "Provisions" and Note 36 "Net result of pooling of monetary income").

The value of securities holdings of the Bank of Lithuania is presented in Note 8 "Securities held for monetary policy purposes".

#### 4.5. LIABILITIES TO EURO AREA CREDIT INSTITUTIONS, RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

**Current accounts (covering the minimum reserve system).** These are the balances on the current accounts of credit institutions with NCBs that are required to hold minimum reserves.

**Deposit facility.** Deposit facility is a liquidity absorbing standing facility provided by the Eurosystem, which counterparties can use to make overnight deposits with NCBs at the pre-specified rate.

**Fixed-term deposits.** These liabilities relate to liquidity-absorbing fine-tuning operations for a fixed term and with a fixed rate of interest.

**Fine-tuning reverse operations.** Fine-tuning reverse operations are liquidity-absorbing reverse operations used to offset high liquidity imbalances.

**Deposits related to margin calls.** They refer to cash received from counterparties in those instances where the market value of the collateral has fallen below an established trigger point implying a shortfall of collateral to cover the outstanding monetary policy operations.

#### 4.6. PARTICIPATION IN TARGET2

Cross-border payments in the EU settled in TARGET2<sup>10</sup> give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position *vis-à-vis* only the ECB. Intra-Eurosystem balances of the Bank of Lithuania *vis-à-vis* the ECB arising from TARGET2 are disclosed under the Balance Sheet items "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)".

#### 4.7. ALLOCATION OF MONETARY INCOME

Monetary income of the Eurosystem, accruing to the NCBs in the performance of the ESCB's monetary policy functions, is calculated and allocated among the NCBs at the end of each financial year in proportion to their Eurosystem capital key in accordance with Article 32 of the Statute of the ESCB and of the ECB.

The amount of the Eurosystem NCBs' monetary income is determined by measuring actual income, which they derive from the earmarkable assets held against its liability base.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserves to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; accrued interest on monetary policy operations, the maturity of which is one year or longer; a limited amount of each NCB's gold holdings in proportion to each NCB's capital key share.

The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities

<sup>10</sup> The Trans-European Automated Real-time Gross settlement Express Transfer system.

resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

Interest paid on the liability base items and (or) on the earmarkable assets items is deducted from the NCB's monetary income derived from these items. The difference between the NCB's earmarkable asset value and its liability base value shall be offset by applying the difference of the latest available marginal rate for the Eurosystem's main refinancing operations.<sup>11</sup> Furthermore, for monetary income calculation purposes, gold is considered to generate no income, and securities held for monetary policy purposes under both Decision ECB/2009/16 on the implementation of the first covered bond purchase programme and Decision ECB/2011/17 on the implementation of the second covered bond purchase programme, as well as government securities under Decision ECB/2015/10 on the implementation of a secondary markets public sector asset purchase programme, are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

After pooling of the annual monetary income of the Eurosystem and reallocation to NCBs in proportion to their subscribed capital keys, the differences between the NCBs' pooled monetary income and allocated in proportion to the Eurosystem capital key are settled among the NCBs' via TARGET2. The net result arising from the reallocation of monetary income for the Bank of Lithuania is disclosed in Note 36 "Net result of pooling of monetary income".

#### 4.8. MANAGEMENT OF NET FINANCIAL ASSETS

The Agreement on Net Financial Assets is an agreement between the Eurosystem NCBs and the ECB, which sets the maximum amount of net financial assets of each NCB and the ECB held for non-monetary policy purposes and its management. The net financial assets covered by the agreement are mainly formed using liability base funds received from monetary policy operations that are temporarily free from performing monetary policy operations at that time (see section 4.7 of the Accounting Policy "Allocation of monetary income"). Such assets are usually comprised of gold and foreign currency reserves, investments in euro.

The Bank of Lithuania determines the amount of financial assets, taking into consideration market conditions as well as investment opportunities and restrictions; however, the average amount of financial assets cannot be above the maximum amount of net financial assets set in accordance with the agreement, i.e.

€5,856 million. In 2019, as in 2018, the amount of net financial assets of the Bank of Lithuania met the provisions of the Agreement.

#### 4.9. THE ECB PROFIT DISTRIBUTION

Unless otherwise decided by the Governing Council of the ECB, the ECB distributes seigniorage income, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities acquired under securities programmes (the securities markets programme, the third covered bond purchase programme, the asset-backed securities purchase programme and the public sector asset purchase programme), by means of an interim distribution of profit in January of the following year.<sup>12</sup> It is distributed in full, unless it exceeds the ECB's net profit for the year, and is subject to any decisions by the Governing Council of the ECB to make transfers to the provisions for financial risks. The result from ECB interim profit distribution is recorded by the euro area NCBs as income of the financial year when this income was accrued, not received.

After the Governing Council approves the ECB annual accounts, the remaining profit is distributed to the shareholders of the ECB in proportion to the Eurosystem capital key, pursuant to Article 33 of the Statute of the ESCB and of the ECB. The result from the ECB final profit distribution is recorded by the NCBs as income of the financial year when this income was received.

The received distribution of the ECB profit is disclosed in the Profit and Loss Account item 4 "Income from equity instruments" (see Note 35 "Income from equity instruments").

### 5. POST-BALANCE SHEET EVENTS

#### 5.1. ON THE DEPARTURE OF THE UNITED KINGDOM FROM THE EU

As a result of the departure of the United Kingdom from the EU and consequent withdrawal of the Bank of England from the ESCB, the weights assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted, coming into effect from 1 February 2020, as follows:

<sup>11</sup> The marginal interest rate used by the Eurosystem in its tenders for main refinancing operations was 0% in 2018 and 2019.

<sup>12</sup> Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24, as amended.

NCB	Capital key from 1 February 2020, %	Capital key until 31 January 2020, %
Nationale Bank van België /Banque Nationale de Belgique	2.9630	2.5280
Deutsche Bundesbank	21.4394	18.3670
Eesti Pank	0.2291	0.1968
Banc Ceannais na hÉireann / Central Bank of Ireland	1.3772	1.1754
Bank of Greece	2.0117	1.7292
Banco de España	9.6981	8.3391
Banque de France	16.6108	14.2061
Banca d'Italia	13.8165	11.8023
Central Bank of Cyprus	0.1750	0.1503
Latvijas Banka	0.3169	0.2731
Lietuvos bankas	0.4707	0.4059
Banque centrale du Luxembourg	0.2679	0.2270
Bank Ċentrali ta'Malta / Central Bank of Malta	0.0853	0.0732
De Nederlandsche Bank	4.7662	4.0677
Oesterreichische Nationalbank	2.3804	2.0325
Banco de Portugal	1.9035	1.6367
Banka Slovenije	0.3916	0.3361
Národná banka Slovenska	0.9314	0.8004
Suomen Pankki – Finlands Bank	1.4939	1.2708
<b>Subtotal for euro area NCBs</b>	<b>81.3286</b>	<b>69.6176</b>
Българска народна банка (Bulgarian National Bank)	0.9832	0.8511
Česká národní banka	1.8794	1.6172
Danmarks Nationalbank	1.7591	1.4986
Hrvatska narodna banka	0.6595	0.5673
Magyar Nemzeti Bank	1.5488	1.3348
Narodowy Bank Polski	6.0335	5.2068
Banca Națională a României	2.8289	2.4470
Sveriges Riksbank	2.9790	2.5222
Bank of England	0.0000	14.3374
<b>Subtotal for non-euro area NCBs</b>	<b>18.6714</b>	<b>30.3824</b>
<b>Total</b>	<b>100.0000</b>	<b>100.0000</b>

