DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Periodical Part

Annual report of the Bank of Lithuania ; 2015

Provided in Cooperation with:
Bank of Lithuania, Vilnius

Reference: Annual report of the Bank of Lithuania ; 2015 (2016).

This Version is available at:
http://hdl.handle.net/11159/3999

Kontakt/Contact
ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: *rights[at]zbw.eu*
https://www.zbw.eu/econis-archiv/

Standard-Nutzungsbedingungen:
Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.

https://zbw.eu/econis-archiv/termsofuse

Terms of use:
This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.

ZBW Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Mitglied der Leibniz-Gemeinschaft

LIETUVOS BANKAS

EUROSISTEMA

ANNUAL REPORT

2015

ANNUAL REPORT OF THE BANK OF LITHUANIA

2015

VILNIUS
2016

ISSN 1648-9020 (ONLINE)

The Board of the Bank of Lithuania approved the 2015 Report on 28 April 2016. The Annual Report was prepared on the basis of data from the Bank of Lithuania, Statistics Lithuania, the European Central Bank, the Statistical Office of the European Union, the International Monetary Fund and other sources, published until 4 April 2016.

© Bank of Lithuania, 2016

Contents

SUMMARY / 7
I. REVIEW OF THE ECONOMY AND FINANCE / 11
Global Economic Developments / 11
Economic Developments in Lithuania / 13
Real Sector / 13
Aggregate Demand / 13
Aggregate Supply / 14
External Sector / 16
Labour Market / 18
Employment and Unemployment / 18
Wages / 19
Prices and Costs / 19
General Government Finance / 21
Revenue, Expenditure and Deficit / 21
Debt / 22
Financial Position of the Private Sector / 23
Activities of Non-Financial Corporations / 23
Household Finances / 25
Financing of the Economy / 28
Borrowing Environment / 28
Household Borrowing / 28
Enterprise Borrowing / 29
Borrowing Conditions / 29
II. KEY FUNCTIONS OF THE BANK OF LITHUANIA / 31
Participation in the Formulation and Implementation of the Eurosystem's Monetary Policy / 31
The Eurosystem's Monetary Policy Decisions / 31
Implementation of the Eurosystem's Monetary Policy in the Euro Area and in Lithuania / 36
Open Market Operations / 36
Standing Facilities / 37
Minimum Reserves / 38
Implementation of the Eurosystem's Monetary Policy in Lithuania / 38
Open Market Operations / 38
Standing Facilities / 38
Minimum Reserves / 38
Financial Market Supervision / 39
Supervision Trends / 39
Financial Market Participants and Their Supervision / 43
Banks / 43
Banking Supervision / 43
Activities of the Banking Sector / 44
Insurance Market / 46
Credit Unions / 49
Other Financial Institutions / 52
Financial Services and Markets, Their Supervision / 55
Pension Funds / 55
Collective Investment Undertakings / 56
Primary and Secondary Markets / 57
Consumer Credit Market / 58

Settlement of Disputes / 59
Financial Education / 60
Macro-Prudential Policy / 61
Analysis of Systemic Risks / 61
Macro-Prudential Policy Instruments / 66
Bank Resolution / 67
Cash Management / 68
Currency Issue and Withdrawal / 68
Reform of Cash Circulation / 71
Circulation, Collector and Commemorative Coins, Sets of Circulation Coins / 72
Counterfeit Banknotes and Coins / 72
Management of Financial Assets / 72
Financial Assets / 72
Financial Assets Management Policy and Results / 72
Handling of Statistics / 74
Payment and Securities Settlement Systems / 77
Payment Systems / 77
Oversight of Payment and Securities Settlement Systems / 78
Single Euro Payments Area Project / 79
Target2-Securities Project / 81
Administration of the Accounts of the State Treasury and Other Institutions / 81
Participation of the Bank of Lithuania in the European System of Central Banks and International Cooperation / 81
Participation in the Eurosystem and the European System of Central Banks / 82
Participation in the Activities of EU Institutions and the European System of Financial Supervision / 83
Cooperation with the IMF / 84
Single Resolution Board / 84
III. ORGANISATION OF ACTIVITIES OF THE BANK OF LITHUANIA / 86
Mission, Values and Ethics / 86
Staff / 86
Transparency of Activities and Provision of Information to the Public / 88
IV. THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA 2015 / 92
ANNEXES / 124
Resolutions adopted by the Board of the Bank of Lithuania published in the Register of Legal Acts (RLA) in 2015 / 124
Circulation, Collector, Commemorative and Coin Sets Issued into Circulation in 2015 / 130
Circulation euro coins with the Lithuanian national side / 130

List of tables and charts

TABLES

Table 1. Real GDP growth in the world / 11
Table 2. Key performance indicators of non-financial corporations / 25
Table 3. Net currency issue / 69
Table 4. Litas banknotes and coins in circulation / 70
Table 5. LITAS-MMS transactions / 77
Table 6. TARGET2-LIETUVOS BANKAS transactions / 78
Table 7. Publications of the Bank of Lithuania in 2015 / 90

CHARTS

Chart 1. Contributions to the development of real GDP (by expenditure approach) / 14
Chart 2. Contributions to the development of real GDP (by production approach) / 15
Chart 3. Contributions to the development of merchandise exports (excl. mineral products) / 16
Chart 4. Current account balance / 17
Chart 5. Jobs / 18
Chart 6. Nominal gross wage / 19
Chart 7. Contributions to annual HICP inflation / 20
Chart 8. General government revenue, expenditure and balance / 21
Chart 9. Income and raw material, supply, fuel and wage costs of non-financial corporations / 23
Chart 10. Non-financial corporations' burden of liabilities, indebtedness and the number of bankruptcy proceedings initiated over twelve months, compared to the number of corporations / 24
Chart 11. Contributions to the change of household financial assets over the year / 26
Chart 12. New leasing loans and the share of residents planning to purchase a car / 27
Chart 13. Ratio of repayment of household loans to MFI to total income over the quarter / 27
Chart 14. Dynamics in the MFIs' loan portfolio / 28
Chart 15. Loans to non-financial corporations by types of economic activity / 29
Chart 16. Development of interest rates on loans / 30
Chart 17. Annual yield of euro area government bonds close to 10-year maturity issued in national currency / 34
Chart 18. Average MFI interest rates on new loans to non-financial corporations in the euro area and in Lithuania / 35
Chart 19. Average MFI interest rates on new housing loans in the euro area and in Lithuania / 35
Chart 20. Changes in the balances of MFI loans to households and non-financial corporations in the euro area and in Lithuania / 36
Chart 21. The Eurosystem's liquidity-providing and liquidity-absorbing monetary policy operations / 37
Chart 22. Changes of bank reserves in euro at the Bank of Lithuania / 39
Chart 23. Developments in performance indicators of banks / 44
Chart 24. Dynamics of the operating results of insurance undertakings / 47
Chart 25. Performance indicators of credit unions / 49
Chart 26. Developments in the participant numbers and assets of 2nd pillar pension funds / 55
Chart 27. Consumer credit balance by types of consumer credit agreement / 58
Chart 28. Long-term trend of credit to private non-financial sector–to-GDP ratio and deviation therefrom / 62
Chart 29. Current account balance / 63
Chart 30 Components of interest rates on new MFI home loans / 65
Chart 31. Euro banknotes issued into circulation by the Bank of Lithuania / 69
Chart 32. Circulation euro coins issued into circulation by the Bank of Lithuania / 69
Chart 33. Cash issued into circulation by the Bank of Lithuania / 70
Chart 34. Changes in investment composition / 73
Chart 35. Return on investment and 1-year German government debt security yields / 73
Chart 36. Organisational structure / 87

Abbreviations

AB	public limited liability company
APP	asset purchase programme
CIU	collective investment undertaking
CRD IV	Capital Requirements Directive IV
CRR	Capital Requirements Regulation
CSDL	Central Securities Depository of Lithuania
ECB	European Central Bank
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
Eurostat	Statistical Office of the EU
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LCCU	Lithuanian Central Credit Union
MFI	monetary financial institution
NCB	national central bank
p.p.	percentage point
PSPP	public sector purchase programme
SSM	Single Supervisory Mechanism
TLTRO	targeted longer-term refinancing operation
UAB	private limited liability company
USA/US	United States of America
VĮ	state enterprise

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

SUMMARY

This report presents the work of the Bank of Lithuania in 2015 related to the implementation of the objectives of the central bank of the Republic of Lithuania and performance of its functions in the context of domestic and global economic developments, as well as developments within the financial system. It was the first year when the Bank of Lithuania operated as a part of the Eurosystem after the adoption of the single currency of the EU — the euro — in our country. Together with the ECB and the central banks of 18 other euro area states, it participated in making decisions related to euro area monetary policy setting and implementation, ECB foreign reserve management, euro area bank supervision and other important financial matters.

The primary objective of the Eurosystem is maintaining price stability in the euro area. The price stability objective pursued by the Eurosystem is defined by the Governing Council's Decision of 8 May 2003 as a year-on-year change in the HICP for the euro area of below, but close to, 2 per cent over the medium term. In pursuing its monetary policy, the Eurosystem combines the centralised decision-making and coordination with decentralised implementation of decisions. From the beginning of 2015, the Bank of Lithuania has implemented standard and non-standard monetary policy measures of the Eurosystem in our country.

The Eurosystem enhanced its accommodative monetary policy in 2015: it adopted the expanded APP in January and started implementation in March, whereas in December it extended the duration of the programme and further reduced the interest rate applied to excess reserves of credit institutions by 10 basis points (to –0.3%). According to the expanded APP, the Eurosystem purchased public and private sector debt securities for the amount of EUR 60 billion per month. It intends to do this at least until the end of March 2017, and longer, if needed. The final date of ending the expanded APP will depend on the successful implementation of the objective set for this programme — the return to a sustainable inflation rate that complies with the primary monetary policy objective.

The expanded APP and other non-standard monetary policy measures encouraged the decline of interest rates and their dispersion in the euro area countries, recovery of the crediting of the real economy and the depreciation of the euro. The Bank of Lithuania forecasts that the expanded APP will have the largest effect on the exporting economic sector of Lithuania due to higher euro area demand for Lithuania's export and the depreciation of the euro. It was estimated that the expanded APP published in January 2015 could have increased our country's real GDP growth by 0.2 p.p. in 2015, whereas an increase of 0.1 p.p. is expected both in 2016 and 2017.

As the economy grew, the financial situation of households and future expectations improved in 2015. Owing to the rising competition for employees in the labour market and the suitable labour force shortage encountered by enterprises, the unemployment rate declined, the number of employed increased and wages grew faster. As the financial situation of the country's residents improved, they borrowed more actively, both for house purchase and for consumption and other needs. Owing to the increase in income and still-low interest rates, the debt repayment burden of households declined.

The number of non-financial corporations increased in 2015, whereas their financial condition was good. Indebtedness of corporations (financial leverage) remained broadly unchanged over the year, whereas their liquidity situation improved. Annual performance results of corporations were also favourable — income and profitability of operation increased, whereas profitability was positive in almost all main business sectors. This was determined not only by sales growth, but also by low prices of raw materials, fuels and other materials.

The assets of banks operating in Lithuania declined slightly in 2015: although lending grew, the amount of funds held on accounts with the central bank was lower and the amount of debt securities declined. All banks complied with the established capital and liquidity requirements. In addition to minimum requirements, individual additional capital requirements were also set for banks, while the capital buffer requirements envisaged in EU Directives and the transposed local legal acts came into effect. The lending market became more active, whereas the amount of deposits held by customers with banks continued to grow, despite low interest rates. The banking sector operated profitably; however, its income from the main activity continued to decline, whereas profit growth, compared to 2014, was determined by side factors.

The amount of premiums written in the insurance sector was the largest in the history of the market — the insurance premiums written amounted to EUR 645.1 million in 2015. Non-life insurance prevails in Lithuania's insurance market, i.e. the country's residents are still more inclined to insure property or civil liability. According to unaudited data, the operation of insurance undertakings registered in Lithuania ended with a loss in 2015; however, after eliminating the impact of the the implemented purchase-sale transaction of part of the business of one undertaking, the performance result would be a profit.

The supervision of credit unions was strengthened further in 2015 to ensure sustainability of the operation of this financial sector segment. When granting new loans, credit unions paid more attention to credit risk management — they assessed the financial condition of borrowers more closely and credited more financially viable members; therefore, some quality indicators of the loans granted by unions improved. However, problems still remain in the operation of credit unions. The most important problems are loans not repaid in time and the need for sustainable capital that is not declining. According to unaudited data, the credit union sector incurred a loss in 2015. Not all credit unions complied with prudential requirements, therefore, enforcement measures were applied to them and respective written instructions given.

Important EU legal acts were successfully implemented in 2015: the Capital Requirements Directive and the Capital Requirements Regulation, which transpose the provisions of the Basel Accord for the financial services sector, were implemented and the implementation of the Bank Recovery and Resolution Directive, which establishes a framework for the recovery and resolution of credit institutions and investment undertakings, was completed. All the required legal acts implementing the Directive on the Taking-Up and Pursuit of the Business of Insurance and Reinsurance (Solvency II) were adopted. Much attention was paid to the area of financial services regulation: to enhance the protection of consumer interests, the draft Law on Credit Related to Immovable Property, the draft Law amending the Law on Payments and the draft Law amending the Law on Insurance were drawn up. To implement the Government's proposals on regulation measures that encourage the use of alternative small and medium-sized business financing instruments, the draft Republic of Lithuania Law on Crowdfunding and related implementing legal acts were drawn up to provide legal certainty for the entities wishing to engage in crowdfunding activities.

After the Bank of Lithuania adopted the Macro-Prudential Policy Strategy in 2015, the application of new macro-prudential policy instruments was started. To increase resilience

of systemically important institutions to potential losses and reduce their incentives to assume excessive risks, the Bank of Lithuania identified and published the list of systemically important institutions in Lithuania and allocated to them other systemically important institutions buffers (up to 2% of the total risk-weighted assets of a bank). In addition, the application of countercyclical capital buffers was started. They can be used to limit excessive credit growth and excessive financial leverage, if needed. To ensure responsible borrowing in the environment of low interest rates and to safeguard households from over-indebtedness by taking long-term loans, the Responsible Lending Regulations were reviewed and their amendments were adopted and came into effect on 1 November 2015: credit institutions must ensure that the ratio of average payment to income does not amount to more than 50 per cent under the annual interest rate of 5 per cent, whereas the maximum loan term was reduced from 40 to 30 years.

The Bank of Lithuania was assigned a new function of financial institutions resolution in 2015. From now on, the Bank of Lithuania together with the Single Resolution Board — a EU-level resolution authority — and national resolution authorities of other countries that have banks operating in Lithuania will be responsible for the planning of resolution of banks and other important financial institutions and for the resolution itself, if needed. After implementing the Bank Recovery and Resolution Directive, the accumulation of the resolution fund was started with contributions paid to it by banks and important investment undertakings.

The Bank of Lithuania issued into circulation the amount of EUR 2,160.7 million. Euro banknotes of the 20 and 50 denominations were most popular in circulation. In our country, 1,813 counterfeit euro banknotes and 84 counterfeit litas banknotes were removed from circulation. After the euro adoption, the value of litas remaining in circulation declined over the year by LTL 5,270.5 million (90.8%). The value of litas in circulation was LTL 535 million on 31 December. Over the year, 114.2 million pcs of litas banknotes and 279.2 million pcs of litas circulation coins were destroyed.

In 2015, in order to increase efficiency of the cash supply system and to reduce the Bank of Lithuania operating expenses related to the cash cycle, the Cash Circulation Reorganisation Project was initiated.

The return on financial assets managed by the Bank of Lithuania comprised 0.76 per cent in 2015. Investment results were mostly influenced by the favourable US dollar exchange rate change, the decline in yield rates of government debt securities of Germany and the US, which are the safest and most liquid investment, and a further decline in yield spreads of government debt securities of euro area countries due to the continued accommodative monetary policy pursued by the ECB (credit risk premia).

After the euro adoption in Lithuania, operating banks and other payment service providers devoted attention to the preparation to implement the requirements of the Single Euro Payments Area (SEPA) regulation from 1 January 2016. It requires payment service providers and their customers to use payment instruments based on uniform formats and rules for local and international payments in euro within the EU. As a competent institution responsible for ensuring appropriate compliance with SEPA regulation provisions, the Bank of Lithuania actively contributed to the coordination of the preparation and communication with interested parties (undertakings, public sector entities, software developers). Moreover, the retail payment system SEPA-MMS, developed by the Bank of Lithuania and compliant with SEPA regulation requirements, started its operation on 8 December 2015. However, banks belonging to Scandinavian bank groups and foreign bank branches, same as in other Baltic states, chose to process retail interbank payments in the Europe-wide payment system STEP2 via their parent banks and main institutions.

The Bank of Lithuania actively participated in the activities of the ESCB, the SSM, the Single Resolution Mechanism and other EU institutions and international organisations, closely cooperated with the IMF and other international organisations, rating agencies, national central banks and supervisory authorities. After Lithuania became a member of the euro area, representatives of the Bank of Lithuania participate in the meetings of the ECB's Governing Council and the ECB's Supervisory Board as well as Eurosystem-composition ESCB committees and deal with important issues together with other NCBs of euro area countries.

Various measures are used to ensure the transparency of Bank of Lithuania activities and provide information to the public on the central bank's activities. A new impulse for that was provided by the Communication Policy of the Bank of Lithuania, adopted in 2015. It establishes the objectives, principles, communication means and channels of the external and internal communication of the Bank of Lithuania, indicates target groups and communication participants responsible for the implementation of the Communication Policy of the Bank of Lithuania and participating in the implementation of communication measures.

The Financial Statements of the Bank of Lithuania for 2015 were prepared for the first time following the accounting and financial reporting standards established by the ECB for the Eurosystem members, whereas the Balance Sheet and the Profit and Loss Account presented in the statements have the same structure as those of other euro area central banks.

I. REVIEW OF THE ECONOMY AND FINANCE

Global Economic Developments

In 2015, global real GDP growth decreased from 3.4 per cent (in 2014) to 3.1 per cent. Weaker growth of China's economy, a deeper recession in Russia and Brazil, the deteriorating economic situation in commodity export-orientated countries led to a slowdown in economic growth in emerging market economies and unfavourably affected the development of the world economy. Economic recovery continued in advanced economies but was only partly consistent with the forecasts. While Japan has avoided a technical recession[1], its real GDP decreased in the second and fourth quarters of 2015. In the US, economic growth weakened in the last quarter of 2015 in particular, while a faster recovery of the euro area economy was dampened by unfavourable developments in the external environment, various structural rigidities, high unemployment and debt levels in some countries. With persistently low inflation, its expectations and a moderate recovery in demand and investment, in 2015 the interest rates set by major central banks remained low and the monetary policy — accommodative. The US Federal Reserve System raised its federal funds rate as late as in December, while the Eurosystem and the central banks of Japan and Sweden further implemented accommodative monetary policies, applying standard and new, non-standard, measures (negative interest rates, APP, etc.).

Table 1. Real GDP growth in the world
(percentages)

	2014	2015*	2016*	2017*
World	3.4	3.1	3.4	3.6
Developed countries	1.8	1.9	2.1	2.1
US	2.4	2.5	2.6	2.6
Euro area	0.9	1.5	1.7	1.7
Emerging countries	4.6	4.0	4.3	4.7
China	7.3	6.9	6.3	6.0
Russia	0.6	–3.7	–1.0	1.0

Source: IMF.
** Forecasts.*

In 2015, growth in the US economy was weaker than was projected at the beginning of the year, but remained among the strongest ones within the developed countries group, at 2.4 per cent. Growth was mainly driven by domestic demand, especially household consumption, for which the improving labour market situation and growing real disposable income created favourable conditions. The unemployment rate decreased gradually throughout the year and was close to 5 per cent towards the end of the year. Investment growth was slightly subdued in 2015, mainly on account of lower investment as a result

[1] *Technical recession is negative quarterly real GDP growth for two consecutive quarters.*

of commodity price decreases in the oil and gas sectors. Real GDP growth was reduced mainly by net exports: stronger growth in domestic demand entailed import growth, while export was negatively affected by the US dollar appreciation and weaker foreign demand.

In the euro area, real GDP growth accelerated by 0.7 p.p. and stood at 1.6 per cent. Consumer-favourable evolution of commodity prices, a low interest rate environment, and the slightly improving labour market situation prompted household consumption growth, while the depreciation of the euro positively affected export growth. The latter's contribution to the GDP growth in the region was somewhat more significant in the first half of 2015; however, export growth decelerated towards the end of the year — partly because of the less favourable development of the external environment. Despite the improvement in the lending conditions, decreases in commodity prices (which positively affect corporate profitability), improvement in credit dynamics, investment in the region still grew at a low pace, especially in the second and third quarters of 2015. It is believed that investment growth was limited by the still sizeable debt of the private and public sectors in some countries, sluggish growth in demand, uncertainty surrounding economic growth outlook and the political environment. In the first half of 2015, uncertainty in the region was increased by the concerns over the situation in Greece. With no agreement between Greece and its creditors being found, not only tensions grew in financial markets, but a number of discussions arose over the sustainability of the euro area composition and the prospects for further development as well. Nevertheless, in August, an agreement was reached on the provision of the third economic adjustment programme, which amounts to EUR 86 billion, in exchange to the implementation of structural reforms.

In 2015, growth in Lithuania's major export partners was mainly driven by domestic demand, particularly household consumption, while the development of the external environment was less favourable. The economic situation in Russia — one of the most important markets for the Baltic States — deteriorated further, while expansion of export into new markets was not so fast as to fully offset the losses in Russia. In Estonia, economic expansion deteriorated in 2015 from 2.9 per cent (in 2014) to 1.1 per cent, which was mainly affected by the negative developments in the external environment, decrease in investment, difficulties faced in certain sectors (e.g. construction, transport). In Latvia, economic expansion accelerated in 2015 from 2.4 per cent (in 2014) to 2.7 per cent, partly due to the intensified activity in the manufacturing sector, related to the resumed activities of the steel plant *KVV Liepājas metalurgs*. In Poland, economic growth, driven by strong growth in domestic demand, was still among the strongest in the EU, at 3.6 per cent. In Germany, real GDP growth accelerated slightly in 2015 (to 1.7%), mainly driven by household consumption and, to a lesser extent, by growing investment and net exports.

In Russia, real GDP contracted by 3.7 per cent in 2015. High inflation, declining real disposable income, the fall in the purchasing power have led to a decline in household consumption, while limited funding possibilities (high interest rate in the country, limited possibilities to borrow in Western capital markets due to sanctions) and heightened uncertainty over the potential of the country's economic growth had an impact on further declines in investment. The fall in commodity prices worsened the situation of public finances: Russia's federal budget revenues decreased, the deficit widened, reserves were depleted. With no changes in the geopolitical situation, the mutual economic sanctions of the EU and Russia, which had to be in force until July 2015, were extended until the summer of 2016.

The prices of many major commodities continued to fall in 2015. Oil supply was still in surplus: oil output was above the official quota in the Organization of the Petroleum Exporting Countries (OPEC); in the US, oil production did not fall significantly despite a decline in investment and higher extraction costs; a reached agreement with Iran on the restrictions of the nuclear programme incited market expectations for future oil supply increases. The growing inventories of commodities, slowdown in economic growth in China and worsened expectations about global economic growth also exerted downward pressure on prices.

Economic Developments in Lithuania

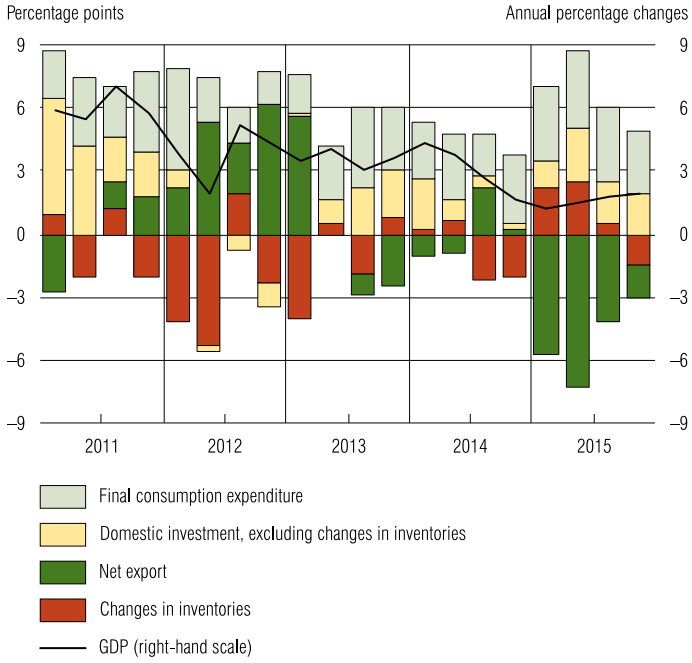
Real Sector

As Lithuania faced challenges in the international environment, its economy grew at the lowest pace over the past five years. Most challenges were faced by the export sector. However, its less pronounced development has so far not had any relatively obvious impact on the domestic demand. The economic conjuncture that has built up slowed down the narrowing of the negative GDP gap that accumulated during the recession.

Aggregate Demand

In 2015, Lithuania's economy grew by 1.6 per cent (having eliminated the impact of seasonal and working days). The major contribution to the weakest economic development over the last five years stemmed from less favourable developments in the international environment. This applies in particular to the economic developments in Russia and other CIS countries. The economic challenges they have been facing led to a fall in exports to Russia — one of the largest markets for Lithuania — by more than a third. The loss of sales in the CIS region encouraged exporters to intensify their activities in other regions, first of all in the countries where the demand for the imports of goods and services had been increasing. Such re-orientation of exporters led to a slight increase in the real exports of goods and services in 2015, amid a decline in external demand. Weaker development of the export sector has so far not had any more obvious impact on developments in domestic demand: both household consumption and domestic investment grew.

Chart 1. Contributions to the development of real GDP (by expenditure approach)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Household consumption was the main driver of economic growth. The favourable labour market situation (both wages and employment grew), price declines, which enhanced the purchasing power of households, and the interest rates on loans, which fell to record lows and eased the burden of financial liabilities, were among the major contributions that have formed significantly elevated consumer expectations. This allowed households to plan their expenditure more decisively: to save less and borrow more from monetary and other financial institutions. It should be noted that, out of the components of household disposable income, compensation of employees alone grew significantly in 2015 due to the favourable situation in the labour market. This is important since compensation of employees has probably the greatest impact on the households' propensity to consume out of all types of household disposable income.

Economic activity was also spurred by rising domestic investment growth, which nearly doubled, compared to 2014. Investment grew both in production materials and buildings and constructions, especially housing. Much stronger growth in investment in production materials is to be related to the need to expand production capacity, which has been observed for quite a long time already, and the use of EU funds, which intensified in 2015 when the time for using funds from the 2007–2013 EU financial perspective was running out. A significant contribution to investment in production materials also stemmed from the decision of the government to increase expenses for national defence. Investment in buildings and constructions rose at a similar pace to 2014. Particularly strong growth in investment in residential construction should be noted, although it had been expected that construction activity within this sector would start to slow down.

Aggregate Supply

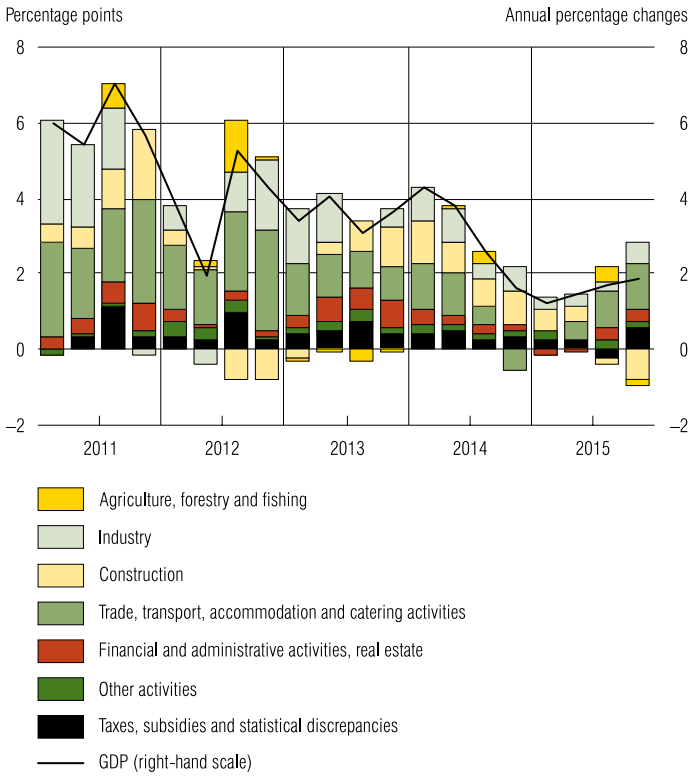
Looking from the production approach, it should be noted that in 2015 manufacturing, trade and transport intensified economic activity the most. The value added in many other economic activities grew as well; however, their impact on GDP growth was

relatively marginal. It should be noted that activity in the construction economic activity, the contribution of which to economic growth was the greatest in 2014, remained unchanged. Construction of transport infrastructure buildings, railway infrastructure in particular, which contracted very much, contributed to the developments of this activity.

In 2015, economic activity was spurred the most by trade and transport activities. Nevertheless, the dynamics of economic activities assigned to it varied. The retail trade expansion was especially favourable; its activity was boosted by fast growth in household consumption. Activity in other economic sectors — wholesale trade, transport and storage — intensified less markedly. Such activity dynamics in the latter economic sectors was affected by the deteriorating situation in the CIS region. It should be noted that both transport enterprises and re-exporters undertook to reorient themselves to other markets, especially the EU. Transport enterprises were mainly interested in major Western European markets, e.g. France, the United Kingdom, whereas re-exporting enterprises were more interested in the neighbouring markets, e.g. Poland and Latvia. However, the increased volumes of sales have not yet offset the losses in the CIS region.

Difficulties in the CIS region were also felt in manufacturing, although their impact was limited. The CIS region is not the major export market for manufacturing output: in 2014, a mere 4.2 per cent was exported to this region, whereas in 2015 this share contracted to 2.8 per cent. The main share of this contraction was determined by a fall in the sales volumes in the Russian market. It should be noted that a greater impact on the manufacturing losses in Russia in 2015 came from the generally deteriorating economic situation, rather than restrictions on trade. Manufacturing growth was also limited by the less robust growth in demand in other foreign markets. A positive contribution to the dynamics of manufacturing came from a recovery in the oil refining activity. Oil price decreases and an increase in the oil refining margin benefited its dynamics.

Chart 2. Contributions to the development of real GDP (by production approach)



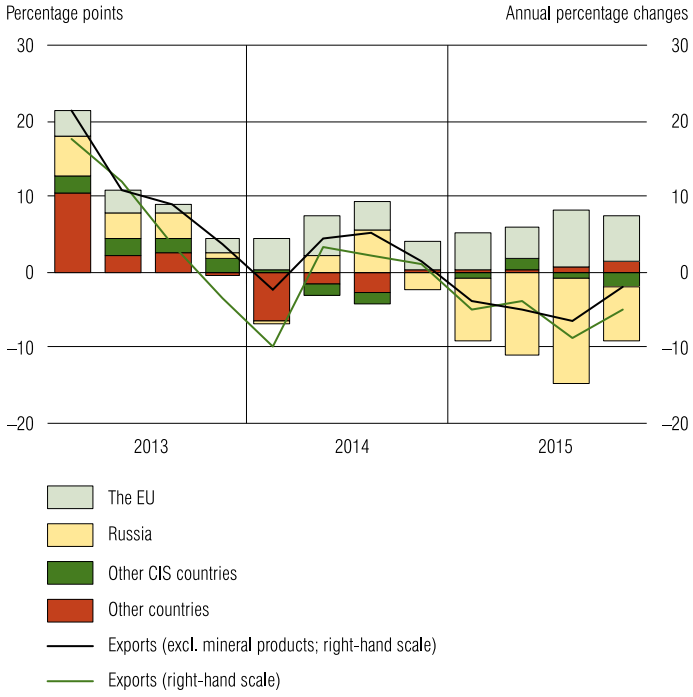
Sources: Statistics Lithuania and Bank of Lithuania calculations.

External Sector

In 2015, Lithuania's external sector faced a number of challenges; nominal merchandise exports (excl. mineral products) fell by 4.3 per cent, while growth in the nominal exports of services was weaker than in previous years. At the end of the year, however, export results were better: not only exports of services but also merchandise exports rose; Lithuanian products reached more countries.

A major negative contribution to Lithuanian exports stemmed from the recession in Russia and the trade restrictions applied by Russia. Compared to 2014, merchandise exports to Russia contracted by 38.2 per cent, exports of services — by 33.6 per cent. In addition, Russia's economic and political development has also contributed to Lithuania's lower exports to other CIS countries, possibly even hindering the possibilities for Lithuania to export to the EU, which was negatively affected by the downturn in Eastern countries as well. Nevertheless, by the mid-year, positive signs have been observed. Exports to Russia of products to which restrictions are not applied increased: exports of services no longer shrank, part of products and services was successfully exported to other countries, especially the EU. A more significant rise in exports to Russia should not be expected: Russia will apply trade restrictions at least until 5 August 2016; moreover, the economic downturn in this country is projected to continue.

Chart 3. Contributions to the development of merchandise exports (excl. mineral products)



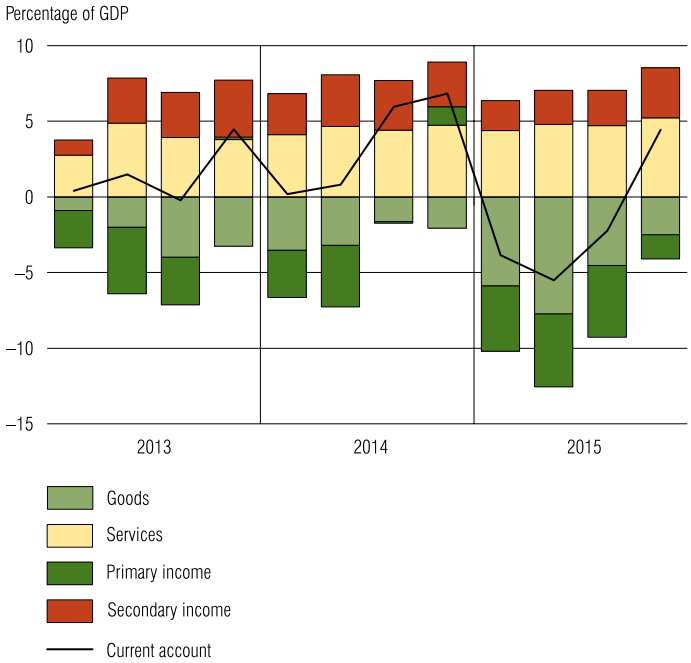
Sources: Statistics Lithuania and Bank of Lithuania calculations.

There were contributions that encouraged exports in 2015 as well. Lower oil prices increased real exports of oil products (which rose by approximately a fourth). Exports to the USA and the United Kingdom increased, partly on account of the depreciation of the euro. Bountiful harvest exerted a positive influence on the exports of agricultural products. These circumstances led to a few important achievements: Klaipėda Seaport reached record cargo volumes, while *AB ORLEN Lietuva* posted a record profit, having used more than 80 per cent of its production capacity.

In part on account of the deteriorated situation in Russia and continuously active involvement in global trade relations, Lithuanian exporters successfully developed relations with new trade partners. These dynamics were characteristic of merchandise exports in particular. In 2015, Lithuania traded with 196 countries (in 2010 — 180, 2005 — 172), while merchandise exports to the 10 major trade partners accounted for 67.8 per cent of Lithuania's total merchandise exports (in 2010 — 70.6%, 2005 — 67.3%). Export distribution increases Lithuania's resilience to unexpected changes in the economic conditions in different countries. Increasingly more countries acknowledge Lithuanian products as meeting their legal/technical requirements.[2]

Two important contributions to the current account could be seen in Lithuania in 2015. At the beginning of the year, the current account balance deteriorated due to the widening of the deficit in international trade in goods (an increase in merchandise imports, especially machinery and equipment, necessary when expanding production capacity, and a decline in merchandise exports due to the aforementioned reasons). As a matter of fact, towards the end of the year, the balance of trade in goods improved and became similar to how it was a year before. This was one of the major reasons why the current account balance became positive at the end of the year. A second important factor in the 2015 current account balance was a significant deterioration in the primary income balance. It deteriorated because of the foreign direct investment (FDI) income, which has been rising for quite a long time. While the total amount of FDI remained almost unchanged, property-related FDI, which is more dependent on business profitability, posted growth. Meanwhile Lithuania's direct investment abroad has not increased; in fact, in 2015 it contracted.

Chart 4. Current account balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

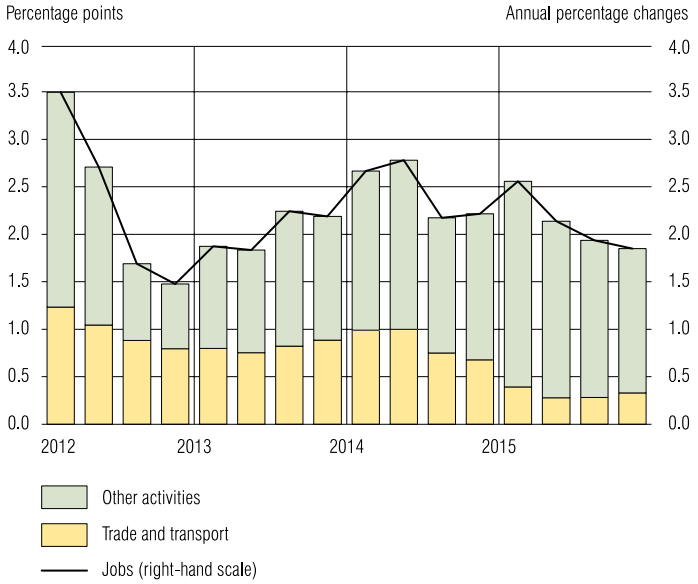
[2] *For example, according to records of the State Food and Veterinary Service, in 2015, agreements on the exports of pork and beef were reached with Montenegro, Hong Kong and the USA; on the exports of beef — with Bosnia and Herzegovina and Tunisia; dairy products — with Chile and Argentina; fishery products — with Brazil.*

Labour Market

Employment and Unemployment

The number of persons employed grew at a slower pace. In 2015, the number picked up by 1.2 per cent, a decrease of 0.8 p.p. in 2014. Growth was weaker in both the number of employees and jobs. The situation in Russia has affected the number of jobs[3], albeit relatively marginally. Only the enterprises engaged in two activities — trade and transport — have experienced more significant negative impact. The number of jobs in them grew markedly less, and this was the weakest growth since the start of economic recovery. Within other activities — industry and most services — growth in the number of jobs was quite strong. As a matter of fact, the construction activity saw a downturn: enterprises suffering from insufficient demand grew in number; the volumes of construction works declined. This determined that, in the second half-year, growth in the jobs in the construction sector was noticeably weaker than before.

Chart 5. Jobs



Sources: Statistics Lithuania and Bank of Lithuania calculations.

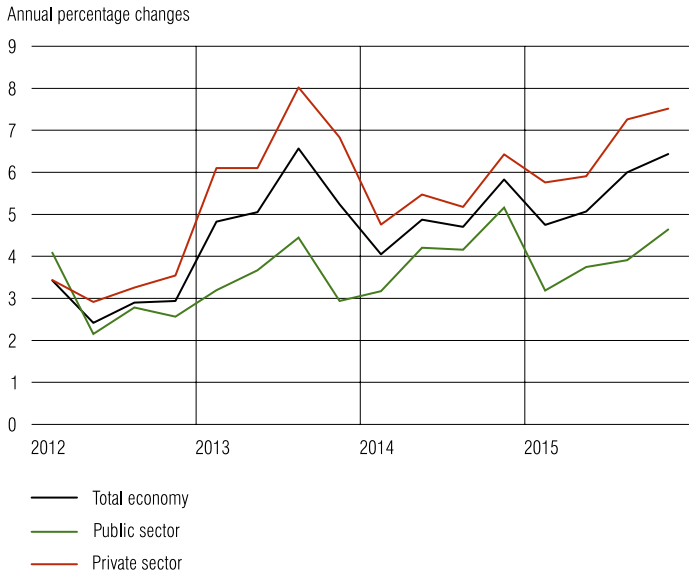
Growth in employment entailed a decline in the unemployment rate. In 2015, it accounted for 9.1 per cent and was 1.6 p.p. lower than in 2014. Unemployment also declined because of a decline in the labour force, driven by migration and natural population change. The unemployment rate of unskilled persons dropped the most. This could, in part, be due to the intensified implementation of the active labour market policy measures. Nevertheless, the unemployment rate of unskilled persons remains very high, at 25 per cent. This unemployment is most likely structural; therefore, with further economic growth, it will not necessarily decline. It could be reduced by structural reforms. The unemployment rate of other persons fell to a lesser extent; however, it was relatively low, at 7.4 per cent. The unemployment rate of persons in some occupations was even lower, e.g. of highly qualified professionals — only 2.7 per cent.

[3] *The number of jobs is not directly comparable with the number of persons employed and employees; however, all these indicators show hiring dynamics. The number of jobs reflects hiring dynamics by economic activity more precisely and is therefore chosen for the analysis.*

Wages

Active hiring, lower unemployment rate and the rising minimum wage determine strong wage growth. In 2015, it stood at 5.1 per cent and was 0.3 p.p. stronger than in 2014. The rather markedly growing number of both occupied jobs and job vacancies shows a rather significant demand for new employees, and the lower unemployment rate (of skilled persons in particular) shows that the supply of employees has been reduced. In this context, businesses are beginning to face a lack of employees of adequate qualification. While this lack is much lower than before the crisis, it determines relatively significant wage growth. In the middle of the year, this growth accelerated additionally due to a EUR 25 increase in the minimum wage (to EUR 325).

Chart 6. Nominal gross wage



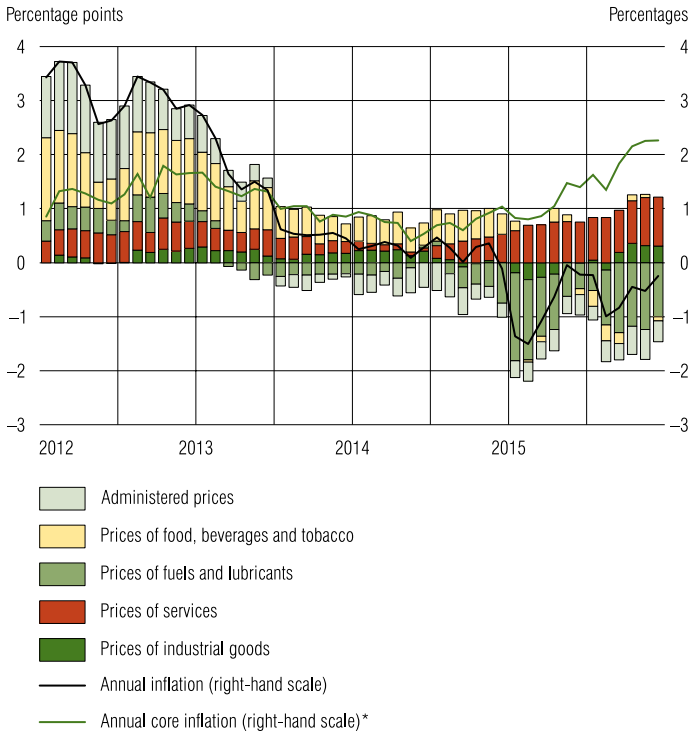
Sources: Statistics Lithuania and Bank of Lithuania calculations.

Prices and Costs

Consumer prices fell markedly in 2015: average annual HICP inflation stood at –0.7 per cent. Already in previous years inflation was very low, much lower than the long-term average: in 2013 it was 1.2 per cent, in 2014 — 0.2 per cent. Low inflation in those few years was related to consumer-favourable developments in commodity, import and producer prices. Nevertheless, in those years inflation remained positive; thus, 2015 was the first year with negative average inflation after a long time. The last time inflation was negative was in 2003, and was determined by a number of specific factors, e.g. declines in prices for telecommunication services, driven by increased competition, and lower import prices as a result of exchange rate developments.

Negative inflation in 2015 is related to significant decreases in the prices of energy goods, especially fuel. These prices depend on an external factor — the oil market situation. Owing to large supply and slowly rising demand for this commodity, its price decreased significantly: the price of *Brent* crude oil in US dollars decreased by nearly half, in euro — it was lower than in 2014 by approximately a third (the significant difference of price changes in different currencies is related to the depreciation of the euro *vis-à-vis* the US dollar). Such large changes in oil prices exerted a significant influence on price dynamics not only in Lithuania: due to this global factor, the prices of energy goods for consumers in 2015 fell in all of the EU countries.

Chart 7. Contributions to annual HICP inflation



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

Compared to 2014, when inflation was still positive, more consumer-friendly price dynamics in 2015 were determined not only by the price trends of fuels but also by developments in food (including beverages and tobacco) prices. Food prices for consumers previously rose, while in 2015 they remained almost unchanged, as the declines in global food commodity prices intensified. According to the data of the Food and Agriculture Organization of the United Nations, in 2015 global food commodity prices fell by nearly a fifth (in 2014 — by only 4%). Unlike in 2014, when global meat commodity prices were still on the rise, in 2015 the prices already fell within all commodity groups — meat, dairy, grains, oils, sugar, and the fall in all these prices was much more sizeable than in 2014. The largest fall — of nearly 30 per cent — was within the dairy group, the smallest (although the figures are large as well, at about 15%) — within the groups of meat and grains. In Lithuania, there was a similar situation: out of food products, namely the prices for dairy products declined the most — over 4 per cent. Consumer prices are affected by other producer costs as well (e.g. wages); therefore, consumer prices fluctuate much less than the prices of respective commodities.

A slight contribution to the decrease in inflation, compared to 2014, stemmed from the prices of industrial goods and administered prices. Their dynamics in 2015 were similar to the case in 2014: the prices of industrial goods again remained almost unchanged, while administered prices continued to fall at a similar pace.

Services represented an exceptional group, as their prices rose faster than in 2014 (in 2014 — by 1.3%, in 2015 — by 3.8%). These dynamics were driven by growing domestic demand, supported by positive changes in the labour market, such as rising employment and wages. Staff costs in the services sector represent a larger share of total production costs than in other sectors; therefore, this sector is more sensitive to wage developments. Wages rose continually, encouraged by both the gradually increased minimum wage and the employee-favourable

labour market situation, related to the lack of a labour force with adequate qualification. In addition to macroeconomic factors, a slight contribution to service price increases stemmed from the adoption of the euro as well. According to the Eurostat assessment, published in December 2015, the adoption of the euro in Lithuania has affected the prices for certain services (e.g. canteens, hairdressers, housing rent, maintenance and repair of homes), raising headline inflation by 0.04–0.11 p.p. — less than in Latvia and Estonia.

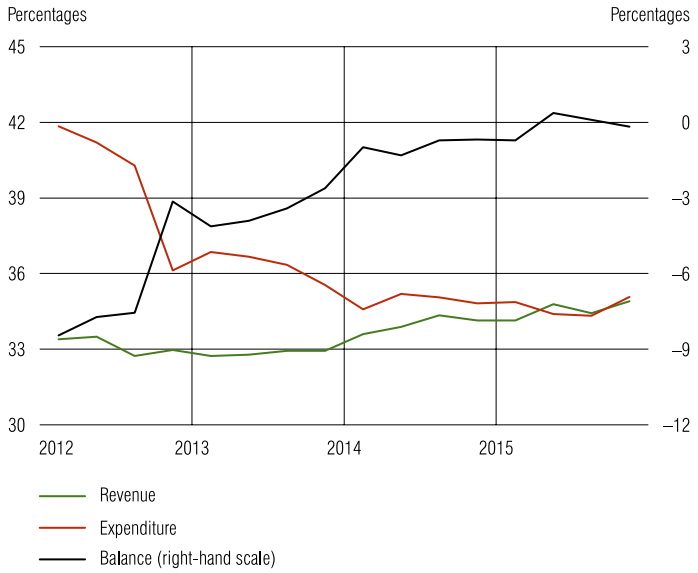
As in 2014, tax decisions also had a certain upward impact on inflation in Lithuania, since excise duties were increased in spring. In March, the excise duty on cigarettes was increased (in order to gradually, in several years, reach the minimum excise duty established by the EU), the excise duty on alcoholic beverages also increased.

General Government Finance

Revenue, Expenditure and Deficit

In 2015, the general government balance to GDP ratio was –0.2 per cent. The deficit narrowed by 0.5 p.p. over the year, mainly due to the increased general government revenue-to-GDP ratio. It should be noted that in 2014–2015 the general government balance was affected by various one-off factors (income and expenses of *VĮ Indėlių ir investicijų draudimas*, the expenses on the compensation of cut pensions and wages). Excluding the impact of these factors, general government deficit in 2015 was somewhat higher. In terms of the institutional sectors' perspective, it is clear that the general government balance mainly deteriorated due to the significantly — by 1 p.p. — deteriorated central government budget balance (in 2015 it was in deficit, in 2014 — in surplus); however, this impact was outweighed by the disappeared social security funds deficit over the year and a pick-up in the local government balance surplus. The balances of the latter sub-sectors of the general government were favourably affected by a significant increase in social contributions and tax revenues due to the improved labour market conditions and administrative changes: the share of personal income tax allocated to municipalities increased in 2015. The central government budget deficit built up in 2015 mainly due to the less favourable impact of *VĮ Indėlių ir investicijų draudimas*.

Chart 8. General government revenue, expenditure and balance
(four-quarter moving sums, compared to GDP)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Compared to GDP growth, general government revenue increased more in 2015; as a result, its ratio to GDP picked up by 0.8 p.p. over the year, to 34.9 per cent. Growth in general government revenue was mainly driven by higher domestic demand and one-off factors. The nominal value of general government revenue increased by more than 4 per cent over 2015; the changes in revenue items, however, varied. Major contribution to income growth stemmed from social contributions higher than a year ago and direct tax revenue. It increased due to rather significant wage increases and a higher number of persons employed. The latter factors had a favourable influence on household consumption expenditure, the increase in which and one-off factors — increased excise duties on processed tobacco and alcoholic beverages as of 1 March 2015 — also provided the conditions for growth of general government revenue from indirect taxes. The favourable impact of higher domestic demand on general government revenue was, however, outweighed by a decline of nearly one-third in revenue from capital transfers. It fell due to the high comparable base: in 2014, general government earned about EUR 490 million from the activities of *VĮ Indėlių ir investicijų draudimas*, whereas in 2015 this amount was much lower, about EUR 210 million. The fall in general government revenue from capital transfers was, however, reduced somewhat by realised revenues related to the approved law on the compensation of part of wages for public servants[4]: the withholding tax and social contributions, calculated from the expenses on the compensation of wages, have been included in general government capital revenue.

The government expenditure-to-GDP ratio increased by 0.2 p.p. in 2015 to 35.1 per cent. The expenditure grew by 2.8 per cent over the year, mainly due to increased expenses on the purchase of intermediate goods and services, also higher compensations of employees and social benefits. The growth of social benefits was driven by higher-than-a-year-ago sickness and maternity leave benefits, also more generous unemployment compensations and pension payments. The latter grew following the government's decision to raise pensions as of July 2015. Sickness and maternity leave, unemployment benefits increased due to the restored to the pre-crisis level maximum amounts of benefits, as was provided for in the 2015 State Social Insurance Fund budget. The main expenditure decreasing factor in 2015 was the half-sized expenditure for capital transfers due to the high comparable base. In 2014, the benefits paid out by *VĮ Indėlių ir investicijų draudimas* and pension compensation expenses were also included in this expenditure item. In 2015, these contributions basically disappeared, while the expenses related to the aforementioned law on the compensation of part of wages for public servants did not allow capital transfers to decrease even more.

Debt

The general government debt-to-GDP ratio grew by 2.0 p.p. over 2015, to 42.7 per cent; this, however, was mainly due to the government's advance borrowing. The nominal amount of debt increased by around EUR 1 billion in 2015 from late 2014, mainly on account of the expansion of the long-term portfolio of government securities after the placement of a EUR 1.5 billion-worth bond issue, a significant portion of which was used to repurchase securities in early 2016. According to the Ministry of Finance, the net borrowing of the Government of the Republic of Lithuania was positive in 2015: a total of EUR 3.1 billion was borrowed and EUR 2.4 billion was repaid. In macroeconomic

[4] *Republic of Lithuania Law on the Reimbursement of the Part of Remuneration/Salary Disproportionately Reduced as a Result of the Economic Crisis to Persons Who Are Paid for Their Work from the State or Municipal Budget, 30 June 2015 , No XII-1927.*

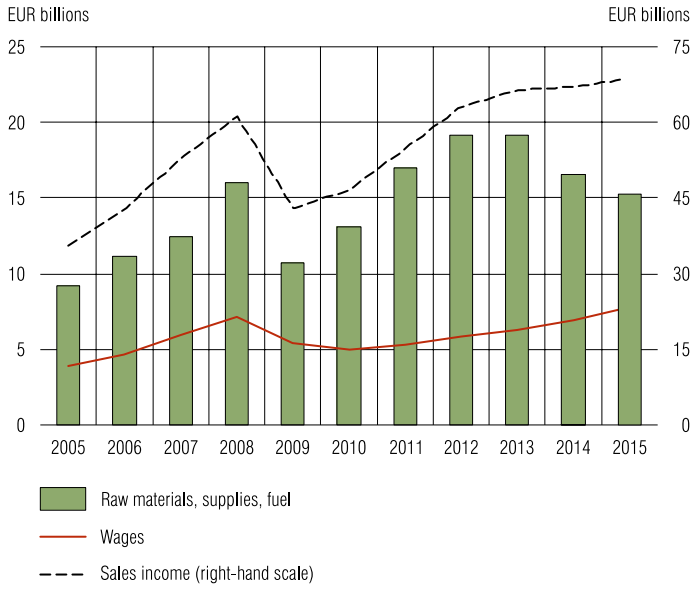
terms, favourable circumstances, reducing the debt-to-GDP ratio in 2015, were few. Positive net borrowing, exceeding general government deficit in absolute value, was one of the major factors behind the increase in the general government debt-to-GDP ratio in 2015. Another factor that did not allow the debt ratio to decrease was the unfavourable difference between the average interest rate on debt and the rate of economic growth. The latter factor increased the debt-to-GDP ratio after a five-year break. The only favourable macroeconomic circumstance in 2015 was the higher-than-a-year-ago general government primary surplus.

Financial Position of the Private Sector

Activities of Non-Financial Corporations

The number of corporations grew in 2015, their financial situation was good. At the end of 2015, slightly more than 66.5 thousand corporations[5] operated in Lithuania (in 2014 — 59.3 thousand). The balance-sheet value of the assets managed by them increased by 8.4 per cent over the year, amounting to EUR 64 billion at the end of the fourth quarter. Credit institutions operating in Lithuania had granted EUR 7.6 billion in loans to corporations, which accounted for 35.2 per cent of the total credit institution loan portfolio. The outstanding debt of corporations remained virtually unchanged over the year, while the liquidity situation was improving. At the end of the year, the ratio of corporation liabilities to equity amounted to 67.8 per cent, a 2.2 p.p. decrease year on year, whereas the liquidity ratio increased by 7.9 p.p. — to 152.2 per cent. Rapidly growing cash reserves of corporations, which increased by 14.8 per cent, had a significant impact on liquidity growth. Annual operating results of corporations were also favourable — income grew by 2.4 per cent, while profitability of operation (EBITDA margin) — by 1.3 p.p. and reached 8.4 per cent. Favourable results were driven not only by increasing sales, but also by low prices of raw material, fuel and other supplies, as well as a lower comparative base due to losses, related to revaluation of fixed assets, incurred by energy companies at the end of 2014.

Chart 9. Income and raw material, supply, fuel and wage costs of non-financial corporations

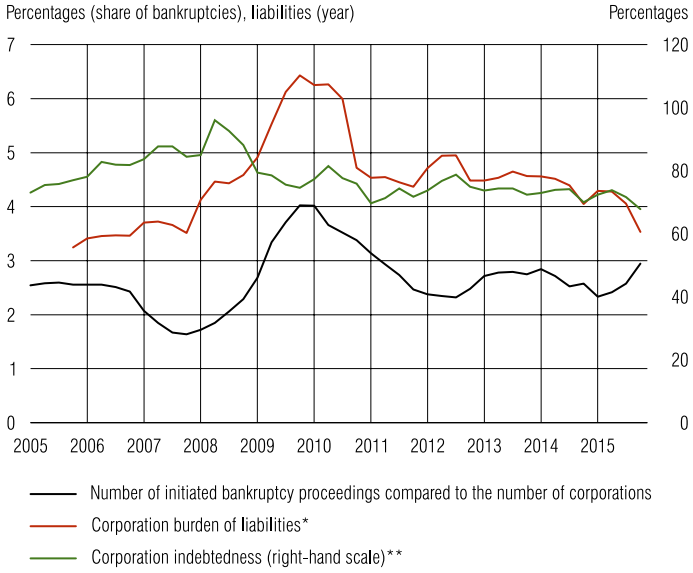


Sources: Statistics Lithuania and Bank of Lithuania calculations.

[5] *Public limited liability companies (AB) and private limited liability companies (UAB), state and municipal enterprises, branches of foreign enterprises, agricultural and cooperative societies and public institutions.*

Despite the improvement in performance results of corporations and their capacity to meet financial liabilities, the number of new bankruptcy proceedings increased over the year. In 2015, bankruptcy proceedings were initiated against 1,960 corporations (a year-on-year increase of 32.7%). The rapidly growing number of bankruptcies might be strongly related to the changed administration of corporation bankruptcy proceedings. Construction and accommodation and catering economic activities remained the riskiest: in 2015, the share of bankruptcy proceedings initiated in these economic activities, compared to the total number of operating corporations, was one of the largest (4.5% and 5.6% respectively).

Chart 10. Non-financial corporations' burden of liabilities, indebtedness and the number of bankruptcy proceedings initiated over twelve months, compared to the number of corporations



Sources: Statistics Lithuania and Bank of Lithuania calculations.
**Ratio of the difference between liabilities and cash (including deposits) to EBITDA. The indicator shows in how many years an corporation would be able to cover existing liabilities.*
***Ratio of liabilities to equity capital.*

The situation of corporations in individual sectors differed — for example, even though at uneven rates, in 2015 sales income of manufacturing, transport and storage enterprises declined, yet that of trade, construction and real estate corporations increased faster; however, growth in profitability was observed in all of the aforementioned and many other sectors. Sales income of manufacturing corporations declined by 3.3 per cent during the period under review; however, due to low raw material prices, the cost price of goods and services fell as well (by 7.6%); therefore, profitability (EBITDA margin) increased by 2.7 p.p. — to 9.2 per cent. Sales income of corporations engaged in trade activities posted a year-on-year increase of 6.5 per cent, while profitability (EBITDA margin) increased by 0.3 p.p. Nonetheless, despite moderate growth, the number of bankruptcy proceedings of trade corporations increased significantly — in 2015, it was 30.4 per cent higher than a year ago. Transport and storage activities did not show any signs of growth in 2015; however, no substantial deterioration was recorded either. The sales income of corporations engaged in these activities decreased by 0.1 per cent, year on year, yet a drop in fuel prices led to a 0.9 p.p. increase in profitability. In addition, the number of bankruptcy proceedings initiated in this sector decreased by 6.9 per cent. Improvement

in the financial situation of the private sector affected positively the performance results of construction and real estate corporations. Income of corporations engaged in these activities increased by 3.3 and 15.9 per cent respectively. On the other hand, a large supply of new real estate objects, stricter requirements for construction work and the rise in wages prevented a significant increase in profitability. Profitability of operation in both sectors (EBITDA margin) increased by 0.2 and 1.4 p.p. respectively.

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

Type of economic activity*	Profitability**		Financial leverage***		Corporation debt burden****		Bankruptcy probability*****	
	2014	2015	2014	2015	2014	2015	2014	2015
Agriculture	11.7	9.0	60.1	58.7	2.8	3.9	2.6	3.4
Mining and quarrying	22.6	20.5	55.8	58.9	2.2	2.8	1.2	1.0
Manufacturing	6.5	9.2	92.7	78.2	3.3	2.3	2.6	2.7
Energy supply	7.6	14.3	76.7	83.3	6.6	4.5	1.2	1.5
Water supply	20.6	20.0	36.4	33.3	1.9	1.9	2.6	3.8
Construction	6.9	7.1	119.2	91.5	4.6	3.3	4.4	4.5
Wholesale and retail trade	3.7	4.0	125.3	127.8	5.2	5.3	2.2	2.8
Transport and storage	10.2	11.2	62.8	58.1	2.7	2.4	3.3	2.7
Accommodation and catering	8.2	11.1	180.6	149.9	8.3	5.2	5.0	5.6
Information and communication	19.7	20.0	70.5	72.9	1.7	1.6	1.6	1.7
Real estate operations	34.7	36.1	92.2	94.8	8.0	7.5	1.4	1.8
Professional and scientific activities	15.3	16.0	15.8	18.1	3.7	3.9	1.3	1.8
Education	12.0	14.7	39.9	46.1	–0.2	0.6	1.9	1.8
All economic activities	7.2	8.4	70.0	67.8	4.0	3.5	2.6	2.9

Sources: Enterprise Bankruptcy Management Department under the Ministry of Economy of the Republic of Lithuania, Statistics Lithuania and Bank of Lithuania calculations.
* *Names of some economic activities are abbreviated.*
** *Ratio of operating profit before interest, taxes and depreciation to sales income over the period.*
*** *Ratio of liabilities to equity capital at the end of the period.*
**** *Ratio of the difference between liabilities and cash (including deposits) to operating profit before interest, taxes and depreciation.*
***** *Ratio of the number of bankruptcy proceedings initiated over the year to the total number of corporations at the end of period.*

Household Finances

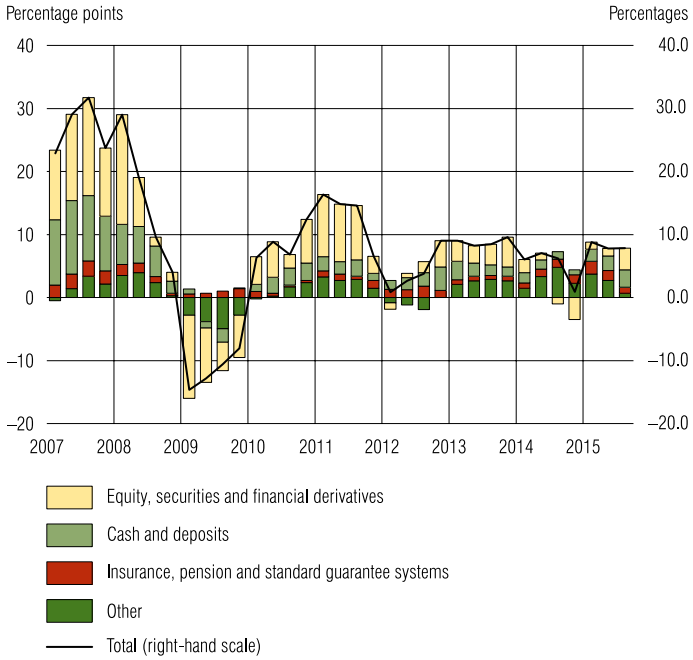
In the context of economic growth, the financial situation of households, as well as their expectations for the future, have been improving. As competition for employees increased in the labour market and enterprises faced a shortage of qualified labour force, the unemployment rate decreased; there was a rise in employment and wages increased more quickly. At the end of 2015, the number of employed persons in the country was higher by 1.2 per cent than in 2014, the unemployment rate declined from 10.1 to 8.8 per cent, wages of employees rose rapidly, whereas compared to the year before, 9.0 p.p. more consumers became increasingly positive about the future.

When prices of consumer goods and services dropped in 2015 (–0.7%), the real wages rose for the third consecutive year; they increased more quickly compared to the previous year (6.0% over the year). Consumer expectations improved as well: the indicator of consumer confidence increased over the year and exceeded its long-term average.

In the third quarter of 2015, household financial assets comprised EUR 33.6 billion or 91.0 per cent compared to nominal GDP. Shares issued by non-financial corporations and

other securities (40.7% of total financial assets), as well as cash and deposits (34.4%), continued to account for the largest share of these assets. Compared to the third quarter of 2014, the value of financial assets held by households grew by EUR 2.4 billion or 7.8 per cent. This growth was mostly driven by the increase in equity instruments and cash and deposits.

Chart 11. Contributions to the change of household financial assets over the year

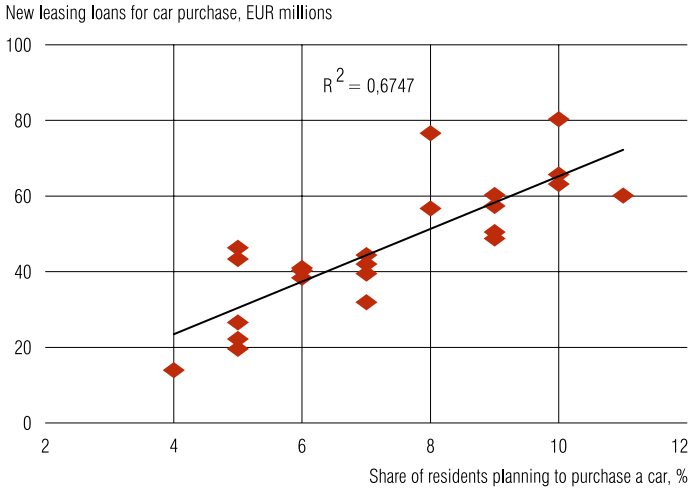


Source: Bank of Lithuania calculations.

Since the financial situation of residents was improving, they borrowed more actively. The amount of MFI loans to the household sector[6], accounting for the largest share of all household liabilities (60.4% in the third quarter of 2015), increased in 2015 (by 4.1%). Residents borrowed more actively both for house purchase (the portfolio of such loans increased by 3.4% over the year) and consumption and other purposes (6.8%). Recently, there was an incline towards borrowing from non-credit institutions issuing consumer loans, i.e. from consumer credit providers and leasing companies. In 2015, the portfolio of loans granted by consumer credit lenders increased by 26.8 per cent — to EUR 429.7 million. In the third quarter of 2015, the portfolio of consumer loans issued by leasing companies to natural persons grew by 19.8 per cent year on year and totalled EUR 158.8 million. As the financial situation and future expectations of households improves, increasingly more households intend to purchase a car using borrowed funds.

[6] *According to Annex 2 of the Lithuanian Economic Review ('MFI loan portfolio adjustment for technical factors'), published in December 2014, data on loans is assessed based on adjusted data.*

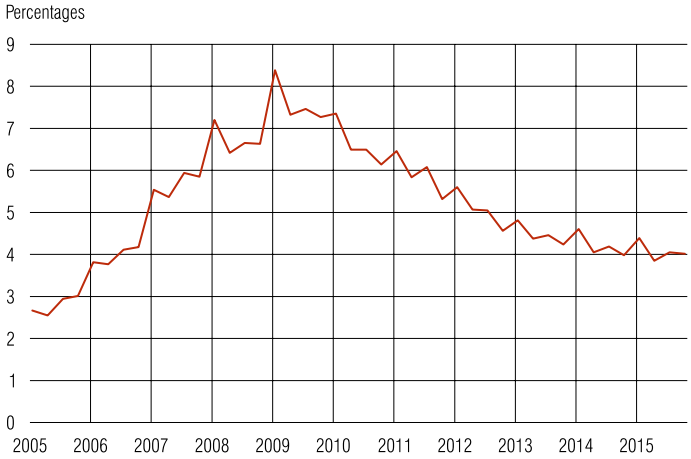
Chart 12. New leasing loans and the share of residents planning to purchase a car



Sources: Statistics Lithuania, Association of Lithuanian Banks and Bank of Lithuania calculations.

The low interest rate environment had a positive impact on the financial situation of households, their debt repayment burden decreased. Credit risk in lending to households improved accordingly, while the share of non-performing loans issued by banks to households amounted to 6.7 per cent at the end of 2015, a year-on-year decrease of 2.2 p.p.

Chart 13. Ratio of repayment of household loans to MFI to total income over the quarter



Sources: Statistics Lithuania and Bank of Lithuania calculations.
Note: prepared based on methodology provided by the Bank for International Settlements (for more information, see http://www.bis.org/statistics/dsr/dsr_doc.pdf).

It is projected that the financial situation of households will continue to improve in 2016, as the rising domestic demand — investment and private consumption — will continue to stimulate the rise in wages as well as increase employment. Lack of improvement in the economic situation of one of the largest export markets of Lithuania — Russia — and weak economic growth in the euro area remain the main circumstances that may negatively affect the Lithuanian economy. A protracted slowdown in Russia, as well as lower demand of Lithuanian goods in the euro area, could stunt the growth in wages and employment, thus leading to a potential increase in household credit risk.

Financing of the Economy

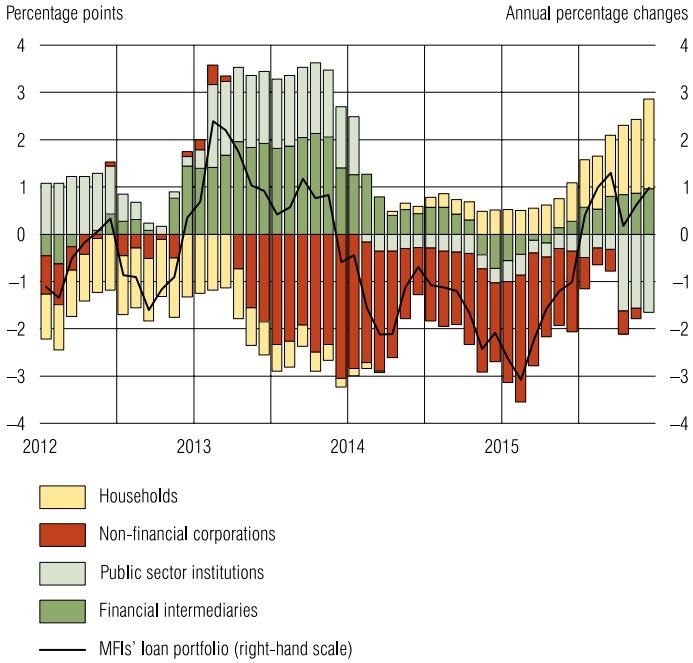
Borrowing Environment

2015 was the year of a relatively good borrowing environment. The financial situation of enterprises and households, as well as households' trust in economic development, was improving, interest rates on loans were decreasing, non-price bank lending conditions remained virtually unchanged, except for households, for which credit standards tightened at the end of the year. All this contributed to an increase in loan demand and had a positive impact on the MFIs' loan portfolio.[7] Year on year, the MFIs' loan portfolio decreased at a slowing rate in the first half of 2015, whereas in the second half-year it began to grow moderately.

Household Borrowing

Loans to households contributed significantly to the growth of the loan portfolio. Having started to grow in the first half of 2014, the portfolio of loans to households continued to grow in 2015, and in December increased by 4.1 per cent year on year. This growth was driven by housing, consumer and other loans. In 2015, the number of the employed and wages increased, which led to an increase in confidence of residents in the economic situation, improvements in the financial situation of households and an increase in the share of households that intend to acquire durable consumer goods (e.g. a house or a car). Such purchases add to the growth of the banking loan portfolio, as they are also financed with borrowed funds. Moreover, the announcement at the beginning of 2015 about the updated Responsible Lending Regulations, to come into effect on 1 November 2015, could have also contributed to the faster growth of housing loans. Projecting that it will be more difficult to get housing loans due to the amendment of these regulations, households could seek to purchase a house sooner.

Chart 14. Dynamics in the MFIs' loan portfolio



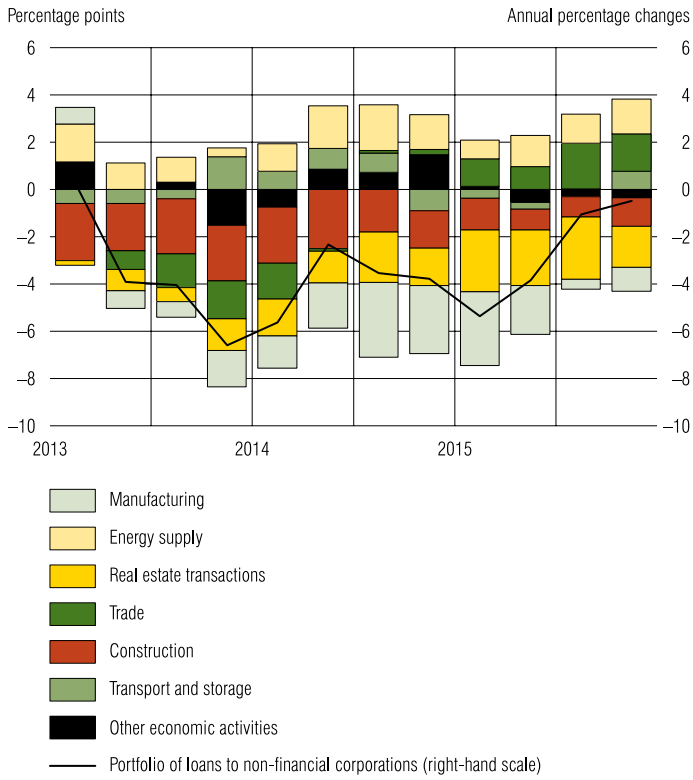
Sources: Bank of Lithuania and Bank of Lithuania calculations.

[7] *In assessing loan developments in Lithuania, the adjusted statistical reporting data prepared by the Bank of Lithuania is used in this section (for more information, see Annex 2 of the Lithuanian Economic Review of December 2014 prepared by the Bank of Lithuania), it may differ from the data collected for supervisory purposes.*

Enterprise Borrowing

Last year, a decline in loans to non-financial corporations had a negative impact on the portfolio of all loans issued by banks; however, the pace of contraction in these loans was increasingly slower. The portfolio of loans to non-financial corporations declined by only 0.5 per cent at the end of 2015 year on year. Its reduction was mainly caused by a drop in loans for real estate transactions, and to construction and manufacturing enterprises. At the end of the year, portfolios of loans to these economic activities, year on year, decreased by 6.2, 16.6 and 6.4 per cent respectively. It is likely that they decreased due to the fact that other funding possibilities were sufficient, for example, the possibility to use the profit accumulated in previous years. Loans to wholesale and retail trade and energy supply activities had the most significant impact on the growth in the loan portfolio. The portfolios of these activities increased by 7.8 and 15.5 per cent respectively. Growing consumption could have encouraged the demand for loans in the wholesale and retail trade sector. However, trade enterprise equity, which had been increasing faster, reduced somewhat the financial leverage of this sector. The construction and upgrade of the energy infrastructure, which began in 2015 and required substantial financial resources, could have possibly added to the growth in the portfolio of loans to the energy supply sector.

Chart 15. Loans to non-financial corporations by types of economic activity



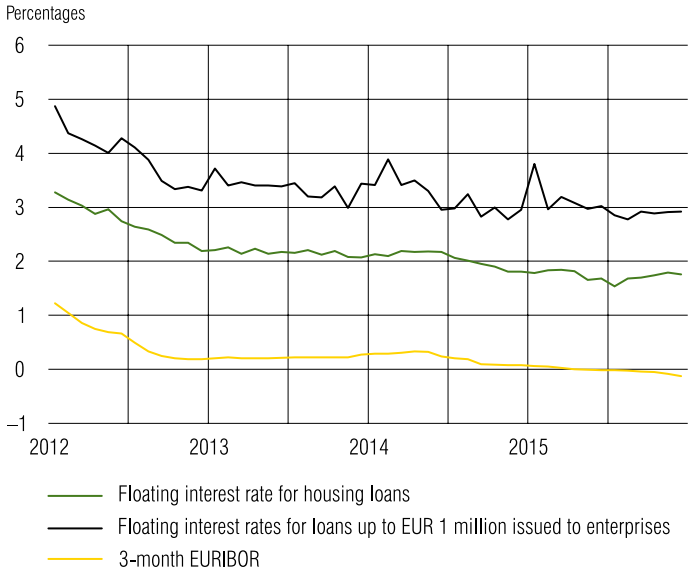
Sources: Bank of Lithuania and Bank of Lithuania calculations.

Borrowing Conditions

In 2015, compared to 2014, the average interest rate for new loans granted reduced; however, other bank lending conditions remained practically unchanged. The average 12-month floating interest rate for housing loans decreased by 0.3 p.p. in 2015, year on year, and amounted to 1.7 per cent. Compared to the previous year, loans with a floating interest rate and up to EUR 1 million were less costly for enterprises (by 0.2 p.p.), whereas the average 12-month interest rate for such loans amounted to 3.0 per cent.

The general decline in lending rates was mostly driven by lower interbank interest rates, while the decline in housing loan interest rates — also by slightly lower bank margins.

Chart 16. Development of interest rates on loans



Sources: ECB and Bank of Lithuania.

If economic development will be as projected and there will be no key factors contributing to uncertainty, the loan portfolio may continue to grow. The need to invest in equipment and working capital, as well as the planned acquisition of durable goods by households, are the preconditions for that. If lending costs are attractive, part of these needs may be financed using borrowed funds. This is also confirmed by data of the survey carried out by the Bank of Lithuania, which shows that nine out of ten surveyed banks expect a growth in loan portfolio in 2016. Increase in lending to businesses should have a more significant impact on this growth.

II. KEY FUNCTIONS OF THE BANK OF LITHUANIA

Participation in the Formulation and Implementation of the Eurosystem's Monetary Policy

The Eurosystem's Monetary Policy Decisions

On 1 January 2015, Lithuania became the 19th member of the euro area and the Bank of Lithuania joined the Eurosystem, which consists of the euro area NCBs and the ECB. Since that date, the Bank of Lithuania participates in the making and implementation of euro area monetary policy decisions. The Chairman of the Board of the Bank of Lithuania became a full-fledged member of the ECB's Governing Council (hereinafter — Governing Council). Representatives of the central bank of our country are now entitled to participate in the ESCB committees and working groups of euro area composition. Immediately from the start of the year, the Bank of Lithuania started to implement the Eurosystem's monetary policy instruments in our country.

The primary objective of the Eurosystem, as established by Article 127 of the Treaty on the Functioning of the European Union and Article 2 of the Treaty's Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank, is maintaining price stability. The price stability objective pursued by the Eurosystem is defined by the Governing Council's Resolution of 8 May 2003 as the year-on-year change of the euro area HCPI, which is below, but close to, 2 per cent over the medium term. This objective is pursued to safeguard the euro area general public not only from higher inflation, but also from deflation in the monetary union or its individual parts, which is no less damaging to the economy, taking into account the existing price level and price development differences in individual euro area countries.

In pursuing its monetary policy, the Eurosystem combines the centralised decision making and coordination with decentralised implementation of decisions. Euro area NCBs and the ECB cooperate in committees and working groups to draw up proposals to the Governing Council on the single monetary policy. The Governing Council, which consists of the governors of euro area NCBs and the ECB's Executive Board, makes monetary policy decisions on joint accord. These decisions are usually implemented in each euro area country by that country's national central bank by applying the harmonised package of monetary policy instruments, whereas the ECB coordinates this process. In exclusive cases, certain monetary policy instruments are implemented by the ECB. Coordinated decentralised implementation of the Eurosystem's monetary policy operations ensures their availability to credit institutions of each euro area country. This is especially relevant from 2008, when the euro area interbank market experienced a large shock and fragmentation and has not yet returned to the pre-crisis level.

In 2015, the Eurosystem strengthened the monetary policy accommodation by approving and starting the implementation of the expanded APP and further reducing the negative interest rate on the deposit facility. In January 2015, the Governing Council announced the strengthening of accommodative instruments by the expanded APP. This programme was initiated, when the results and forecasts of the fourth quarter of 2014 indicated that the currently implemented package of standard and non-standard monetary policy instruments would be insufficient to ensure material turning point of inflation and its expectations as well as sustainable economic growth. The expanded APP was launched on 9 March 2015. Taking into account the downward revision of inflation forecasts and the increase in macroeconomic risks, in December 2015 the Governing Council further reduced the negative interest rate on the deposit facility applied to excess reserves of credit institutions (from –0.2 to –0.3%) and announced its intentions to continue the expanded APP at least until the end of March 2017, i.e. 6 months longer than announced earlier.

The expanded APP is often called the Eurosystem's quantitative easing programme. Noting the relatively passive borrowing by credit institutions from the Eurosystem in 2014, the Governing Council decided that an active intervention in debt securities markets should become the prevailing instrument. In order to substantially increase the volume of this intervention, under the PSPP the Eurosystem started to purchase in the secondary market investment-grade bonds in euro with the remaining maturity of 2 to 30 years issued by the euro area public sector — governments, some agencies and European institutions (for example, the European Stability Mechanism, the European Investment Bank, etc.). In December 2015, the Governing Council decided to expand this list by including marketable debt securities issued by euro area regional and local government and to reinvest the principal amounts when issuers redeem securities acquired under APP at their maturity for as long as it is necessary. The APP significantly supplemented the private sector covered bond purchase programme and the asset-backed securities purchase programme, which are implemented since 2014. As a suitable alternative for credit institutions to attract credit resources, TLTROs, which were initiated in 2014, will be continued, as planned earlier, until the middle of 2016.