The ECB kept its subscribed capital unchanged at €10,825,007 thousand after the withdrawal of the Bank of England from the ESCB. The share of the Bank of England in the ECB's subscribed capital, which stood at 14.3%, was reallocated among the euro area NCBs and the remaining non-euro area NCBs. As a result, the Bank of Lithuania's share in the ECB's subscribed capital increased by 16%.

The ECB's paid-up capital will also remain unchanged at €7,659,444 thousand in 2020, as the remaining NCBs will cover the Bank of England's paid-up capital of €58,201 thousand after its withdrawal. As a result of the adjustment to the capital key, €47 thousand from the contribution to the ECB capital was repaid to the Bank of Lithuania in 2020. Furthermore, euro area NCBs will then pay up in full their increased subscriptions to the ECB capital in two additional annual instalments. As a result, the Bank of Lithuania will transfer to the ECB an amount of €3,531 thousand in 2021 and again the same amount in 2022.

Pursuant to Article 30.2 of the Statute of the ESCB and of the ECB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital. Following the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from the Bank of England's withdrawal from the ESCB and a decision of the Governing Council of the ECB to reduce the proportion of the euro area NCBs contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level, the claim equivalent to this transfer was marginally adjusted. This resulted in

a decrease in the Bank of Lithuania's claims equivalent to the transfer of foreign reserves by €1,727 thousand and as from 1 February 2020 comprised the amount of €233,496 thousand.

## 5.2. ON THE OUTBREAK OF THE CORONAVIRUS (COVID-19)

In order to prevent the high risks to the growth prospects of Lithuania and the euro area as a whole from the COVID-19 outbreak and its rapid expansion, from March 2020, the Bank of Lithuania and the ECB have taken measures to enable all sectors of the economy to benefit from favourable financing conditions and withstand this shock. The Governing Council of the ECB has launched a new Pandemic Emergency Purchase Programme with an envelope of €750 billion until the end of 2020. In addition, measures that allowed broadening the list of eligible assets in the corporate sector purchase programme and lowering standards for applying for collateral, have been announced. Also, temporary measures, which help release capital and liquidity requirements for banks, have been taken. The Bank of Lithuania also released 1% of the countercyclical capital buffer accumulated by banks during the upswing. All these measures will allow banks to lend more to business and the general public.

The Bank management regards the outbreak of the pandemic as a non-adjusting post-balance sheet event; therefore, the financial results for 2019 are not adjusted. At the current stage of the pandemic, the Bank of Lithuania's management is unable to estimate reliably the potential impact of the COVID-19 outbreak on the financial results of the Bank of Lithuania for 2020. However, on the date of approval of the financial statements for 2019, the impact on these results is considered to be insignificant. This is due to the fact that a large part of the Bank of Lithuania's funds are invested in highly reliable government securities, and their value remains stable even in times of crisis. Furthermore, applying the precautionary principle established in the Accounting Guidelines, unrealised revaluation gains arising from revaluation of a separate financial item at market price and market rate are not recognised as income but are recognised in revaluation accounts (see Note 30). This makes it possible to effectively absorb temporary fluctuations in the price of financial instruments. If the unrealised revaluation loss on separate financial instrument transactions or issues exceeds the cumulative revaluation surplus on those instruments, it could be covered by provisions for financial risks (see Note 29 and section 2.14 of the Explanatory Notes "Provisions for covering financial risks and liabilities"), which on the date of approval of the financial statements amounted to €286 million.

## 6. NOTES ON THE BALANCE SHEET

### NOTE 1. GOLD AND GOLD RECEIVABLES

	31 December 2019	31 December 2018
Gold holdings in		
Troy ounces	187,207	187,171
Kilograms	5,823	5,822
Price per one Troy ounce, EUR	1,354.104	1,120.961
<b>Value of gold, EUR thousands</b>	<b>253,498</b>	<b>209,811</b>

The gold held by the Bank of Lithuania as at 31 December 2019, the same as at 31 December 2018, was invested in gold swaps.

Compared to 2018, gold holdings in 2019 slightly increased due to differences in the weight of gold bars arising from settlements of gold investment transactions.

The overall increase in the value of gold was caused by the rise in the price of gold in the financial markets in 2019.

### NOTE 2. RECEIVABLES FROM THE IMF

EUR thousands		
	31 December 2019	31 December 2018
Balance in the SDR account with the IMF	169,704	166,867
Reserve tranche position in the IMF	56,802	34,073
Lithuania's quota in the IMF	545,673	536,724
Balance in the IMF account No 1 with the Bank of Lithuania	(488,872)	(502,651)
<b>Total</b>	<b>226,506</b>	<b>200,940</b>

The major part of the SDR balance in the SDR account with the IMF, managed by the Bank of Lithuania, is comprised of SDR 137,239 thousand, allocated to the Republic of Lithuania by the IMF in 2009, the counterpart (€169,339 thousand) of which is disclosed under the Balance Sheet of the Bank of Lithuania liability item 9 "Counterpart of special drawing rights allocated by the IMF". The Bank of Lithuania receives interest on balance in the SDR account with the IMF and pays interest on SDR allocated to the Republic of Lithuania by the IMF.

The increase in the euro equivalent value of the SDR balance in the SDR account with the IMF was mainly due to the appreciation of the SDR against the euro in 2019.

On behalf of the Republic of Lithuania, the Bank of Lithuania performs the fiscal agency function of the IMF. In performing these functions, the Bank of Lithuania has the participation and voting right in the IMF, which is reflected by Lithuania's quota in the IMF. In addition, the Bank of Lithuania has liabilities to the IMF, which are presented in the IMF account No 1 with the Bank of Lithuania. Since 2018, the Bank of Lithuania has carried out the financial operations of the IMF on behalf of the Republic of Lithuania using the financial assets of the Bank of Lithuania.

The increase in the reserve tranche position in the IMF as at 31 December 2019, compared to 31 December 2018, was due to participation in the Financial Transactions Plan. Under this Plan, the Bank of Lithuania contributed additional financing amounted to SDR 18 million in 2019 (SDR 28 million in 2018). The Bank of Lithuania receives interest on funds transferred under the Financial Transactions Plan.

### NOTE 3. BALANCES WITH BANKS AND SECURITY INVESTMENTS, EXTERNAL LOANS AND OTHER EXTERNAL ASSETS DENOMINATED IN FOREIGN CURRENCY

This Balance Sheet item consists of the Bank of Lithuania's balances with credit institutions, investments in securities and reverse repurchase agreements of non-euro area residents denominated in foreign currency.

EUR thousands

	USD	JPY	CZK	GBP	CAD	Other	Total
<b>31/12/2019</b>							
Balances in current accounts	576	1,479,687	744,790	1,482	1,203	274,062	2,501,800
Debt securities	1,044,683	–	–	236,862	230,991	91,430	1,603,965
Marketable equity securities	329,871	–	–	–	–	–	329,871
Reverse repurchase agreements	348,496	–	–	–	–	–	348,496
<b>Total</b>	<b>1,723,625</b>	<b>1,479,687</b>	<b>744,790</b>	<b>238,344</b>	<b>232,194</b>	<b>365,492</b>	<b>4,784,132</b>
<b>31/12/2018</b>							
Balances in current accounts	2,159	1,489,268	641,126	1,525	3,176	321,048	2,458,302
Debt securities	1,885,517	–	–	191,890	152,452	88,215	2,318,074
Marketable equity securities	482,978	–	–	–	–	–	482,978
Reverse repurchase agreements	1,397	–	–	–	–	–	1,397
<b>Total</b>	<b>2,372,051</b>	<b>1,489,268</b>	<b>641,126</b>	<b>193,415</b>	<b>155,628</b>	<b>409,263</b>	<b>5,260,751</b>

The Bank of Lithuania manages financial investments using funds temporarily free from performing the single monetary policy (see section 4.8 of the Accounting Policy "Management of net financial assets").

At the end of 2019, the same as at the end of 2018, the balances in current accounts denominated in Japanese yen were higher than average during the year due to short-term transactions conducted so as to benefit from favourable conditions in the money market at the year end.

In 2019, the Bank of Lithuania temporarily reduced its investments in debt securities and in exchange traded fund units denominated in US dollars.

### Breakdown of balances with banks and security investments, external loans and other external assets by the economic area of residence of the issuer and counterparty

EUR thousands

	31 December 2019	31 December 2018
USA	1,673,936	2,263,812
Japan	1,505,531	1,510,516
Non-euro area EU Member States	953,725	810,996

Switzerland	273,856	320,851
Canada	268,445	197,674
China	91,626	88,400
Other countries	17,014	68,500
<b>Total</b>	<b>4,784,132</b>	<b>5,260,751</b>

#### NOTE 4. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

EUR thousands

	USD	CAD	Other	Total
<b>31/12/2019</b>				
Balances in current accounts	2,008	465	235	2,707
<b>Total</b>	<b>2,008</b>	<b>465</b>	<b>235</b>	<b>2,707</b>
<b>31/12/2018</b>				
Balances in current accounts	60	61	49	170
Debt securities	71,820	–	–	71,820
<b>Total</b>	<b>71,880</b>	<b>61</b>	<b>49</b>	<b>71,990</b>

#### NOTE 5. CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN EURO

This Balance Sheet item consists of the Bank of Lithuania's balances in current accounts with non-euro area residents denominated in euro.

In 2019, balances in current accounts decreased due to repaid cash collateral (€900 thousand), which ensured the discharge of the Bank of Lithuania obligations to the counterparty under transactions outstanding.

#### NOTE 6. LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

EUR thousands

	31 December 2019	31 December 2018
Longer-term refinancing operations	48,000	173,000
Marginal lending facility	–	16,166
<b>Total</b>	<b>48,000</b>	<b>189,166</b>

Descriptions of these operations are presented in section 4.3 of the Explanatory Notes "Lending to euro area credit institutions denominated in euro".

In 2019, no impairment losses from these monetary policy operations were incurred by the Bank of Lithuania.

#### NOTE 7. OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

This item consists of the Bank of Lithuania's balances in current accounts with credit institutions which do not relate to monetary policy operations. As at 31 December 2019, the balances in current accounts amounted to €3,325 thousand (as at 31 December 2018 – €360 thousand), part of which (€3,100 thousand) was provided as collateral to the counterparty in the form of cash to ensure the discharge of the Bank of Lithuania obligations under transactions outstanding.

#### NOTE 8. SECURITIES HELD FOR MONETARY POLICY PURPOSES

This item consists of the Republic of Lithuania government and supranational securities acquired by the Bank of Lithuania within the scope of the public sector purchase programme (see section 4.4. of the Explanatory Notes "Securities held for monetary policy purposes").

EUR thousands

Public sector purchase programme	31 December 2019		31 December 2018	
	Amortised cost	Market value	Amortised cost	Market value
Supranational securities	8,194,878	8,792,363	8,908,182	8,937,537
The Republic of Lithuania government securities	2,357,798	2,441,604	1,847,379	1,859,293
<b>Total</b>	<b>10,552,676</b>	<b>11,233,967</b>	<b>10,755,562</b>	<b>10,796,829</b>



The market value of the securities presented in the table is not recorded on the Balance Sheet or in the Profit and Loss Account but is provided for presentation purposes only.

As a result of an impairment test conducted as at 31 December 2019 on securities purchased under the public sector purchase programme, the Governing Council of the ECB decided that all future cash flows on these securities were expected to be received, therefore no impairment losses from securities held by the Bank of Lithuania were incurred in 2019.

## NOTE 9. OTHER SECURITIES

The Bank of Lithuania's investments in debt and marketable equity securities by euro area residents, presented in this item, were marked to market in 2019 and 2018.

EUR thousands

	31 December 2019	31 December 2018
Marketable equity securities	730,350	701,674
Debt securities	–	184,176
<b>Total</b>	<b>730,350</b>	<b>885,850</b>

As at 31 December 2019, holdings of debt securities decreased due to implementation of changes in active investment.

## NOTE 10. PARTICIPATING INTEREST IN THE ECB

EUR thousands

	31 December 2019	31 December 2018
Contribution of the Bank of Lithuania to the ECB capital	43,939	44,729
Contribution of the Bank of Lithuania to the reserves of the ECB and to provisions, equivalent to reserves	162,454	162,454
<b>Total</b>	<b>206,393</b>	<b>207,183</b>

Pursuant to Article 29 of the Statute of the ESCB and of the ECB, shares of the NCBs in the subscribed capital of the ECB are adjusted every five years on the basis of population and GDP data provided by the European Commission. The most recent such adjustment took effect on 1 January 2019.

Consequently, the Bank of Lithuania's share in the subscribed capital of the ECB decreased by 0.0073 percentage point and amounts to 0.4059% as of 1 January 2019.