Under the expanded APP, the Eurosystem (according to the Governing Council decisions of January and December 2015) plans to purchase public and private sector debt securities for the amount of EUR 60 billion per month and intends to do so at least until the end of March 2017, and longer, if needed. The final date of ending the expanded APP will depend on the success of the implementation of the objective set for this programme — the return to a sustainable inflation rate that complies with the primary monetary policy objective. The total volume of the expanded APP over the planned 25 months of purchase is EUR 1.5 trillion. This amount would almost double the Eurosystem's balance sheet.

To ensure that the public sector bond market is not distorted by the Eurosystem's interventions, the Governing Council established two quantitative limits on the volume of bonds purchased. Taking into account the bonds earlier purchased and held for monetary policy or investment purposes, the Eurosystem may acquire no more than 33 per cent of bonds of each issuer to avoid dominating the market. Moreover, the limit on each bond issue was established to ensure that the Eurosystem does not become the blocking minority for the decisions of creditors and does not distort the market in this way. When the PSPP was started, no more than 25 per cent of bonds of one issue could be purchased, taking into account the lower threshold of the blocking minority established in the issue

clauses of some bonds. The review of this limit was planned after 6 months. After this period ended and a larger amount of data was collected, in September the Governing Council increased the share of bonds of one issue that may be purchased to 33 per cent in all cases, when it does not comprise the blocking minority. Each case will be assessed individually. If the terms of a specific bond issue provide for the blocking minority of 25 per cent, the Eurosystem will apply the latter limit.

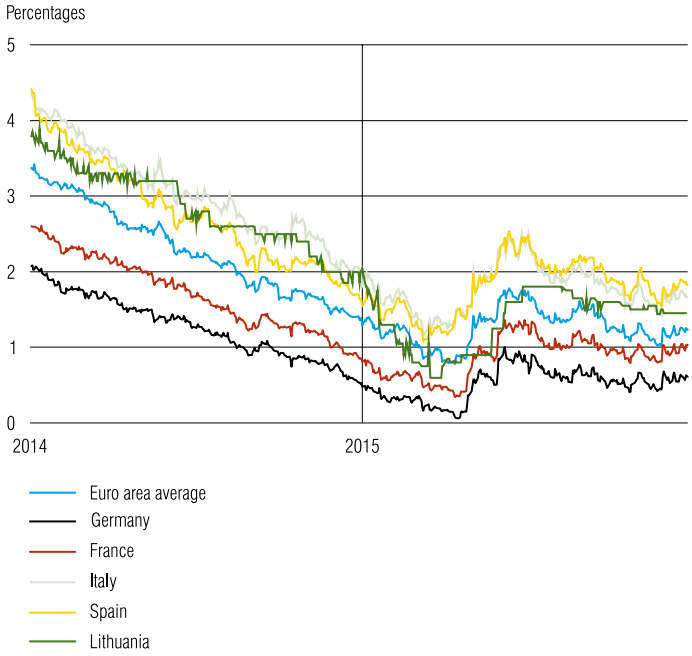
The purchase of bonds under the expanded APP is divided among the NCBs and the ECB. The ECB purchases 8 per cent of public sector bonds, whereas the NCBs purchase the remaining share (92%). Each national central bank purchases public sector bonds of its country and the share purchased by it matches its capital key — its contribution to the ECB capital paid by the Eurosystem (the share of the Bank of Lithuania is 0.587%). Bonds of governments and national agencies purchased by the NCBs comprise 80 per cent of public sector bonds purchased under the PSPP, whereas bonds of the European institutions, which are also purchased by the NCBs — the remaining 12 per cent. If, in observance of the aforementioned purchase limits, there is a lack of bonds issued by the national government and agencies, the national central bank is required to offset this shortage to the amount defined by the capital key by purchasing bonds of the European institutions. The Bank of Lithuania is among these NCBs. The purchase of covered bonds and asset-backed securities is divided among the Eurosystem's members, taking into account the size of the markets of these securities in the country and the NCB's competence. The Bank of Lithuania does not participate in the purchase programmes of these bonds.

The expanded APP stimulates the euro area economy through these main channels:

1) the signalling channel, by announcing the Eurosystem's intentions to pursue very accommodative monetary policy for a sufficiently long time;
2) the direct impact channel, by reducing the yield of bonds of various maturities purchased under the APP;
3) the portfolio rebalancing channel, which transmits the impact of the first two channels to other financial markets. Encouraged by the APP, investors change their investment composition by more actively purchasing debt and equity securities and other financial assets not included in the APP;
4) the credit channel, by easing financing conditions of undertakings and individuals.

The direct impact of the APP on the yield of bonds purchased under this programme is not strong and unambiguous. The impact was reduced by the fact that the yields of bonds purchased and their dispersion were already low before November 2014, when market expectations that the Eurosystem will soon start the expanded APP increased substantially. In addition, the fluctuations of market expectations concerning inflation and growth of the real economy in the euro area and the world as well as further monetary policy actions of the Eurosystem also affected the yields of these bonds.

Chart 17. Annual yield of euro area government bonds close to 10-year maturity issued in national currency

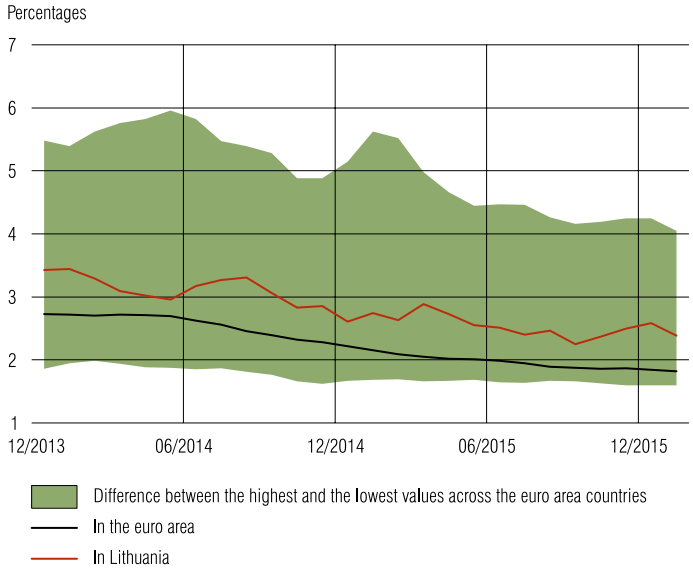


Sources: Bloomberg and ECB.

The Eurosystem's non-standard monetary policy measures (very low ECB interest rates, the expanded APP, TLTRO) stimulated the decline in the interest rates on loans to the real economy and their dispersion in individual euro area countries. In 2014 and 2015, the weighted average of interest rates on new loans to non-financial corporations in the euro area declined by 0.9 p.p., whereas the difference between the highest and the lowest average interest rate in individual countries went down by almost 1.0 p.p. In the same period, the weighted average of interest rates on new housing loans declined by 0.8 p.p., whereas the difference between the highest and the lowest average interest rate in individual countries went down by almost 0.5 p.p.

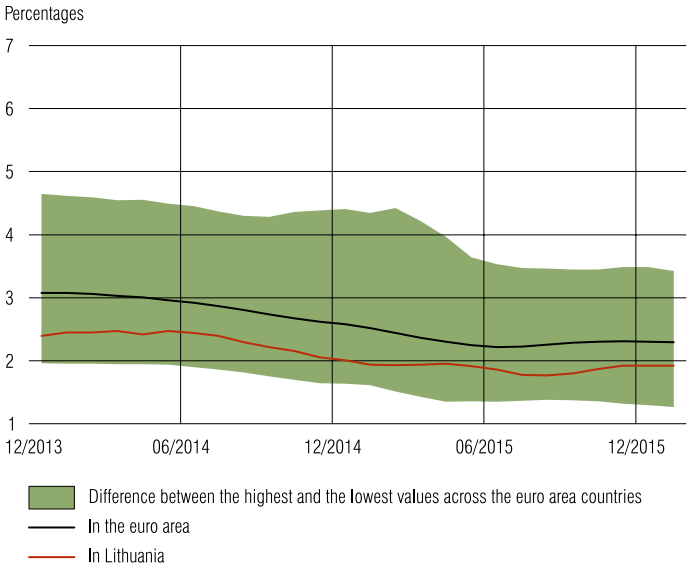
In Lithuania, the average of interest rates on new loans to non-financial corporations went down by 0.8 p.p., whereas that of housing loans declined by 0.5 p.p. over this period. These changes were determined not only by the overall trend of decline in interest rates on loans in euro, but also by the euro adoption, although this factor should not be considered as decisive due to strong expectations already present in 2014 that the euro will be adopted in 2015.

Chart 18. Average MFI interest rates on new loans to non-financial corporations in the euro area and in Lithuania



Sources: ECB and Bank of Lithuania calculations.
Notes: Interest rates are 3-month moving averages. The difference interval does not cover average interest rates in Greece, Malta, Latvia and Luxembourg due to data gaps.

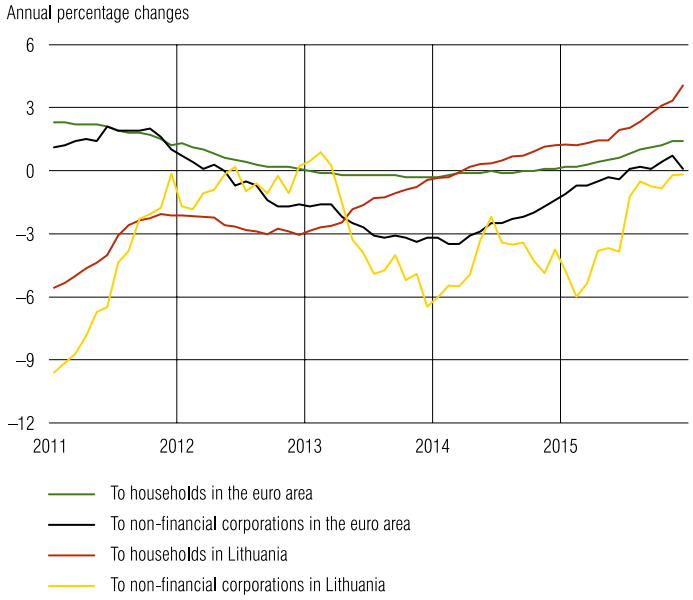
Chart 19. Average MFI interest rates on new housing loans in the euro area and in Lithuania



Sources: ECB and Bank of Lithuania calculations.
Notes: Interest rates are 3-month moving averages. The difference interval does not cover average interest rates in Greece and Malta due to data gaps.

The Eurosystem's accommodative monetary policy encouraged crediting to the euro area's real economy. According to the updated loan balance assessment methodology published by the ECB on 21 September 2015, the growth of loans to households became positive in November 2014, whereas the growth of loans to non-financial corporations became positive in July 2015 after the contraction period that lasted three years. Surveys of small and medium-sized enterprises reflected the improvement in their credit conditions in 2015 — for the first time since 2009. In Lithuania, loans to households started to grow again from the second quarter of 2014, whereas the annual change of loans to non-financial corporations remained negative, but declined rapidly over 2015 — to –0.2 per cent.

Chart 20. Changes in the balances of MFI loans to households and non-financial corporations in the euro area and in Lithuania



Sources: ECB and Bank of Lithuania calculations.
Notes: Loan balances were adjusted for the sales and securitisation of loans.

Due to the increase in the differences of monetary policy cycles in the euro area and the US and several other countries, the euro exchange rate in relation to currencies of many international trade partners declined since the second quarter of 2014, thus improving euro area export possibilities. From the middle of 2014 to the end of 2015, the euro depreciated by 21 per cent with regard to the US dollar and by 17 per cent with regard to Chinese yuan renminbi. The euro real effective exchange rate in the euro area with regard to the currencies of 38 foreign countries that are its main trade partners, calculated after considering inflation differences, declined by 10 per cent from the first quarter of 2014 to the end of the fourth quarter of 2015. During this period, the real effective exchange rate of Lithuania's national currency (litas until the beginning of 2015, later — the euro) declined by 2 per cent.

The Bank of Lithuania forecasts that the expanded APP will have the largest effect on the exporting economic sector of Lithuania due to higher euro area demand and the depreciation of the euro, which created more possibilities for our country's export. It is estimated that the expanded APP announced in January 2015 could have increased our country's real GDP growth by 0.2 p.p. in 2015, whereas the increase of 0.1 per cent is expected both in 2016 and in 2017.

Implementation of the Eurosystem's Monetary Policy in the Euro Area and in Lithuania

In order to achieve its objectives, the Eurosystem has at its disposal monetary policy instruments, which include open market operations, standing facilities and minimum reserves.

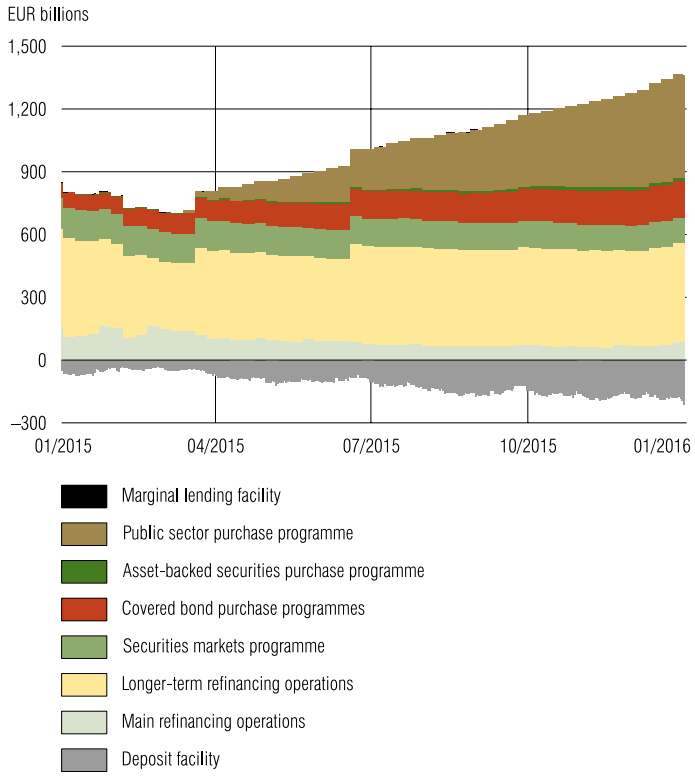
Open Market Operations

In 2015, the Eurosystem performed via tenders 130 open market operations. At the end of 2015, using these instruments, the Eurosystem's counterparties had borrowed EUR

88.98 billion via main refinancing operations and EUR 469.54 billion via longer-term refinancing operations, including targeted longer-term refinancing operations. TLTROs are used by the ECB's Governing Council to support bank lending to the non-financial private sector, i.e. to households and non-financial corporations (excl. housing loans to households). Credit institutions wishing to participate in these operations must comply with certain reporting requirements, i.e. each institution has to present reports on balances of eligible loans and eligible net lending over reporting periods. These data are used in setting the borrowing threshold and borrowing limits to these institutions. In addition, these data are subject to mandatory audit.

In March 2015, the Eurosystem started to implement the expanded APP. According to the expanded APP, which includes the third covered bond programme, the asset-backed securities purchase programme and the PSPP, the Eurosystem purchases securities for the amount of EUR 60 billion each month. By conducting APPs, the Eurosystem increased the portfolio of securities held for monetary policy purposes by EUR 586.2 billion to EUR 803.1 billion in 2015.

Chart 21. The Eurosystem's liquidity-providing and liquidity-absorbing monetary policy operations



Sources: ECB and Bank of Lithuania calculations.

Standing Facilities

Using the deposit facility, for which the interest rate of –0.2 per cent (from the beginning of 2015) and –0.3 per cent (from 9 December 2015) was applied, the Eurosystem's counterparties held overnight deposits at the NCBs with the value of EUR 212.42 billion at the end of 2015. The marginal lending facility, for which the interest rate of 0.30 per cent was applied, was also used during the review period: the largest amount borrowed was EUR 3.73 billion, whereas the lowest amount comprised EUR 0.001 billion.

Minimum Reserves

The average amount of minimum reserves was EUR 111.18 billion in 2015. Owing to the rise in the reserve base, the minimum reserves of the Eurosystem's credit institutions increased by almost 7 per cent over the year — from EUR 106.31 billion to EUR 113.29 billion.

Implementation of the Eurosystem's Monetary Policy in Lithuania

Open Market Operations

In 2015, the counterparties of the Bank of Lithuania participated quite actively both in the main refinancing operations, longer-term refinancing operations and targeted refinancing operations. Using these instruments, counterparties had borrowed EUR 0.35 billion at the end of the year.

In March 2015, the Bank of Lithuania, together with the other Eurosystem NCBs, started to implement the PSPP. The Bank of Lithuania, as a participant of the PSPP, purchases government securities of the Republic of Lithuania and bonds of the European supranational institutions. The share of purchases by an NCB is calculated according to the contribution to the ECB capital. On average, over a month the Bank of Lithuania purchased securities for the amount of EUR 250 million. The value of euro area resident securities bought by the Bank of Lithuania for monetary policy purposes was EUR 2.5 billion at the end of 2015. The Eurosystem had bought government securities of the Republic of Lithuania for the amount of EUR 1.1 billion.

Standing Facilities

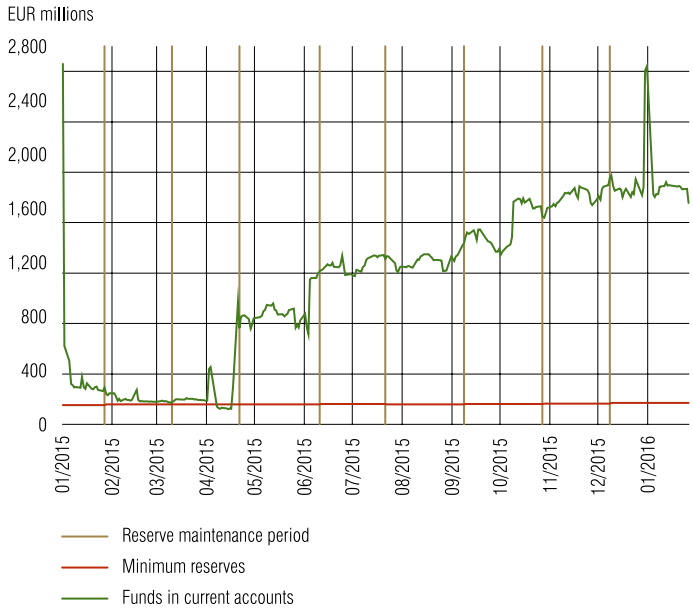
The counterparties did not use the deposit facility in 2015. The marginal lending facility, for which the interest rate of 0.30 per cent was applied, was used during the review period: the largest amount borrowed was EUR 4.3 million, whereas the lowest amount comprised EUR 0.5 million.

Minimum Reserves

The reserve requirement level changed significantly since 1 January 2015. Before joining the euro area, the minimum reserve requirement of 3 per cent was applied in Lithuania, whereas it comprised 1 per cent in the euro area. After harmonising minimum reserve requirements with the euro area, the minimum reserves declined by EUR 0.3 billion and amounted to EUR 0.2 billion.

At the beginning of 2015, owing to the euro adoption effect, when individuals and enterprises transferred cash to bank accounts, credit institutions accumulated in current accounts at the Bank of Lithuania a surplus of EUR 2.7 billion, i.e. this was the amount exceeding the minimum reserves. When Lithuania became a member of the euro area, it became easier for credit institutions to manage liquid funds. It should be noted that the Eurosystem applied a negative interest rate of 0.2 per cent on excess reserves at the beginning of 2015; therefore, funds in current accounts approached the minimum reserve ratio already at the beginning of February 2015. However, the possibilities to earn from short-term safe investment in the euro area were significantly affected by more active quantitative easing of the economy started by the ECB in March 2015. Short-term market rates in the euro area declined significantly and this determined the decline of investment attractiveness and stimulated the growth of excess reserves.

Chart 22. Changes of bank reserves in euro at the Bank of Lithuania



Source: Bank of Lithuania.

Financial Market Supervision

Supervision Trends

The Bank of Lithuania is responsible for the supervision of the whole financial market — it conducts prudential supervision of financial market participants and supervises the provision of financial services.

The Bank of Lithuania is improving the licensing process with the objective of ensuring that only transparent and financially sound market participants enter the market. To ensure that managers of the supervised institutions and other responsible persons are competent and have an irreproachable reputation, the suitability of managers to perform these duties is assessed. The Bank of Lithuania website publishes the Licensing Guide, which provides comprehensive information on the legislative requirements for financial market participants. The Guide helps persons intending to obtain a business license or permission to promptly get comprehensive information on the legislative requirements, whereas already operating entities can find in it the most important information provided in a clear and comprehensive manner.

In the area of bank supervision, changes were implemented to adapt the supervisory model to the SSM requirements in 2015. At the same time, an effective supervisory process was maintained. Representatives of the Bank of Lithuania participated in the ECB's working groups developing uniform supervisory techniques and standards according to international standards and good practice. Inspection, current supervision, supervisory review and evaluation as well as licensing processes were harmonised with the SSM requirements. Supervision of the three largest banks registered in Lithuania was performed together with the ECB on the basis of the uniform SSM methodology.

In recent years, much attention was devoted to the transposition of the EU Directives and preparation of the legislation implementing them. CRD IV and CRR implementation was completed. The draft resolutions of the Board of the Bank of Lithuania implementing

CRD IV were adopted, a new package of financial statements and supervisory reports of banks was successfully introduced and the capital conservation buffer of 2.5 per cent was established to banks. The Bank Recovery and Resolution Directive establishing a framework for the recovery and resolution of credit institutions and investment firms, which came into force on 1 January 2015, was implemented: the Law on Financial Sustainability and related laws were amended substantially; the Board of the Bank of Lithuania adopted the provisions for the preparation of recovery plans, which establish the requirements for the information provided and the terms of provision of recovery plans updated once per year to the supervisory authority; the supervisory process will follow the guidelines of the European Banking Authority related to the application of the provisions of the aforementioned Directive as well as Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes.

The Directive on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) was implemented. It establishes the new requirements for the business and supervision of insurance undertakings based on risk assessment. The Board of the Bank of Lithuania adopted resolutions implementing the Solvency II Directive, which establish the new risk-based insurance undertaking management and capital adequacy requirements. According to the new requirements, an insurance undertaking's capital adequacy should be continually assessed, taking into account not only insurance risk, but also other risks faced by the insurance undertaking (market, credit, operational and other risks), which may determine unexpected losses. Insurance undertakings must not only comply with the ratios established by the legislation, but also regularly identify, assess and manage their risk and solvency by themselves. Higher transparency requirements were established — companies must not only disclose their business models and performance results, but also assess their risk profiles, validate the risk management framework corresponding to the risk profile and publish the company's solvency indicators. In addition, the insurance undertaking supervision process will follow the guidelines of the European Insurance and Occupational Pensions Authority on the implementation of the Solvency II requirements.

As of 2016, insurance undertakings started to apply international accounting standards. The resolution of the Board of the Bank of Lithuania amending the current methodology for the calculation of technical provisions was adopted to harmonise it with the international accounting standards. This resolution ensures uniform technical provisions calculation practice among insurance undertakings and their comparability, since the 4th international financial reporting standard 'Insurance Policies' is temporary and not comprehensive. In addition, the Republic of Lithuania Law on Profit Tax allows insurance undertakings to deduct insurance technical reserves calculated in accordance with the methodology for the calculation of technical provisions established by the supervisory authority from income, when calculating the taxable profit.

The tightening of the credit union supervision continued. After the Budget and Finance Committee of the Seimas of the Republic of Lithuania approved the Concept of the Sustainable Operation of Credit Unions, the draft laws amending the Law on Credit Unions and the Law on the Central Credit Union were drawn up and submitted to the Ministry of Finance. To ensure the sustainability of the operation of this financial sector segment, the legal acts regulating the operation of credit unions and the management of the risk assumed were improved. To assess credit risk more accurately, Resolutions of the Board of the Bank of Lithuania on prudential requirements for credit unions and on the

calculation of prudential requirements for credit unions were amended: the differentiated capital adequacy ratio was abandoned and a uniform ratio of 13 per cent was set for all credit unions from 30 September 2015. Credit unions that have significant portfolios of loans granted to associated members will be required to calculate an additional capital requirement to cover this risk by applying respective risk weights. To reduce interest rate risk assumed by credit unions, the Rules of Credit Union Investment in Non-Equity Securities were adopted on 19 June 2015. They establish the requirements on investment portfolio size (no more than 35% of the on-balance-sheet assets of a credit union) and on the average modified financial duration of the securities portfolio (it should be no longer than 2 years from 31 December 2017). The new requirements are used to ensure that credit union investment does not have a negative impact on the primary objective of credit unions — satisfaction of borrowing requirements of members, i.e. credit unions must maintain the traditional business model, whereas investment in securities should be made only for the purposes of liquidity management.

The supervision of the implementation of requirements for the prevention of money laundering and terrorist financing is strengthened further. The National Money Laundering and Terrorist Financing Risk Assessment of the Republic of Lithuania was performed in 2015, which identified the factors that pose risk, whereas the Bank of Lithuania, as the financial sector supervisory authority, is actively involved in plans for the reduction of various risks identified in the National Money Laundering and Terrorist Financing Risk Assessment Report. In 2015, the Council of Europe expert committee on measures against money laundering and terrorist financing (*Moneyval*), acknowledged Lithuania's progress in the area of money laundering and terrorist financing — the tighter supervision procedures were abandoned for Lithuania in April 2015. The Bank of Lithuania emphasises the importance of information technology security and strengthens supervision in this area. The Minimum Security Requirements for Online Payments, which have the objective of enhancing the security of these payments, came into effect on 1 November 2015.

In recent years, the EU paid substantial attention to the area of financial services regulation. To implement Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property (the MCD), the Bank of Lithuania drew up the draft Law on Credit Related to Immovable Property. In addition to transposition of the MCD provisions, the draft law extends the scope of the MCD to all credit agreements secured by immovable property, regardless of whether it is residential or not. It also sets out a number of requirements that will ensure better compliance of regulated credit agreements to the interests of consumers (pre-contractual information disclosure standards, prohibition of tying with other financial products and services, the cap on the early repayment fee, etc.).

The draft amendments to the Law on Payments were drawn up to implement Directive 2014/92/EU of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. The purpose of this draft is to increase access to payment services, encourage consumers to use efficient payment instruments and thus to encourage competition among payment service providers as well as to ensure reasonable pricing for the basic payment account with basic payment services necessary for consumers to satisfy their daily needs related to payments.

To implement the Markets in Financial Instruments Directive 2014/65/EU, the draft Law amending the Law on Markets in Financial Instruments was drawn up. It includes the new requirements on market infrastructure, transparency and transaction reporting, algorithmic trading and trading in commodity derivatives; establishes stricter requirements on retail investor protection; implements open access provisions and strengthens the powers of the supervisory authority.

To improve the regulation of long-term life insurance products, the draft Law amending the Law on Insurance was drawn up. It proposes to clearly define the duty of insurers and insurance intermediaries to avoid conflicts of interest that could negatively affect the interests of their customers and to act in the best interests of the customer, to define the requirements for the management of investments to ensure that investment is effective and allows achieving the best result for the customer (if the insurer does not manage investments itself, it will not be allowed to charge fees for investment management), to define the insurer's pre-contractual duty to disclose information on all costs related to the insurance contract and to provide an example illustrating the inflation impact, to establish the term of no less than 3 years, during which the insurer will be required to arrange and deduct acquisition and distribution costs incurred by it from the insurance premiums paid by the policyholder, to regulate the calculation of the surrender value and the fee for terminating the contract.

To implement the Government's proposals on regulation measures that encourage the use of alternative small and medium-sized enterprise financing instruments, the draft Law on Crowdfunding and related implementing legal acts were drawn up. The draft Law provides legal certainty for entities wishing to engage in crowdfunding activities — it implements the conditions and requirements for engaging in this activity, establishes the required instruments for safeguarding investor interests and defines the rights and duties of the supervisory authority that conducts the oversight of crowdfunding platform operators.

The process of reducing the administrative burden of the supervised market participants, which began in 2014, is being continued. Bank and credit union licensing procedures were simplified and the amount of information that has to be collected and submitted was reduced. It is planned to create a possibility for financial market participants to submit to the Supervision Service of the Bank of Lithuania the documents signed by a certified electronic signature. This would allow to save not only costs, but also time, and accelerate information exchange procedures. It is planned to abandon a part of the regularly collected information and to join some reports in the future. In order to help businesses avoid the double reporting burden, the information already collected in state registers will be used for supervisory purposes.

Much attention was devoted to communication with market participants and their consulting. The Supervision Service of the Bank of Lithuania organises annual meetings with all supervised market participants and their associations. During these meetings, it presents already-implemented and future business regulation innovations and expected EU supervisory regulation trends as well as discusses the current state of the market. Individual meetings of representatives of banks, audit companies that conduct their audit and the Supervision Service to discuss the results of annual financial statements as well as individual discussions of performance results and prospects with each insurance

undertaking are organised each year. Regular meetings with the representatives of market participants are organised to discuss the practical issues encountered by all market participants in relation to compliance with the requirements established by legal acts. The supervised entities were also consulted individually: in 2015, the issues related to the implementation of CRD IV implementing legal acts and CRR, as well as information technology security, were most important for the banking sector, whereas insurance market participants were interested in the issues of implementation of the Solvency II Directive. Current and potential market participants were consulted on various licensing issues: provision of payment and investment services, business model assessment, reorganisation, acquisition of shares, competence of managers, business of currency exchange operators, etc.

Financial Market Participants and Their Supervision

Banks

The assets of banks operating in Lithuania decreased somewhat in 2015: even though the lending volume increased, less funds were held on accounts with the central bank and the amount of debt securities reduced. All banks complied with the regulatory capital and liquidity requirements. Not only minimum requirements, but also individual Pillar II capital requirements were set for banks; in addition, capital buffer requirements laid down in EU Directives and domestic legal acts came into force. The recovery of the lending market was prominent, while the amount of customer deposits with banks increased further, despite low interest rates. The banking sector was profitable; however, income from the main business activity continued to decrease, while the year-on-year increase in profit was influenced by side factors. The Bank of Lithuania is currently preparing draft legislative acts related to legal regulation of real estate crediting and amendments to the Law on Payments. These acts will establish additional standards for banks to be applied in respective activities. Over the year, the Bank of Lithuania examined 143 consumer applications to settle disputes with banks.

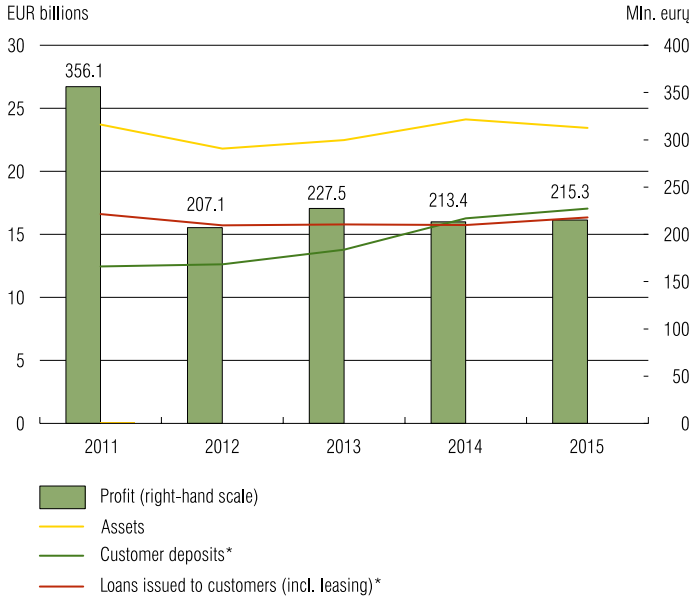
Banking Supervision

Together with the ECB, the Bank of Lithuania, as a participant of the SSM, supervised the banking sector during 2015. The state of the capital of the banking system is assessed positively — in 2015, all banks operating in Lithuania complied with relevant requirements. According to the Bank of Lithuania, for banks of local capital origin and whose capital adequacy ratios are relatively lower, the strengthening of the capital remains an issue, and they have to take this into account when planning their activities.

In observance of CRD IV, implemented in Lithuania, a Supervisory Review and Evaluation Process in relation to all banks operating in the country was carried out in 2015. During this process, banking activities in terms of types of risks, financial standing and compliance with prudential requirements were assessed in detail; the requirement of additional capital, necessary for covering Pillar II risks (i.e. risks which are not covered by the minimum capital adequacy requirements) was also estimated. It will be in force until the next Supervisory Review and Evaluation Process. The Bank of Lithuania reported that *AB Šiaulių bankas* will have to meet a 9 per cent common equity Tier 1 (CET1) capital ratio and a 12.5 per cent total capital ratio, *UAB Medicinos bankas* — 8.9 and 12.4 per cent

capital requirements respectively, *AB Citadele bankas* — 11.0 and 14.5 per cent capital requirements. Respective requirements were set for three major banks in the country — *AB SEB bankas*, *Swedbank, AB*, and *AB DNB bankas*; however, the ECB, responsible for direct supervision of these banks, has not revealed these requirements.

Chart 23. Developments in performance indicators of banks



**Data on deposits and loans was adjusted in 2015 due to* Danske bank A/S *Lithuania branch and* Swedbank, AB *transaction to sell the retail banking business. Due to this reason, in the supervision statements, the respective share of loans and deposits of* Danske bank A/S *Lithuania branch is formally indicated as assets and liabilities, intended for sale.*

In 2015, the Bank of Lithuania set capital buffers in accordance with CRD IV. The capital conservation buffer (2.5%) is applied to all banks operating in the country. The countercyclical capital buffer is set at 0 per cent after the state of the Lithuanian economic cycle was assessed; the Bank of Lithuania reviews its value on a quarterly basis. *AB SEB bankas*, *Swedbank, AB*, *AB DNB bankas* and *AB Šiaulių bankas* were recognised as other systemically important institutions. A 2 per cent capital buffer of other systemically important institutions was set to the first three banks, a 0.5 per cent — to *AB Šiaulių bankas*. Banks will have to comply with these buffers starting from 31 December 2016.

After the transposition of the provisions of the Bank Recovery and Resolution Directive into Lithuanian legislation at the end of 2015, banks will have to submit recovery plans to the Bank of Lithuania for assessment. In addition, banks will have to pay contributions (intended for providing financial aid to banks in crisis, if necessary) to the resolution fund, administrated by the Deposit Insurance Fund, annually.

Activities of the Banking Sector

As of 1 January 2016, six banks and seven foreign bank branches operated in Lithuania. The number of banking system participants decreased at the end of the year: the reorganisation of *AB bankas FINASTA* was completed, after which *AB Šiaulių bankas* took over its assets and liabilities. *Skandinaviska Enskilda Banken AB* Lithuania branch was removed from the list of credit institutions; the branch does not intend to provide financial services. The latter changes did not have a significant impact on the indicators of the banking system. In 2015, *Danske bank A/S* announced that it plans to change its

business model and gear it towards business banking; soon intentions to sell the retail customer portfolio to Sweden's *Swedbank, AB* were announced. The Competition Council of the Republic of Lithuania issued permission for this transaction on 22 March 2016.

All banks operating in Lithuania complied with both the minimum capital adequacy requirement and the new capital conservation buffer requirement with a margin. The overall capital adequacy ratio of banks, as of 1 January 2016, was 24.8 per cent, resulting in a year-on-year increase (21.3%). In 2015, banks held sufficient liquid assets reserves, their liquidity level remained high. As of 2015, the national liquidity ratio (requirement — 30%) was replaced with the liquidity coverage ratio (LCR). Banks must ensure that this ratio is not lower than 100 per cent. All banks operating in the country complied with the liquidity coverage ratio requirement with a large margin.

In 2015, the Lithuanian banking system was profitable; however, income from main asset positions continued to decrease. In 2015, profit of banks and foreign bank branches was EUR 215.3 million, a year-on-year increase of EUR 1.9 million (0.9%). 11 banks and foreign bank branches operated at a profit, 2 market participants operated at a loss. Profits of eight market participants boosted, those of five market participants — decreased. Main items of the bank profit and loss statement continued to follow an unfavourable path. Due to the persisting environment of particularly low interest rates, banks' net interest income reduced. With the adoption of the euro and the banks' loss of income from currency exchange and transfers, net income from fees and commissions saw a year-on-year decrease as well. In 2015, interest income decreased by EUR 100.8 million (–17.3%) and amounted to EUR 483.7 million, while expenses decreased by EUR 90.9 million (–43.9%) and amounted to EUR 116.4 million. Lower bank expenses paid for liabilities do not offset the decreased income from their assets: net interest income contracted by EUR 9.9 million (–2.6%) and amounted to EUR 367.3 million. In 2015, income from fees and commissions decreased by EUR 17.2 million (–6.7%) and amounted to EUR 237.2 million, while expenses, conversely, increased by EUR 2.6 million (4.3%), amounting to EUR 63.4 million. In total, net income from fees and commissions reduced by 19.8 million (–10.2%) and amounted to EUR 173.8 million. Similar to interest income, income from fees and commission decreased throughout 2015. The fall in administrative costs had a positive impact on the profitability of the banking system. Banks managed to reduce administrative costs: staff costs decreased, and costs related to IT projects decreased even more. Year on year, administrative costs contracted by EUR 40.9 million.

Total bank assets as of 1 January 2016 amounted to EUR 23.4 billion, and over the year decreased by EUR 693 million (–2.9%). Year on year, there were less funds held on the central bank's accounts at the end of 2015 — they decreased by EUR 1,428 million (–33.8%). Such a change was driven by the adoption of the euro: prior to it, more funds were held at the central bank, as banks had to pledge them for euro. The amount of debt securities contracted by EUR 241 million (–11.6%) over the year. Currently, the yield on them is especially low, thus, in many cases, bonds are not considered to be an attractive investment instrument. 2015 saw greater activity in the loan market — the overall amount of customer loans increased by EUR 611 million (3.9%) over the year. As liabilities of banks operating in Lithuania to parent banks were declining, bank liabilities (less equity) reduced by EUR 788 million (–3.6%) — to EUR 20.8 billion.

As of 1 January 2016, customers held with banks EUR 17.1 billion in deposits, which was a hike of EUR 783 million (4.8%) year on year. As expected, at the beginning of 2015, when

the euro was adopted, customers withdrew part of deposits from the banking system. Despite this, there were no other major changes related to deposits in the Lithuanian banking system. Except for the beginning of 2015, the amount of customer deposits grew, even though interest rates were low. Low deposit rates are still not considered to be an obstacle when choosing deposits held with banks not only as a way of holding current funds but as a saving mean as well.

The portfolio of loans and leases of the banking system increased by 3.9 per cent, to reach EUR 16.3 billion as at 1 January 2016. The growth in the loan portfolio was mostly driven by household loans, which increased by 6.9 per cent, and loans to non-financial corporations, which grew by 4.5 per cent. Growth in household borrowing was led by an increase in activity in the housing market. In 2015, the amount of housing loans granted by banks increased by 5.2 per cent; the amount of consumer loans increased as well. As of 1 January 2016, the housing loan portfolio amounted to EUR 6 billion, the consumer loan portfolio — EUR 0.6 billion, while all household loans — EUR 7.5 billion. The increase in the portfolio of loans to non-financial corporations was mainly driven by immense lending transactions, especially those with energy sector enterprises. The amounts of loans extended to public authorities, including state-owned and municipal entities, decreased by 21 per cent over the year — to EUR 0.9 billion. In 2015, the change in the loan portfolio quality indicators was positive: the non-performing debt instruments ratio reduced by 1 p.p. and amounted to 5.5 per cent at the end of the year. Write-offs of bad loans had a significant impact on this, whereas new lending transactions and positive changes in the ratings of both business clients and natural persons, which were still observed, made a positive impact.

Growing IT system security and cyber threats remain one of the most significant types of operational risks. Even though banks did not incur any direct losses due to IT incidents, indirect losses and a negative impact on reputation were seen. According to data on cases of operational risk losses provided by banks, in 2015 banks incurred EUR 3.94 million in losses, or three times more than in 2014. On 1 January 2016, Lithuania joined SEPA. No information that, during the preparation period for executing interbank payments according to SEPA requirements, banks encountered serious problems or had to deal with major incidents related to this was received; however, at the start of 2016, minor disruptions occurred when executing SEPA payments. Seeking to strengthen the security of online payments, banks implement measures, ensuring minimum security requirements for internet payments. As of 1 January 2016, banks issue login means in line with minimal security requirements to all new customers. A transitional period, ending on 1 April 2016, when banks had to supplement code cards with SMS or substitute them for more secure electronic identification means, was set for current bank customers.

Insurance Market

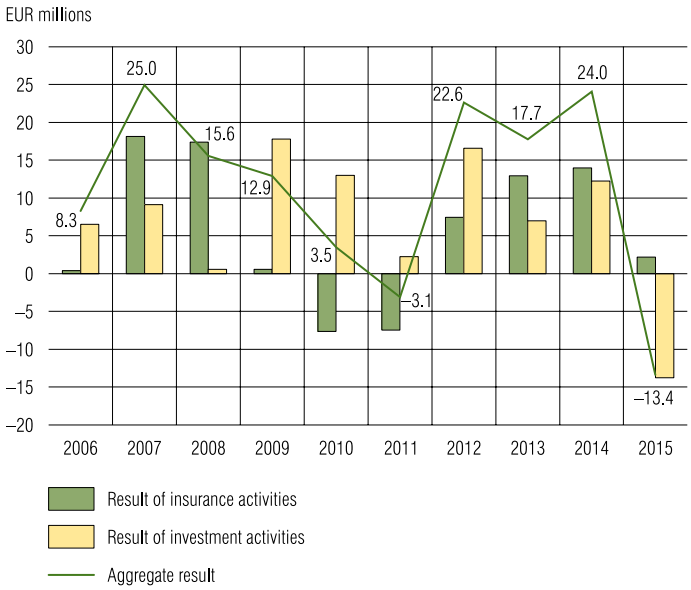
As at 31 December 2015, 23 insurers rendered insurance services in the domestic market, 10 of which were insurance undertakings registered in Lithuania (hereinafter — insurance undertakings), while 13 — branches of insurance undertakings established in other EU countries (the insurance activity licence of *UAB Būsto paskolų draudimas* was revoked at the undertaking's request on 28 January 2016). On 30 July 2015, a private limited liability company, *Compensa Vienna Insurance Group*, joined the ranks of insurers (it has not been active during the reporting period). Branches of EU insurance undertakings dominated in the non-life insurance market, their premiums written accounted for almost 54 per cent of all premiums written within this insurance branch, whereas branches

established by other EU countries wrote almost 41.8 per cent of all premiums written in the life assurance market.

The transaction concerning the acquisition of the shares of *UAB DK PZU Lietuva* was completed on 30 September 2015, and from 1 March 2016 the enterprise changed its name and legal form and became *ADB Gjensidige*. Currently a shareholder of the enterprise, Norway's insurance company *Gjensidige Forsikring ASA*, manages *AAS Gjensidige Baltic* Lithuania branch as well; it plans to merge it with *ADB Gjensidige* in the near future. Both market participants are engaged in non-life insurance activities; they held 19.4 per cent of Lithuania's non-life insurance market. In 2015, the Lithuanian insurance market reached its highest volume: insurance premium written amounted to EUR 645.1 million, i.e. a year-on-year increase of 7.4 per cent and an increase of 6.1 per cent compared to 2007 when the volume of premiums written was the largest. Non-life insurance dominates the Lithuanian insurance market, i.e. residents are still more prone to safeguard their property or insure civil liability. The insurance market share of life assurance, often seen as one of the indicators of maturity of an insurance market, usually accounts for a large share in developed markets (more than 60%), however, the structure of the Lithuanian insurance market is more similar to that of eastern EU countries. The life assurance market share accounted for almost 37 per cent in 2015; this number has been constantly increasing since 2008. Last year, there were almost two valid insurance contracts, with the amount of insurance premiums of EUR 223, per capita.

The growth rate of the life assurance market halved in 2015 year on year, i.e. it grew by 9.7 per cent; however, market premiums reached record highs in terms of volume — EUR 236 million in premiums were written, or 2.9 per cent more than in 2007 when the life assurance market reached its best operating result. Almost all insurance classes added to the growth of the life assurance market, except for the marriage and birth insurance class, where no new contracts have been concluded. The volume in the non-life insurance market grew faster than a year ago (by 6.0%) and the premiums written amounted to EUR 409.1 million. The non-life insurance market saw the growth of the largest insurance classes — MTPL, Casco, property, health and GLI.

Chart 24. Dynamics of the operating results of insurance undertakings



Source: Bank of Lithuania.

According to unaudited data, in 2015 the operating result of insurance undertakings[8] was a loss of EUR 13.4 million; however, if the influence of the implemented purchase-sale transaction of part of the business of one undertaking would have been excluded, the operating result would have been positive and amounted to EUR 7.7 million. The operating results of insurance undertakings in 2015 were driven by a particularly heavy loss from investing activities — EUR 13.8 million. It should be noted that the result stemmed not from loss-incurring ordinary activities, but from a loss that *ADB Gjensidige* (formerly *UAB DK PZU Lietuva*) incurred when acquiring *Codan Forsikring A/S* Estonia branch in 2014. Excluding the impact of this transaction, insurance undertakings would have earned EUR 7.3 million in profit. Profits from insurance activities amounted to EUR 2.2 million — it was modest compared to 2014. Five out of ten insurance undertakings reported profitable main insurance activities, while, after assessing the overall results, four insurance undertakings ended the year with profits.

As of 31 December 2015, the assets of insurance undertakings amounted to EUR 1,144 billion, i.e. they grew by 12.1 per cent over the year. Such a substantial increase in assets in 2015 was influenced by the establishment of a new insurance undertaking (*UADB Compensa Vienna Insurance Group*). In terms of economic origin, investment made by insurance undertakings is classified as either own investment or the funds of policyholders put under the management of insurance undertakings engaged in life assurance activities pursuant to unit-linked life insurance contracts. The funds of insurance policy holders entrusted to insurance undertakings for management amounted to EUR 401.3 million at the end of the reporting period, i.e. more than half of total assets managed by life assurance undertakings. Investments of insurance undertakings which are used to cover traditional insurance technical provisions and equity as well as other liabilities amounted to EUR 597.8 million. The composition of the insurers' investment portfolio remained rather conservative — the largest amount (65.3%) was invested in government securities; investments in corporate bonds (10.3%), equities and CIU (9.5%) and fixed-term deposits with banks (4.0%) also accounted for a substantial share of the portfolio.

The solvency ratio — one of the key indicators of financial stability in the insurance market — was rather high — 2.3 (solvency margin requirements are met where the solvency ratio is above 1), i.e. it exceeded the required amount of the capital calculated in accordance with legal acts by EUR 85.3 million. A sufficient solvency ratio of the insurance market shows that the market is financially stable.

The number of insurance brokerage firms has decreased over the year: as of 31 December 2015, 96 insurance brokerage firms operated in Lithuania's insurance market. In the reporting period, one licence of an insurance brokerage firm was issued, while two were revoked at the request of the firms themselves. Key performance indicators of insurance brokerage firms, according to the reports data as of 31 December 2015, were as follows: their assets amounted to EUR 23.5 million, equity capital — EUR 13.5 million, income from sales — EUR 35.6 million, operating result — a profit of EUR 2.8 million. Insurance brokerage firms acted as intermediaries in concluding 1.6 million insurance contracts and pension accumulation agreements in 2015, a year-on-year increase of almost 14.2 per cent. An astonishing 99.7 per cent of the insurance contracts and

[8] *Only the financial activity results of insurance undertakings operating as of 31 December 2015 were assessed.*

pension accumulation agreements concluded through insurance brokerage firms were non-life insurance contracts. 31.6 per cent of all agreements concluded in the non-life insurance market were concluded through insurance brokerage firms.

In the second half of 2015, inspections of two insurance undertakings were carried out. During the inspections, both the preparation of the insurance undertakings to provide information for the Supervision Service in accordance with Solvency II requirements and the contractual compliance of one undertaking when concluding life assurance agreements with the requirements of the legal acts of the Republic of Lithuania were assessed.

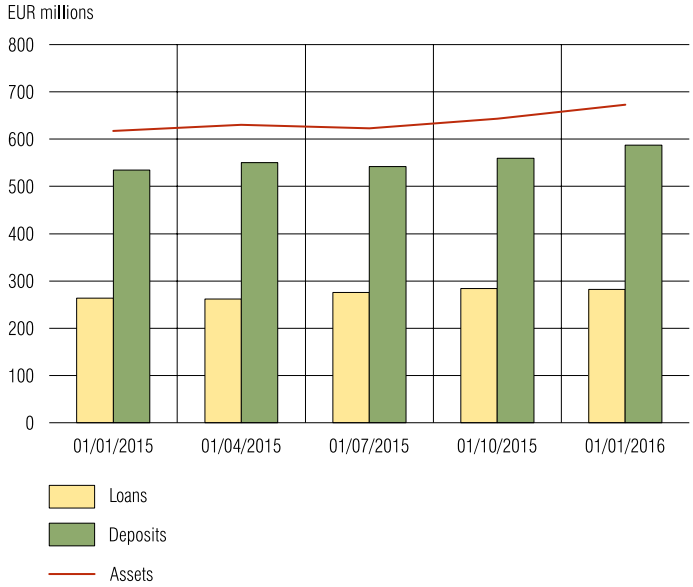
Quantitative Solvency II transitional reports for the third quarter of 2015 were received and analysed in the second half of 2015. All insurance undertakings had sufficient eligible own funds to cover both the solvency capital requirement and the minimum capital requirement. In Lithuania, as in other EU countries, Solvency II requirements have been applied since 2016.

Credit Unions

As of 1 January 2016, 74 credit unions were in operation, uniting more than 157 thousand members (in the second half-year of 2015, the membership increased by 4 thousand, in 2015 — by more than 7 thousand). 62 credit unions were members of the LCCU, whereas 12 credit unions operated independently (currently, 61 credit unions are members of the LCCU, while 13 credit unions operate independently).

On 1 January 2016, Lithuania joined the Single Euro Payments Area, the so-called SEPA, encompassing 34 countries; as of then, six credit unions were put on the list of direct participants in the Bank of Lithuania retail payment system SEPA-MMS.

Chart 25. Performance indicators of credit unions



Source: Bank of Lithuania calculations.

With the expansion of the deposits portfolio, especially non-maturity deposits, the assets of credit unions grew by more than EUR 55 million in 2015 and, according to the data as of 1 January 2016, amounted to EUR 672.6 million, or 2.9 per cent of the assets of the banking system (up from 2.7% a year ago).

As usual, loans represented the largest share (41.9%) of credit union assets. Having increased by 7 per cent in 2015, the portfolio of loans extended to the participants amounted to EUR 281.9 million at the end of the year. The annual growth in the loan portfolio was driven by more active crediting of natural persons, which also had a significant impact on certain changes in the composition of loans within the credit union sector — the contraction in the share of loans granted to associated members (mainly legal persons). Over the year, the share of loans granted to associated members in the credit union sector loan portfolio diminished by 1.2 p.p. — at the end of the year, these loans accounted for 23.5 per cent of total loans.

In granting new loans, credit unions devoted more attention to credit risk management — they assessed more closely the financial situation of borrowers and credited more financially viable members of credit unions; hence, in 2015 loans overdue for more than 60 days declined in number. With the improvement in loan repayment, writing off part of loss-bearing loans by credit unions and taking over assets pledged for debts, non-performing loans declined by more than 13 per cent in 2015, while their share in the expanding loan portfolio diminished. Even though some indicators defining the quality of loans took a turn for the better in 2015, the ratio of specific provisions to loans increased, as specific provisions for covering likely losses on loan impairment rose. Also, there was an increase in the number of loans overdue for more than 60 days and in the ratio of assets taken over for debts, which more than tripled over the year, to loans. Given that credit unions normally do not use assets taken over for debts for their needs, they will have to recognise the expenses of the oversight and sale of these assets in the future. According to the data as of 1 January 2016, nearly a third of credit union assets (EUR 191.8 million) consisted of investments in debt securities, which have dropped by EUR 29.5 million since the start of the year. In 2015, preparing to comply with the requirements of the Regulations on Credit Union Investment in Non-equity Securities (hereinafter — Regulations) (from 31 December 2015 the investment portfolio cannot account for more than 50% of the on-balance-sheet assets, while the securities portfolio's average modified financial duration must not be longer than five years), credit unions reduced securities portfolios and changed their composition according to maturity. Given that as of 31 December 2016 the investment portfolio will not have to account for more than 35 per cent of a credit union's on-balance-sheet assets and the average modified financial duration of a securities portfolio will not have to be longer than three years (as of 31 December 2017 — no longer than two years), credit unions, being aware of investment portfolio requirements in advance, should adequately prepare to meet them. The Bank of Lithuania monitors changes in the composition of credit union assets and takes measures if credit unions invest their funds received from securities sold in an insecure manner.

Accepted deposits, the major share of which (97%) consists of deposits of natural persons, have remained the major funding source for credit unions. In 2015, the deposit portfolio expanded by almost EUR 52 million, or 9.7 per cent, and amounted to EUR 587 million at the end of the year. Fixed-term deposits, on which credit unions pay higher interest rates than banks, grew by EUR 21 million (5%) over the year, while non-maturity deposits, on which no interest is payable (except for several credit unions which pay low interest), rose by EUR 31 million (25.7%). This shows that the deposit acceptance service provided by credit unions is not only used when seeking an interest but is also as a guarantee of the security of funds.

According to unaudited data, the credit union sector reported a loss of EUR 0.6 million for 2015 (down from a profit of EUR 0.6 million in 2014). Credit unions earned 12.4 per cent less income than in 2014, although, compared to 2014, the expenses incurred were lower by 8.7 per cent as well. Interest income, mainly — on loans granted to members, accounted for more than 60 per cent of all income. Operating (46%) and interest (24%) expenses accounted for the largest share of the sector's expenses. 51 credit unions were profitable, whereas 23 credit unions operated at a loss.

With an increase in credit union membership, the share capital increased by EUR 3.5 million in 2015 and, according to the data as of 1 January 2016, amounted to EUR 54.9 million. Over the aforementioned period, the adjusted capital of credit unions, which is crucial in ensuring compliance by credit unions with the majority of prudential requirements and the requirements of other legal acts, grew by 5 per cent (up to EUR 57.7 million) as well. It should be noted that growth in the adjusted capital of some credit unions was driven by their profitable activities; however, some credit unions strengthened their adjusted capital with non-repayable funds designated from the LCCU or subordinated loans granted by the LCCU.

According to the data of reports submitted as at 1 January 2016, the capital adequacy ratio of the credit union system was 18.31 per cent (above the minimum ratio of 13%), while the liquidity ratio was 63.46 per cent (above the minimum ratio of 30%[9]). On the aforementioned date, the capital adequacy ratios of two credit unions were below the required minimum (13%); however, one credit union complied with the capital adequacy ratio, calculated according to the requirements of previously applicable regulations. All credit unions will have to comply with the capital adequacy ratio (13%), calculated according to the currently existing regulations, from 31 March 2016 at the latest. It should be noted that credit unions did not comply with other prudential requirements either: the open position in one foreign currency (US dollar) of one credit union was above the established maximum (15%), while the maximum exposure to a single borrower of three credit unions accounted for more than 25 per cent of the adjusted capital of the credit union. In January 2016, some credit unions provided information that they took measures to ensure compliance with the ratios and remedied the situation. For those credit unions that were not in compliance with the prudential requirements, enforcement measures laid down in the Law on Credit Unions were applied and relevant instructions in writing were given.

Given that credit unions, which had not accumulated sufficient capital, did not comply with prudential requirements, strengthening of capital, as in previous periods, has remained a major task for some credit unions.

It should be noted that information on each credit union's major performance indicators for the year and each quarter as well as on their compliance with prudential requirements is published on the website of the Bank of Lithuania.

As previously mentioned, the LCCU unites 62 credit unions as of 1 January 2016. The assets of the LCCU, with deposits growing, increased by EUR 26 million in 2015 — to EUR 137.7 million. The loan portfolio of the LCCU contracted by EUR 5.8 million over the year and amounted to EUR 16.4 at the end of the year. Loans granted to credit unions

[9] *For credit unions whose assets have been above EUR 4.34 million and the annual growth rate of deposits exceeds sustainable growth rates, the liquidity ratio of 40, 50 or 60 per cent respectively is applicable.*

that are members of the LCCU amounted to EUR 12.3 million. The quality of the LCCU loan portfolio was good.

With the increase in deposits accepted by credit unions, the LCCU liquidity support reserve, dedicated to supporting credit union liquidity, grew as well. In 2015, the aforementioned reserve grew by EUR 0.5 million — to EUR 4.7 million. After one credit union received aid in 2015, the balance of the Stabilisation Fund (a mechanism used to restore the solvency of credit unions (LCCU members)) decreased and amounted to EUR 0.9 million at the end of the year.

The share capital of the LCCU has remained unchanged since the beginning of the year, amounting to EUR 9.4 million as of 1 January 2016. According to unaudited statements, the operating result of the LCCU for 2015 was a profit of EUR 0.05 million (in 2014 — a profit of EUR 0.1 million).

In the second half of 2015, the LCCU Supervisory Review and Evaluation Process was carried out. After consideration of its results, it was decided that the LCCU will have to meet both a 14.7 per cent common equity Tier 1 capital ratio and an 18.2 per cent total capital ratio. These minimum own funds requirements have been set until the Board of the Bank of Lithuania discusses the results of the next Supervisory Review and Evaluation Process.

Other Financial Institutions

Payment institutions. As of 1 January 2016, 40 payment institutions were registered in the Public List of Payment Institutions. Three institutions were granted licences for the provision of payment services in 2015. 27 payment institutions held licences entitling to provide payment services in the Republic of Lithuania and other EU Member States (only 4 institutions exercised this right). Most payment institutions, as in the previous reporting periods, were engaged in economic and commercial activities, providing payment services as additional services only; hence, the share of the total payment institution income from the provision of payment services was small and accounted for 3.1 per cent of total income. In 2015, as in the previous reporting periods, the system of payment institutions was dominated by several payment institutions — the share of five payment institutions accounted for the largest share of income and of the total turnover of payment transactions (73% and 81% respectively).

As of 1 January 2016, all payment institutions complied with the requirements laid down in the Republic of Lithuania Law on Payment Institutions (hereinafter — Law) on the safeguarding of funds of payment service users or the funds received from another payment service provider, the average amount of payment transactions, and the initial capital. Due to rather low volumes of payment transactions and other financial data, used in calculating the amount of requirement for own funds, out of all payment institutions, which must comply with the own funds requirement, the own funds requirement of 12 payment institutions did not exceed the minimum amount set forth in the Law (EUR 20 thousand).

On-site inspections of payment institutions began in 2015: one inspection of a payment institution was carried out, during which no cases of serious infringements of legal acts or deficiencies in operation were identified. In addition, corrective measures were imposed on two payment institutions on the grounds of violations of legal acts, related to the fact that information was not updated on time after the granting of a licence.

Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (hereinafter — PSD2) was adopted on 25 November 2015. The provisions of the Directive will provide more possibilities for consumers, who do not have a credit or debit card, or do not wish to use them, to execute online settlements. PSD2 must be transposed into national law until 13 January 2018. Payment institutions that have a payment institution licence will be able to operate without adhering to PSD2 requirements until 13 July 2018, while payment institutions that have a licence of a payment institution for restricted activity — until 13 January 2019. Legal acts, regulating activities of payment institutions and their supervision, will be reviewed and amended in accordance with the provisions of PSD2.

Electronic money institutions. As of 1 January 2016, six electronic money institutions were registered in the Public List of Electronic Money Institutions. Four institutions were issued licences granting the right to issue electronic money and provide payment services in 2015. In total, three institutions held licences entitling them to issuing electronic money and providing payment services in the Republic of Lithuania and other EU Member States (one payment institution exercised this right).

The average of outstanding electronic money (calculated as the average of the total amount of financial liabilities related to the electronic money issued at the end of each day during the last six months), amounted to EUR 15.7 million as at 1 January 2016. As in the previous periods, the growth of this indicator was driven by fast expansion of activities of one electronic money institution. Electronic money institutions, as in previous periods, were engaged in economic and commercial activities; however, the activities related to electronic money issuance and provision of payment services accounted for a larger share of the activities of electronic money institutions. According to unaudited financial statements and those not approved by shareholders, the income that electronic money institutions earned from electronic money issuance and provision of payment services amounted to EUR 7.5 million in 2015.

On the reference date, electronic money institutions complied with relevant prudential requirements — the safeguarding requirements for the funds of electronic money holders obtained in exchange for electronic money issued and payment services provided, the average outstanding electronic money requirement, applicable to an electronic money institution with restricted activity (waivers) (not above EUR 900 thousand per month), the initial capital requirement applicable to an electronic money institution (no less than EUR 350,000) as well as the own funds requirements established in legal acts.

In 2015, one re-inspection of an electronic money institution was carried out. An enforcement measure was imposed on the electronic money institution — a fine for non-compliance with the instructions given by the Bank of Lithuania, related to the infringements of the legal acts established during the last inspection.

Financial brokerage firms. As at 31 December 2015, six financial brokerage firms operated in Lithuania's financial instrument market. One of these firms held a Category A licence of a financial brokerage firm, four — a Category B licence, and one — a Category C licence. In 2015, two financial brokerage firms left the market — the operating licence of *AB FMĮ MRC Markets* was revoked at the request of the sole shareholder of the firm, whereas the licence of a financial brokerage firm was revoked for *UAB FMĮ Finvesta* as it did not provide the conditions for the supervisory authority to conduct effective

supervision of the firm, did not ensure the protection of the customer's assets entrusted to the firm, and provided customers with misleading information.

Based on unaudited financial statements, the operating result of financial brokerage firms was a profit of EUR 0.4 million in 2015. According to data as of 31 December 2015, the operations of three financial brokerage firms were profitable, and another three operated at a loss. Financial brokerage firms are obliged to comply with the minimum initial capital requirement (EUR 730 thousand in Category A, EUR 125 thousand in Category B and EUR 50 thousand in Category C) and the minimum capital adequacy requirement of 8 per cent. All financial brokerage firms complied with the capital adequacy requirements.

Management companies. As of 31 December 2015, 11 management companies, holding operating licences and acting in accordance with the Law on Collective Investment Undertakings and the Law on the Supplementary Voluntary Accumulation of Pensions, operated in Lithuania's financial instrument market. In 2015, two management companies ceased their operation. In September 2015, the Board of the Bank of Lithuania terminated the validity of the operational licences of *UAB Ūkio banko investicijų valdymas* and *UAB MP Pension Funds Baltic* at their request. In June 2015, taking into account the request of the operating *UAB Lords LB Asset Management*, the Board of the Bank of Lithuania issued a CIU management company licence intended for professional investors, which grants the right to manage CIUs intended for professional investors.

As of 31 December 2015, management companies managed 18 (2nd pillar) pension funds for the accumulation of a portion of the state social insurance contribution, 12 (3rd pillar) funds for supplementary voluntary retirement saving, 20 CIUs, operating under the Law on Collective Investment Undertakings, and 24 CIUs, operating under the Republic of Lithuania Law on Collective Investment Undertakings Intended for Informed Investors.

Based on unaudited financial statements, in 2015, the assets of management companies increased by 10.2 per cent and amounted to EUR 21.6 million as at 31 December 2015 (EUR 19.6 million as of 31 December 2014). In 31 December 2015, as in the previous year, the majority of management companies' assets were held on accounts with banks (57.1%).

Based on unaudited financial statements, the operating result of management companies increased by 25.6 per cent year on year. The operating result for 2015 was a profit of EUR 5.4 million (in 2014 — a profit of EUR 4.3 million). The increased operating result was driven by income from fees and commissions which grew by 20.8 per cent. Income from pension fund and CUI management accounted for 85 per cent of total income. Administrative costs increased somewhat — by 4.6 per cent. Nine management companies were profitable, two management companies operated at a loss. *UAB SEB investicijų valdymas*, *UAB Swedbank investicijų valdymas*, *UAB DNB investicijų valdymas* and *UAB Lords LB Asset Management* generated the biggest profits.

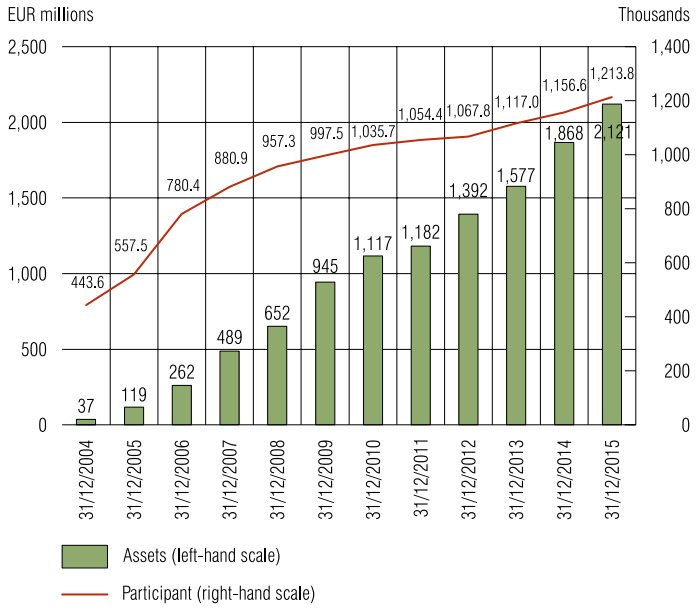
As of 31 December 2015, all management companies safely complied with the capital adequacy ratio (1.0).

Financial Services and Markets, Their Supervision

Pension Funds

At the end of 2015, 21 2nd pillar pension funds operated in Lithuania. They were managed by six pension accumulation companies: five management companies and one life assurance undertaking. In 2015, the assets managed by 2nd pillar pension funds grew by EUR 253.16 million (13.55%) and stood at EUR 2,120.85 million at the end of December. The number of 2nd pillar pension funds participants rose by 4.95 per cent — to 1,213.8 thousand.

Chart 26. Developments in the participant numbers and assets of 2nd pillar pension funds



Despite the volatility observed in financial markets in the last 12 months, all 2nd pillar pension funds demonstrated positive performance, and the unit values of funds increased, on average, by 3.6 per cent. The unit values of conservative investment pension funds showed the smallest gain (1.2% on average). Other funds with at least some equity exposure recorded bigger increases in unit values: the unit values of small equity share pension funds rose by an average of 3.1 per cent, of medium equity share pension funds — of 3.6 per cent, and of equity pension funds — of as much as 6.6 per cent.

As far as the investment portfolio of 2nd pillar pension funds is concerned, it should be noted that, as of 31 December 2015, the bulk of investment (49.61%) consisted of investment in CIU units, including equity CIUs (EUR 0.79 billion) and debt security CIUs (EUR 0.23 billion). Government securities ranked second among most popular investments; 39.00 per cent of the assets of 2nd pillar pension funds (EUR 0.83 billion) were invested directly in them. The largest share of assets of pension funds (88.84%) was invested in euro; the share of investment in US dollar accounted for 8.29 per cent.

In 2015, participants that have chosen to pay additionally to their pension funds from their own wages paid in EUR 31.08 million, while the state transferred to them additionally EUR 37.01 million. This means that maximum accumulation was more often chosen by participants of funds with earnings below average wages. For them, the additional contribution payable from average earnings in the country is higher than the

contribution from wages they pay themselves. In 2015, *Sodra* transferred to pension funds EUR 137.44 million, whereas the assets managed by pension funds grew by EUR 251.98 million. It can be concluded that, for those who are saving, funds earned EUR 46.46 million (not taking into account funds paid for persons who left the system).

12 supplementary voluntary retirement savings funds managed by 4 management companies operate in Lithuania. In 2015, the assets managed by 3rd pillar pension funds grew by EUR 13.96 million (29.34%) and stood at EUR 61.55 million at the end of December. The number of participants saving for their retirement in 3rd pillar pension funds increased by 18.53 per cent over 12 months and amounted to 47,333 at the end of the year. 2015 was a successful year for 3rd pillar pension funds as their unit values increased by an average of 3.6 per cent. The unit values of the riskiest pension funds, indicating in their rules the possibility of investment in equity of up to 100 per cent, posted the largest increases — of an average 4.8 per cent. The values of mixed investment pension funds rose less — by 3.3 per cent, of bond pension funds — by 1.7 per cent.

The structure of investments of 3rd pillar pension funds is similar than that of 2nd pillar pension funds. As of 31 December 2015, the bulk of pension fund investments (56.75%) consisted of investments in CIU units or shares. Government securities ranked second among most popular investments and accounted for 29.22 per cent of the assets of 3rd pillar pension funds. The largest share of assets of 3rd pillar pension funds (89.49%) was invested in euro; the share of investments in US dollar accounted for 9.84 per cent of the assets of pension funds.

Collective Investment Undertakings

As of 31 December 2015, 9 management companies established 20 CIUs (19 investment funds and 1 investment company with variable capital) in Lithuania. Over the year, the assets managed by CIUs and the number of participants accumulating funds in these undertakings decreased. Since the beginning of the year, the funds' assets have decreased by EUR 34.23 million (13.13%) — to EUR 226.46 million, while the number of participants decreased by 9.97 per cent (by 1.5 thousand) to 13.8 thousand. Such a trend has been observed for several years now, whereas the number of participants has been decreasing since the end of 2008 due to funds' performance falling short of participants' expectations, mergers between funds and their elimination.

In 2015, the unit values of the main part of CIU units distributed to retail investors showed positive developments with average growth of 4.2 per cent recorded. The unit values of debt security CIUs increased the most — by 6.6 per cent, while those of equity and mixed investment CIUs — by 4.2 and 3.4 per cent.

As of 31 December 2015, the largest share of CIU investments (35.51%) consisted of investment in corporate debt securities. The second most popular investment was in units and shares of other CIUs; 34.45 per cent of CIU assets have been invested in them. As of late December 2015, more than 75 per cent of CIU assets were invested in euro. CIU investment in US dollar accounted for 19.12 per cent of the funds' assets. The remaining share of CIU funds was invested in GB pound sterling, Romanian leu, Norwegian krone and other currencies.

As of 31 December 2015, 8 management companies managed 24 CIUs for well informed investors; assets managed by them amounted to EUR 148.76 million. Over the year, assets

of these funds increased almost three times. At the end of the year, 356 participants invested their funds in such undertakings. Only professional or well informed investors may invest in CIUs for well informed investors; the smallest possible investment is EUR 125 thousand. Rapid growth of the CIUs intended for the well-informed investors market shows that market participants are interested in investing in such undertakings, thus increasing their investment portfolio.

Primary and Secondary Markets

Stock trading in the regulated market was further subdued; the OMX Vilnius index fell by 2 per cent in value over the second half of 2015, although throughout the year, the index rose by 7 per cent in value. Compared to 2014, the number of trades decreased by 28.2 per cent and the turnover shrank by 23.7 per cent in 2015. A decline in turnovers over the second half of 2015 was only observed in the debt securities market (–59.3%), while the equity securities market witnessed growth in turnover (31.2%). These turnover developments have led to a substantial decline in the bonds turnover share in the overall turnover (from 60.8% to 32.5%), while throughout 2015, the bonds and equity securities turnovers accounted for a similar share of total turnover (48.6% and 51.4% respectively).

All in all, five issues of shares, worth a total of EUR 24.5 million, were placed on the primary market over 2015. The major share of this amount goes to *AB INVL Technology*, which, through public offering of shares, raised more than EUR 10 million. The total value of the three issues of shares placed on the primary market in 2014 amounted to over EUR 50.4 million.

In 2015, the only issuer that placed bonds on the primary bonds market was *Swedbank, AB*. As in previous cases, this bank issued fixed interest rate bonds, placed them on the market only not publicly and only for investors known in advance. 15 issues of bonds, with their total nominal value of EUR 32.7 million, were placed on the market throughout 2015. In 2014, 50 issues were placed accordingly, with their total value of EUR 122.4 million, of which EUR 4.6 million in nominal value bonds were placed on the market publicly. The interest rates on the bonds placed fluctuate at 0.3 per cent (about 0.5% in 2014).

Seven takeover bids were implemented over the year (two mandatory, three delisting and two voluntary). All in all, shares, whose value (in the purchase price) amounted to EUR 20.9 million, were offered for purchase over 2015, while EUR 10.3 million in shares, or 49 per cent of securities offered for purchase, were purchased actually. In 2014, five takeover bids were submitted accordingly (four mandatory and one delisting); the percentage of their implementation reached 86.6 per cent.

The number of issuers subject to supervision by the Bank of Lithuania decreased from 48 to 44 over the year. Four companies retreated from the issuers falling under supervision by the Bank of Lithuania over 2015, another two companies were reorganised by establishing a new issuer by way of a merger. As of 31 December 2015, the Bank of Lithuania supervised 44 issuers, including 13 companies with stocks listed on the Main List of AB NASDAQ Vilnius, 16 companies with stocks listed on the Secondary List (including 2 issuers with stocks also admitted to trading on the Warsaw Stock Exchange), 5 issuers with stocks admitted to trading on the Warsaw Stock Exchange, and one issuer with

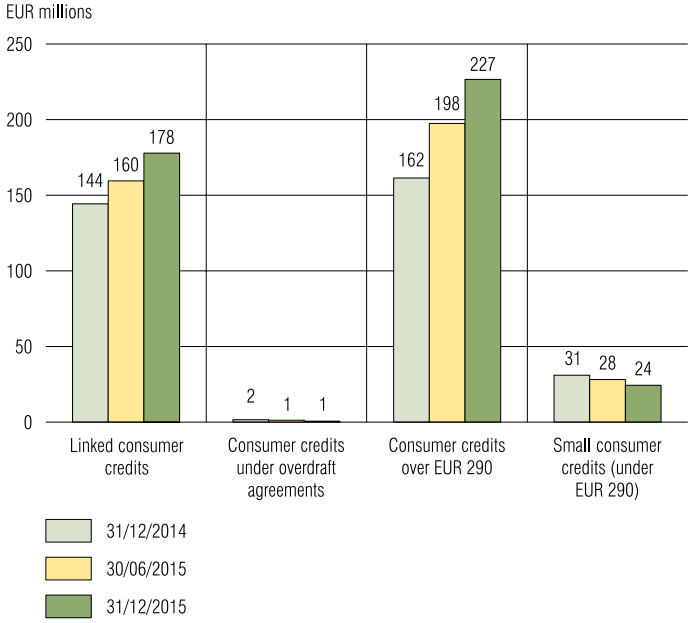
bonds listed on the Debt Securities List of AB NASDAQ Vilnius. In addition, the list of issuers included 11 companies whose securities are not traded on regulated markets.

Consumer Credit Market

As of 31 December 2015, the public list of consumer credit providers included 66 companies (other than credit institutions) authorised to provide consumer credits. Of all of the companies on the list, 37 companies were actively engaged in their activities, 3 companies acted as peer-to-peer lending operators but did not provide credits themselves. At the end of 2015, these companies had granted 841 thousand consumer credits, a year-on-year increase of 7.27 per cent. The amount of credits provided to consumer credit borrowers totalled EUR 429.66 million as of 31 December 2015. Year-on-year the credit portfolio increased by 26.81 per cent.

At the end of 2015, consumer credit lenders had granted to natural persons mainly credits exceeding EUR 290, which totalled EUR 226.68 million. Analysis of the portfolio of credits granted under other consumer credit agreements reveals that, at the end of 2015, EUR 177.94 million had been granted in linked consumer credits, while the balance of small consumer credits amounted to EUR 24.29 million. Under overdraft agreements EUR 0.82 million had been granted.

Chart 27. Consumer credit balance by types of consumer credit agreement



Source: Bank of Lithuania calculations.

The number of new consumer credits declined; however, the amount of new credits granted grew over the period: over 2015, consumer credit lenders granted 2.96 per cent fewer credits than in 2014, while the amount of new credits provided over the period increased by 22.04 per cent — mainly due to consumer credits larger than EUR 290. Their extension increased by even 59.24 per cent year on year, while the amount of new credits extended boosted by 46.29 per cent and the average amount of a consumer credit was EUR 661. New consumer credits granted declined in number and amount — by 22.02 per cent (to 550.64 thousand) and 20.31 per cent (to EUR 62.07 million) respectively, while the average amount of credit was EUR 112.71. Late in 2015, small consumer credit lenders

had 181.14 thousand customers, including 66.10 thousand (36.49 per cent) individuals younger than 25 years. The average weighted annual percentage rate of charge applied to small consumer credits at the settlement date of agreements was 147 per cent and the average weighted annual interest rate was 96 per cent.

The share of past due loans continued to increase: the number of debts of consumer credit borrowers, when the payment was overdue for more than 90 consecutive days, grew by 20.34 per cent in 2015 and amounted to 203.74 thousand at the end of the year, while their amount (including late payment interest, penalties and other amounts payable under agreements) rose from EUR 88.23 million to EUR 105.9 million, or 20.03 per cent. Default in liabilities is most frequently observed under agreements of consumer credit exceeding EUR 290 and small consumer credit agreements; the share of these credits overdue for more than 90 days accounted for 31 per cent and 39 per cent respectively.

On 5 November 2015, the Seimas adopted amendments to the Republic of Lithuania Law on Consumer Credit (hereinafter — LCC), which came into effect on 1 February 2016, excluding the provisions of the Law regulating the List of persons, who submit a request to be included in the list of persons not willing to obtain consumer credits (to come into effect on 1 November this year). Major amendments to the LCC, relevant to consumer credit borrowers, are as follow: the total rate of charge for consumer credit has been reduced; penalty will only be calculated for a limited time (in the case of overdue payments, penalty will be calculated for no more than 180 days); a cooling-off period has been set, i.e. a consumer credit borrower's right to renounce the consumer credit agreement within 2 days after the payment was received, without paying the consumer credit lender any interest, compensation or other fees, and to return to the consumer credit lender only the amount of the consumer credit it has granted; a possibility has been provided to submit a request not to allow to conclude consumer credit agreements, i.e. as of 1 November this year, each natural person will be able to submit a request to the Bank of Lithuania not to allow concluding any consumer credit agreements and to specify the period during which concluding them would not be allowed.

In addition, amendments to the LCC established the obligation for a consumer credit lender to check databases on a mandatory basis or to collect the validation of the submitted consumer documents, introduced restrictions on the conclusion of consumer credit agreements, i.e. the prohibition to conclude consumer credit agreements with persons aged below 18, incapable of acting in a certain area, capable to act to a limited extent in a certain area and persons taking decisions in a certain area with help from outside; also the prohibition to conclude consumer credit agreements from 22:00 to 7:00; fines for consumer credit lenders not observing LCC requirements and for their intermediaries have been increased; additional requirements and prohibitions for advertising consumer credit agreements have been introduced.

Settlement of Disputes

In 2015, the Bank of Lithuania addressed 474 applications regarding claims that arose from financial services contracts. Compared to the previous year, during which 457 applications were addressed, the number of applications grew by nearly 4 per cent. Most disputes (59%) arose with insurance undertakings; disputes with banks accounted for one third (30%), other disputes (11%) arose with financial market participants. Disputes

with insurance undertakings constantly take up the largest part of disputes addressed to the Bank of Lithuania; however, a trend of an increase in disputes with banks is observed.

In the period under review, the Bank of Lithuania adopted more decisions regarding the matter of a dispute — 157 (compared to 2014, the number grew by 5%). More than a third of these decisions were in favour of consumers (34%). The others were rejected as groundless. The ratio of decisions in favour of the consumer increased by 5 per cent in 2015, as compared to the number of decisions in 2014 (29%). It should be noted that decisions of the Bank of Lithuania regarding the matter of a dispute are of a recommendatory nature. Despite that, financial market participants basically implement most of the Bank of Lithuania's decisions on the matter of a dispute. In 2015, four decisions of a recommendatory nature regarding disputes that arose with insurance undertakings and two decisions regarding disputes that arose with a bank were disregarded. In 2014, seven decisions were disregarded. In settling the disputes, the Bank of Lithuania aims to ensure that the parties of a dispute would find a peaceful solution and reach an agreement. In 2015, there were 50 cases when consumers and financial market participants settled the disputes in a peaceful manner and it is an increase of 16 per cent compared to 2014, when 43 disputes were settled peacefully. The majority of peaceful agreements were reached with insurance undertakings (64%).

Each year the Bank of Lithuania prepares and publicly posts on its website a review of the settled disputes, in which summary information is given on disputes that arise most often, their nature and decisions that were made are presented. The aim of presenting the aforementioned information is to introduce financial market participants and the public to the Bank of Lithuania's opinion on the qualification of some circumstances and their identification during the settling of disputes, emphasise certain duties of financial service providers and financial service users, develop a responsible and fair behaviour of financial service providers and financial service users, and seek to reduce the number of potential disputes in the future.

Financial Education

On 9–17 March 2015, for the third consecutive year, Lithuania and the rest of the world celebrated Global Money Week — a week of children's financial education. 18 partners joined the initiative; a total of 6 thousand schoolchildren took part in the organised events — tours, lectures, games, quiz battles, competitions. The Global Money Week was crowned by an awarding ceremony of the winners of the schoolchildren's creative contest 'The Story of My Pocket-money', which took place at the Bank of Lithuania. Over 200 schoolchildren from 65 schools in Lithuania told the stories of their pocket-money using different creative means.

In the reporting period, the Bank of Lithuania set up an inter-institutional working group, designated for closer cooperation in the field of increasing the financial literacy of Lithuanian residents, i.e. to encourage the inclusion of the subject of financial education in initiated and implemented education or information activities designated for the public at large or specific social groups; encourage effective inclusion of financial literacy development material of a relevant contents in formal and informal education programmes, etc.