Given the decrease of the Bank of Lithuania's share in the paid-up capital of the ECB, €790 thousand from the contribution to the ECB capital was repaid to the Bank of Lithuania on 1 January 2019 and with effect from that date, the share of the Bank of Lithuania in the subscribed and paid-up capital of the ECB comprises €43,939 thousand.

The Bank of Lithuania, pursuant to Article 48.2 of the Statute of the ESCB and of the ECB, has contributed €162,454 thousand to the reserves of the ECB and to provisions equivalent to reserves.

## NOTE 11. CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

Upon joining the Eurosystem, the Bank of Lithuania, pursuant to Article 48.1 of the Statute of the ESCB and of the ECB, transferred its share of foreign reserves to the ECB.

Claims equivalent to the transfer of foreign reserves of the Bank of Lithuania, shown in this Balance Sheet item, comprised €239,454 thousand until 1 January 2019. These claims were determined by multiplying the amount of the foreign reserves already transferred to the ECB at historical exchange rates (31 December 1998) by the ratio between the number of shares subscribed by the NCB concerned and the number of shares already paid up by the other NCBs.

The adjustment to the ECB capital key entailed a change in the Bank of Lithuania's claims equivalent to the transfer of foreign reserves; the respective Balance Sheet item decreased by €4,230 thousand to €235,223 thousand as of 1 January 2019.

## NOTE 12. NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

This item presents the claim of the Bank of Lithuania to the Eurosystem, related to the allocation of euro banknotes within the Eurosystem (see section 2.13 of the Explanatory Notes "Banknotes and coins in

circulation" and Note 18 "Banknotes in circulation"). As at 31 December 2019, compared to 31 December 2018, these net claims of the Bank of Lithuania decreased by €484,872 thousand or 16% due to a higher increase in the nominal value of the banknotes put into circulation by the Bank of Lithuania (21%) compared to the rise in the nominal value of banknotes in circulation in the entire Eurosystem (5%).

### NOTE 13. TANGIBLE AND INTANGIBLE FIXED ASSETS

EUR thousands

	Tangible assets				Intangible assets (including assets under construction)	Right-of-use assets	Total
	Buildings and construction in progress	Cash processing equipment (including assets under construction)	Computer equipment (including assets under construction)	Other tangible assets (including assets under construction)			
Acquisition cost as at 31 December 2018	36,331	5,865	12,523	7,902	11,700	–	74,320
Additions in 2019	24	25	357	99	2,438	1,590	4,533
Disposals in 2019	–	–	(26)	(374)	(9)	–	(410)
Reclassification in 2019	(455)	–	–	455	–	–	–
Acquisition cost as at 31 December 2019	35,899	5,890	12,854	8,082	14,129	1,590	78,444
Accumulated depreciation as at 31 December 2018	(17,406)	(5,124)	(9,926)	(6,296)	(5,900)	–	(44,652)
Depreciation in 2019	(1,372)	(163)	(1,027)	(107)	(1,103)	(412)	(4,184)
Depreciation of disposed assets in 2019	–	–	26	374	0	–	400
Reclassification of depreciation in 2019	191	–	–	(191)	–	–	–
Accumulated depreciation as at 31 December 2019	(18,587)	(5,287)	(10,927)	(6,221)	(7,002)	(412)	(48,437)
<b>Net carrying amount as at 31 December 2019</b>	<b>17,312</b>	<b>603</b>	<b>1,927</b>	<b>1,861</b>	<b>7,126</b>	<b>1,178</b>	<b>30,007</b>
<b>Net carrying amount as at 31 December 2018</b>	<b>18,924</b>	<b>741</b>	<b>2,597</b>	<b>1,605</b>	<b>5,800</b>	<b>–</b>	<b>29,668</b>

A significant impact on the increase (by €2,309 thousand) of intangible fixed assets in 2019 came from the recognition of two intangible asset items internally generated by way of projects. A part of this cost (€149 thousand) was comprised of the depreciation of the assets used for these projects; therefore, depreciation of tangible and intangible fixed assets presented in the Profit and Loss Account is lower than depreciation accumulated during 2019.

As at 1 January 2019, two objects under rental contracts were recognised as right-of-use assets (see section 2.12 of the Explanatory Notes "Leases"). In 2019, two other rental contracts were conducted, under which the acquisition cost of right-of-use assets amounted to €907 thousand.

In 2017, the Board of the Bank of Lithuania made a decision to implement the renovation project of the Bank of Lithuania's premises situated in Vilnius, at Žirmūnų g. 151. During the implementation of this project, in fall 2019 part of the premises were recognised as unusable due to functional (technological) depreciation and impediment to the reconstruction of existing buildings and territories. They are planned to be dismantled in 2020. Part of the assets contained in the buildings to be dismantled was reclassified as separate items of other tangible assets. The Bank of Lithuania has not concluded any transactions with the mortgage of tangible assets of the Bank of Lithuania.

### NOTE 14. OTHER FINANCIAL ASSETS

This item presents the Bank of Lithuania's investments in non-marketable equity instruments, the price of which is not quoted in the market, as well as the Bank of Lithuania's balances in current accounts with euro area residents (non-credit institutions) denominated in euro.

EUR thousands

	31 December 2019	31 December 2018
Balances in current accounts	7,997	934
Bank for International Settlements shares	3,334	3,334
SWIFT shares	100	100
<b>Total</b>	<b>11,431</b>	<b>4,368</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 €3,334 thousand and the nominal value per share is SDR 5,000. The Bank of Lithuania received €321 thousand in dividends for these BIS shares in 2019 (€304 thousand in 2018).

The Bank of Lithuania holds 24 SWIFT shares with the acquisition cost of €100 thousand. Dividends are not paid for these shares.

#### NOTE 15. OFF-BALANCE-SHEET INSTRUMENTS REVALUATION DIFFERENCES

These items represent the revaluation of foreign currency to be paid and received under foreign exchange transactions due to changes in the market rates and the revaluation of non-deliverable foreign exchange forward transactions, interest rate swaps and forward transactions in securities due to market price movements.

EUR thousands

	31 December 2019		31 December 2018	
	Positive differences	Negative differences	Positive differences	Negative differences
Foreign exchange transactions	21,324	42,458	54,012	75,733
Interest rate swaps	5,034	2,667	348	526
Non-deliverable foreign exchange forwards	2,217	1,616	959	2,010
Forward transactions in securities	1	1	3	5
<b>Total</b>	<b>28,576</b>	<b>46,742</b>	<b>55,324</b>	<b>78,275</b>

#### NOTE 16. ACCRUALS AND PREPAID EXPENSES

EUR thousands

	31 December 2019	31 December 2018
Accrued interest income	64,998	61,855
On securities held for monetary policy purposes	47,930	44,320
On financial derivatives	10,353	8,548
On other securities	5,109	7,910
On accounts and deposits	1,606	1,075
Other accrued interest	0	3
Debt securities coupon payment purchased	3,555	7,083
Prepaid expenses	1,896	1,261
<b>Total</b>	<b>70,449</b>	<b>70,200</b>

#### NOTE 17. SUNDRY

EUR thousands

	31 December 2019	31 December 2018
Short-term assets	646	540
Advances and other receivables	404	76
Loans to the staff of the Bank of Lithuania	318	370
Dividends receivable	–	1,395
<b>Total</b>	<b>1,369</b>	<b>2,380</b>

Dividends receivable are dividends of marketable equity securities that are recognised as income on their announcement day but not received yet.