For this purpose, it was agreed to draw up a joint action plan of state institutions in the field of financial literacy for 2017–2021. The plan of measures will consistently and

systemically comprise the formal and informal development of the younger generation; much attention will also be devoted to the improvement of teachers' qualifications, and the subjects will be closely related to the development of enterprises, innovativeness and creativeness. Significant attention will also be devoted to the current users of financial services and products: they will be informed, their knowledge will be expanded and their financial literacy will be developed according to the life phases or life events of each of them.

The survey of the financial literacy and behaviour of Lithuanian residents, conducted in 2015 on behalf of the Bank of Lithuania, revealed that, if the major source of living were lost, 29 per cent of respondents would be able to successfully cover their living expenses for a month, while 30 per cent — for at least three months. This and other data has been forwarded to the OECD for comparison internationally. The third stage of the 2015 International Survey of the Financial Literacy of Children Aged 15 ended in the second half of 2015: the main survey has been conducted, the data gathered during the survey has been processed and submitted to the OECD; the summarised results of all countries will be published in mid-2017.

On 12 November, the Bank of Lithuania organised an international forum on financial education, which was attended by the representatives of Latvia, Estonia, Poland and Lithuania. The international researchers Matthias Weber (from the Center for Excellence in Finance and Economic Research of the Bank of Lithuania and Vilnius University) and Leonorė Riitsalu (from the University of Tartu and the Estonian Business School) shared their insights on how to apply the principles of behaviouristic economics, changing residents' financial attitudes and encouraging rational behaviour with personal finances. The representative of Child and Youth Finance International, Bianca Isaincu, presented how schools could develop the financial literacy of children and youth and what measures could be taken in order to ensure wider possibilities for children and youth to use financial services securely.

Over 1,000 Lithuanian residents attended the seminars organised by the Bank of Lithuania in three cities — Vilnius, Kaunas and Klaipėda — in the reporting period. In addition, the Bank of Lithuania, in cooperation with the Lithuanian Youth Council and the Youth Information Centre in Vilnius, organised the events of the Money Bee week for youth. They were attended by over 100 students, while over 1,000 persons, interested in the management of students' finances, their combination when creating a business, as well as other issues, watched direct broadcasts of the events.

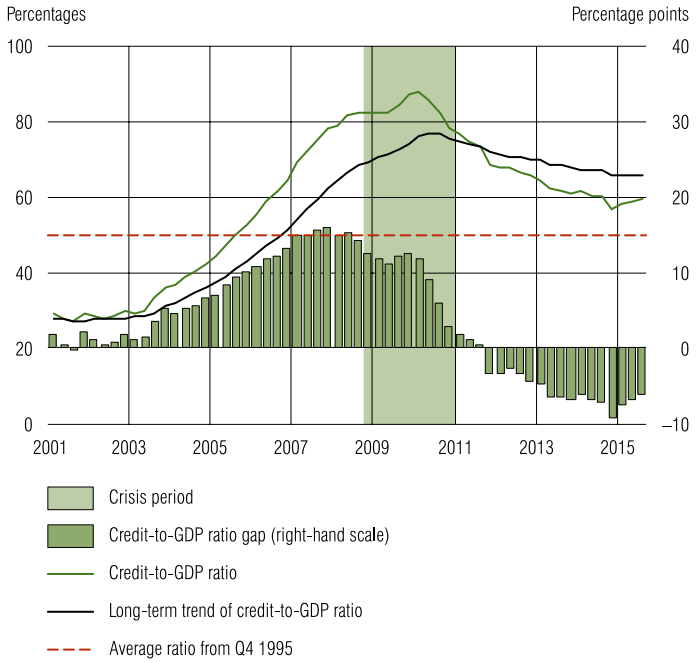
Macro-Prudential Policy

Analysis of Systemic Risks

The indebtedness of Lithuania's private non-financial sector continued to show balanced developments in 2015. A pick-up in MFI lending to the Lithuanian private sector observed in 2015 (the portfolio increased by 1.9%) has not led to any imbalances, given the growth of the domestic economy and household income. Overall, the ratio between credit to the private sector to GDP, which shows the level of Lithuania's corporate and household indebtedness, decreased by 0.4 p.p. on a year-on-year basis, to reach 59.3 per cent in the third quarter of 2015. As compared to the peak level recorded in 2010 (87.4%),

the credit-to-GDP ratio fell by one fourth and its deviation from the long-term trend[10] remained in the negative zone (–6.2%). This suggests that there are no imbalances building up in the credit market, which follows a sustainable development path.

Chart 28. Long-term trend of credit to private non-financial sector–to-GDP ratio and deviation therefrom
(Q1 2001–Q3 2015)



Sources: Statistics Lithuania and Bank of Lithuania calculations.
Note: The long-term trend is computed using a one-sided HP filter with a smoothing parameter of 400,000; before applying the filter, the indicator is modelled for the next five-year window using a four-quarter moving average.

Lending to households increased in 2015, continuing its recovery for the second straight year. The portfolio of loans issued by credit institutions to households rose by 4.1 per cent in 2015 (after 1.2% in 2014). The portfolios of housing loans and loans for consumption followed a similar growth pace. This recovery of lending to households is close to the rise in employees' wage, which was as high as 5.1 per cent in 2015. Moreover, rising incomes and low interest rates eased the households' loan repayment burden. In 2015, households stepped up borrowing for consumption both from banks and other consumer credit lenders, and the consumer credit portfolio of latter institutions rose by 26.8 per cent in the said period, to EUR 429.7 million.

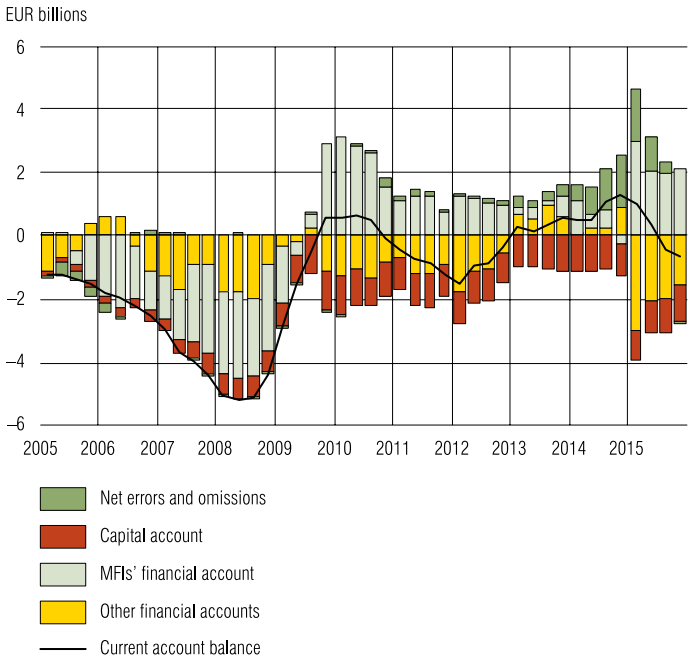
Despite improvements in corporate financial situation, the portfolio of MFI loans granted to the corporate sector remained virtually unchanged in 2015. Even through the overall portfolio of MFI loans to corporations showed a tiny decrease of –0.2 per cent over 2015, lending to corporations performed significantly better in the second and the third quarters (rose by 4.2%), given the seasonality characteristic of this type of lending. This spike in activity can be attributed to the weakening of geopolitical tensions in the East, the recovery of domestic consumption and improvements in expectations. On the other hand, the financial health of non-financial corporations grew stronger, which reduced their credit risk simultaneously. In 2015, the gross profit of non-financial corporations

[10] *A positive deviation of the credit-to-GDP ratio from the long-term trend signals potential excessive leverage of the private sector as a result of fast credit growth. On the other hand, the level of leverage of the country's private sector is deemed sustainable where the credit-to-GDP ratio is below its long-term trend.*

increased by 9.0 per cent and their equity capital rose by 10.2 per cent. At the same time, the banks' ratio of non-performing loans for business contracted by an annual 1.9 p.p. to 8.4 per cent.

MFIs made no contribution to the financing of the current account deficit in 2015, which prevented the build-up of systemic risks due to the financial transfers made to Lithuania by foreign financial institutions. In 2015, Lithuania's current account showed a small deficit of –1.7 per cent of GDP, which mainly reflected the growth of external trade deficit and of outbound transfers related to reinvestment and portfolio investment. Sources of current account deficit financing play an important role as far as the sustainability of loan developments is concerned. These sources include MFIs, which made a solid contribution to the current account deficit financing in the course of several years before the economic downturn, i.e. the private sector borrowed from banks to finance increased merchandise imports whereas the banks, in their turn, borrowed from abroad. In 2015, MFIs made no contribution to the current account deficit financing, which was covered from capital transfers to Lithuania and other sectors.

Chart 29. Current account balance
(Q1 2005–Q3 2015; four-quarter moving total, compared to GDP)



Source: Bank of Lithuania calculations.

Residential property prices followed a balanced upward trajectory in 2015. According to the data made available by Statistics Lithuania, housing prices in Lithuania rose by 3.3 per cent over 2015. However, data from the Centre of Registers shows that the number of home sale transactions fell by an annual 5 per cent in 2015. The Bank of Lithuania estimates that residential property prices continue to remain below their long-term equilibrium, although the gap grew slightly narrower over the year. The supply of new residential property in Vilnius, which is by far the biggest and the most liquid property market in the country, remains relatively high, which make a substantial rise in housing prices in 2016 rather unlikely. Moreover, residential property transactions, involving a loan, accounted for approximately one-third of the total number of residential property deals on average in 2015 (as opposed to 63.6% in 2007), whereas the proportion of

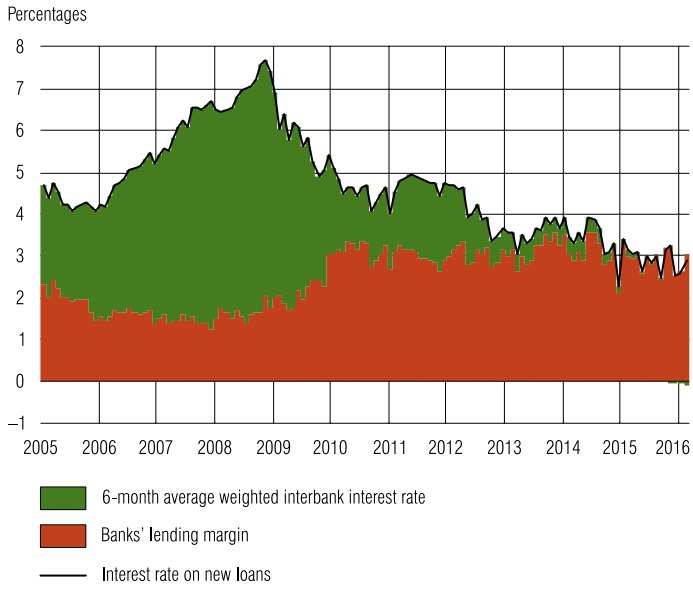
the value of home transactions financed by new bank loans comprised 53.8 per cent and was close to its long-term average, hence the probability of imbalanced growth of home prices related to borrowed funds is low.

Lithuania's banks have become less dependent on their Nordic parent banks. However, the rapid growth of home prices and the high level of household indebtedness in Scandinavia heighten the probability of risk materialisation. Contrary to the Baltic countries, home prices in Sweden and Norway emerged virtually unscathed from the 2008–2010 global economic downturn and continued to show strong growth. Real home prices in Sweden rose by an annual 12.8 per cent in the third quarter of 2015 and, as compared to the downturn period, real home prices in Sweden and Norway have shot up by 34.4 per cent and 20.8 per cent, respectively. Rapid growth in housing prices heightens the risk of such growth accelerating to an unsustainable level, which would trigger a bust. The potential adverse effects stemming from this risk are further exacerbated by the relatively high level of household indebtedness in the Nordic countries. Even though strong economic growth reduces the probability of risk occurrence in Sweden and Norway, such factors as the rise in interest rates or the weakening of economic growth expectations could trigger a fall in housing prices.

If the risk related to the Nordic countries were to materialise, the Lithuanian financial system might be expected to be adversely affected through at least three channels. Firstly, a drop in confidence in the Nordic parent banks may trigger an increase in retail deposit withdrawals in Lithuania. Secondly, some subsidiary banks in Lithuania might face a rise in funding and credit costs. Thirdly, if parent banks were hit by substantial losses and capital shortages, they would potentially withdraw capital from subsidiaries and branches whereas strategic intra-group changes might lead to a decrease in credit volume. On the other hand, the Lithuanian banking sector has become less dependent on funding provided by the Nordic parent banks. Parent funding, which accounted for 42.6 per cent of the banks' total liabilities and equity as far back as early in 2009, fell to 13.0 per cent in 2015. Moreover, the risk of financial imbalance in the Nordic countries is also mitigated by the macro-prudential policy measures, which are implemented by the financial market regulators of those countries or are still in the pipeline.

A prolonged low interest rate environment eats into the profit margins of credit institutions, fuels investors' risk appetite and may trigger a repricing of financial assets and real estate. The risks posed to the Lithuanian financial system by the period of ultra-low interest rates, which began as far back as in 2012, are becoming increasingly material. In 2015, as interbank interest rates continued their downward trend, the interest rates on bank deposits approached zero and the interest rates on loans granted by credit institutions diminished at a rapid pace. This puts the main participants of the Lithuanian financial markets, i.e. banks, at a disadvantage as they face an increasingly severe squeeze on profit margins. Even though the profit of the banking sector rose by 0.9 per cent over 2015 thanks to a decrease in administrative costs, its net interest income fell by 10.2 per cent. This situation should remain broadly unchanged in the near future as the quotes of EURIBOR futures do not signal a potential increase in these interbank lending rates in the euro area over 2016.

Chart 30. Components of interest rates on new MFI home loans



Sources: www.euribor.org and Bank of Lithuania calculations.

The Lithuanian economy is highly open to external trade, which implies that adverse changes in export demand can have a direct impact on the development of the domestic economy, on the debt repayment capacity of the private sector and the stability of the financial system. The demand for Lithuania's exports has decreased in the aftermath of economic sanctions introduced by Moscow in 2014 as well as the shocks hitting Russia's and other CIS economies. This has elevated the risk of negative effects for the Lithuanian financial system stemming from deterioration in the financial health of exporting businesses. Still, a slump in export had no negative impact on the asset quality of credit institutions in the period under review. In the short term, the risk of a fall in external demand should be mitigated by the strengthening of the EU economy, which accounts for the bulk of Lithuania's visible and invisible exports. The EU GDP is projected to grow by 1.9 per cent in 2016, which is likely to fuel export demand from Member States. Moreover, the pace of Russia's economic contraction is forecasted to slow down as compared to 2015. The Bank of Lithuania projects that the growth of Lithuania's merchandise and non-merchandise exports will accelerate to 3.3 per cent in 2016.

Risk premia in the global financial markets remains low, which makes the risk of their snapback, which would bring substantial losses to financial institutions, still relevant. With the ECB pressing ahead with its accommodative monetary policy, the price of financial assets in Europe remained high in 2015. As a result, the yields on government securities of European countries were very low and, in some cases, even negative in the period under review. With this situation in the background, the risk that shocks in financial markets may trigger a sudden depreciation of financial assets, in particular riskier ones, remains important. Moreover, increased volatility observed in global financial markets in 2015 elevated the probability of this risk occurring.

The holdings of securities by the financial institutions operating in Lithuania are relatively small hence the negative impact of a snapback in the risk premia on the stability of the financial system would be limited. Moreover, the risk is further mitigated by the fact that the banks' holdings of securities largely consist of higher-rated government debt securities, which carry a lower probability of the risk of sudden depreciation. On the other

hand, this risk is higher in the credit unions' sector, where the holdings of debt securities accounted for slightly less than 29.0 per cent of total assets at the end of 2015. Still, this share has decreased over the year (from 35.9%) and will contract further thanks to the regulations on credit union investment in non-equity securities, drafted by the Bank of Lithuania, which stipulate that holdings of debt securities cannot exceed 35 per cent of a union's total assets.

Macro-Prudential Policy Instruments

In 2015, the Bank of Lithuania adopted a macro-prudential policy strategy. Acting upon amendments[11] to the Law on the Bank of Lithuania, mandating the Bank of Lithuania to conduct macro-prudential policy, the Board of the Bank of Lithuania adopted the Macro-Prudential Policy Strategy on 12 March 2015.[12] It establishes the ultimate and intermediate macro-prudential policy objectives and instruments to achieve these goals. The strategy lays down the procedure for macro-prudential policy decision-making and communication as well as cooperation between the Bank of Lithuania and other institutions. Moreover, the main provisions of CRD IV were transposed into Lithuania's law on 9 April 2015. These changes have empowered the Bank of Lithuania to apply new capital buffer requirements to reduce structural and cyclical risks as well as liquidity coverage requirements to the Lithuanian financial institutions.

In 2015, the Bank of Lithuania put in place the requirement for a countercyclical capital buffer, which, where necessary, can be activated to contain excess credit growth and to limit financial leverage that is too high. This particular macro-prudential instrument is set on a quarterly basis following an assessment of the situation in the credit and real estate markets, and its setting is regulated by the Rules for the Formation of Capital Buffers[13], adopted by the Board of the Bank of Lithuania on 9 April 2015. Under CRD IV, EU Member States shall phase in the countercyclical capital buffer from 2016. Even so, the Bank of Lithuania implemented the requirement ahead of time and, as early as the second quarter of 2015, set the rate of 0 per cent[14], which came into effect on 30 June 2015. This decision followed an assessment, which showed no build-up of imbalances in the lending and housing markets in the second quarter of 2015. On the basis of the data available for the third and the fourth quarters of 2015, on 29 March 2016, the Bank of Lithuania made a decision[15] to keep in place the existing countercyclical capital buffer rate of 0 per cent (following identical decisions made in the third and the fourth quarters of 2015). The countercyclical capital buffer rate is set above 0 per cent when excessive growth in the credit sector is identified as a factor elevating the level of systemic risks in the financial system and posing a threat to sustainable economic development.

[11] *Republic of Lithuania Law Amending Articles 8, 11, 27, 51, 55 and Annex 2 to the Law on the Bank of Lithuania No I-678 and Supplementing the Law with Section 7 and Article 52 (18 September 2014, No XII-1097). Register of Legal Acts, 23 September 2014, No 2014-12712.*

[12] *Resolution No 03-31 of the Board of the Bank of Lithuania of 12 March 2015 on the approval of the Macro-prudential Policy Strategy.*

[13] *Rules for the Formation of Capital Buffers approved by Resolution No 03-51 of the Board of the Bank of Lithuania of 9 April 2015.*

[14] *Resolution No 03-106 of the Board of the Bank of Lithuania of 19 June 2015 on the application of the countercyclical capital buffer. For details, see 'Anticiklinio kapitalo rezervo taikymas Lietuvoje', Bank of Lithuania, Occasional Paper Series No 5, 2015. See http://www.lb.lt/anticiklinio_kapitalo_rezervo_taikymas_lietuvoje.*

[15] *Resolution No 03-35 of the Board of the Bank of Lithuania of 29 March 2016 on the application of the countercyclical capital buffer.*

The Bank of Lithuania revised its Responsible Lending Regulations and adopted their amendments[16], which came into force on 1 November 2015, in order to ensure responsible lending in the environment of low interest rates and to protect households from becoming over indebted as a result of taking long-term loans. Given the prevalence of low interest rates, the previous debt service-to-income (DSTI) cap of 40 per cent was deemed insufficient to contain over-indebtedness and, therefore, credit institutions were obliged to ensure that the ratio does not exceed 50 per cent at an annual interest rate of 5 per cent used in calculations.[17] The aim of this amendment is to safeguard households, which take out loans at a DSTI ratio close to 40 per cent in the environment of low interest rates, against the risk of exceeding this cap and running into difficulties with loan repayments, which would increase if interest rates were to rise in the future. To make these regulatory amendments neutral for credit supply, credit institutions were allowed to issue 5 per cent of new loans (by value) at a DSTI ratio of up to 60 per cent in a calendar year. Moreover, the Bank of Lithuania shortened the maximum loan term to 30 years, from 40 years, so as to reduce the probability of loan delinquency. The data for the final quarter of 2015 suggests that the amendments to the Responsible Lending Regulations, since enactment, have not affected adversely the supply of loans to households.

On 15 December 2015, the Bank of Lithuania identified and declared systemically important institutions in Lithuania, which were made subject to the capital buffer rates applicable to other systemically important institutions.[18] Pursuant to the Rules for the Formation of Capital Buffers[19], other systemically important institutions capital buffer should compose from 0 to 2 per cent of the amount of total risk weighted assets. This macro-prudential policy instrument is set at the end of each year with the aim to enhance the resilience of systemically important institutions against potential losses and reduce their incentives for excessive risk-taking.[20] Systemically important institutions are determined based on their size, importance to the financial system at the domestic and EU level, cross-border activity and interconnectedness of the institution with the financial system. Four systemically important institutions were identified in Lithuania in 2015. Capital buffers for other systemically important institutions were set at 2 per cent for *AB SEB Bankas*, *Swedbank, AB* and *AB DNB Bankas*, and at 0.5 per cent for *AB Šiaulių Bankas*. The systemically important institutions identified in 2015 will have to comply with the additional capital buffer requirement starting from 31 December 2016.

Bank Resolution

In 2015, the Bank of Lithuania was given a new role in relation to the resolution of financial institutions. Amendments to the Law on Financial Sustainability, the Law on the Bank of Lithuania and other relevant laws, which transposed the provisions of the Bank Recovery and Resolution Directive (2014/59/EU) into Lithuania's law and allocated a new resolution remit to the Bank of Lithuania, came into force on 3 December 2015. Now the

[16] *Resolution No 03-90 of the Board of the Bank of Lithuania of 28 May 2015 amending Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the responsible lending regulations.*

[17] *The interest rate of 5 per cent is the average interest rate on housing loans in euros issued in 2005 through 2014, plus one standard deviation.*

[18] *Resolution No 03-192 of the Board of the Bank of Lithuania of 15 December 2015 on the setting of the the capital buffer for other systemically important institutions.*

[19] *See footnote 13.*

[20] *For details, see 'Kitų sisteminės rizikos svarbos įstaigų kapitalo rezervo reikalavimo taikymas Lietuvoje', Bank of Lithuania, Occasional Paper Series No 7, 2015. See http://www.lb.lt/kitu_sistemines_svarbos_istaigu_kapitalo_rezervo_reikalavimo_taikymas_lietuvoje.*

Bank of Lithuania, together with the Single Resolution Board — an EU-level resolution authority — and national resolution authorities of foreign banks operating in Lithuania, will be responsible for the drawing up of resolution plans for banks and other important financial institutions and, where necessary, for their resolution. Legislative amendments provide access to a range of resolution tools, which could minimise the negative effects on the economy if the banking system were to run into solvency problems.

The need to have an effective resolution system became especially evident during the global financial crisis, when countries often had to rescue failing banks out of taxpayers' money in order to safeguard financial stability. Under the new framework, large banks will have to be resolved according to a pre-existing plan instead of going bankrupt. Resolution does not imply that banks will not be able to go bankrupt altogether as it is primarily aimed at ensuring continuity of essential banking functions, such as the disbursement of funds and making payments, whereas those business areas of commercial banks, which have no systemic importance for the stability of the financial sector and the national economy in general, can be made subject to regular bankruptcy proceedings.

In addition to pre-existing resolution tools, such as the sale of business, the setting up of a bridge institution or the separation of assets, the Bank of Lithuania now will also be able to apply a bail-in tool. This tool (conversion of liabilities into equity) ensures that losses of banks in difficulty are absorbed firstly by shareholders and creditors. Banks will need to maintain a minimum amount of own funds and eligible liabilities, set by the Bank of Lithuania, in order to ensure a sufficient buffer of loss-absorbing equity and debt. As part of preparations for the resolution, the Bank of Lithuania will have the power to require the commercial institution concerned to change its structure, to divest assets, to limit or cease specific existing or proposed activities, if the existing business model does not seem appropriate for a smooth resolution of the institution in the event of a crisis.

The implementation of Bank Recovery and Resolution Directive also marked the launch of a resolution fund, which is built up from mandatory contributions paid by banks and significant investment firms. This fund will be used to support the resolution of problem financial institutions so as to make sure that resolution costs are covered from funds accumulated from their contributions without recourse to taxpayers' money. A total of EUR 10.1 million was collected into the national resolution fund in 2015. During the transitional period of eight years and starting from 2016, national resolution funds established by Member States participating in the Banking Union will be pooled into a European level Single Resolution Fund, which will have to reach its target level of at least 1 per cent of covered deposits of the Banking Union by 2024.

Cash Management

In exercising its exclusive right to issue currency, the Bank of Lithuania puts into and withdraws currency from circulation, organises the production, transportation and storage of currency and builds up the reserves of banknotes and coins under a statutory procedure.

Currency Issue and Withdrawal

As of 31 December 2015, the value of currency issued into circulation by the Bank of Lithuania, including collector euro coins and numismatic sets of circulation euro coins, was EUR 2,160.7 million.

Table 3. Net currency issue

EUR millions

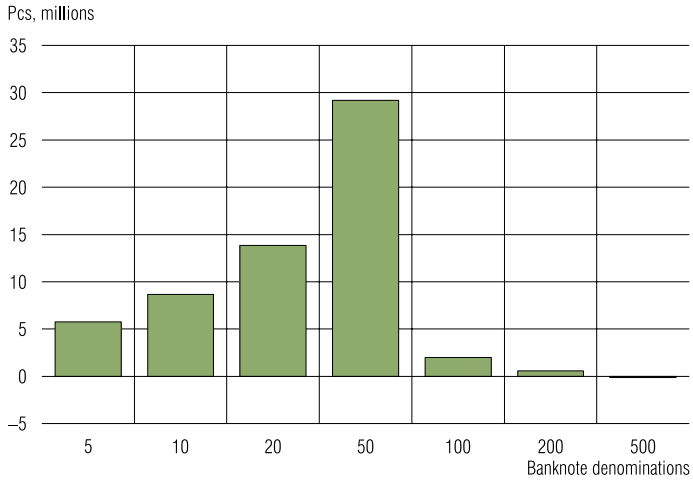
Year	Quarter				
	I	II	III	IV	I–IV
2015	1,618.9	204.1	133.2	204.5	2,160.7

Source: Bank of Lithuania.

In 2015, euro banknotes issued into circulation by the Bank of Lithuania totalled 59.8 million pcs, worth a total of EUR 2,099.5 million; euro coins in circulation amounted to 178.0 million pcs, with a total value of EUR 60.5 million, while collector euro coins and numismatic sets of circulation euro coins made up 0.1 million pcs, amounting to EUR 0.7 million.

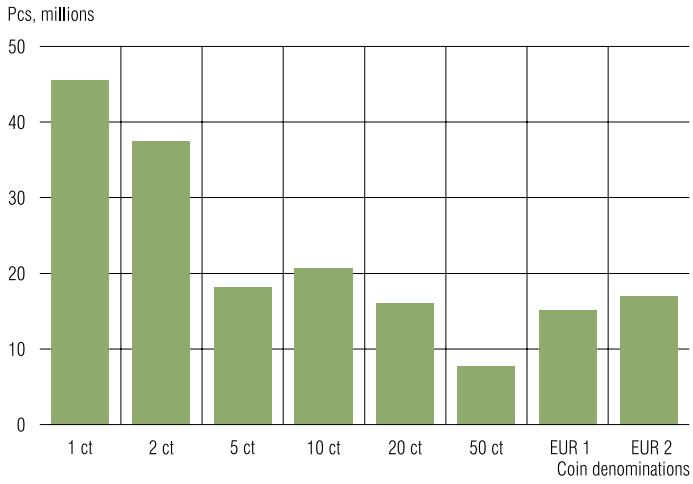
As of 31 December 2015, 20 and 50 euro denomination banknotes (13.8 million pcs and 29.2 million pcs respectively) accounted for the largest share of euro banknotes issued into circulation by the Bank of Lithuania, while 1 and 2 euro cent coins (45.6 million pcs and 37.5 million pcs respectively) — the largest share of circulation euro coins.

Chart 31. Euro banknotes issued into circulation by the Bank of Lithuania



Source: Bank of Lithuania.

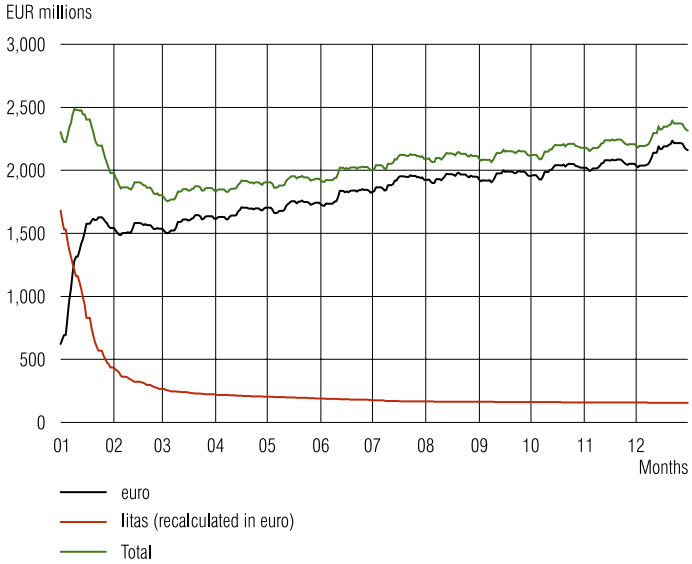
Chart 32. Circulation euro coins issued into circulation by the Bank of Lithuania



Source: Bank of Lithuania.

After the adoption of the euro in Lithuania, cash payments in litas for goods and services were still allowed during the dual circulation period from 1 to 15 January 2015. On 16 January 2015, the euro became the sole legal tender. Already on 9 January 2015, the value of euro exceeded the value of litas in circulation, i.e. the value of euro in circulation amounted to EUR 1,282.8 million (51.6%), whereas the value of litas in circulation amounted to EUR 1,204.8 million (48.4%).

Chart 33. Cash issued into circulation by the Bank of Lithuania



Source: Bank of Lithuania.

Table 4. Litas banknotes and coins in circulation

Denomination	31/12/2014		31/12/2015		31/12/2014		31/12/2015	
	LTL millions	Percentage	LTL millions	Percentage	Pcs, millions	Percentage	Pcs, millions	Percentage
Banknotes								
LTL 1	2.6	0.1	2.6	0.7	2.6	4.7	2.6	22.8
LTL 2	2.6	0.1	2.6	0.6	1.3	2.3	1.3	11.1
LTL 5	2.2	0.0	2.2	0.6	0.4	0.8	0.4	3.9
LTL 10	83.8	1.5	28.5	7.1	8.4	14.8	2.9	24.8
LTL 20	189.5	3.4	34.0	8.5	9.5	16.8	1.7	14.8
LTL 50	310.6	5.6	37.9	9.5	6.2	11.0	0.8	6.6
LTL 100	1,079.1	19.3	103.8	25.9	10.8	19.1	1.0	9.0
LTL 200	3,135.1	56.1	140.7	35.1	15.7	27.8	0.7	6.1
LTL 500	785.7	14.1	48.3	12.1	1.6	2.8	0.1	0.8
Total banknotes	5,591.1	100.0	400.7	100.0	56.4	100.0	11.5	100.0
Circulation coins								
1 ct	4.5	2.3	3.7	3.2	447.9	41.1	367.7	43.0
2 ct	4.5	2.3	3.5	3.0	226.2	20.8	173.8	20.3
5 ct	4.2	2.1	3.2	2.8	83.2	7.6	64.1	7.5
10 ct	15.9	8.1	13.3	11.4	158.5	14.5	132.5	15.5
20 ct	15.1	7.7	11.3	9.8	75.4	6.9	56.6	6.6
50 ct	11.4	5.8	8.1	7.0	22.8	2.1	16.2	1.9
LTL 1	41.3	21.0	26.6	23.0	41.3	3.8	26.6	3.1
LTL 2	49.5	25.3	26.2	22.6	24.8	2.3	13.1	1.5
LTL 5	49.9	25.4	20.1	17.4	10.0	0.9	4.0	0.5

Denomination	31/12/2014		31/12/2015		31/12/2014		31/12/2015	
	LTL millions	Percentage	LTL millions	Percentage	Pcs, millions	Percentage	Pcs, millions	Percentage
Total circulation coins	196.1	100.0	116.0	100.0	1,089.9	100.0	854.7	100.0
Collector (commemorative) coins and numismatic sets	18.5		18.6		0.5		0.5	

Source: Bank of Lithuania.

In 2015, the value of litas banknotes and coins in circulation, including collector (commemorative) coins and numismatic sets, reduced by LTL 5,270.5 million (90.8%). As at 31 December, there was LTL 535.3 million in circulation.

As of 31 December 2015, the volume of litas in circulation amounted to 11.5 million pcs of litas banknotes, with the value of LTL 400.7 million, and 854.7 million pcs of litas coins with the value of LTL 116 million. Over the year, the number of litas banknotes in circulation decreased by 45 million pcs (79.6%), their value fell by LTL 5.2 billion (92.8%), whereas the number of circulation coins in circulation dropped by 235.2 million pcs (21.6%), their value — by LTL 80.2 million (40.9%).

114.2 million pcs of litas banknotes and 279.2 million pcs of circulation litas coins were destroyed in 2015.

The Bank of Lithuania will exchange litas into the euro for an unlimited period of time.

In 2015, following the EU and the Bank of Lithuania legal acts regulating the authenticity and fitness checking and recirculation of euro banknotes and coins, the monitoring of the activities of cash handlers, related to the checking of euro banknotes and coins and their recirculation, began. In October–November 2015, scheduled inspections of *UAB G4S Lietuva* and *Eurocash1, UAB* were carried out in accordance with the Plan on Inspections of Activities of Cash Handlers Scheduled in 2015. All of their Lithuania branches, engaging in the authenticity and fitness checking and recirculation of euro banknotes and coins, were inspected (in total, seven inspections were carried out). At the end of 2015, the Plan on Inspections of Activities of Cash Handlers Scheduled in 2016 was approved and published on the Bank of Lithuania website.

Reform of Cash Circulation

In implementing the 2014–2016 strategic objective to be among the top three most efficient central banks in the Nordic and Baltic region and the goals — to increase the efficiency of the cash supply system and reduce operating expenses of the Bank of Lithuania used for cash cycle maintenance — a project for the Reform of the Cash Circulation began to be implemented in 2015. Having implemented the project, the Bank of Lithuania will reform its cash handling processes and delegate part of the cash handling functions to the cash handlers. After the reform of the process, the Bank of Lithuania will be responsible for issuing new and fit-for-recirculation euro banknotes and coins to ensure market demand, acceptance of excess cash in circulation, as well as acceptance of cash unfit for circulation in order to destroy them. It will make sure that only genuine and good quality euro cash is circulating in the country, as well as ensure implementation of necessary control measures and constant supervision.

An open discussion with participants of the cash supply system — banks, cash transportation companies and other market participants — was initiated in February

2015. During the discussion, measures that would help to find an optimal decision, allowing to balance the interests of the Bank of Lithuania and participants of the cash supply system in providing the cash supply as well as to create the most suitable cash cycle model in Lithuania, were considered.

Circulation, Collector and Commemorative Coins, Sets of Circulation Coins

In 2015, the Bank of Lithuania issued into circulation euro cents and euro coins of eight denominations (1, 2, 5, 10, 20 and 50 euro cents as well as 1 and 2 euro), seven collector coins and two commemorative coins. Five collector coins (out of seven) were minted from sterling silver (925 purity), one — from gold (999 purity), and one — from an alloy of copper, aluminium, zinc and tin. One of the commemorative coins with the Lithuanian national side was issued in cooperation with other EU Member States whose currency is the euro. Two sets of circulation coins were issued in 2015: a *proof* quality set (mirror surface, matt relief) with a commemorative sign dedicated to the adoption of the euro in Lithuania, and a *BU* quality set (glossy plane and relief surface).

All of these coins were minted at UAB Lithuanian Mint.

Counterfeit Banknotes and Coins

In 2015, 1,813 counterfeit euro banknotes were withdrawn from circulation in Lithuania. The 20 and 50 euro denomination banknotes were the counterfeiters' biggest targets. Most of the counterfeits were of the 50 euro denomination. Counterfeits are easily recognised applying the 'feel-look-tilt' test as well as comparing them to genuine banknotes.

In 2015, no counterfeit euro coins were found in Lithuania.

84 pcs of counterfeit litas banknotes were still found in 2015.

Management of Financial Assets

The primary objective of the Bank of Lithuania is to maintain price stability; it is implemented through shaping and implementing euro area monetary policy jointly with the ESCB. In managing financial assets, the Bank of Lithuania seeks to ensure the stability of the financial system of the euro area and Lithuania, create conditions for successful conduct of monetary policy, ensure the Bank of Lithuania's financial independence, as well as create preconditions for the country to more simply absorb economic, financial shocks and other special circumstances.

Financial Assets

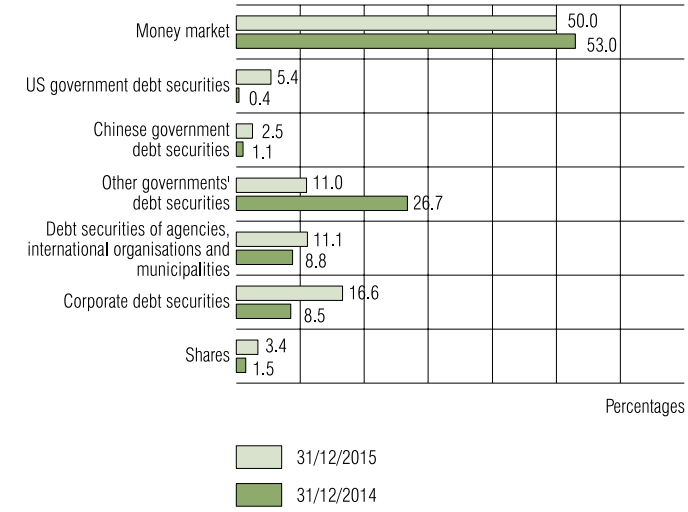
After Lithuania became a member of the euro area on 1 January 2015, all of the Bank of Lithuania's investments in euro, funds on the TARGET account and investments in foreign currency in the euro area countries are not included in the value of official foreign reserve assets. Due to this technical reason, official foreign reserve assets decreased substantially in 2015; however, the assets of the Bank of Lithuania at the end of December 2015 (EUR 11,330.7 million) exceeded the figure for the end of 2014 (EUR 8,101.1 million). As of 31 December 2015, foreign reserves amounted to EUR 1,558.7 million.

Financial Assets Management Policy and Results

Taking into account the changed objectives of the Bank of Lithuania after becoming part of the Eurosystem and the resulting financial assets management objectives, also in response

to the developments in the European and world economy in recent years, the Bank of Lithuania further aimed at diversifying investment risk and increasing expected return over a 3-year investment horizon. In pursuit of these objectives, the Bank of Lithuania invests in investment-grade rating sovereign central government debt securities of European countries, North America and China, as well as in corporate debt and equity securities of advanced economies. The main part of investments is made hedging against currency risk in euro or other currencies; however, seeking higher investment risk diversification, part (in 2015 — an average of 14.5%) of investment in currencies other than euro (US dollars, pound sterling) was not hedged.

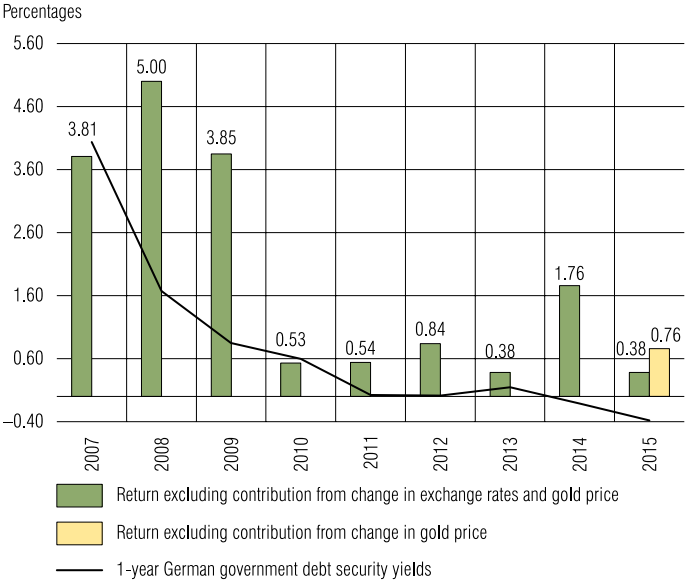
Chart 34. Changes in investment composition



Source: Bank of Lithuania.

In 2015 the return on financial assets was 0.76 per cent. Major contribution on the investment results stemmed from a favourable exchange rate of the US dollar, a decrease in the yields of the most secure and liquid investments — debt securities of the governments of Germany and the US, and a further decline in the yield spreads of the debt securities of the governments of other area countries (credit risk premia).

Chart 35. Return on investment and 1-year German government debt security yields



Source: Bank of Lithuania.

Security of financial assets is ensured through concluding transactions with only financial institutions with an investment grade rating, only investing in debt securities of issuers with the investment rating, and diversifying investment. The investment grade rating assigned to financial institutions and issuers by international rating agencies shows low probability of default on their liabilities. At the end of 2015, the average investment rating was AA-, while 21 per cent of investments were rated AAA (the highest rating).

To limit financial market risk (interest rates, stock prices and foreign exchange), a risk budget is set. It helps limit the amount of one-year expected loss from adverse fluctuations in market prices. The risk budget of EUR 100 million or value at risk (VaR), as established in the financial assets management policy, implies that there is a 95 percent probability that the total negative return on financial assets over a one-year horizon will not exceed EUR 100 million. As of 31 December 2015, the VaR of the investment portfolio was EUR 63 million.

Handling of Statistics

The Bank of Lithuania is the country's top authority in charge of financial statistics. The country's accession to the euro area has enhanced the role and importance of financial statistics compiled by the Bank of Lithuania, which have grown in scale and are collected with increased focus on quality since Lithuania's data is now added to the aggregated euro area statistics. Moreover, one of the priority tasks set for 2015 was to ensure a smooth transition to the collection and publication of statistical data in euro as well as its comparability with the statistics of the euro area countries.

In 2015, the Bank of Lithuania continued to develop the statistics on money and finance, external and financial accounts, to review its compilation and dissemination, including publication of statistical information on the Bank of Lithuania's website and in bulletins as well as its provision to the ECB and other international organisations. The statistics, which, prior to the adoption of the euro, used to be published on the Bank of Lithuania's website in litas, were supplemented by euro equivalents as of 1 January 2015. Based on the standards applied to Lithuania as a euro area country, the Bank of Lithuania started compiling and disseminating the MFI balance sheet statistics and the statistics on interest rates, assets and liabilities of investment funds, interbank lending and foreign exchange markets, payment instruments, official reserve assets, balance of payments and international investment position, external debt, foreign direct investment and quarterly financial accounts. This data is required for the purposes of monetary policy and operations of the Eurosystem and the Bank of Lithuania, financial stability, macro-prudential supervision, macroeconomic analysis and research. It is also used by international organisations, financial market participants, the media, the academic world and the general public.

In 2015, the Bank of Lithuania implemented the requirements, established in the ECB guidelines in relation to the statistical data of quarterly financial accounts and general government finance, successfully and smoothly. The rest-of-the-world data is published broken down by the euro area and non-euro area whereas the data of euro area debt securities and equities is published broken down by the sectors specified in the ECB guidelines. It should be stressed that the time limit for the compilation and submission of quarterly financial accounts data to the ECB was shortened by 25 days. This means

that users now get the quarterly financial accounts statistics (including metadata) that are both more detailed and made available at a much earlier date.

In 2015, the Bank of Lithuania aligned statistical reporting in the fields of MFI balance sheets and interest rates, assets and liabilities of investment funds as well as payments with the requirements applied to euro area countries pursuant to ECB regulations, reformed the procedures for publication of the statistical data on MFI balance sheets and interest rates, and launched publication of investment fund statistics. To minimise the reporting burden, it developed a single reporting format for CIUs, covering both statistical and supervisory reporting requirements. Taking into account the needs of users, the Bank of Lithuania compiled and submitted historical monthly and quarterly MFI balance sheet statistics, covering a period from June 2004, to the ECB.

Acting in implementation of ECB guidelines on monetary and financial statistics, the Bank of Lithuania compiles monthly statistics on securities issuance and quarterly statistics on other financial intermediaries, insurance corporations and pension funds, consolidated banking statistics and structural financial indicators as well as other monetary and financial statistical data in accordance with the requirements for the central banks of the Eurosystem. As part of efforts to implement the ECB regulation on statistical reporting requirements for insurance corporations and to minimise the reporting burden on market participants, the Bank of Lithuania made a decision to develop the statistics on insurance corporations using the data of supervisory reporting under Solvency II, supplemented by the ECB requirements.

A significant change occurred in the field of payment statistics as the Bank of Lithuania started breaking down payment transactions by region, i.e. the euro area countries, non-euro area EU countries and the rest of the world, in addition to their breakdown between domestic and cross-border transactions. In addition, it also started making additional breakdowns — by device location — of the number of ATMs and POS terminals and the transactions carried out with such devices.

In 2015, the Bank of Lithuania started compiling and publishing more comprehensive statistics on the external sector. Quarterly data on exports and imports of services, which are part of the balance of payments statistics and which attract a great deal of attention from external users, is now compiled and published with a more detailed geographical breakdown. Moreover, the aforementioned data has been expanded and, when published, is attributed to the Bank of Lithuania or the general government sector pursuant to the requirements for a data template on international reserves and foreign currency liquidity, which are applicable to the euro area countries. In 2015, particular focus was put on comparability of the statistics on the balance of payments and quarterly financial accounts. Hence, given the changes in time limits for the compilation of quarterly financial accounts, the time limit for compiling the data of the quarterly balance of payments was reduced by 10 days. In 2015, the Bank of Lithuania drew up national methodological notes related to a manual on data sources for external sector statistics and compilation methods, which is drawn up by the ECB.

In 2015, the Bank of Lithuania sought to improve the management of databases on securities and external debt statistics. In accordance with the requirements of ECB guidelines on statistics on debt securities holdings, the Bank of Lithuania started compiling the data on its holdings of securities on a security-by-security basis at the weekly and

monthly frequency and submitting these statistics to the ECB. As part of efforts to reduce the statistical reporting burden on economic entities, the Bank of Lithuania cross-linked the securities database with other databases and started compiling the statistics on the assets and liabilities of investment funds, on issues and holdings of securities and on the external sector. In addition, it started compiling the country's quarterly financial accounts based on the data of securities database.

The Bank of Lithuania continued to maintain its Loan Risk Database as it sought to ensure efficient functioning of the credit system and its right of access to information required for the purposes of supervision, the analysis of monetary policy and financial stability and statistics. Natural persons made ample use of the public e-services platform installed by the Bank of Lithuania as a means to provide convenient access to information about personal data processed in the Loan Risk Database. Also, the Bank of Lithuania publishes the data on loans to non-financial corporations by economic activity, compiled on the basis of information available in the Loan Risk Database, on its website.

The Bank of Lithuania proceeds with the Loan Risk Database development project, given its own needs and the needs of participants of the Lithuanian financial market as well as the requirements of a draft ECB regulation on the collection of granular credit and credit risk data. To this end, the Bank of Lithuania worked out functional requirements for the new information system of the Loan Risk Database and provided the granular credit data contained in the Loan Risk Database as well as its proposals and comments on the draft regulation to the ECB.

As part of the efforts to enhance international cooperation, the Bank of Lithuania worked intensively with officials of the Organisation for Economic Cooperation and Development (OECD) on Lithuania's preparations for accession to this body. The Bank of Lithuania provided information about Lithuania's legal and institutional framework for statistics — to the extent it is related to the activities of the Bank of Lithuania — as it sought to assess the process of statistics in Lithuania and the availability of data and to consider ways to implement the OECD requirements in the field of statistics. Also, it provided information about the availability of data and metadata on quarterly financial accounts, short-term financial indicators, assets and liabilities of institutional investors and households, balance of payments and international trade in services to the OECD. It should be emphasised that the measures outlined in the action plan that was worked out and agreed on during a visit by OECD officials to Lithuania have been implemented successfully. These include the compilation and submission of quarterly data on the assets and liabilities of institutional investors and households, methodological reviews, preparation of a plan on harmonisation of quarterly and annual financial accounts as well as the regular provision of quarterly balance of payments data.

Late in 2015, the Bank of Lithuania developed a new template for its electronic Monthly Bulletin, whose first issue was published to report the data of January 2016. Also, the Bank of Lithuania substantially updated the content of a section of its website dedicated to national aggregated data (Economic and Financial Data for Lithuania) in view of changes in information following Lithuania's accession to the euro area. Moreover, it substantially updated its statistical releases about quarterly financial accounts data published on its website. The releases now contain more visual data representations, which help improve the understanding of quarterly financial accounts statistics among users.

Payment and Securities Settlement Systems

One of the main functions of the Bank of Lithuania is to encourage stable and efficient operation of payment and securities settlement systems. The Bank of Lithuania provides settlement services, conducts the oversight of payment and securities settlement systems and coordinates the activity of economic entities of Lithuania during the implementation of national and international projects. When providing settlement services, the Bank of Lithuania, together with other Eurosystem central banks, manages the euro real-time gross settlement system TARGET2. The Bank of Lithuania is responsible for the component of this system — the payment system TARGET2-LIETUVOS BANKAS. The Bank of Lithuania also manages the retail payment system SEPA-MMS, which began operating on 8 December 2015.

Payment Systems

The Bank of Lithuania's retail payment system LITAS-MMS, which operated until the end of 2015, was dedicated for executing designated time and fast payments in euro. The system played a key role after the adoption of the euro when the Bank of Lithuania and commercial banks were preparing to execute payments following the requirements complying with the provisions of Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (hereinafter — SEPA Regulation). The operation of the payment system LITAS-MMS, which did not comply with the requirements of the SEPA Regulation, was discontinued successfully on 31 December 2015.

The retail payment system SEPA-MMS, which was in line with the requirements of the SEPA Regulation, began operating on 8 December 2015. The Bank of Lithuania is the operator of SEPA-MMS: it ensures reliable operation of the system, consults its participants, maintains, when necessary, business continuity of the system, and performs other system and participant administration works.

As of 31 December 2015, LITAS-MMS had 16 participants; they chose different channels for further payment execution: some participants execute domestic payments via SEPA-MMS, others — by participating indirectly in the retail payment system STEP2, managed by EBA CLEARING, and executing payments through intermediaries, i.e. through parent banks or parent institutions, which are direct participants of STEP2.

Table 5. LITAS-MMS transactions

Year	Volume of transactions, thousand			Value of transactions, EUR million		
	Total	Daily average	Concentration ratio*, %	Total	Daily average	Concentration ratio, %
2014	32,956	131.2	77.5	54,634	217.63	64.9
2015	33,938	134.7	77.4	78,820	312.66	58.8

Source: Bank of Lithuania calculations.
**Concentration ratio is the share of transactions of three banks with the largest volume of payments in total payment transactions.*

TARGET2-LIETUVOS BANKAS, the euro real time gross settlement system operating in Lithuania, is the so-called TARGET2 national component system — a part of payment

system TARGET2, managed by the Eurosystem, which provides the euro real time gross settlement service when paying in central bank money. TARGET2-LIETUVOS BANKAS is used for implementing the Eurosystem's monetary policy instruments and settlement for cash transactions made between the Bank of Lithuania and credit institutions. In addition, this payment system provides the infrastructure for domestic financial institutions to provide urgent euro settlement services to their customers and for the CSDL to make fund transfers when performing settlements of securities transactions in the Securities Settlement System (VPAS).

At the end of the year, TARGET2-LIETUVOS BANKAS had 14 participants: the Bank of Lithuania, 6 commercial banks, 5 foreign bank branches, the CSDL and the LCCU.

Table 6. TARGET2-LIETUVOS BANKAS transactions

Year	Number of transactions			Value of transactions, EUR million		
	Domestic payments	Cross-border payments sent	Cross-border payments received	Domestic payments	Cross-border payments sent	Cross-border payments received
2014	33,863	71,534	128,467	5,654	72,679	72,396
2015	21,304	54,516	149,275	145,906	134,647	135,115

Source: Bank of Lithuania calculations.

The value of payment transactions in TARGET2-LIETUVOS BANKAS increased due to the discontinuation of the real time payment system LITAS-RLS, which operated until 31 December 2014, and changes in the payment systems related to it — transfers of participants' funds, used as collateral for ensuring fulfilment of LITAS-MMS participants' liabilities related to this system, have been executed from 1 January 2015.

Oversight of Payment and Securities Settlement Systems

Since 1 January 2015, when conducting the oversight of payment and securities settlement systems, the Bank of Lithuania follows the documents adopted by the Eurosystem — Regulation (EU) No 795/2014 on oversight requirements for systemically important payment systems (ECB/2014/28), the oversight standards for euro retail payment systems approved by the ECB and the Description of the Procedures of the Payment and Settlement Systems Oversight approved by Resolution No 03-204 of the Board of the Bank of Lithuania of 30 October 2014, which is in line with the listed Eurosystem documents.

The conducted oversight of payment and securities settlement systems establishes the Bank of Lithuania's function to encourage stable and efficient operation of payment and securities settlement systems (SSS). System oversight is comprised of registration of systems whose operator is not the Bank of Lithuania, monitoring of these systems and of the system of the Bank of Lithuania itself, assessment of systems based on the oversight standards and recommendations. In addition, the Bank of Lithuania, jointly with other Eurosystem central banks, conducts the oversight of the systemically important payment systems TARGET2 and STEP2.

In 2015, the systems overseen by the Bank of Lithuania operated in a stable manner (without critical incidents), and their operators complied with the requirements established by the Republic of Lithuania Law on Settlement Finality in Payment and Securities Settlement Systems.

Taking into account the requirements of the Regulation on CSDs[21], which increases the costs for small CSDs, and the possibilities provided by the same Regulation, the *Nasdaq* group decided in 2015 to found one CSD for the three Baltic States, with the head office in Latvia and branches in Estonia and Lithuania. One SSS will be registered per each country; they will be managed by the Baltic CSD. Under the projected plan for the restructuring of the CSD, the Baltic CSD is to be licensed in 2017 in observance of the time limits set in the Regulation on the CSDs. The Bank of Lithuania and the respective supervisory and oversight authorities in Latvia and Estonia are preparing for the licensing process of this CSD. Since the future CSD will provide services in three countries, all connected institutions cooperate on a mutual basis. An action plan has been prepared; a list of services to be provided by the future CSD is being drawn up; practical aspects of the licensing are being addressed. Since the activities of the Baltic CSD will not only be significant for the Latvian, but also for the Estonian and Lithuanian securities markets, the supervisory authorities of the Baltic States are working on a mutual cooperation agreement, defining the organisation of the future supervision of the CSD following the licensing procedure.

Single Euro Payments Area Project

The requirements of the SEPA Regulation, providing for the obligation for payment service providers and their customers to use payment instruments characterised by uniform formats and rules, came into effect in Lithuania on 1 January 2016. As a result, payments in euro are no longer classified into domestic and cross-border ones. Residents and businesses have an opportunity to use an account opened abroad or in Lithuania in order to send or receive payments from any SEPA country[22] without constraints. This provides a possibility for businesses to renounce redundant internal processes and expand the geography of service provision, and create the conditions for competition among payment service providers not only at a national but also international level.

In 2015, the Bank of Lithuania, as the competent authority responsible for ensuring proper observance of the SEPA Regulation provisions, formed expectations for intermediate phases in the preparations for SEPA, monitored and assessed the preparation of payment service providers (PSP) and businesses to comply with SEPA requirements and use the ISO 20022 XML format. At the same time, seeking greater involvement of businesses and state institutions in the preparations for SEPA, the Bank of Lithuania, jointly with the SEPA Coordination Committee, organised early in 2015 three information on SEPA fora for businesses, public sector entities (state institutions and municipalities) and software developers. To increase SEPA awareness, the Bank of Lithuania also administered a specialised SEPA website, where information relevant to businesses and residents is published. In addition, the Bank of Lithuania, together with commercial banks, published advice to businesses on how to prepare for smooth execution of payments as of 2016, issued a new publication on SEPA, 'The Single Euro Payments Area. New possibilities for payment service users in Lithuania'. Technical documentation prepared by the SEPA Coordination Committee working groups has been published on the SEPA website.

[21] *Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the EU and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.*

[22] *SEPA countries: EU Member States, Norway, Iceland, Lichtenstein, the Principality of Monaco, Switzerland and San Marino.*

It is designated for businesses to smoothly migrate from the LITAS-ESIS format to the ISO 20022 XML standard format. An information video about the SEPA has been prepared for residents, where a comparison of how the completion of a payment form will change following migration to SEPA payments is given.

Due to a relatively short preparation period[23], the preparation of payment service providers for the SEPA extended until the end of the year and hence businesses had little time to migrate to the new ISO 20022 XML format to submit and receive payment files. Part of businesses failed to prepare on time and, therefore, many payment service providers worked out the means that enable them to convert payment files in the old format into the format required by the SEPA Regulation. Businesses will be able to use conversion services until they adapt their information systems to the processing of payment files in the new format.

The SEPA also opened the opportunities for Lithuanian payment service providers to choose a payment system, in line with SEPA requirements, for interbank payments. This opportunity was seized by banks within Scandinavian bank groups. Similar to the other Baltic States, which joined the SEPA somewhat earlier, major parent banks and foreign bank branches chose to execute retail interbank payments within the Pan-European payment system STEP2 via parent banks and head institutions. This entailed the change of the time for executing the main part of interbank payments. They are executed five times a day. Banks and other payment service providers using the Bank of Lithuania's payment system can also execute interbank payments in real time.[24]

The direct debit payment service which had been provided in Lithuania until late 2015 did not comply with SEPA requirements; hence, its provision was terminated. Payment service providers have offered Lithuanian businesses an alternative solution for the collection of funds from payers — a new service of the submission of electronic invoices (hereinafter — e-invoice) and execution of payments based on the e-invoices. E-invoice is an electronic invoice, which is created, sent, registered and stored in the digital environment. Having agreed with payment service providers, recipients of funds (usually businesses) submit e-invoices to customers their online banking, while these, in turn, can pay the e-invoice in one click of a button or select an automatic payment. In pursuit of smooth migration from direct debit to the new service, direct debit payments were automatically converted into e-invoices with automatic payment. This was done where businesses using direct debit have migrated to the new service and consumers have not renounced it after being notified in advance of the changes.

Currently there are no payment service providers in Lithuania providing the SEPA direct debit payment service to recipients of funds. One bank provides to its customers the service of SEPA direct debit on the payer side only. Another two banks and the SEPA-MMS system, managed by the Bank of Lithuania, plan to begin providing the same service in the first half of 2016.

[23] *Under the SEPA Regulation, Lithuanian payment service providers and businesses had a year to implement its requirements. Countries that joined the euro area earlier had two years for that and could choose a 4-year period to implement some of the requirements.*

[24] *SEPA-MMS operating rules provide that real-time payments are to be executed on the system's business days from 8:00 to 18:00.*

Target2-Securities Project

TARGET2-Securities (T2S) is one of the biggest infrastructure projects implemented by the Eurosystem. T2S provides a common technical platform which helps consolidating the transfers of securities and related funds when settling securities transactions in Europe, thus providing considerable benefits for the European post-trade market participants. T2S creates a possibility to make both domestic and cross-border securities settlements in euro and other currencies, if central banks issuing these currencies agree to that. Currently, only the central bank of Denmark made a decision to allow settlements in Danish krone in the T2S technical platform (from 2018), whereas all other settlements will be made in euro.

T2S started operating on 22 June 2015. Five central securities depositories (in Greece, Italy, Malta, Romania and Switzerland) have already joined the platform. Other 16 CSDs providing services for 16 EU markets will join it over the next two years. The Baltic CSD (providing services for the Lithuanian, Latvian and Estonian markets), which is being developed, will start using the T2S platform in September 2017. The Bank of Lithuania plans to join the T2S at the same time. The Bank of Lithuania will open fund accounts at the T2S platform for the participants of the payment system TARGET2-LIETUVOS BANKAS for securities settlements.

Administration of the Accounts of the State Treasury and Other Institutions

Acting as a fiscal agent for the state under the Law on the Bank of Lithuania, in 2015 the Bank of Lithuania continued to administer euro and foreign currency accounts of the State Treasury. The state monetary resources held in these accounts are managed by the Ministry of Finance of the Republic of Lithuania. The resources are accumulated and used in accordance with the procedure set forth by the Republic of Lithuania Law on State Treasury and other legal acts. In addition, the Bank of Lithuania administered euro accounts of EU institutions 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.

On 31 December 2015, 68 accounts of the State Treasury and other institutions were administered by the Bank of Lithuania (118 on 31 December 2014). The number of accounts decreased after the adoption of the euro in the Republic of Lithuania when the Ministry of Finance closed the accounts in litas. These accounts were 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 Bank of Lithuania provides the following banking services to the State Treasury and other institutions: payment services, foreign exchange transactions, account statements and other reporting services. In 2015, the Ministry of Finance and other institutions executed 635.5 thousand credit transfers with the total value of EUR 24.458 billion.

Participation of the Bank of Lithuania in the European System of Central Banks and International Cooperation

The Bank of Lithuania participated in the decision-making processes of the Eurosystem and the ESCB as well as activities of EU institutions and the European System of Financial

Supervision, represented the Republic of Lithuania in international financial organisations, and maintained relations with the NCBs of other countries and credit rating agencies.

Participation in the Eurosystem and the European System of Central Banks

The Bank of Lithuania is a member of the ESCB, which consists of the ECB and the NCBs of all the EU Member States. As of 1 January 2015, the Bank of Lithuania also became part of the Eurosystem, consisting of the ECB and the euro area NCBs, as well as a participant in the SSM. The SSM is a system of financial supervisors, currently consisting of the ECB and Member States whose currency is the euro. The work of the Eurosystem and the ESCB is performed by the participation of representatives of the EU NCBs in the activity of the ECB Governing Council, General Council, SSM Supervisory Board and ESCB committees and their working groups.

Twice a month, the Chairman of the Board of the Bank of Lithuania participates in the ECB Governing Council meetings, where decisions on euro area monetary policy and issues related to the Eurosystem are adopted. Moreover, the Governing Council is responsible for effective and consistent operation of the SSM. The most important discussions held in the Governing Council in 2015 were related to the implementation of the Eurosystem expanded APP and the assessment of the situation in Greece.

The Chairman of the Board of the Bank of Lithuania continues to attend the ECB General Council meetings four times a year; there, together with the heads of all the EU NCBs, he assesses the macroeconomic situation of the EU Member States as well as monetary and financial market developments. The General Council is a decision-making body of the ECB, which will function as long as there are Member States which have not yet adopted the euro.

The daily work of the ESCB is performed by the participation of representatives of the EU NCBs in the activity of the ESCB committees and their working groups. Representatives of the Bank of Lithuania and other NCBs of euro area Member States participate in the activity of 17 Eurosystem and ESCB committees as well as their working groups. They solve various issues related to the activities of central banks: monetary policy, market transactions, accounting, financial stability, payment systems, euro banknotes, statistics, international relations, communication, etc.

Since the beginning of 2015, the Bank of Lithuania also started participating in the activities of the SSM, which had become fully operational since autumn 2014. The SSM is the first element of the European banking union, which aims to ensure the security and reliability of the European banking system, as well as increase financial integration and stability in Europe. A Member of the Board of the Bank of Lithuania participates in the activities of the Supervisory Board, which meets, as a rule, twice a month. The Supervisory Board discusses various issues related to banks directly supervised by the ECB.

The Bank of Lithuania also monitors how the ESCB decisions are made on the basis of written procedures by assessing their potential impact, provides comments and proposals. In 2015, the ECB was consulted on macro-prudential policy strategies, the new legal regulation of the organising processes of official statistics and the appointment of the Bank of Lithuania as the resolution authority.

The Bank of Lithuania is a holder of subscribed capital of the ECB. Only the EU NCBs are entitled to subscribe and hold the ECB capital. The NCBs of euro area Member States hold

70 per cent of the ECB capital, while the other 30 per cent is shared by the NCBs of non-euro area Member States. The weight of the share of NCBs in the ECB capital subscription key is defined according to the population and GDP share of a respective Member State. These weights are adjusted every five years or whenever a new Member State joins the EU. The Bank of Lithuania's share in the subscribed ECB capital — 0.4132 per cent, amounting to EUR 44,728,929.21. Without participating in the euro area, the Bank of Lithuania covered 3.75 per cent of the share of the subscribed ECB capital. As a result, after Lithuania joined the euro area, the Bank of Lithuania transferred the remainder, amounting to EUR 43,051,594.36, to the ECB capital.

Participation in the Activities of EU Institutions and the European System of Financial Supervision

The Bank of Lithuania maintains a close dialogue with the EU Economic and Financial Affairs Council (ECOFIN) and the European Commission and provides, within its competence, opinions and assessments when forming the position of the Republic of Lithuania on the issues discussed at the ECOFIN Council. The Chairman of the Board of the Bank of Lithuania participates in the informal ECOFIN Council meetings. In these meetings, finance ministers and governors of the central banks of the EU Member States discuss important economic and financial issues, as well as agree on necessary legal and political decisions. In addition, representatives of the Bank of Lithuania participate in the activity of the Economic and Financial Committee (EFC), which contributes to the preparation of the work of the ECOFIN Council.

During the informal ECOFIN Council meetings that took place in 2015, most attention was paid to discussions on the future of the Economic and Monetary Union (EMU), especially actions that must be taken in order to complete the creation of the banking union faster, create the EU capital market union, as well as encourage structural reforms necessary for the economic growth and remove any obstacles that may arise. During the EFC meetings, discussions were held on international cooperation in the area of financial services, implementation of the single resolution mechanism, EC initiatives on the completion of the capital market union and primary directions of the EMU reforms, proposed in the Five Presidents' Report 'Completing Europe's Economic and Monetary Union'.

In addition, the Bank of Lithuania participates in the work of the ESRB General Board and its Advisory Technical Committee. As usual, the most attention was paid to continuous monitoring and identification of risks and threats arising in the EU financial system. When exercising the powers conferred upon them by CRD IV and the CRR, national supervisory authorities implemented macro-prudential measures at their own discretion, thus establishing the macro-prudential policy in Europe. The effect of low interest rates on financial stability, as well as the low profitability of banks, insurance undertakings, pension and investment funds under current market conditions are closely monitored, much attention is devoted to the regulation of the sovereign exposures.

Having become a national resolution authority at the end of 2015, the Bank of Lithuania began to participate in the activities of the SRM and the Single Resolution Board, an EU-level resolution authority. This is the second important step to ensure full participation in the EU banking union, which strengthens the financial stability of the country, alongside the SSM, operating since autumn 2014.

When supervising the financial market, the Bank of Lithuania actively participates in the activities of the European institutions responsible for micro-prudential supervision (European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA)) by making decisions on the issues important to the EU financial market and duly presenting the position of the Bank of Lithuania.

Cooperation with the IMF

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

Lithuania's bilateral cooperation with the IMF is based on annual economic consultations under Article IV of the IMF Articles of Agreement. During Lithuania's economic consultations of 2015, which were concluded at the Executive Board of the IMF in May, the responsible economic policy pursued by Lithuania was evaluated favourably, as it determined balanced economic growth, enhanced public finance and created good conditions for Lithuania to adopt the euro. The IMF positively assessed the steps that the Bank of Lithuania took in strengthening the banking sector and solving problems of credit unions, and emphasised that the effective supervision of the financial sector enhanced the resilience of the Lithuanian financial system.

The Spring Meetings of the IMF and the World Bank were held in April 2015 in Washington. During these meetings, global economic prospects were assessed, issues related to financial stability and international financial architecture as well as the role of international financial institutions in its enhancement were discussed. The issues of the international macro-economic environment, monetary policy adjustment and financial system reform prevailed in the agenda of the meetings. Much attention was paid to the enhancement of regional surveillance.

Single Resolution Board

The Single Resolution Board became operational on 1 January 2015. As the second pillar of the Banking Union, this authority has been vested with the power to carry out centralised resolution of banks in Member States participating in the SSM in close cooperation with the national resolution authorities (which is the Bank of Lithuania, as far as Lithuania is concerned). The legal framework for the establishment of this system was provided by the Bank Recovery and Resolution Directive (2014/59/EU) as well as the Single Resolution Mechanism Regulation (EU) No 806/2014. The Bank of Lithuania was designated as the national resolution authority in Lithuania at the end of 2015 and got formally involved in the activities of the Single Resolution Board. The Single Resolution Board is directly responsible for drawing up the resolution plans and application of resolution tools to significant banks supervised by the ECB and cross-border bank groups operating in several countries participating in the Banking Union. When performing these tasks, it coordinates its actions and decisions with the ECB and the European Commission.

One of the priority tasks of the Single Resolution Board in its start-up phase is to establish uniform rules and procedures for the resolution of banks and to create a robust resolution

regime that can be implemented successfully. The aim is to prevent disruptions of critical functions of banks under resolution, to avoid significant adverse consequences for the financial system and to head off contagion. Moreover, the Single Resolution Board will seek to remove impediments to resolvability, to minimise the costs of resolution and to avoid destruction of value of the banks under resolution thus contributing to the protection of depositors' and taxpayers' money and the maintenance of financial and economic stability.

In 2015, the Single Resolution Board focused on drawing up the first resolution plans of the transitional period. In 2016, it seeks to have resolution plans in place for nine out of ten banks falling within its direct responsibility. It is also important that the Single Resolution Board assumed its full resolution powers, including the power to use the Single Resolution Fund, on 1 January 2016. As of late November 2015, a sufficient number of Member States have fulfilled their pledge to ratify an intergovernmental agreement on the Single Resolution Fund, thus paving the way for the launch of operations of the Fund on 1 January 2016.

III. ORGANISATION OF ACTIVITIES OF THE BANK OF LITHUANIA

Mission, Values and Ethics

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

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

The daily activities of the Bank of Lithuania is based on the following institutional values:

Adherence to public interests: every decision taken has to serve public interests.

Competence and quality: institutional decisions and assessment have to be governed by expert knowledge and good performance of the staff.

Transparency of activities: a constant flow of objective and comprehensive information on bank's activities, explanations of and reasoning behind the decisions taken.

Standards of conduct are regulated by the Code of Ethics for the Employees of the Bank of Lithuania, which not only establishes principles of conduct within the bank, but also informs the Bank's customers and operational partners on what they can reasonably expect from the staff. Balance of public and private interests is one of the major preconditions for reducing the possibility of corruption at the Bank of Lithuania. Requirements to be followed by the staff of the Bank of Lithuania when balancing public and private interests are laid down in the Procedure for the Balancing of Public and Private Interests at the Bank of Lithuania. It should be noted that the survey of market participants, conducted in 2015, showed that the majority of respondents positively assessed the activities of the institution and recognised that it is transparent (86% of the surveyed), while the staff of the Bank of Lithuania are able to balance public and private interests flawlessly.

Staff

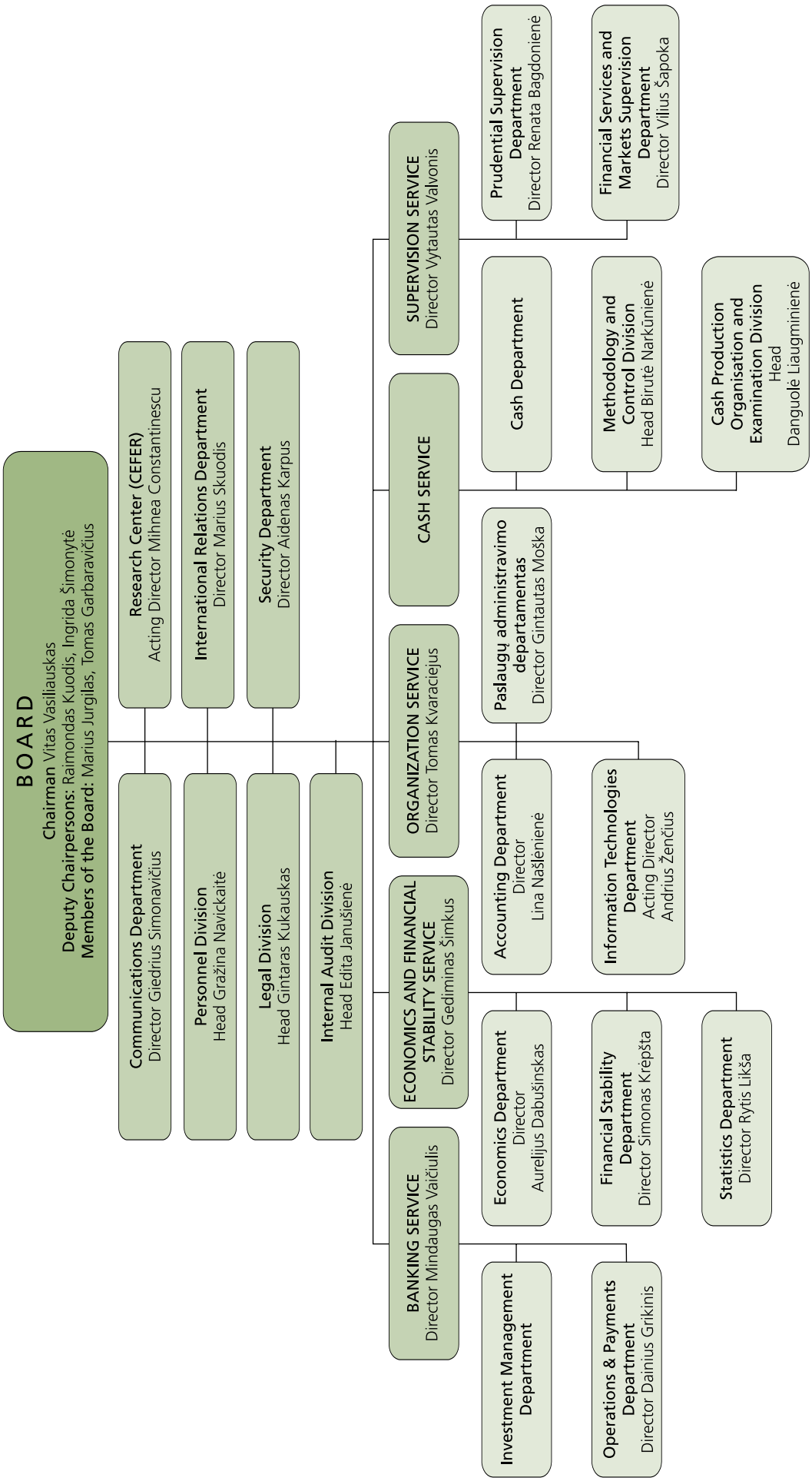
On 31 December 2015, the Bank of Lithuania actually employed 609 staff members (of whom 26 worked under fixed-term employment contracts), a year-on-year decrease of 3 per cent.[25]

In 2015, the Bank of Lithuania paid particular attention to ensuring the safe and smooth process of the adoption of the euro in the territory of the Republic of Lithuania, active participation in the ECB monetary policy, and operation in the conditions of the SSM.

In order to carry out research in the fields of banking and finance as well as increase the scientific potential of economics, as of the end of 2015, three internationally-experienced researchers, who acquired their PhDs at foreign universities, conducted research at the Center for Excellence in Finance and Economic Research, established at the Bank of Lithuania.

[25] *This number does not include ten staff members, who were on maternity/paternity leave or unpaid leave during their work at the ECB or the IMF.*

Chart 36. Organisational structure



At the beginning of 2015, the Board of the Bank of Lithuania approved the Description of Procedures for Employment at the Bank of Lithuania (published in the Register of Legal Acts), regulating the ways, procedures and terms of employment at the Bank of Lithuania.

In order to encourage the management, colleagues and members of staff to provide feedback on issues important to the institution, a 360° feedback survey of the management (including Members of the Board of the Bank of Lithuania) was conducted at the end of the year. The results of the survey will help the management and their team excel and achieve excellent operating results.

The annual Vladas Jurgutis awards were granted to two best students studying finance at Lithuanian universities.

Transparency of Activities and Provision of Information to the Public

The Communication Policy of the Bank of Lithuania, approved by the Board of the Bank of Lithuania on 29 October 2015, defines the Bank of Lithuania's objectives and principles for external and internal communication, ways of communication and communication channels, and indicates target groups and participants in communication, responsible for the implementation of the Communication Policy of the Bank of Lithuania and taking an active part in the implementation of communication measures. In implementing the Communication Policy of the Bank of Lithuania, the Bank of Lithuania sets the following objectives:

- to broaden public understanding about the Bank of Lithuania's mission, vision, values, activity and its role within the Eurosystem and international bodies;
- to inform the public and other target groups about Bank of Lithuania's and ECB's decisions, explain their motives and possible effect on the economy, the financial system and its participants;
- to contribute to and maintain a high level of public and other target groups' trust in the Bank of Lithuania and the domestic financial system;
- to provide the staff of the Bank of Lithuania with relevant information on the activity and achievements of Bank of Lithuania, changes within it as well as contribute to greater involvement of the staff of the Bank of Lithuania.

Using various means of information, the Bank of Lithuania implements the Communication Policy and ensures the transparency of its activities. In 2015, one of the key points in the communication strategy was the presentation of the Bank of Lithuania's participation in the Eurosystem and the SSM to the public.

When Lithuania adopted the euro on 1 January 2015, information on the exchange of litas into euro and the currency exchange points, as well as benefits of the euro adoption that residents and enterprises gained in the first months was published, a special press conference was organised to review results of the first year with euro. Detailed information on the preparation to join the Single Euro Payments Area (SEPA) was also provided; enterprises and residents were introduced to future changes in payments.

On 29 July 2015, the Bank of Lithuania, for the first time, published its balance sheet compiled according to the harmonised composition of the balance sheet of euro area central banks. The Bank of Lithuania's balance sheet has been supplemented with data related to the conduct of euro area monetary policy as well as other information which

increases transparency and reporting to the public. Currently the balance sheet of the Bank of Lithuania is published not only in the Annual Report but on a quarterly basis as well.

Press releases on the updated Bank of Lithuania financial assets' management policy, macro-prudential policy and its measures, changes in the Responsible Lending Regulations, strengthening the resilience of borrowers to adverse interest changes, were prepared and published.

Having recently investigated the unit-linked life insurance market in several directions, in 2015 the Bank of Lithuania put forward proposals for a public discussion on how to deal with fundamental problems within this fast developing market. With regard to the communication activities, much attention was paid to the credit union sector, emphasising the need for formation of sustainable capital, as well as to the instant consumer credit market, sending a clear message that irresponsible lending was never and will never be tolerated. Issues important to communication also encompassed the setting of stricter security requirements for online payments and preparation for their implementation. A debate on more effective cash management in the country was also held. An information campaign for the new 20 euro banknote, which was issued into circulation in 25 November 2015, was organised. The new banknote was presented to cash handlers, the media and the public. Various partners (banks, retail chains, etc.) contributed to the provision of information, distributing Bank of Lithuania and ECB publications, showing the ECB video, broadcasting the radio clip.

Public presentations of seven new euro coins took place in 2015. On 29 January 2015, the first Lithuanian collector coin — a 50 euro gold coin — was presented in Vilnius, in the Treasury Hall of the Palace of the Grand Dukes of Lithuania. The first silver collector coin was presented to the public on 4 February; the coin is dedicated to Mikołaj Radziwiłł 'the Black'. Presentations of 20 and 5 euro collector coins, dedicated to the 25th anniversary of Lithuania's independence, were held in Vilnius on 10 March. A similar event was organised for the 20 euro coin dedicated to the Struve Geodetic Arc (UNESCO World Heritage) at one of its points near Vilnius, not far from the Geographical Centre of Europe, on 11 May. On 11 June, a 5 euro coin dedicated to literature was presented at the Writer's Club in Vilnius. A 20 euro coin dedicated to the 250th anniversary of the birth of Mykolas Kleopas Oginskis was presented to the people of Plungė on 12 September. The 2 euro coin dedicated to the Lithuanian language was presented at the Writers' Hall of Vilnius University on 14 December. New communication means for presenting the coins were used — the news portal *Delfi* announced a competition in relation to the commemorative coin dedicated to the Lithuanian language, three competitions related to the 2 euro commemorative coin dedicated to celebrate 30 years of the EU flag were held on Facebook.

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

The website of the Bank of Lithuania (www.lb.lt) provides the following information in Lithuanian and English: resolutions of the Board and decisions of the Supervision Service, financial statistics, financial stability reviews, reviews of the activities of financial institutions, information on payments, operating results of pensions funds, reports on

various surveys, and information on the investigation of disputes between financial market participants and their customers. In addition, the website presents the latest Lithuanian economic reviews and macroeconomic forecasts; they are also presented in press conferences.

The Bank of Lithuania produces and disseminates publications about its activities and the most important economic phenomena. Periodic publications provide monetary and banking statistics, the balance of payments and financial statistics, reviews of the operation of the supervised financial market participants, as well as other information.