**NOTE 18. BANKNOTES IN CIRCULATION**

EUR thousands

	31 December 2019	31 December 2018
Euro banknotes issued by the Bank of Lithuania	4,420,124	3,647,815
Adjustment for banknote allocation in the Eurosystem	3,118,415	3,578,452
The ECB's share of euro banknotes in circulation	(602,979)	(578,143)
<b>Total</b>	<b>6,935,561</b>	<b>6,648,124</b>

This item consists of the Bank of Lithuania's share of total euro banknotes in circulation according to the banknote allocation key (see section 2.13 of the Explanatory Notes "Banknotes and coins in circulation"). As at 31 December 2019, the banknote allocation key was 0.5365% (until 31 December 2018 – 0.54%). The nominal value of euro banknotes actually issued by the Bank of Lithuania in 2019 increased by 21%. As this was less than the allocated amount, the difference of €2,515,437 thousand (compared to €3,000,309 thousand as at 31 December 2018) is shown under the Balance Sheet asset sub-item "Net claims related to the allocation of euro banknotes within the Eurosystem" (see Note 12).

**NOTE 19. LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO**

EUR thousands

	31 December 2019	31 December 2018
Current accounts (covering the minimum reserve system)	7,214,771	5,997,113
Deposits related to margin calls	–	19,000
<b>Total</b>	<b>7,214,771</b>	<b>6,016,113</b>

The minimum reserve balances have been remunerated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.<sup>13</sup> The reserves held in excess of the minimum requirements are remunerated at a lower rate of either 0% or the deposit facility rate. Starting on 30 October 2019, the Governing Council of the ECB introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate was determined as a multiple of 6<sup>14</sup> on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower rate of either 0% or the deposit facility rate. Descriptions of liquidity absorbing monetary policy operations are presented in the Explanatory Notes, section 4.5. "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro".

**NOTE 20. OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO**

As at 31 December 2019, this item presented the balances on the current accounts of credit institutions with the Bank of Lithuania denominated in euro, amounting to €15,675 thousand. As at 31 December 2018, the Bank of Lithuania had no such liabilities.

**NOTE 21. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO**

This item contains the balances on the current accounts of euro area residents with the Bank of Lithuania denominated in euro.

EUR thousands

	31 December 2019	31 December 2018
Liabilities to the general government	2,019,092	893,165
Other liabilities	433,667	118,425
<b>Total</b>	<b>2,452,759</b>	<b>1,011,590</b>

The increase of other liabilities is related to the rise in the number of non-credit institution sector participants in the payment system CENTROLink operated by the Bank of Lithuania (i.e. payment and e-money institutions).

<sup>13</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2018 and 2019.

<sup>14</sup> The multiplier may be adjusted by the Governing Council of the ECB over time in line with changing levels of excess liquidity.

**NOTE 22. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO**

This item presents balances in current accounts of the non-euro area participants of the payment system CENTROLINK operated by the Bank of Lithuania (i.e. payment and e-money institutions), non-euro area NCBs and international institutions with the Bank of Lithuania denominated in euro.

EUR thousands

	31 December 2019	31 December 2018
Balances in current accounts	345,299	122,274
Other liabilities	3,700	800
<b>Total</b>	<b>348,999</b>	<b>123,074</b>

The increase of balances in current accounts is related to the rise in the number of the non-credit institution sector participants in the payment system CENTROLINK operated by the Bank of Lithuania (i.e. payment and e-money institutions), as well as to the new customers (non-euro area NCBs and international organisations), for whom service for the management of accounts denominated in euro was launched in 2019.

**NOTE 23. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY**

This item shows gold swaps in foreign currency concluded by the Bank of Lithuania with euro area financial sector residents, as well as liabilities to the general government, the main part of which consists of balances in current accounts of government institutions in foreign currency.

EUR thousands

	USD	GBP	Total
<b>31/12/2019</b>			
Liabilities to the financial sector	215,721	–	215,721
Liabilities to the general government	157	105	261
<b>Total</b>	<b>215,878</b>	<b>105</b>	<b>215,983</b>
<b>31/12/2018</b>			
Liabilities to the financial sector	216,062	–	216,062
Liabilities to the general government	184	–	184
<b>Total</b>	<b>216,245</b>	<b>–</b>	<b>216,245</b>

**NOTE 24. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY**

As at 31 December 2019, the Bank of Lithuania had no liabilities to non-euro area residents denominated in foreign currency. As at 31 December 2018, this item presents repurchase agreements concluded by the Bank of Lithuania with non-euro area residents and other liabilities in foreign currency with a total value of €47,475 thousand.

**NOTE 25. OTHER LIABILITIES WITHIN THE EUROSISTEM (NET)**

EUR thousands

	31 December 2019	31 December 2018
Balance in TARGET2 account	870,152	5,760,679
Interim distribution of the ECB profit	(8,343)	(6,993)
Distribution of monetary income	(403)	(25,548)
<b>Total</b>	<b>861,406</b>	<b>5,728,138</b>

Other liabilities within the Eurosystem include (1) the intra-Eurosystem balance (net) of the Bank of Lithuania *vis-à-vis* the ECB in respect of the transfers through TARGET2 by the ESCB NCBs and the ECB; (2) the position *vis-à-vis* the ECB in respect of monetary income redistribution's amount receivable (see Note 36 "Net result of pooling of monetary income"); (3) the Bank of Lithuania's position *vis-à-vis* the ECB in respect of any amounts receivable or refundable, including the amount due to the Bank of Lithuania in respect of the ECB's interim profit distribution (see Note 35 "Income from equity instruments").

**NOTE 26. ITEMS IN COURSE OF SETTLEMENT**

As at 31 December 2019, year on year, this item consisted of cash management operations with commercial banks in the course of settlement (respectively €250 thousand and €3,691 thousand).

**NOTE 27. ACCRUALS AND INCOME COLLECTED IN ADVANCE**

EUR thousands

	31 December 2019	31 December 2018
Accrued interest expenses	14,699	16,292
On financial derivatives	14,205	14,922
On monetary policy operations	494	1,359
Other accrued interest expenses	–	10
Other accrued expenses	1,664	1,074
Income collected in advance	38	43
<b>Total</b>	<b>16,402</b>	<b>17,409</b>

The increase in accrued interest expenses on financial derivatives resulted due to the increased accrued interest expenses on foreign exchange forward and swap transactions (as at 31 December 2019, the balance of these items amounted to €8,116 thousand, as at 31 December 2018 – €9,961 thousand).