Table 7. Publications of the Bank of Lithuania in 2015

Report on the Implementation of the Primary Objective of the Bank of Lithuania, Performance of its Functions and the Situation in the Banking System (to be presented to the Seimas of the Republic of Lithuania in April and October)
Annual Report of the Bank of Lithuania 2014 (in Lithuanian and English)
Monthly Bulletin of the Bank of Lithuania (No 1–12, in Lithuanian and English)
Annual Financial Statements of the Bank of Lithuania 2014 (in Lithuanian and English)
Financial Stability Review 2015 (in Lithuanian and English)
Lithuanian Economic Review (semi-annual; in Lithuanian and English)
Monetary Studies (an academic journal); No 1 , 2015
Working Paper Series publications (in English)
Occasional Paper Series publications (in Lithuanian and English)
Banking Activity Review (quarterly and annual; in Lithuanian and English)
Review of the Activities of Credit Unions and the Central Credit Union of Lithuania (quarterly; in Lithuanian and English)
Review of the Activities of Payment Institutions (quarterly; in Lithuanian; in English for Q4 only)
Review of the Activities of Electronic Money Institutions (quarterly; in Lithuanian; in English for Q4 only)
Review of Lithuania's Insurance Market (quarterly; in Lithuanian and English)
Review of Lithuania's 2nd and 3rd Pillar Pension Funds and of the Market of Collective Investment Undertakings (quarterly; in Lithuanian; in English for Q4 only)
Review of the Operational Results of Issuers (quarterly and annual; in Lithuanian)
Review of the Consumer Credit Market (annual; in Lithuanian)
Review of the Activities of Insurance Brokerage Firms (quarterly; in Lithuanian; in English for Q4 only)
Review of the Activities of Financial Brokerage Firms (quarterly; in Lithuanian; in English for Q4 only)
Review of the Activity of Management Companies (quarterly; in Lithuanian; in English for Q4 only)
Survey of the Financial Situation of Households with Loans (in Lithuanian and English)
Survey of Risks to Lithuania's Financial System (in Lithuanian and English)
Bank Lending Survey (in Lithuanian and English)
Review of the Survey of Enterprises on Business Financing (in Lithuanian and English)
Review of the Survey of the Financial Behaviour of Households (in Lithuanian)
Review of the Survey of the Habits of Lithuanian Residents in Using Payment Services (in Lithuanian)
Payments Market Review (in Lithuanian and English)
Countercyclical Capital Buffers: Background Material for Decision (in Lithuanian and English)
Booklets of collector (commemorative) coins to present the collector (commemorative) coins issued into circulation in 2015 (in Lithuanian and English)
Catalogue Lithuanian Collector Coins 1993-2015 (in Lithuanian and English)
Single Euro Payments Area (in Lithuanian).
Buildings of the Bank of Lithuania in Kaunas (in Lithuanian and English)
Coins of the Grand Duchy of Lithuania at the Money Museum of the Bank of Lithuania (in Lithuanian)

As a part of the ESCB, the Bank of Lithuania closely cooperates with the ECB experts; together they prepare the following ECB publications in Lithuanian: the European Central Bank Annual Report 2014, the European Central Bank Monthly Bulletin (four complete

publications, four — with introductory overviews), and the Annual Report of the European Systemic Risk Board 2014. Electronic versions of all the before-mentioned publications are available on the website of the Bank of Lithuania.

Global and national history of money and information about the central bank of the Republic of Lithuania is presented to the visitors of the Money Museum of the Bank of Lithuania in Vilnius. Almost 45 thousand visitors came to the Money Museum in 2015. Information about the Money Museum is provided on its Facebook account and other websites.

On 3 October 2015, residents of Lithuania had a rare opportunity to explore the inter-war Lithuanian architectural and cultural monument — the building of the Bank of Lithuania in Kaunas, built specifically for the purposes of the central bank. More than 5,000 people attended the open door event; they were informed in detail on the activities of the Bank of Lithuania.

An unveiling ceremony of a monument dedicated to Vladas Jurgutis, first Governor of the Bank of Lithuania, held in the centre of Vilnius, near the building of the Bank of Lithuania on 18 December 2015, received much media attention. The monument was cast from a copper/zinc/nickel alloy of melted-down 50 litas cent coins; approximately 75 thousand coins were used for its creation. This is the first and only bust in Lithuania that is made from melted-down coins.

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

Seeking to improve the financial market supervision and enhance the staff's capability to properly balance public and private interests, the Bank of Lithuania ordered a survey of market participants in 2015. The survey was conducted by the public opinion company *Baltijos tyrimai*. For the first time, all banks under supervision, major foreign bank branches, all credit unions, all insurers engaged in insurance activity and consumer credit companies, whose activities were inspected during the reference period, were invited to take part in the survey. Nine out of ten financial market participants indicated that the activities of the Bank of Lithuania are transparent and the Bank of Lithuania's legal acts, defining the supervision of market participants, are clear and easy to understand.[26]

[26] *See* http://www.lb.lt/finansu_rinkos_dalyviu_apklausa_apie_lietuvos_banko_skaidruma.

IV. THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA 2015

pwc

Independent Auditor's Report

To the Seimas of the Republic of Lithuania

We have audited the accompanying financial statements of Bank of Lithuania (the Bank) set out on pages 4 to 33, which comprise the balance sheet as of 31 December 2015 and the profit and loss account, for the year then ended, and explanatory notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Guideline of the European Central Bank on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20, as amended) adopted by the Governing Council of the European Central Bank, the Law on the Bank of Lithuania and the Accounting Policy approved by the Board of the Bank of Lithuania. Management is also responsible 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.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank of Lithuania as of 31 December 2015, and its financial performance for the year then ended in accordance with Guideline of the European Central Bank on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20, as amended) adopted by the Governing Council of the European Central Bank, the Law on the Bank of Lithuania and the Accounting Policy approved by the Board of the Bank of Lithuania.

On behalf of PricewaterhouseCoopers UAB

Rimvydas Jogėla
Partner
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
31 March 2016

PricewaterhouseCoopers UAB, J. Jasinskio g. 16B, LT-03163 Vilnius, Lithuania
T: +370 (5) 239 2300, F:+370 (5) 239 2301, Email: vilnius@lt.pwc.com, www.pwc.com/lt

PricewaterhouseCoopers UAB, company code 111473315, is a private company registered with the Lithuanian Register of Legal Entities.

BALANCE SHEET OF THE BANK OF LITHUANIA

EUR thousands

	Notes	31 December 2015	1 January 2015
ASSETS			
1. Gold and gold receivables	**1**	**182,309**	**184,860**
2. Claims on non-euro area residents denominated in foreign currency		**2,379,184**	**3,202,509**
Receivables from the IMF	**2**	174,803	163,764
Balances with banks and security investments, external loans and other external assets	**3**	2,204,380	3,038,745
3. Claims on euro area residents denominated in foreign currency	**4**	**115,603**	**84,797**
4. Claims on non-euro area residents denominated in euro	**5**	**317,066**	**1,492,902**
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	**6**	**345,700**	**–**
Main refinancing operations		–	–
Longer-term refinancing operations		345,700	–
Fine-tuning reverse operations		–	–
Structural reverse operations		–	–
Marginal lending facility		–	–
Credits related to margin calls		–	–
6. Other claims on euro area credit institutions denominated in euro	**7**	**21**	**651,220**
7. Securities of euro area residents denominated in euro		**3,423,859**	**2,895,976**
Securities held for monetary policy purposes	**8**	2,508,058	–
Other securities	**9**	915,801	2,895,976
8. General government debt denominated in euro		**–**	**–**
9. Intra-Eurosystem claims		**4,489,542**	**5,049,991**
Participating interest in the ECB	**10**	207,183	44,729
Claims equivalent to the transfer of foreign reserves	**11**	239,454	–
Net claims related to the allocation of euro banknotes within the Eurosystem	**12**	3,751,032	4,937,282
Other claims within the Eurosystem (net)	**13**	291,872	67,980
10. Items in course of settlement		**–**	**–**
11. Other assets		**77,450**	**141,408**
Tangible and intangible fixed assets	**14**	30,437	30,338
Other financial assets	**15**	3,355	3,355
Off-balance-sheet instruments revaluation differences	**16**	6,059	72,293
Accruals and prepaid expenses	**17**	36,714	29,571
Sundry	**18**	885	5,852
Total assets		**11,330,734**	**13,703,664**

	Notes	31 December 2015	1 January 2015
LIABILITIES			
1. Banknotes in circulation	**19**	**5,960,269**	**7,105,222**
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**20**	**2,841,656**	**2,857,841**
Current accounts (covering the minimum reserve system)		2,841,656	2,857,841
Deposit facility		–	–
Fixed-term deposits		–	–
Fine-tuning reverse operations		–	–
Deposits related to margin calls		–	–
3. Other liabilities to euro area credit institutions denominated in euro	**21**	**25,778**	**1,437,202**
4. Debt certificates issued		**–**	**–**
5. Liabilities to other euro area residents denominated in euro	**22**	**1,272,627**	**1,254,881**
General government		1,272,620	1,254,881
Other liabilities		7	–
6. Liabilities to non-euro area residents denominated in euro	**23**	**806**	**48,194**
7. Liabilities to euro area residents denominated in foreign currency	**24**	**191,972**	**5,563**
8. Liabilities to non-euro area residents denominated in foreign currency	**25**	**52,052**	**–**
9. Counterpart of special drawing rights allocated by the IMF	**26**	**174,677**	**163,643**
10. Intra-Eurosystem liabilities		**–**	**43,052**
Net liabilities related to the allocation of euro banknotes within the Eurosystem		–	–
Other liabilities within the Eurosystem (net)	**27**	–	43,052
11. Items in course of settlement	**28**	**2,832**	**28,434**
12. Other liabilities		**125,666**	**135,392**
Off-balance-sheet instruments revaluation differences	**16**	30,988	11,402
Accruals and income collected in advance	**29**	1,011	1,208
Sundry	**30**	93,667	122,782
13. Provisions	**31**	**49,690**	**33,893**
14. Revaluation accounts	**32**	**193,369**	**165,250**
15. Capital	**33**	**417,561**	**404,761**
Authorised capital		60,000	57,924
Reserve capital		357,561	346,837
16. Profit for the year	**43**	**21,779**	**20,337**
Total liabilities		**11,330,734**	**13,703,664**

PROFIT AND LOSS ACCOUNT OF THE BANK OF LITHUANIA

EUR thousands

	Notes	2015	2014
Interest income		23,428	29,511
Interest expense		(2,503)	(837)
1. Net interest income	**34**	**20,926**	**28,674**
Realised gains (losses) arising from financial operations		(891)	19,425
Write-downs on financial assets and positions		(16,307)	(642)
Transfer to provisions for risks		(15,800)	(17,956)
2. Net result of financial operations, write-downs and risk provisions	**35**	**(32,998)**	**826**
Fees and commissions income		5,395	6,422
Fees and commissions expense		(723)	(789)
3. Net income from fees and commissions	**36**	**4,672**	**5,633**
4. Income from equity shares and participating interests	**37**	**10,382**	**9,255**
5. Net result of pooling of monetary income	**38**	**46,963**	**–**
6. Other income	**39**	**7,176**	**14,385**
TOTAL NET INCOME		**57,121**	**58,773**
7. Staff costs	**40**	**(15,267)**	**(15,129)**
8. Administrative expenses	**41**	**(8,296)**	**(7,873)**
9. Depreciation of tangible and intangible fixed assets	**14**	**(2,786)**	**(2,273)**
10. Banknote production services		**–**	**–**
11. Other expenses	**42**	**(8,992)**	**(13,160)**
PROFIT FOR THE YEAR	**43**	**21,779**	**20,337**

The Annual Financial Statements 2015 of the Bank of Lithuania were approved on 29 March 2016 by Resolution No 03-38 of the Board of the Bank of Lithuania.

Chairman of the Board Vitas Vasiliauskas

Director of the Organization Service
Accounting Department Lina Našlėnienė

EXPLANATORY NOTES

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

The financial accounting of the Bank of Lithuania is managed and the Annual Financial Statements are prepared in accordance with the Guideline of the European Central Bank (hereinafter — ECB) on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2010/20) adopted by the Governing Council of the ECB (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 the decisions and instructions to the contrary by the ECB, the Bank of Lithuania shall follow the principles of the international accounting and financial reporting standards as adopted by the European Union (EU), relevant to the activities and accounts of the Bank of Lithuania.

On 1 January 2015, Lithuania adopted the single currency of the EU — the euro — and became a member of the euro area. Coming into effect on the same date, financial accounting data in litas were translated into euro, the items of the balance sheet were reclassified according to the structure laid down in the Accounting Guideline, operations related to participation in the Eurosystem were booked in the financial accounting, and the initial balance sheet as of 1 January 2015 was prepared. On the basis of this initial balance sheet, the comparative information was prepared. The comparative figures of the Profit and Loss Account of the Bank of Lithuania for 2014 were translated from litas to euro; the structure of this statement remained unchanged. For more information about the conversion, reclassification of the balance sheet items and operations related to participation in the Eurosystem, see Chapter '5. Adoption of the Euro in Lithuania' of the Explanatory Notes.

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 general accounting principles: going concern, accrual, post-balance sheet events.

Qualitative characteristics in drawing up the financial statements of the Bank of Lithuania: 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 securities valued at amortised cost). Results arising from revaluation of marketable debt and equity securities (on a code-by-code basis) and derivatives (on an item-by-item basis) at market prices are accounted for separately.

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

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 the financial item.

Unrealised revaluation gain arising at the end of the financial year from the revaluation of a separate

[1] *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.*

financial item at market price and market rate is presented at revaluation accounts. Unrealised gain, which arose before joining the Eurosystem, is presented separately from the revaluation gain, arising after that date on the liabilities side of the balance sheet as pre-system revaluation gain (see 'Note 32. Revaluation accounts').

The average rate and average price method is used in order to compute the acquisition costs for gold, securities and foreign currency. Such acquisition costs are used for the purpose of calculating the realised and unrealised results.

Income and expense are recognised in the accounting period in which they are earned or incurred and not in the period in which they are received or paid. 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 euro and foreign currency, with which the Bank of Lithuania holds material positions

Foreign currency per euro

Currency	Code	31 December 2015	31 December 2014	Change (%)
Swiss franc	CHF	1.08350	1.20240	–9.9
US dollar	USD	1.08870	1.21410	–10.3
Japanese yen	JPY	131.070	145.230	–9.8
Special drawing rights (SDR)	XDR	0.78567	0.83864	–6.3
Chinese yuan renminbi	CNY	7.06080	7.53580	–6.3
British pound	GBP	0.73395	0.77890	–5.8

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

In the event of the recognition of unrealised revaluation loss on a separate foreign currency at year-end, the average rate of that currency is correspondingly adjusted to the 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 at mid-market prices prevailing on the balance sheet date. Revaluation results of securities related with changes of 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.

The dividends, bought together with equity securities, are included in the acquisition cost of the security. Dividends bought in the period when 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 purchase settlement date to the maturity date or sale settlement date. 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.

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

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

2.5. NON-MARKETABLE EQUITY INSTRUMENTS

Non-marketable equity instruments are long-term investments into equity instruments held for the specific purposes of the Bank of Lithuania in order to participate in the activities of a specific enterprise whose equity instruments are non-marketable and their price is not quoted in the market. They are recorded at acquisition cost.

2.6. RECOGNITION OF INCOME AND EXPENSE

Realised income and expense, related to the 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 year-end.

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 instruments 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.

Reverse repurchase agreements are presented as collateralised loans on the asset side of the balance sheet. The collateral acquired during the transactions period is not reported in the balance sheet and is not revalued.

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

2.8. FOREIGN EXCHANGE TRANSACTIONS

Foreign currency to be received or paid, according to foreign exchange spot, forward and swap transactions, influences a respective foreign currency's position on a trade date and is recorded in off-balance-sheet accounts from the trade date to the settlement date.

The difference in the value at the spot and forward rates of the foreign exchange forward and swap transactions is recognised as interest income or expense and is accrued on a daily basis over the remaining duration of the transaction.

The non-deliverable foreign exchange forwards are recorded at notional amount calculated based on the forward exchange rate in the off-balance-sheet accounts from the trade date to the maturity date. In the Annual Financial Statements, 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 write downs on the balance sheet liabilities accounts. The difference between the forward exchange rate and the spot rate at the settlement date of the transaction, taking into account any accumulated impairment losses, is recognised as realised income or expense.

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 Annual Financial Statements, the value of these transactions is presented at a forward market price.

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

2.10. INTEREST RATE TRANSACTIONS

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

Interest rate swaps are recorded in off-balance-sheet accounts at notional amount from the trade date to the closing or maturity date. In the Annual Financial Statements, 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 write downs on the balance sheet liabilities accounts and is subject to straight-line amortisation till the maturity date of the transaction. Interest income and interest expense is accrued on a daily basis over the remaining duration of the transaction.

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 EUR 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 EUR 2,000. Tangible and intangible fixed assets are recorded in the balance sheet at cost less accumulated depreciation (amortisation). 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 assets.

Depreciation (amortisation) rates of tangible and intangible fixed assets

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

If there are indications that the market value of real estate has declined significantly, then at the end of the financial year the acquisition cost of such assets is reduced by the amount of impairment loss.

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 expense at the time they are incurred.

2.12. BANKNOTES AND COINS IN CIRCULATION

The ECB and the euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.[2] The total value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.[3]

The ECB has been allocated a share of 8 per cent of the total value of euro banknotes in circulation, whereas the remaining 92 per cent has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to each NCB is disclosed in the balance sheet under liability item '1. Banknotes in circulation'.

The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation is presented as remunerated intra-Eurosystem balance.[4]

Seeking to avoid significant fluctuations in the monetary income after new members join the Eurosystem, the 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 cash changeover year and gradually reduced over the following five years. For the Bank of Lithuania, the period for which the above-mentioned adjustments are applicable will terminate on 31 December 2020. 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 coins issued into circulation by the Bank of Lithuania is presented in the balance sheet item '12. Other liabilities'.

The sale price of euro collector's and commemorative coins, which are sold above their nominal value, as well as the sale price of litas coins and sets of litas coins, is recognised as income.

Litas banknotes and coins in circulation are presented at nominal value. When assessed that the probability of return is negligibly low, the nominal value of such litas banknotes and coins is derecognised from the balance sheet. Provisions shall be established for the assessed value of probable return. The difference between the nominal value derecognised and provisions made shall be 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.

2.13. PROVISIONS FOR COVERING FINANCIAL RISKS AND LIABILITIES

The provisions for expected foreign exchange rate, interest rate and credit risks (hereinafter — provisions for risks) are formed by the Board of the Bank of Lithuania, seeking the Bank of Lithuania to have sufficient financial resources to offset risk arising from the management of financial assets and safeguard the Bank of Lithuania's capital and the real value of financial assets. These provisions are formed according to the rules established by the Board of the Bank of Lithuania. Provisions for risks may be used for the coverage of all or part of the net expenses related to financial assets' operations (realised result, unrealised revaluation loss and impairment of the financial assets).

Provisions for termination benefits, payable for staff who will qualify for the state social insurance pension while working at the Bank of Lithuania, are assessed using actuary valuations. Their value is determined as termination benefits, earned by the employee upon retirement, which is calculated based on the employee change dynamics and wage growth preconditions, discounted at 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 for the staff and members of the Board or provisions related to exchange of litas banknotes and coins, are not discounted due to the relatively short period from the creation of these provisions to their use.

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

---

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

[3] *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.*

[4] *ECB Decision of 25 November 2010 on the allocation of monetary income of the national central banks of Member States whose currency is the euro (recast) (ECB/2010/23), OJ L 35, 9.2.2011, p. 17, as amended.*

3. FINANCIAL RISK AND ITS MANAGEMENT

The main source of the financial risk of the Bank of Lithuania is the financial assets of the Bank of Lithuania, in managing which the Bank of Lithuania is exposed to market, credit, liquidity and settlement risks.

The value-at-risk is the basic tool for the management of market risk (interest rate, market price, and exchange rate) which cannot exceed the risk budget for the financial assets investments (excluding monetary policy operations), i.e. the maximum acceptable amount of EUR 100 million negative return per annum with 95 per cent probability. The application of the risk budget facilitates the 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. A model used for the calculation of value-at-risk considers the past patterns and forecasted macroeconomic environment in the financial markets. As at 31 December 2015 the risk value amounted to EUR 63 million (on 31 December 2014 — EUR 61 million).

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

For managing the foreign exchange rate risk related to financial assets which do not correspond to liabilities in foreign currencies, the limits for the open currency positions are established alongside the risk budget. Exchange rate risk related to financial assets corresponding to liabilities in foreign currencies is eliminated by investing in the currency of liabilities.

Appropriate investment allocation plays an important role in financial risk management seeking to reduce the concentration of investment. In 2015, the Bank of Lithuania ensured diversification of investments by investing in almost twenty countries and more than fifty issuers' debt securities. The Bank of Lithuania also invests in exchange traded funds (ETFs) linked to well-diversified equity and debt securities market indexes.

For managing the foreign exchange rate and interest rate risks, the Bank of Lithuania widely uses financial derivatives. All financial derivatives are included in the measurement of the Bank of Lithuania's financial assets investment market and credit risk.

Credit risk is managed by dealing only with investment grade financial institutions, investing only in investment grade financial instruments and diversifying investment by establishing the limits of the liabilities to the Bank of Lithuania by issuers, counterparties and their groups.

Liquidity risk is managed by combining the duration of liabilities and corresponding investments.

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

4. FINANCIAL ACCOUNTING PRINCIPLES ON OPERATIONS RELATED TO PARTICIPATION IN THE EUROSYSTEM

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

4.1. PARTICIPATING INTEREST IN ECB CAPITAL

Shares of the NCBs in the subscribed capital of the ECB depend on the established key for ECB capital subscription, which is adjusted in accordance with the provisions of the Statute of the European System of Central Banks (hereinafter — ESCB) and of the ECB. It is adjusted every five years and every time when a new Member State joins the EU on the basis of population and GDP data provided by the European Commission.

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

Central bank	Capital key as at 31 December 2015, %	Paid-up capital as at 31 December 2015, EUR	Capital key as at 31 December 2014, %	Paid-up capital as at 31 December 2014, EUR
Nationale Bank van België / Banque Nationale de Belgique	2.4778	268,222,025	2.4778	268,222,025
Deutsche Bundesbank	17.9973	1,948,208,997	17.9973	1,948,208,997
Eesti Pank	0.1928	20,870,614	0.1928	20,870,614

continued

Central bank	Capital key as at 31 December 2015, %	Paid-up capital as at 31 December 2015, EUR	Capital key as at 31 December 2014, %	Paid-up capital as at 31 December 2014, EUR
Banc Ceannais na hÉireann / Central Bank of Ireland	1.1607	125,645,857	1.1607	125,645,857
Bank of Greece	2.0332	220,094,044	2.0332	220,094,044
Banco de España	8.8409	957,028,050	8.8409	957,028,050
Banque de France	14.1792	1,534,899,402	14.1792	1,534,899,402
Banca d'Italia	12.3108	1,332,644,970	12.3108	1,332,644,970
Central Bank of Cyprus	0.1513	16,378,236	0.1513	16,378,236
Latvijas Banka	0.2821	30,537,345	0.2821	30,537,345
Lietuvos bankas	0.4132	44,728,929	–	–
Banque centrale du Luxembourg	0.2030	21,974,764	0.2030	21,974,764
Bank Čentrali ta'Malta / Central Bank of Malta	0.0648	7,014,605	0.0648	7,014,605
De Nederlandsche Bank	4.0035	433,379,158	4.0035	433,379,158
Oesterreichische Nationalbank	1.9631	212,505,714	1.9631	212,505,714
Banco de Portugal	1.7434	188,723,173	1.7434	188,723,173
Banka Slovenije	0.3455	37,400,399	0.3455	37,400,399
Národná banka Slovenska	0.7725	83,623,180	0.7725	83,623,180
Suomen Pankki – Finlands Bank	1.2564	136,005,389	1.2564	136,005,389
Total (euro area central banks)	**70.3915**	**7,619,884,851**	**69.9783**	**7,575,155,922**
Българска народна банка (Bulgarian national bank)	0.8590	3,487,005	0.8590	3,487,005
Česká národní banka	1.6075	6,525,450	1.6075	6,525,450
Danmarks Nationalbank	1.4873	6,037,512	1.4873	6,037,512
Hrvatska narodna banka	0.6023	2,444,963	0.6023	2,444,963
Lietuvos bankas	–	–	0.4132	1,677,335
Magyar Nemzeti Bank	1.3798	5,601,129	1.3798	5,601,129
Narodowy Bank Polski	5.1230	20,796,192	5.1230	20,796,192
Banca Națională a României	2.6024	10,564,124	2.6024	10,564,124
Sveriges Riksbank	2.2729	9,226,559	2.2729	9,226,559
Bank of England	13.6743	55,509,148	13.6743	55,509,148
Total (non-euro area central banks)	**29.6085**	**120,192,083**	**30.0217**	**121,869,418**
Total	**100.0000**	**7,740,076,935**	**100.0000**	**7,697,025,340**

The contribution of the Bank of Lithuania to ECB capital is presented in the Explanatory Notes Chapter '5. Adoption of the euro in Lithuania'.

4.2. FOREIGN RESERVES TRANSFERRED TO THE ECB

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

Liabilities to the euro area NCBs, which arose after the transfer of foreign reserve assets to the ECB by the Bank of Lithuania, comprised the amount of EUR 40,792,608 thousand. 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 is calculated daily, at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component.

4.3. LENDING TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

Main refinancing operations. Main refinancing operations are executed through liquidity providing reverse transactions with a weekly frequency and 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 2015 operations were conducted with maturities equal to the reserve maintenance period and with maturities between 3 and 48 months.

Fine-tuning reverse operations. Fine-tuning reverse operations 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.

In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. With effect from 1 January 2014, the share of the Bank of Lithuania in the capital of the ECB is 0.4132 per cent. In 2015, no losses from monetary policy operations were materialised by the Bank of Lithuania and other NCBs.

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 2015, the securities held by the ECB and national central banks amounted to EUR 803,135 million, acquired within the scope of the three covered bond purchase programmes, the Securities Markets Programme, the asset-backed securities purchase programme and the public sector asset purchase programme.

Purchases under the first and second covered bond purchase programmes and the Securities Markets Programme were completed by the end of 2012. In 2015, the ECB and NCBs continued the purchase of securities under the third covered bond purchase programme and the asset-backed securities purchase programme.

The public sector asset purchase programme was started in 2015 when the Governing Council of the ECB decided that asset purchases should be expanded. This programme aims to further ease monetary and financial conditions, including those relevant to borrowing conditions of euro area and non-financial corporations and households. Under this programme, the ECB and NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central governments, agencies and European institutions (securities holdings of the Bank of Lithuania is presented in 'Note 8. Securities held for monetary policy purposes').

Securities purchased under all six programmes are valued on an amortised cost basis subject to impairment. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end.

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

Deposit facility. Deposit facility is a liquidity absorbing standing facility provided by the Eurosystem, which counterparties can use to make overnight deposits with national central banks 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[5] 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 'Other claims within the Eurosystem (net)' or 'Other liabilities within the Eurosystem (net)' (see Note 13).

4.7. ALLOCATION OF MONETARY INCOME

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

The amount of the NCBs' monetary income is determined by measuring actual income, which it derives 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 reserve assets 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 liabilities, the maturity of which is one year or longer; a limited amount of each NCBs' gold holdings in proportion to each NCBs' capital key share. Gold is considered to generate no income. Securities held for monetary policy purposes under both Decision ECB/2009/16 on the implementation of the 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.

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 resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The difference between the NCBs' earmarkable assets value and its liability base value shall be offset by applying to the difference the latest available marginal rate for the Eurosystem's 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 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 38.

4.8. DISTRIBUTION OF THE ECB PROFIT

The net profit of the ECB is distributed pursuant to Article 33 of the Statute of the ESCB and of the ECB. The Governing Council of the ECB may decide to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The remaining net profit is distributed to the shareholders of the ECB in proportion to the subscribed capital key.

Unless otherwise decided by the Governing Council, the ECB distributes seigniorage income, which arises from the 8 per cent share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under the securities programmes, by means of an interim distribution of profit in January of the following year.[6] The result from ECB interim profit

[5] *The Trans-European Automated Real-time Gross settlement Express Transfer system.*

[6] *Decision (EU) 2015/298 of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ J 53, 25.2.2015, p. 24.*

distribution is recorded by the Bank of Lithuania as income of the financial year when this income was accrued, not received.

After approval by the Governing Council of the ECB annual accounts, the ECB distributes the remaining part of the ECB profit (after interim profit distribution and transfer to the provision). The result from the ECB final profit distribution is recorded by the Bank of Lithuania 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 shares and participating interests' (see Note 37).

5. ADOPTION OF THE EURO IN LITHUANIA

On 1 January 2015, the Republic of Lithuania adopted the single currency of the EU — the euro — and became a member of the euro area. The Bank of Lithuania became a part of the Eurosystem and contributes to seeking strategic goals and the implementation of the key tasks of the ESCB.

5.1. TRANSLATION OF THE BANK OF LITHUANIA'S BALANCES DENOMINATED IN LITAS, TO EURO

Upon Lithuania's adoption of the single currency of the EU — the euro — on 1 January 2015, the data of the financial accounting of the Bank of Lithuania denominated in litas, were translated to euro, applying the irrevocably fixed conversion rate of litas to euro: EUR 1 = LTL 3.45280. Negligible rounding differences were recognised as income.

5.2. RECLASSIFICATION OF THE ITEMS OF THE BALANCE SHEET OF THE BANK OF LITHUANIA

Upon Lithuania joining the Eurosystem and adopting the euro on 1 January 2015, the balance sheet of the Bank of Lithuania was reclassified under the structure provided in Accounting Guideline, where items of the balance sheet are allocated by residency (euro area residents and non-euro area residents), currency denomination (denominated in euro or in foreign currency); items, related to the monetary policy operations, are also differentiated.

In the process of reclassification, a) the claims of the Bank of Lithuania to the residents of Lithuania and their liabilities to the Bank of Lithuania were reclassified as the claims to euro area residents and euro area resident liabilities; b) the assets and liabilities items of the Bank of Lithuania denominated in euro, which until 1 January 2015 had been treated as foreign reserves or liabilities denominated in foreign currency, were reclassified to respective balance sheet items denominated in euro; c) the assets and liabilities items of the Bank of Lithuania denominated in litas, were reclassified to respective balance sheet items denominated in euro; d) the nominal value of the litas coins in circulation were transferred to the balance sheet item '12. Other liabilities' (see the Accounting Policy section '2.12. Banknotes and Coins in Circulation').

5.3. OPERATIONS RELATED TO PARTICIPATION IN THE EUROSYSTEM

On 1 January 2015, the Bank of Lithuania's gold, assets and liabilities denominated in foreign currency, were revalued by applying market rates, which were published by the ECB on 31 December 2014. Unrealised revaluation gains (of gold, securities and financial items denominated in foreign currency, excluding the revaluation of derivatives), which arose on 1 January 2015 — EUR 164,456 thousand — were transferred to the pre-system revaluation reserve, the use of which is subject to a decision taken by the Board of the Bank of Lithuania. In 2015, the pre-system revaluation reserve was not used.

On 1 January 2015, the share of the Bank of Lithuania in the ECB's subscribed capital was 0.4132 per cent; it comprises EUR 44,729 thousand of the subscribed capital of the ECB. The Bank of Lithuania had been paid 3.75 per cent of the subscribed capital of the ECB until joining the Eurosystem. Upon Lithuania joining the euro area, on 2 January 2015 the Bank of Lithuania additionally paid EUR 43,052 thousand to the ECB capital.

Contribution of the Bank of Lithuania to the ECB capital

	Share of subscribed ECB capital, EUR	Paid up ECB's capital share	
		Per cent	EUR
1 January 2014	44,728,929	3.75	1,677,335
1 January 2015	44,728,929	100	44,728,929

Implementing the requirements of frontloading of euro banknotes and coins the Bank of Lithuania from 1 November 2014 to 31 December 2014 delivered to the commercial banks euro banknotes with the nominal value of EUR 555,020 thousand and euro coins with the nominal value EUR 65,780 thousand, which, on 1 January 2015, were shown as euro in circulation issued by the Bank of Lithuania (see Accounting Policy section '2.12. Banknotes and coins in circulation'). From 1 January, the claims of the Bank of Lithuania, related to the frontloading of euro banknotes and coins, were disclosed as non-remunerated loans to commercial banks in balance sheet item '6. Other claims to euro area credit institutions denominated in euro'. In addition, during the same time EUR 1,028 thousand of euro coins in starter kits were sold at the cash offices of the Bank of Lithuania.

Also, on 1 January 2015, the nominal value of euro banknotes allocated to the Bank of Lithuania, under the capital share mechanism (EUR 4,937,282 thousand), was included in the balance sheet item '1. Banknotes in circulation' and disclosed as intra-Eurosystem claim as well (see the Accounting Policy section '2.12. Banknotes and coins in circulation').

Translation and reclassification of comparative information of the Bank of Lithuania and the impact of operations, related to participation in the Eurosystem

EUR thousands

	31 December 2014	Adjustment due the reclassification	Adjustment due the operations related to the participation in the Eurosystem	1 January 2015
ASSETS				
Gold and gold receivables	**184,521**	**–**	**339**	**184,860**
Claims on non-euro area residents denominated in foreign currency	**7,713,492**	**(4,516,438)**[7]	**5,455**	**3,202,509**
Receivables from the IMF	163,576	–	188	163,764
Balances with banks and security investments, external loans and other external assets	7,549,916	(4,516,438)	5,268	3,038,745
Claims on euro area residents denominated in foreign currency	**50,157**	**34,445**	**195**	**84,797**
Claims on non-euro area residents denominated in euro	**–**	**1,492,902**	**–**	**1,492,902**
Other claims on euro area credit institutions denominated in euro	**–**	**30,421**	**620,800**	**651,220**
Securities of euro area residents denominated in euro	**5,286**	**2,890,690**	**–**	**2,895,976**
Intra-Eurosystem claims	**–**	**69,657**	**4,980,334**	**5,049,991**
Participating interest in ECB	–	1,677	43,052	44,729
Net claims related to the allocation of euro banknotes within the Eurosystem	–	–	4,937,282	4,937,282
Other claims within the Eurosystem (net)	–	67,980	–	67,980
Other assets	**147,634**	**(1,677)**	**(4,549)**	**141,408**
TOTAL ASSETS	**8,101,091**	**–**	**5,602,574**	**13,703,664**
LIABILITIES				
Banknotes in circulation	**1,668,749**	**(55,830)**	**5,492,302**	**7,105,222**
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	**4,162,161**	**(1,304,320)**	**–**	**2,857,841**
Other liabilities to euro area credit institutions denominated in euro	**–**	**1,437,202**	**–**	**1,437,202**
Liabilities to other euro area residents denominated in euro	**259,039**	**995,841**	**–**	**1,254,881**

[7] *Foreign reserves held with non-Lithuanian residency counterparties denominated in euro on 1 January 2015 were reclassified to balance sheet items denominated in euro (according to the residency of counterparties in the euro area or non-euro area).*

continued

	31 December 2014	Adjustment due the reclassification	Adjustment due the operations related to the participation in the Eurosystem	1 January 2015
Liabilities to non-euro area residents denominated in euro	**33,775**	**14,420**	**–**	**48,194**
Liabilities to euro area residents denominated in foreign currency	**1,106,064**	**(1,100,523)**	**22**	**5,563**
Liabilities to non-euro area residents denominated in foreign currency	**42,620**	**(42,620)**	**–**	**–**
Counterpart of special drawing rights allocated by the IMF	**163,456**	**–**	**188**	**163,643**
Intra-Eurosystem liabilities	**–**	**–**	**43,052**	**43,052**
Other liabilities within the Eurosystem (net)	–	–	43,052	43,052
Items in course of settlement	**28,433**	**–**	**0**	**28,434**
Other liabilities	**13,867**	**55,829**	**65,695**	**135,392**
Provisions	**33,893**	**–**	**–**	**33,893**
Revaluation accounts	**163,934**	**–**	**1,315**	**165,250**
Capital and reserves	**404,761**	**–**	**–**	**404,761**
Profit for the year	**20,337**	**–**	**–**	**20,337**
TOTAL LIABILITIES	**8,101,091**	**–**	**5,602,574**	**13,703,664**

Relating to the reclassification, the items of the 2015 balance sheet can no longer be compared to the items of the balance sheet of earlier periods; therefore, the comparative information of the financial results is given on the data of 1 January 2015.

6. NOTES ON THE BALANCE SHEET

Note 1. Gold and gold receivables

	31 December 2015	1 January 2015
Gold holdings in:		
Troy ounces	187,324	187,150
Kilograms	5,826	5,821
Price of one Troy ounce, EUR	973.225	987.769
Value of gold, EUR thousands	**182,309**	**184,860**

Gold investment

Troy ounces

	31 December 2015	1 January 2015
Fixed-term deposits	77,458	78,195
Non-invested reserves	0	66,296
Swaps	109,866	42,658
Total	**187,324**	**187,150**

The gold held by the Bank of Lithuania as at 31 December 2015 was invested into fixed-term deposits and swaps. The unrealised revaluation losses of EUR 2,742 thousand, arising due to the revaluation of gold holdings at market price on 31 December 2015, are disclosed in Note 35 on the Profit and Loss Account 'Net result of financial operations, write-downs and risk provisions'.

Note 2. Receivables from the IMF

EUR thousands

	31 December 2015	1 January 2015
Balance in Special Drawing Rights account with the IMF	174,759	163,723
Reserve tranche position in the IMF	44	41
Total	**174,803**	**163,764**

The major part of the SDR balance in the SDR account with the IMF, managed by the Republic of Lithuania, is comprised of SDR 137,239 thousand (EUR 174,677 thousand), allocated by the IMF in 2009. Their counterpart 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 SDR account with the IMF and pays interest on SDR allocated by the IMF. The interest payable and receivable on SDR funds practically coincide. The increase in the euro equivalent value of the SDR balance in the SDR account with the IMF was mainly due to the depreciation of the euro against the SDR in 2015.

Reserve tranche position in the IMF

SDR thousands

	31 December 2015	1 January 2015
Lithuania's quota in the IMF (total value)	183,900	183,900
Promissory notes of the government of the Republic of Lithuania	(183,347)	(183,347)
Cash funds in the IMF account with the Bank of Lithuania	(519)	(519)
Reserve tranche position in the IMF	**34**	**34**

The reserve tranche position in the IMF is the difference between (a) Lithuania's quota in the IMF, and (b) non-interest-bearing promissory notes issued for the benefit of the IMF by the government of the Republic of Lithuania and balance in the IMF account with the Bank of Lithuania for financial operations with the IMF. Lithuania's quota in the IMF belongs to the Republic of Lithuania and reflects its voting power within the IMF, as well as determines the financial commitments of Lithuania to the IMF and how much it could borrow from the Fund. 99.75 per cent of Lithuania's quota was paid in non-interest-bearing promissory notes of the Republic of Lithuania denominated in euro.

The Bank of Lithuania performs the function of depository of the IMF funds.

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

	JPY	USD	CNY	CZK	GBP	Other	Total
31/12/2015							
Balances in current accounts	832,516	1,313	538	914,191	562	349	**1,749,468**
Debt securities	87,778	275,690	90,647	–	–	–	**454,115**
Reverse repurchase agreements	–	797	–	–	–	–	**797**
Total	**920,294**	**277,800**	**91,185**	**914,191**	**562**	**349**	**2,204,380**
01/01/2015							
Balances in current accounts	206,217	3,786	47	596,591	684	643,233	**1,450,558**
Debt securities	–	81,673	81,774	–	5,372	–	**168,819**
Reverse repurchase agreements	1,411,461	7,907	–	–	–	–	**1,419,368**
Total	**1,617,678**	**93,367**	**81,821**	**596,591**	**6,055**	**643,233**	**3,038,745**

In managing its investments, the Bank of Lithuania aims to reduce currency exposure; therefore, the majority of its foreign currency investments are hedged against the negative impact of changes

in currency rates using derivatives. Following the increase in the price of such transactions, in 2015 foreign currency investments became less attractive.

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 2015	1 January 2015
Non-euro area EU Member States	953,645	609,248
Japan	922,988	1,416,067
USA	194,023	38,365
China	91,188	81,824
Korea	28,820	27,784
International financial institutions	13,423	223,296
Switzerland	292	642,161
Total	**2,204,380**	**3,038,745**

Note 4. Claims on euro area residents denominated in foreign currency

EUR thousands

	USD	CHF	GBP	Other	Total
31/12/2015					
Balances in current accounts	597	1	–	1	**598**
Debt securities	103,242	11,764	–	–	**115,006**
Total	**103,838**	**11,765**	**–**	**1**	**115,603**
01/01/2015					
Balances in current accounts	8	4	–	40	**51**
Debt securities	74,444	–	10,302	–	**84,746**
Total	**74,452**	**4**	**10,302**	**40**	**84,797**

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 and investments in securities of non-euro area residents denominated in euro.