Accrued interest on monetary policy operations decreased due to repayment of a significant part of the amount borrowed under TLTRO II (see Note 6 “Lending to euro area credit institutions related to monetary policy operations denominated in euro”).

**NOTE 28. SUNDRY**

EUR thousands

	31 December 2019	31 December 2018
Euro coins in circulation	118,336	103,397
Litas banknotes in circulation	84,459	87,443
Litas coins in circulation	32,000	32,095
Sundry	1,826	537
<b>Total</b>	<b>236,621</b>	<b>223,472</b>

As at 31 December 2019, the sundry item included a lease liability of €1,164 thousand (see section 2.12 of the Explanatory Notes “Leases”).

**NOTE 29. PROVISIONS**

EUR thousands

	31 December 2019	31 December 2018
Provisions for risks (see the Explanatory Notes, section 2.14 “Provisions for covering financial risks and liabilities”)	285,870	118,420
Provisions for unrealised impairment loss of monetary policy operations established by the ECB	525	946
Provisions for liabilities related to	4,843	4,188
Termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania	2,015	1,726
Wages and salaries payable for annual leave	2,223	1,914
Termination benefits to the members of the Board as provided in the Law on the Bank of Lithuania	211	172
Provisions for exchanging derecognised litas banknotes and coins	355	376
Provisions for other liabilities	39	–
<b>Total</b>	<b>291,239</b>	<b>123,554</b>

In 2019, the Board of the Bank of Lithuania, based on a risk assessment, made a decision to form additional risk provisions amounting to €167,450 thousand (€16,000 thousand additional provisions for risks were formed in 2018).

In accordance with the decision of the Governing Council of the ECB taken under Article 32.4 of the Statute of the ESCB and the ECB, the provision against credit risks in monetary policy operations is allocated between the NCBs in proportion to their subscribed capital key shares in the ECB prevailing in the year when the initial impairment occurred. As a result of the annual impairment test of the corporate sector purchase programme portfolio, the Governing Council of the ECB has reviewed the appropriateness of the volume of the provision against credit risks established in 2018 and decided to reduce this provision from a total amount of €161,075



thousand as at 31 December 2018 to an amount of €89,388 thousand as at 31 December 2019. The Bank of Lithuania's share in this provision decreased respectively from an amount of €946 thousand to an amount of €525 thousand. The respective decrease in this provision, amounting to €421 thousand, is recognised as income and is presented as part of pooling of monetary income (see Note 36 "Net result of pooling of monetary income").

Provisions for termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania, increase mainly due to the growth in the number of staff and wages and salaries. Provisions for wages and salaries payable for annual leave increased mainly due to the increase in the number of unused annual leave days. The change in these provisions is presented as expenses in Note 39 "Staff costs".

Provisions for the exchange of derecognised litas banknotes and coins are the provisions, formed in 2014, for covering the nominal value of derecognised litas banknotes and coins, which may be returned to the Bank of Lithuania for exchange into euro. A share of these provisions, amounting to €22 thousand, was used in 2019 (compared to €40 thousand in 2018).

As at 31 December 2019, the Bank of Lithuania was a defendant or co-respondent in five legal proceedings related to financial market supervision performed by the Bank of Lithuania. As at the end of 2019, the probability of settlement of the claims in one lawsuit was assessed as high. As a result, provision for the expected liabilities under this case, amounting to €39 thousand, was formed. The probability of settlement of other claims brought against the Bank of Lithuania is assessed as unlikely or insignificant.

### NOTE 30. REVALUATION ACCOUNTS

Revaluation accounts represent unrealised revaluation gains of foreign currency, debt and marketable equity securities, as well as off-balance-sheet financial instruments. Unrealised revaluation gains of financial items, which built up before joining the euro area, are shown separately from other revaluation gains.

EUR thousands

	31 December 2019	31 December 2018
Revaluation accounts		
Pre-system unrealised gains	164,456	164,456
Gold	71,291	27,647
Equity securities	68,814	8,808
Foreign currency	53,913	67,135
Debt securities	17,118	12,249
Financial derivatives	7,251	1,311
<b>Total</b>	<b>382,843</b>	<b>281,606</b>

Unrealised revaluation losses, recognised as expenses at the end of 2019 are presented in Note 33 "Net result of financial operations, write-downs and risk provisions".

### NOTE 31. CAPITAL

#### Statement of changes in equity for 2019

EUR thousands

	31 December 2019	2018 profit distribution	31 December 2018
Capital			
Authorised capital	60,000	–	60,000
Reserve capital	426,052	20,906	405,146
<b>Total</b>	<b>486,052</b>	<b>20,906</b>	<b>465,146</b>

The authorised capital of the Bank of Lithuania amounts to €60,000 thousand and is fully formed.

Pursuant to the Law on the Bank of Lithuania, the Bank of Lithuania's reserve capital must not be lower than five amounts of its authorised capital and can be increased from the Bank of Lithuania's profit by an independent decision of the Board of the Bank of Lithuania, adopted taking into account risks and their likely impact. Reserve capital is used for the Bank of Lithuania's loss absorption.

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

## 7. NOTES ON THE PROFIT AND LOSS ACCOUNT

### NOTE 32. NET INTEREST INCOME

EUR thousands

	2019		2018	
	Interest income	Interest expense	Interest income	Interest expense
Monetary policy operations	79,047	(339)	57,927	(332)
Securities held for monetary policy purposes	57,149	–	41,901	–
Current accounts (covering the minimum reserve system)	21,892	–	15,992	–
Deposits related to margin calls	5	–	34	–
Marginal lending facility	1	–	–	–
Longer-term refinancing operations	–	(339)	–	(332)
Debt securities	51,942	–	56,328	–
Balances in current accounts with the Bank of Lithuania	10,736	–	5,676	–
Reverse repurchase agreements	1,660	–	93	–
Interest rate swaps	389	–	483	–
The Bank of Lithuania's balances in current accounts	–	(553)	–	(3,268)
Repurchase agreements	–	(2,336)	–	(3,050)
Gold swaps	–	(5,943)	–	(4,501)
Foreign exchange transactions	–	(37,383)	–	(29,192)
Other	–	(1)	6	–
Total interest income (expense)	143,774	(46,556)	120,513	(40,343)
<b>Net interest income</b>	<b>97,218</b>		<b>80,171</b>	

In 2019, the net interest income increased by €17,048 thousand, compared to 2018, mainly due to the growth in net interest income from monetary policy operations and balances in current accounts with the Bank of Lithuania. The growth in interest income from securities held for monetary policy purposes was caused in 2019 by redeemed short-term securities with relatively lower yields, which in previous periods reduced the result of the entire public sector purchase programme portfolio (see Note 8 "Securities held for monetary policy purposes"). Interest income also increased due to higher balances in current accounts with the Bank of Lithuania (mainly excess reserve holdings) and a negative deposit facility rate (–0.5%).

The decrease in the net interest income was caused by the interest expense on foreign exchange transactions resulting from the increased volume of these foreign exchange currency risk hedging transactions related to active investment management.

### NOTE 33. NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

This item includes (a) net income (expense) related to the sale transactions of financial instruments, gold and foreign currency; (b) write-downs of financial items, which consist of unrealised revaluation loss as a result of the decline in market prices and rates on 31 December 2019 as compared to the average prices and rates of these items; and (c) additional provisions for financial risks, formed, by a decision of the Board of the Bank of Lithuania, based on the assessment of the level of accounting risk assumed.

EUR thousands

	2019	2018
<b>Net realised gains (losses) arising from</b>	<b>101,167</b>	<b>(25,544)</b>
Transactions in securities	80,744	(18,525)
Transactions in foreign currency	35,365	(8,348)
Interest rate derivatives	(14,943)	1,329
<b>Write-downs on financial items</b>	<b>(6,392)</b>	<b>(23,527)</b>
Financial derivatives	(4,271)	(2,542)
Securities	(2,014)	(20,969)
Foreign currency	(108)	(16)
<b>Transfers to provisions for risks</b>	<b>(167,450)</b>	<b>(16,000)</b>
<b>Net result of financial operations, write-downs and risk provisions</b>	<b>(72,676)</b>	<b>(65,071)</b>

The increase in net realised gains was mainly due to realised price and exchange rate gains generated in the US dollar portfolio.

### NOTE 34. NET INCOME FROM FEES AND COMMISSIONS

EUR thousands

	2019	2018
Fees and commissions income	7,705	7,426
Contributions of supervised financial market participants	6,021	5,922
Settlement services	1,131	705
Security lending	235	451
Other services	319	348
Fees and commissions expense	(2,189)	(3,049)
Financial instruments	(1,950)	(2,761)
Other	(239)	(288)
<b>Net income from fees and commissions</b>	<b>5,516</b>	<b>4,377</b>

Pursuant to the Law on the Bank of Lithuania, the costs of financial market supervision are funded by the contributions of supervised financial market participants and own funds of the Bank of Lithuania. In 2019, the Bank of Lithuania collected contributions amounting to €5,648 thousand to cover the costs of financial market supervision (in 2018 – €5,617 thousand) and contributions of financial market participants amounting to €373 thousand to finance the activity of the financial sector resolution authority (in 2018 – €305 thousand).

Income from settlement services increased due to the rise in the number of participants in the payment system CENTROLink operated by the Bank of Lithuania and their payments.

In 2019, fees and commissions expenses decreased mainly due to less fees paid in relation to interest rate futures.

### NOTE 35. INCOME FROM EQUITY INSTRUMENTS

EUR thousands

	2019	2018
Dividend income from marketable equity securities	17,436	11,703
Income from distribution of the ECB profit	10,597	8,678
Dividend income from non-marketable equity securities	321	304
<b>Total</b>	<b>28,355</b>	<b>20,685</b>

In 2019, income from equity instruments increased due to the higher average holdings of marketable equity securities.

Following a decision of the Governing Council of the ECB, the amount due to the euro area NCBs in 2019, with respect to the ECB's interim profit distribution, was €1,430,935 thousand. The amount due to the Bank of Lithuania (€8,343 thousand) was recognised as income of 2019. The result from the ECB final profit distribution of 2018 was also recognised as income of 2019 (see section 4.9 of the Explanatory Notes "Distribution of the ECB profit").

### NOTE 36. NET RESULT OF POOLING OF MONETARY INCOME

EUR thousands

	2019	2018
Net monetary income pooled by the Bank of Lithuania	(65,393)	(47,753)
Net monetary income reallocated to the Bank of Lithuania (see section 4.7 of Explanatory Notes "Allocation of monetary income")	65,889	71,653
Adjustment for the monetary income of previous years	(94)	1,649
Reversal of income of the Bank of Lithuania's share in the provisions against losses in monetary policy operations of previous years (see Note 29 "Provisions")	421	404
The Bank of Lithuania's share in the provision against losses in monetary policy operations (see Note 29 "Provisions")	–	(946)
<b>Net result of pooling of monetary income</b>	<b>823</b>	<b>25,007</b>

**NOTE 37. OTHER INCOME**

EUR thousands

	2019	2018
Income from sale of collector coins and other numismatic items	1,606	2,820
Other miscellaneous income	1,646	258
<b>Total</b>	<b>3,252</b>	<b>3,078</b>

Most of the other miscellaneous income in 2019 (€1,289 thousand) consisted of the decrease in the relative share of the Bank of Lithuania in the reserves of the ECB and provisions, equivalent to reserves, due to the capital key changes as at 1 January 2019 (see Note 10 "Participating interest in the ECB").

In 2019, a decrease in income from sale of collector coins and other numismatic items was caused by the decreased issue of collector coins.

**NOTE 38. STAFF COSTS**

EUR thousands

	2019	2018
Expenses on salaries	17,287	12,151
To the members of the Board	610	383
To the heads of structural divisions	1,333	1,013
To other staff of the Bank of Lithuania	15,344	10,755
Other emoluments	425	306
Contributions to the State Social Insurance Fund	262	3,787
Expenses on (income from) provisions related to liabilities to the staff	638	158
<b>Total</b>	<b>18,612</b>	<b>16,403</b>

Pursuant to the Law on the Bank of Lithuania, the Board of the Bank of Lithuania consists of: the Chair, two Deputy Chairs, and two Members.

As at 31 December 2019, four Services, five autonomous Departments and four autonomous Divisions operated in the Bank of Lithuania. As at 31 December 2019, the Bank of Lithuania employed 617 staff members (at the end of 2018 – 583) of which 42 (at the end of 2018 – 40) worked under a fixed-term labour contract. In addition, 25 employees were on parental leave or unpaid leave for the term of their contracts with the ECB and the IMF (at the end of 2018 – 28). In 2019, there were 622 full-time equivalent employees at the Bank of Lithuania (in 2018 – 613).

In 2019, an increase in expenses on salaries was caused by the growth in the number of staff and salaries. In addition, amendments to the tax laws came into force as of 1 January 2019, according to which contributions to the State Social Insurance Fund paid by the employer and the employee were combined and, as a result, the gross salaries of the Bank of Lithuania's employees increased by 1,289 times starting from 2019 (net salaries remained unchanged). The Bank of Lithuania's expenses on contributions to the State Social Insurance Fund decreased on average from 30.98% to 1.45%.

In 2019, the part of staff costs that amounted to €241 thousand (in 2018 – €353 thousand) were included in the initial costs of the intangible asset items internally generated by the way of projects (see section 2.11 of the Explanatory Notes and Note 13 "Tangible and intangible fixed assets") and are not presented in this item.

**NOTE 39. ADMINISTRATIVE EXPENSES**

EUR thousands

	2019	2018
Administrative expenses		
Information system maintenance and information acquisition	4,028	4,070
Tangible assets maintenance	1,846	1,030
Participation in international organisations fees	1,370	1,275
Business trips	992	846
Mail and telecommunication	650	343
Equipment and office supply	580	684
Training of the staff	472	444
Communication	191	283
Other	1,165	878
<b>Total</b>	<b>11,294</b>	<b>9,853</b>

Tangible asset maintenance expenses increased in 2019 mainly due to the preparatory construction works carried out in relation to the implementation of the renovation project of the Bank of Lithuania's premises situated in Vilnius, at Žirmūnų g. 151.

An increase in other administrative expenses in 2019 was caused by an increase in representation expenses for international events and expenses on research activities.

Seeking to improve the disclosure of administrative expenses' breakdown by purpose, in the Annual Financial Statements for 2019 the costs of information system programming and maintenance, included in the Profit and Loss Account item "Administrative expenses" as a part of tangible assets maintenance expenses, were reclassified to information system maintenance expenses. Accordingly, the comparative information for 2018, amounting to €1,982 thousand, was reclassified.

#### NOTE 40. BANKNOTE PRODUCTION SERVICES

The Bank of Lithuania participates in the production of euro banknotes together with other NCBs of the euro area. The Governing Council of the ECB sets the denominations of euro banknotes and their quantities that must be produced each year from euro area NCBs funds. In 2019, the Bank of Lithuania incurred euro banknote production expenses (amounting to €1,596 thousand) that were necessary to supplement the Eurosystem's strategic reserve (in 2018 – €1,837 thousand).

#### NOTE 41. OTHER EXPENSES

EUR thousands

	2019	2018
Collector and commemorative coin minting expenses	1,328	2,084
Euro circulation coin minting expenses	53	120
Cash circulation expenses	85	53
Other miscellaneous expenses	40	7
<b>Total</b>	<b>1,506</b>	<b>2,264</b>

#### NOTE 42. PROFIT DISTRIBUTION

Pursuant to Article 23 of the Law on the Bank of Lithuania, profit (loss) is distributable (coverable) as follows:

- 1) 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) net distributable loss shall be covered from the reserve capital of the Bank of Lithuania. When the reserve capital is not sufficient to cover the net distributable loss, the remaining uncovered losses are carried forward to be covered by the distributable profit of the succeeding financial years;
- 3) 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 the 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% 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 allocation shall be carried forward as undistributed profit and shall be distributed in subsequent financial years.

#### Profit distribution

EUR

	2019	2018	2017
Profit distribution			
Allocation to the reserve capital of the Bank of Lithuania	11,673,823	20,905,554	20,757,026
Transfer to the state budget	13,770,983	12,704,656	11,169,059
<b>Total</b>	<b>25,444,807</b>	<b>33,610,210</b>	<b>31,926,085</b>

## 8. OTHER NOTES

### NOTE 43. DERIVATIVES

As at 31 December 2019, the Bank of Lithuania had outstanding foreign exchange swaps, foreign exchange forwards, non-deliverable foreign exchange forwards, interest rate futures, interest rate swaps and forward transactions in securities. All these transactions were conducted in the context of the management of the Bank of Lithuania's financial assets (excluding monetary policy operations) and are presented in the off-balance sheet accounts.

#### Foreign exchange swaps and foreign exchange forwards

EUR thousands

	31 December 2019	31 December 2018
Claims	7,912,418	8,226,540
Liabilities	7,912,418	8,226,540

#### Non-deliverable foreign exchange forwards

EUR thousands

	31 December 2019	31 December 2018
Notional claims	286,507	337,792
Notional liabilities	285,476	338,357

#### Interest rate futures

EUR thousands

	31 December 2019	31 December 2018
Notional claims	5,794,133	12,302,559
Notional liabilities	6,327,580	9,070,379

#### Interest rate swaps

As at 31 December 2019, the contractual amount of interest rate swaps amounted to €324,509 thousand (as at 31 December 2018 – €341,419 thousand).

#### Forward transactions in securities

EUR thousands

	2019	2018
Claims	1,278	10,027
Receivable amounts	–	4,191
Receivable securities	1,278	5,836
Liabilities	1,278	10,027
Payable amounts	1,278	5,836
Payable securities	–	4,191

### NOTE 44. ASSETS AND LIABILITIES OF THE BANK OF LITHUANIA BY FOREIGN CURRENCY

EUR thousands

	USD	CNY	XDR	GBP	CHF	CZK	Other
<b>31/12/2019</b>							
On-balance sheet assets	1,760,635	98,523	226,563	240,216	275,300	744,864	1,713,599
On-balance sheet liabilities	257,536	1,185	169,339	3,096	14,239	3,711	27,014
NET ON-BALANCE SHEET ASSETS (LIABILITIES)	1,503,099	97,338	57,224	237,120	261,061	741,152	1,686,584
Net off-balance sheet assets (liabilities) included into currency position	(285,076)	(212,927)	–	(239,502)	(263,139)	(742,395)	(1,686,367)
<b>NET ASSETS</b>	<b>1,218,023</b>	<b>(115,588)</b>	<b>57,224</b>	<b>(2,382)</b>	<b>(2,078)</b>	<b>(1,243)</b>	<b>218</b>



**(LIABILITIES)****31/12/2018**

On-balance sheet assets	2,499,438	97,451	200,968	195,142	321,645	644,217	1,650,654
On-balance sheet liabilities	233,502	3,456	166,800	48,806	9,854	1,846	68,311
NET ON-BALANCE SHEET ASSETS (LIABILITIES)	2,265,936	93,995	34,168	146,336	311,791	642,372	1,582,343
Net off-balance sheet assets (liabilities) included into currency position	(888,418)	(379,058)	–	(143,357)	(313,158)	(641,686)	(1,582,551)
<b>NET ASSETS (LIABILITIES)</b>	<b>1,377,518</b>	<b>(285,063)</b>	<b>34,168</b>	<b>2,979</b>	<b>(1,367)</b>	<b>685</b>	<b>(208)</b>

**Collector and commemorative coins issued in 2019**

» More information is available [here](#).

**Resolutions adopted by the Board of the Bank of Lithuania in 2019**

- » The Bank of Lithuania took active legislative actions and adopted regulatory Bank of Lithuania legal acts.
- » The Board of the Bank of Lithuania adopted 120 resolutions that regulate the activities of banks and other financial market participants; they are made publicly available on the [Register of Legal Acts](#).

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