EUR thousands

	31 December 2015	1 January 2015
Balances in current accounts	2,661	1,045,230
Debt securities	314,405	447,672
Total	**317,066**	**1,492,902**

Breakdown of claims on non-euro area residents denominated in euro by the economic area of residence of the issuer and counterparty

EUR thousands

	31 December 2015	1 January 2015
Non-euro area EU Member States	251,546	302,478
International financial institutions	31,144	1,091,212
Norway	20,896	59,249
Other countries	13,480	39,963
Total	**317,066**	**1,492,902**

On 31 December 2015, compared to 1 January 2015, the level of euro-denominated investments (excluding monetary policy instruments) decreased due to low and continuously decreasing return on secure and most liquid investments in euro area, which was related to the continuing consumption and spending stimulations policy by the Eurosystem.

Note 6. Lending to euro area credit institutions related to monetary policy operations denominated in euro

EUR thousands

	31 December 2015	Conducted in 2015	1 January 2015
Main refinancing operations	–	107,500	–
Longer-term refinancing operations	345,700	363,700	–
Marginal lending facility	–	54,046	–
Total	**345,700**	**525,246**	**–**

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

Note 7. Other claims on euro area credit institutions denominated in euro

This item relates to claims on credit institutions which do not relate to monetary policy operations, consisting of balances with banks and loans to the banks. As at 1 January 2015, this item included loans to the commercial banks of Lithuania arising from the frontloading of euro banknotes and coins.

EUR thousands

	31 December 2015	1 January 2015
Balances in current accounts	21	30,421
Claims related to frontloaded banknotes and coins	–	620,800
Total	**21**	**651,220**

Note 8. Securities held for monetary policy purposes

This item consists of securities acquired by the Bank of Lithuania within the scope of the public sector purchase programme[8] (see Explanatory Notes section 4.4).

EUR thousands

	31 December 2015		1 January 2015	
	Amortised cost	Market value	Amortised cost	Market value
Public sector purchase programme	2,508,058	2,511,218	–	–
The Republic of Lithuania government securities	841,172	844,783	–	–
Supranational securities	1,666,886	1,666,435	–	–
Total	**2,508,058**	**2,511,218**	**–**	**–**

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 comparison purposes only.

As a result of an impairment test conducted as at 31 December 2015 on securities purchased under monetary policy programmes, the Governing Council of the ECB decided that all future cash flows on these securities are expected to be received. Consequently, in 2015, no impairment losses were recorded for these securities by the Bank of Lithuania.

Note 9. Other securities

This item presents the Bank of Lithuania's investments in debt securities by euro area residents and investments in marketable equity securities.

EUR thousands

	31 December 2015	1 January 2015
Debt securities, excl. classified as held-to-maturity	430,819	2,332,080
Debt securities, classified as held-to-maturity	12,659	12,484
Marketable equity securities	472,324	551,412
Total	**915,801**	**2,895,976**

[8] *Decision ECB/2015/10 of 4 March 2015 establishing a public sector purchase programme, OJ L 121, 14.5.2015, p. 20.*

As at 31 December 2015, the market value of debt securities, classified as held-to-maturity, amounted to EUR 12,750 thousand (as at 1 January 2015 — EUR 13,180 thousand).

The marketable equity instruments are investments in exchange traded fund units, replicating corporate debt or equity securities indexes. As at the end of 2015, the market value of investments, which replicate the equity securities index, amounted to EUR 122,678 thousand (as at 1 January 2015 — EUR 113,034 thousand).

On 31 December 2015, compared to 1 January 2015, the level of euro-denominated investments (excluding monetary policy instruments) decreased due to low and continuously decreasing return on secure and most liquid investments in euro area, which was related to continued consumption and spending supporting policy by the Eurosystem.

Note 10. Participating interest in the ECB

EUR thousands

	31 December 2015	1 January 2015
Contribution of the Bank of Lithuania to the ECB capital (see Explanatory Notes Chapter '5. Adoption of the euro in Lithuania')	44,729	44,729
Contribution of the Bank of Lithuania to the reserves of the ECB and to provisions, equivalent to reserves	162,454	-
Total	**207,183**	**44,729**

Upon joining the Eurosystem, the Bank of Lithuania, pursuant to Article 48.2 of the Statute of the ESCB and of the ECB, contributed to the reserves of the ECB and to provisions, equivalent to reserves, EUR 162,454 thousand. The contribution calculation is based on balances of general reserve fund of the ECB, of revaluation accounts and of provisions for foreign exchange rate, interest rate, credit and gold price risks. The contribution is calculated by applying the ratio between the number of shares subscribed by the NCB concerned and the number of shares already paid up by the other NCBs for above-defined balances.

On 5 January 2015, the Bank of Lithuania contributed a preliminary sum to the reserves of the ECB and to the provisions, equivalent to reserves — EUR 99,203 thousand. The remaining part of the contribution — EUR 63,251 thousand — was paid up by the Bank of Lithuania on 20 February 2015, after approval of the annual accounts of the ECB by the Governing Council of the ECB, when the final sums of the ECB reserves were approved. Also, pursuant to the ECB decision and procedures, the Bank of Lithuania paid up the remuneration for liability on 1 January 2015, in order to contribute to the reserves of the ECB and to the provisions, equivalent to the reserves.

Note 11. Claims equivalent to the transfer of foreign reserves

Upon joining the Eurosystem, in the beginning of January 2015, the Bank of Lithuania, pursuant to Article 48.1 of the Statute of the ESCB and of the ECB, transferred their share of foreign reserves to the ECB, the value of which amounted to EUR 338,657 thousand. 85 per cent of this contribution was paid up in US dollars, applying the exchange rate published by the ECB on 31 December 2014 — USD 349,607 thousand (equivalent to EUR 287,956 thousand). The remaining 15 per cent of the contribution was paid up by the Bank of Lithuania in gold — 51,328.688 ounces of fine gold (equivalent to EUR 50,701 thousand). The US dollars and gold for the contribution were purchased in the open market.

Claims equivalent to the transfer of foreign reserves of the Bank of Lithuania, shown in this balance sheet item, comprise EUR 239,454 thousand. 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 difference between the value of transferred foreign reserves and the claims, equivalent to the transfer of foreign reserves — EUR 99,203 thousand — was recognised as a contribution to the reserves of the ECB and to provisions, equivalent to reserves (see 'Note 10. Participating interest in the ECB').

Note 12. Net claims related to the allocation of euro banknotes within the Eurosystem

This item presents the claim of the Bank of Lithuania to the Eurosystem, related to the allocation of euro banknotes within the Eurosystem (see the Accounting Policy section '2.12. Banknotes

and coins in circulation' and Note 19). The remuneration of this claim (see Note 34), adjusted by compensatory amount (see the Accounting Policy section '2.12. Banknotes and coins in circulation') is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

Note 13. Other claims within the Eurosystem (net)

EUR thousands

	31 December 2015	1 January 2015
Balance in TARGET2 account	240,142	67,980
Redistribution of monetary income	46,963	–
Interim profit distribution of the ECB	4,767	–
Total	**291,872**	**67,980**

The remuneration of the TARGET2 balance is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

Claim on the ECB in connection with the reallocation of monetary income come from the difference between the amounts pooled and allocated by the Eurosystem NCBs (see 'Note 38. Net result of pooling of monetary income').

Following a decision of the Governing Council of the ECB, the amount due to the euro area NCBs, with respect to the ECB's interim profit distribution, was EUR 812,134 thousand (see Explanatory Notes section '4.8. Distribution of the ECB profit'). The amount due to the Bank of Lithuania amounted to EUR 4,767 thousand and was recognised as income of 2015 (see 'Note 37. Income from equity shares and participating interests)'.

Note 14. Tangible and intangible fixed assets

EUR thousands

	Tangible assets				Intangible assets (including assets under construction)	**Total**
	Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled)	Vehicles	Other tangible assets (including assets under construction)		
Acquisition cost as at 1 January 2015	36,313	16,260	1,465	6,756	5,576	**66,371**
Additions in 2015	–	206	–	133	2,546	**2,885**
Disposals in 2015	–	(246)	(37)	(153)	(5)	**(441)**
Acquisition cost as at 31 December 2015	36,313	16,220	1,428	6,736	8,118	**68,814**
Accumulated depreciation as at 1 January 2015	(12,075)	(12,407)	(1,465)	(5,049)	(5,037)	**(36,033)**
Depreciation in 2015	(868)	(1,390)	–	(154)	(373)	**(2,786)**
Depreciation of disposed assets in 2015	–	246	37	153	5	**441**
Accumulated depreciation as at 31 December 2015	(12,943)	(13,551)	(1,428)	(5,050)	(5,406)	**(38,378)**
Net carrying amount as at 31 December 2015	**23,369**	**2,669**	**–**	**1,686**	**2,712**	**30,437**
Net carrying amount as at 1 January 2015	**24,238**	**3,854**	**–**	**1,707**	**539**	**30,338**

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

Note 15. Other financial assets

EUR thousands

	31 December 2015	1 January 2015
Bank for International Settlements shares	3,334	3,334
SWIFT shares	21	21
Total	**3,355**	**3,355**

The Bank of Lithuania is a member of the Bank for International Settlements (BIS), with 1,070 shares, the acquisition cost of which is EUR 3,334 thousand and the nominal value is SDR 5,000 per share. The Bank of Lithuania received dividends of EUR 303 thousand for these BIS shares in 2015 (EUR 260 thousand in 2014).

The Bank of Lithuania holds seven SWIFT shares with the acquisition cost of EUR 20,741. Dividends are not paid for these shares.

Note 16. Off-balance-sheet instruments revaluation differences

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

EUR thousands

	31 December 2015		1 January 2015	
	Positive differences	Negative differences	Positive differences	Negative differences
Foreign exchange transactions	234	28,265	71,499	11,319
Non-deliverable foreign exchange forwards	5,327	2,723	794	–
Interest rate swaps	488	–	–	84
Forward transactions in securities	11	–	–	–
Total	**6,059**	**30,988**	**72,293**	**11,402**

Note 17. Accruals and prepaid expenses

EUR thousands

	31 December 2015	1 January 2015
Accrued interest income	23,727	19,869
On securities held for monetary policy purposes	12,656	–
On other securities	8,269	19,121
On financial derivatives	1,603	482
On current accounts and fixed-term deposits	721	264
On Intra-Eurosystem balances	345	–
On monetary policy operations	134	–
Other accrued interest	–	1
Debt securities coupon payment purchased	11,637	8,374
Other accruals	984	938
Prepaid expenses	366	389
Total	**36,714**	**29,571**

Note 18. Sundry

EUR thousands

	31 December 2015	1 January 2015
Loans to the staff of the Bank of Lithuania	635	859
Short-term assets	174	169
Advances and other receivables	76	811
Dividend receivable	–	4,014
Total	**885**	**5,852**

Pursuant to a resolution of the Board of the Bank of Lithuania, loans to the Bank of Lithuania's employees are no longer issued as of 2009.

Note 19. Banknotes in circulation

This item consists of the Bank of Lithuania's share of the total euro banknotes in circulation (see the Accounting Policy section '2.12. Banknotes and coins in circulation'). According to the banknote allocation key, which as at 31 December 2015 was 0.5400 per cent, the Bank of Lithuania had euro banknotes in circulation worth EUR 5,850,517 thousand at the end of 2015 compared with EUR 5,492,302 thousand as at 1 January 2015. The value of the euro banknotes actually issued by the Bank of Lithuania in 2015 increased nearly 4 times from EUR 555,020 thousand as at 1 January 2015 to EUR 2,099,484 thousand as at 31 December 2015. As this was less than the allocated amount, the difference of EUR 3,751,032 thousand (compared to EUR 4,937,282 thousand as at 1 January 2015) is shown under asset sub-item 'Net claims related to the allocation of euro banknotes within the Eurosystem' (see Note 12).

EUR thousands

	31 December 2015	1 January 2015
Euro banknotes	5,850,517	5,492,302
Euro banknotes issued by the Bank of Lithuania	2,099,484	555,020
Adjustment for banknote allocation in the Eurosystem	4,259,813	5,414,911
The ECB's share of euro banknotes in circulation	(508,781)	(477,629)
Lithuanian litas banknotes	109,752	1,612,920
Total	**5,960,269**	**7,105,222**

During 2015, which was the changeover year, the nominal value of Lithuanian litas banknotes was still included within the banknotes in the circulation figure. With effect from 1 January 2016, the nominal value of litas banknotes in circulation is disclosed under the balance sheet item '12. Other liabilities'.

Note 20. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item contains the balances on the current accounts of credit institutions with the Bank of Lithuania that are required to hold minimum reserves. Bank minimum reserve balances have been remunerated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. The reserves held in excess of the minimum requirements are remunerated at the lower rate of either zero per cent or the deposit facility rate.

EUR thousands

	31 December 2015	Conducted in 2015	1 January 2015
Current accounts (covering the minimum reserve system)	2,841,656	–	2,857,841
Deposits related to margin calls	–	320,239	–
Total	**2,841,656**	**320,239**	**2,857,841**

Descriptions of other 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 21. Other liabilities to euro area credit institutions denominated in euro

This item presents gold swaps concluded with euro area credit institutions and fixed-term deposits of credit institutions with the Bank of Lithuania.

EUR thousands

	31 December 2015	1 January 2015
Gold swaps	25,778	28,201
Fixed-term deposits	–	1,409,001
Total	**25,778**	**1,437,202**

Fixed-term deposits on the Bank of Lithuania's balance sheet as at 1 January 2015 — a monetary policy instrument applied by the Bank of Lithuania in preparation for the adoption of the euro, which was aimed at reducing bank incentives to exchange litas surplus funds into euro as well as avoid sudden fluctuations in the Bank of Lithuania's foreign reserve assets and forced sale of part of investments due to a temporary changes in the amount of cash.

Note 22. Liabilities to other euro area residents denominated in euro

EUR thousands

	31 December 2015	1 January 2015
Liabilities to the general government	1,272,620	1,254,881
Other liabilities	7	–
Total	**1,272,627**	**1,254,881**

Note 23. Liabilities to non-euro area residents denominated in euro

This item presents balances of accounts of international institutions in euro and gold swaps concluded with non-euro area residents.

EUR thousands

	31 December 2015	1 January 2015
Balances in current accounts	806	36,478
Gold swaps	–	11,716
Total	**806**	**48,194**

Note 24. Liabilities to euro area residents denominated in foreign currency

This item shows repurchase agreements and gold swaps 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	JPY	GBP	SEK	XDR	Other	Total
31/12/2015							
Liabilities to the financial sector	183,028	6,016	–	–	–	–	**189,044**
Repurchase agreements	102,069	–	–	–	–	–	**102,069**
Other liabilities	80,960	6,016	–	–	–	–	**86,975**
Liabilities to the general government	2,526	–	358	–	44	0	**2,928**
Total	**185,555**	**6,016**	**358**	**–**	**44**	**0**	**191,972**
01/01/2015							
Liabilities to the general government	4,253	–	428	819	41	22	**5,563**
Total	**4,253**	**–**	**428**	**819**	**41**	**22**	**5,563**

Note 25. Liabilities to non-euro area residents denominated in foreign currency

This item presents repurchase agreements concluded by the Bank of Lithuania with non-euro area residents in US dollar with a total value of EUR 52,052 thousand as at 31 December 2015 (as at 1 January 2015, the Bank of Lithuania had no such transactions concluded).

Note 26. Counterpart of special drawing rights allocated by the IMF

This item presents liabilities to the IMF related to the allocation of SDR to all Member States carried out by the IMF in 2009. According to this allocation, SDR 137,239 thousand was allocated to Lithuania (see 'Note 2. Receivables from the IMF').

Note 27. Other liabilities within the Eurosystem (net)

This item presents the obligation of the Bank of Lithuania, as the NCBs of the EU Member State joining the euro area, to pay up EUR 43,052 thousand, i.e. the remainder of its capital subscription to the ECB (see Explanatory Notes section '5.3. Operations related to participation in the Eurosystem').

Note 28. Items in course of settlement

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

Note 29. Accruals and income collected in advance

EUR thousands

	31 December 2015	1 January 2015
Accrued interest expenses	291	214
On financial derivatives	244	169
Other accrued interest expenses	47	44
Other accrued expenses	673	941
Income collected in advance	47	53
Total	**1,011**	**1,208**

Note 30. Sundry

EUR thousands

	31 December 2015	1 January 2015
Euro circulation coins	60,489	66,808
Litas circulation coins	32,613	55,830
Sundry	564	144
Total	**93,667**	**122,782**

Note 31. Provisions

EUR thousands

	31 December 2015	1 January 2015
Provisions for risks	45,920	30,120
Provisions for liabilities related to	3,770	3,773
Termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania	1,908	1,928
Wages and salaries payable for annual leave	1,233	1,127
Termination benefits to the members of the Board as provided in the Law on the Bank of Lithuania	96	57
Termination benefits by agreements payable to the staff in the subsequent year	15	52
Provisions for exchanging derecognised litas banknotes and coins	517	608
Total	**49,690**	**33,893**

The Board of the Bank of Lithuania, based on the assessed level of risk exposure, applying the selected risk assessment model, which takes into account the current and projected size of the Bank of Lithuania's financial assets and interest rate development in the financial markets, as well as the adopted strategy for reaching the size for the set provisions for risks in the long-term, in 2015 made the decision for the establishment of an additional EUR 15,800 thousand provisions for risks.

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. EUR 91 thousand of these provisions were used in 2015.

Note 32. Revaluation accounts

Revaluation accounts present unrealised revaluation gains of foreign currency, debt and 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 2015	1 January 2015
Revaluation accounts		
Pre-system unrealised gains	164,456	164,456
Foreign currency	10,741	–
Equity securities	9,206	–
Financial derivatives	5,826	794
Debt securities	3,139	–
Total	**193,369**	**165,250**

The main part of foreign currency revaluation gains built up due to the revaluation of the US dollar and the Chinese yuan renminbi.

Unrealised revaluation losses, recognised as expenses on the last working day of 2015 are presented in 'Note 35. Net result of financial operations, write-down and risk provisions'.

Note 33. Capital

Statement of changes in equity for 2015

EUR thousands

	31 December 2015	2014 profit distribution	1 January 2015
Capital			
Authorised capital	60,000	2,076	57,924
Reserve capital	357,561	10,724	346,837
Total	**417,561**	**12,800**	**404,761**

The authorised capital of the Bank of Lithuania amounts to EUR 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.

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

7. NOTES ON THE PROFIT AND LOSS ACCOUNT

Note 34. Net interest income

EUR thousands

	2015	2014
Interest income from:	**23,428**	**29,511**
Debt securities	12,729	26,216
Monetary policy instruments	4,638	–
Securities held for monetary policy purposes	2,575	–
Balances in current accounts exceeding minimum reserves	1,923	–
Longer-term refinancing operations	136	–
Other monetary policy instruments	4	–
Financial derivatives	3,582	1,882
Balances in current accounts with the Bank of Lithuania	1,020	1,056
Intra-Eurosystem claims	1,004	–
Claims related to the allocation of euro banknotes within the Eurosystem	902	–
Foreign reserves transferred to the ECB	102	–
Gold investments	379	(25)
Reverse repurchase agreements	48	100
The Bank of Lithuania's fixed term deposits	–	201
Other interest income	29	82
Interest expense on:	**(2,503)**	**(837)**
The Bank of Lithuania's balances in current accounts	(1,187)	(46)
Financial derivatives	(885)	(415)
Repurchase agreements	(303)	(22)
Monetary policy instruments	(85)	–
Minimum reserve balances	(85)	–
Fixed-term deposits	(26)	(354)
Intra-Eurosystem liabilities	(11)	–
TARGET2 balances	(11)	–
Other interest expense	(5)	(0)
Net interest income	**20,926**	**28,674**

The growth in the market share of the euro area government securities with a negative interest rate and the decline in investments denominated in euro (excluding monetary policy instruments) resulted in the decrease of interest income from debt securities.

Note 35. 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 consists of unrealised revaluation loss as a result of the decline in market prices and rates on 31 December 2015 as compared to the average prices and rates of these items; and (c) additional provisions for foreign exchange rate, interest rate and credit risks, formed based on the assessment of the level of risk assumed, by a decision of the Board of the Bank of Lithuania.

EUR thousands

	2015	2014
Net realised gains (losses) arising from:	**(891)**	**19,425**
Interest rate derivatives	(10,318)	(53,936)
Transactions in securities	8,662	78,300
Other transactions in gold and foreign currency	766	(4,939)
Write-downs on financial items	**(16,307)**	**(642)**

continued

	2015	2014
Securities	(10,837)	(57)
Gold	(2,742)	–
Financial derivatives	(2,723)	(84)
Foreign currency	(5)	(502)
Transfers to provisions for risks	**(15,800)**	**(17,956)**
Net result of financial operations, write-downs and risk provisions	**(32,998)**	**826**

Note 36. Net income from fees and commissions

EUR thousands

	2015	2014
Fees and commissions income	5,395	6,422
Contributions of supervised financial market participants	4,532	4,297
Settlement services	606	2,092
Other services	257	33
Fees and commissions expense	(723)	(789)
Financial instruments	(622)	(625)
Other	(101)	(164)
Net income from fees and commissions	**4,672**	**5,633**

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.

Note 37. Income from equity shares and participating interests

EUR thousands

	2015	2014
Dividend income from marketable equity securities	5,312	8,995
Income from interim distribution of the ECB profit	4,767	–
Dividend income from non-marketable equity securities	303	260
Total	**10,382**	**9,255**

Note 38. Net result of pooling of monetary income

EUR thousands

	2015
Net monetary income pooled by the Bank of Lithuania	(5,754)
Net monetary income reallocated to the Bank of Lithuania	52,717
Net result of pooling of monetary income	**46,963**

The difference between EUR 5,754 thousand monetary income pooled by the Bank of Lithuania in 2015 and EUR 52,717 thousand in monetary income reallocated to it represents the net result of pooling of monetary income by the Bank of Lithuania in 2015.

Note 39. Other income

EUR thousands

	2015	2014
Income from sale of collector coins and numismatic valuables	3,589	950
Income from sale of scrap of litas coins withdrawn from circulation	3,450	933
Income from derecognition of litas banknotes and coins (at their nominal value), which in 1994–2007 were announced as withdrawn from circulation and ceased to be legal tender	–	6,755
Income from derecognition of collector's (commemorative) coins and sets of coins (at their nominal value)	–	5,362
Other miscellaneous income	137	384
Total	**7,176**	**14,385**

Note 40. Staff costs

EUR thousands

	2015	2014
Expenses on wages and salaries:	11,194	10,644
to the members of the Board	381	365
to the heads of structural divisions	814	820
to other staff of the Bank of Lithuania	9,998	9,460
Other emoluments	286	135
Contributions to State Social Insurance Fund	3,534	3,321
Expenses on provisions related to liabilities to the staff	253	1,029
Total	**15,267**	**15,129**

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

As at 31 December 2015, five services, three autonomous departments and four autonomous divisions operated in the Bank of Lithuania. On 31 December 2015, the Bank of Lithuania employed 609 staff members (at the end of 2014 — 628) of which 26 (at the end of 2014 — 49) were on a fixed-term labour contract. In addition 10 employees were on parental leave or unpaid leave for the term of their contracts with the ECB and the IMF (at the end of 2014 — 19).

In 2015, the rules of calculating the provisions for wages and salaries payable for annual leave were changed. Pursuant to them, provisions are not used during the year, and wages and salaries payable to the staff for annual leave are presented as a part of expenses on wages and salaries. Accordingly, comparable information for 2014 was reclassified.

In 2015, the increase in expenses on wages and salaries to the staff of the Bank of Lithuania is mainly related to the staff incentives for work results.

Other emoluments grew in 2015 mainly due to termination benefits paid to staff members when terminating employment contracts with them.

Note 41. Administrative expenses

EUR thousands

	2015	2014
Administrative expenses		
Tangible assets maintenance	3,145	3,099
Information system maintenance and information acquisition	1,440	523
Participation in international organisations fees	878	896
Business trips	837	654
Equipment and office supply	468	725
Training of the staff	415	328

continued

	2015	2014
Communication	282	496
Mail and telecommunication	186	446
Other	644	706
Total	**8,296**	**7,873**

In 2015, the largest impact on the increase in administrative expenses was due to the rise in expenses related to the maintenance of information systems used for the needs of the activities of the Eurosystem and to the acquisition of information.

In 2015, the increase in business trip expenses was due to the increase in representation needs of the Bank of Lithuania, as a member of the Eurosystem, in the committees and working groups of the ESCB, European Commission, European financial institutions and international financial institutions.

Note 42. Other expenses

EUR thousands

	2015	2014
Euro circulation coin minting expenses	7,035	11,866
Collector and commemorative coin minting expenses	1,896	876
Cash circulation expenses	59	418
Other miscellaneous expenses	2	1
Total	**8,992**	**13,160**

Note 43. Distribution of the profit of the Bank of Lithuania

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

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

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

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

- to cover the uncovered loss carried forward;
- for the authorised capital up to the amount specified in the Law on the Bank of Lithuania;
- for the reserve capital up to the amount independently established by the decision of the Board of the Bank of Lithuania taking into account potential impact of risks; however this capital shall not be less than five amounts of the authorised capital of the Bank of Lithuania;
- to the State Budget as the profit contribution of the Bank of Lithuania. This contribution shall not exceed the amount corresponding to 70 per cent of the calculated average of the profit (loss) of the Bank of Lithuania of the last three financial years.

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

Profit distribution

EUR

	2015	2014	2013
Profit distribution			
Allocation to the authorised capital of the Bank of Lithuania	–	2,075,996	–
Allocation to the reserve capital of the Bank of Lithuania	11,334,686	10,724,178	–
Transfer to the state budget	10,444,643	7,537,005	5,978,716
Total	**21,779,329**	**20,337,179**	**5,978,716**

8. OTHER NOTES

Note 44. Derivatives

As at 31 December 2015, the Bank of Lithuania had outstanding foreign exchange swaps, foreign exchange forwards, non-deliverable foreign exchange forwards, interest rate futures transactions, 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.

Foreign exchange swaps and foreign exchange forwards

EUR thousands

	31 December 2015	1 January 2015
Claims	3,121,849	3,202,677
Liabilities	3,121,849	3,202,586

Non-deliverable foreign exchange forwards

EUR thousands

	31 December 2015	1 January 2015
Notional claims	472,443	81,056
Notional liabilities	473,468	81,345

Interest rate futures

EUR thousands

	31 December 2015	1 January 2015
Notional claims	248,016	–
Notional liabilities	326,804	430,186

Interest rate swaps

The notional value of interest rate swap transactions as at 31 December 2015 amounted to EUR 36,741 thousand (as at 1 January 2015 — EUR 85,000 thousand).

Forward transactions in securities

EUR thousands

	31 December 2015	1 January 2015
Claims	14,833	–
Receivable amounts	3,810	–
Receivable securities	11,023	–
Liabilities	14,833	–
Payable amounts	11,023	–
Payable securities	3,810	–

Note 45. Liabilities related to the return of borrowed banknotes

The Bank of Lithuania, in preparing to adopt the euro, in 2014 signed a euro banknote borrowing agreement with one of the Eurosystem's NCBs, which holds the banknotes reserve of the Eurosystem. The value of borrowed banknotes was recalculated into the quantity of proper nominal banknotes, which is needed to supplement the Eurosystem's banknotes reserve. The appropriate quantity of banknotes should be printed from the Bank of Lithuania's funds and delivered in 2016 to the Eurosystem's NCB, named by the ECB.

ANNEXES

Resolutions adopted by the Board of the Bank of Lithuania published in the Register of Legal Acts (RLA) in 2015

Resolution No 03-217 of the Board of the Bank of Lithuania of 31 December 2015 on the approval of the rules on investment of funds from the Resolution Fund

Resolution No 03-216 of the Board of the Bank of Lithuania of 31 December 2015 on the approval of the schedule of procedures for administration of the Resolution Fund

Resolution No 03-214 of the Board of the Bank of Lithuania of 29 December 2015 on the amendment to Resolution No 03-164 of the Board of the Bank of Lithuania of 18 October 2013 on the approval of the policy of management of financial assets of the Bank of Lithuania

Resolution No 03-212 of the Board of the Bank of Lithuania of 29 December 2015 on the approval of the description of criteria the Bank of Lithuania takes into account in assessing the possibility of successful restructuring of an institution or financial group

Resolution No 03-211 of the Board of the Bank of Lithuania of 29 December 2015 on the approval of the list of information the Bank of Lithuania may require from institutions for drawing up and updating recovery plans as well as of the rules for obtaining this information

Resolution No 03-210 of the Board of the Bank of Lithuania of 29 December 2015 repealing Resolution No 132 of the Board of the Bank of Lithuania of 19 October 2006 on the liquidity of credit institutions

Resolution No 03-209 of the Board of the Bank of Lithuania of 29 December 2015 on the approval of the regulations on drawing up recovery plans

Resolution No 03-207 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the samples and the issuance into circulation of the commemorative coin of 2 euro denomination dedicated to Baltic culture

Resolution No 03-206 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the sample and the issuance into circulation of the collector coin of 5 euro denomination from the series 'Lithuanian Science'

Resolution No 03-204 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the regulations on the conclusion of the Addressable BIC Holder Agreement of the Retail Payment System SEPA-MMS of the Bank of Lithuania

Resolution No 03-201 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the amounts of contributions of the supervised financial market participants for 2016

Resolution No 03-199 of the Board of the Bank of Lithuania of 22 December 2015 on the application of the countercyclical capital buffer

Resolution No 03-198 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the form of the report of the currency exchange operator

Resolution No 03-197 of the Board of the Bank of Lithuania of 22 December 2015 on the approval of the regulations on own risk and solvency assessment of insurance undertakings

Resolution No 03-196 of the Board of the Bank of Lithuania of 22 December 2015 on the amendment to Resolution No 03-95 of the Board of the Bank of Lithuania of 29 May 2014 on the approval of the regulations on transparent, reliable and prudential governance of insurance undertakings

Resolution No 03-193 of the Board of the Bank of Lithuania of 15 December 2015 on the approval of the table of the base pension annuity amounts

Resolution No 03-192 of the Board of the Bank of Lithuania of 15 December 2015 on the setting of the capital buffer for other systemically important institutions

Resolution No 03-190 of the Board of the Bank of Lithuania of 15 December 2015 on the setting of the annual total percentage rate of periodical contributions for 2015 to the resolution fund

Resolution No 03-188 of the Board of the Bank of Lithuania of 15 December 2015 on the amendment to Resolution No 03-6 of the Board of the Bank of Lithuania of 15 January 2015 on the approval of the plan to issue collector euro coins in 2016–2017 and commemorative euro coins with the Lithuanian national side in 2015–2017

Resolution No 03-185 of the Board of the Bank of Lithuania of 15 December 2015 on repealing certain Resolutions of the Insurance Supervisory Commission of the Republic of Lithuania

Resolution No 03-184 of the Board of the Bank of Lithuania of 15 December 2015 on the approval of the regulations on the supervision of insurance and reinsurance undertaking groups

Resolution No 03-180 of the Board of the Bank of Lithuania of 30 November 2015 on the approval of requirements for unit-linked life insurance assets

Resolution No 03-175 of the Board of the Bank of Lithuania of 12 November 2015 on the approval of the samples and the issuance into circulation of the commemorative coin of 2 euro denomination dedicated to the Lithuanian language

Resolution No 03-174 of the Board of the Bank of Lithuania of 12 November 2015 on the presentation of financial statements intended for supervision of insurance undertakings

Resolution No 03-173 of the Board of the Bank of Lithuania of 12 November 2015 on the approval of periodicity of the drawing up of sets of interim financial accounts and the procedure for public disclosure of sets of financial accounts of insurance undertakings

Resolution No 03-172 of the Board of the Bank of Lithuania of 12 November 2015 on the amendment to Resolution No N-7 of the Insurance Supervisory Commission of the Republic of Lithuania of 3 February 2004 on financial statements of insurance undertakings

Resolution No 03-167 of the Board of the Bank of Lithuania of 30 October 2015 on the supplement to Resolution No 03-172 of the Board of the Bank of Lithuania of 30 September 2014 on the approval of the minimum security requirements for online payments

Resolution No 03-164 of the Board of the Bank of Lithuania of 29 October 2015 on the approval of the operating rules of the retail payment system SEPA-MMS of the Bank of Lithuania

Resolution No 03-161 of the Board of the Bank of Lithuania of 29 October 2015 on the amendment to Resolution No 03-324 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the rules of the Eurosystem monetary policy operations carried out by the Bank of Lithuania

Resolution No 03-159 of the Board of the Bank of Lithuania of 29 October 2015 on the reporting on insurance and reinsurance activities

Resolution No 03-158 of the Board of the Bank of Lithuania of 29 October 2015 on the approval of the calculation methodology for insurance and/or reinsurance technical provisions

Resolution No 03-152 of the Board of the Bank of Lithuania of 15 October 2015 repealing Resolution No 03-40 of the Board of the Bank of Lithuania of 23 February 2012 on the preparation of qualification examination for insurance brokers

Resolution No 03-151 of the Board of the Bank of Lithuania of 15 October 2015 on the amendment to Resolution No 03-67 of the Board of the Bank of Lithuania of 15 March 2012 on the delegation of certain functions of the Board of the Bank of Lithuania, related to the supervision of the financial market, to the Bank of Lithuania's structural subdivisions

Resolution No 03-150 of the Board of the Bank of Lithuania of 7 October 2015 on the approval of the samples and the issuance into circulation of the commemorative coin of 2 euro denomination dedicated to celebrate 30 years of the EU flag

Resolution No 03-149 of the Board of the Bank of Lithuania of 7 October 2015 on the approval of the rules of Republic of Lithuania government securities, purchased by the Bank of Lithuania, auctions

Resolution No 03-146 of the Board of the Bank of Lithuania of 29 September 2015 on the amendment to Resolution No 03-172 of the Board of the Bank of Lithuania of 30 September 2014 on the approval of the minimum security requirements for online payments

Resolution No 03-145 of the Board of the Bank of Lithuania of 29 September 2015 repealing Resolution No 16 of the Board of the Bank of Lithuania of 21 February 2008 on the subdivisions of banks and foreign bank branches in the Republic of Lithuania

Resolution No 03-143 of the Board of the Bank of Lithuania of 18 September 2015 on the application of the countercyclical capital buffer

Resolution No 03-136 of the Board of the Bank of Lithuania of 10 September 2015 on the approval of the description of procedures for monitoring activities of cash handlers

Resolution No 03-131 of the Board of the Bank of Lithuania of 13 August 2015 on the approval of the general regulations for the Supervisory Review and Evaluation Process

Resolution No 03-130 of the Board of the Bank of Lithuania of 13 August 2015 on the amendment to Resolution No 145 of the Board of the Bank of Lithuania of 23 November 2006 on the approval of the general regulations for the internal capital adequacy assessment process and of the general regulations for the Supervisory Review and Evaluation Process

Resolution No 03-127 of the Board of the Bank of Lithuania of 6 August 2015 on the amendment to Resolution No 63 of the Board of the Bank of Lithuania of 13 May 1999 on the assessment of the level of systemic risk in the banking sector

Resolution No 03-118 of the Board of the Bank of Lithuania of 23 July 2015 on the approval of the sample and the issuance into circulation of the collector coin of 20 euro denomination dedicated to the 250th anniversary of the birth of Mykolas Kleopas Oginskis

Resolution No 03-111 of the Board of the Bank of Lithuania of 9 July 2015 on the supplement to Resolution No 03-6 of the Board of the Bank of Lithuania of 15 January 2015 on the approval of the plan to issue collector euro coins in 2016–2017 and commemorative euro coins with the Lithuanian national side in 2015–2017

Resolution No 03-110 of the Board of the Bank of Lithuania of 9 July 2015 repealing Resolution No 03-142 of the Board of the Bank of Lithuania of 21 August 2014 on the approval of the description of procedure for the frontloading and sub-frontloading of euro banknotes and coins

Resolution No 03-106 of the Board of the Bank of Lithuania of 19 June 2015 on the application of the countercyclical capital buffer

Resolution No 03-105 of the Board of the Bank of Lithuania of 19 June 2015 on the amendment to Resolution No 37 of the Board of the Bank of Lithuania of 26 March 2009 on the calculation of prudential requirements for credit unions

Resolution No 03-104 of the Board of the Bank of Lithuania of 19 June 2015 on the amendment to Resolution No 105 of the Board of the Bank of Lithuania of 3 November 1995 on the prudential requirements for credit unions

Resolution No 03-103 of the Board of the Bank of Lithuania of 19 June 2015 on the approval of the rules on credit union investment in non-equity securities

Resolution No 03-98 of the Board of the Bank of Lithuania of 11 June 2015 on the approval of the regulations for opening and management of a special funds account in the payment system TARGET2-LIETUVOS BANKAS

Resolution No 03-97 of the Board of the Bank of Lithuania of 11 June 2015 on the amendment to Resolution No 136 of the Board of the Bank of Lithuania of 18 October 2007 on the approval of the operating rules of the payment system TARGET2-LIETUVOS BANKAS

Resolution No 03-95 of the Board of the Bank of Lithuania of 11 June 2015 on the amendment to Resolution No 03-158 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations for the organisation of activities of financial brokerage firms

Resolution No 03-94 of the Board of the Bank of Lithuania of 11 June 2015 on the amendment to Resolution No 03-160 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the rules on publicly disclosed information of the financial brokerage firms and management companies

Resolution No 03-93 of the Board of the Bank of Lithuania of 11 June 2015 on the approval of the rules for the Supervisory Review and Evaluation Process of financial brokerage firms

Resolution No 03-92 of the Board of the Bank of Lithuania of 11 June 2015 on the approval of the rules for the evaluation process of management and the internal capital adequacy of financial brokerage firms

Resolution No 03-91 of the Board of the Bank of Lithuania of 28 May 2015 on macro-prudential reporting

Resolution No 03-90 of the Board of the Bank of Lithuania of 28 May 2015 on the amendment to Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the responsible lending regulations

Resolution No 03-83 of the Board of the Bank of Lithuania of 8 May 2015 on the amendment to Resolution No 153 of the Board of the Bank of Lithuania of 7 December 2006 on the approval of the rules on consolidation of financial statements of the group and on joint (consolidated) supervision

Resolution No 03-82 of the Board of the Bank of Lithuania of 8 May 2015 on the approval of the description of the minimum remuneration policy requirements for employees of credit institutions and financial brokerage firms

Resolution No 03-81 of the Board of the Bank of Lithuania of 8 May 2015 on the amendment to Resolution No 03-166 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the remuneration policy requirements for employees of financial brokerage firms, management companies and investment undertakings

Resolution No 03-80 of the Board of the Bank of Lithuania of 8 May 2015 on the approval of the rules for the calculation of additional capital adequacy requirements of the supervised enterprises in a financial conglomerate

Resolution No 03-72 of the Board of the Bank of Lithuania of 23 April 2015 on the amendment to Resolution No 03-324 of the Board of the Bank of Lithuania of 9 December 2014 on the approval of the rules of the Eurosystem monetary policy operations carried out by the Bank of Lithuania

Resolution No 03-70 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on the calculation of the solvency capital requirement for activities related to the accumulation of occupational pensions carried out by life assurance undertakings

Resolution No 03-69 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the mandatory orders in relation to the determination of needs of persons intending to conclude a life assurance agreement, the evaluation of eligibility of the proposed product and the provision of information on the terms and conditions of a life assurance agreement

Resolution No 03-68 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the rules for administration of the list of insurance undertaking assets covering technical provisions

Resolution No 03-67 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the requirements for the insurance or reinsurance undertaking business plan preparation

Resolution No 03-66 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on the separate management of life assurance and non-life insurance activities

Resolution No 03-65 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on full or partial internal model requirements and confirmation procedure

Resolution No 03-64 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on information submitted to the Bank of Lithuania and disclosed publicly by insurance or reinsurance undertakings

Resolution No 03-63 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on calculation of own funds of insurance and reinsurance undertakings

Resolution No 03-62 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of the regulations on calculation of capital requirements for insurance and reinsurance undertakings

Resolution No 03-61 of the Board of the Bank of Lithuania of 23 April 2015 on the approval of regulations on calculation of insurance and/or reinsurance technical provisions to determine solvency

Resolution No 03-55 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 03-209 of the Board of the Bank of Lithuania of 27 September 2012 on the rules for providing information about the internal governance and activities of banks to the Bank of Lithuania

Resolution No 03-54 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 03-176 of the Board of the Bank of Lithuania of 2 August 2012 on the approval of the general regulations on banks internal management

Resolution No 03-53 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 03-136 the Board of the Bank of Lithuania of 31 July 2014 on the requirements for the publicly disclosed information

Resolution No 03-52 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 109 of the Board of the Bank of Lithuania of 20 November 2003 on the provision of information related to establishment and activities of credit institutions

Resolution No 03-51 of the Board of the Bank of Lithuania of 9 April 2015 on the approval of rules for the formation of capital buffers

Resolution No 03-49 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations on granting, replacement and revocation of licenses for the activities of the management company or the investment company

Resolution No 03-48 of the Board of the Bank of Lithuania of 9 April 2015 on the amendment to Resolution No 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules on licensing the brokerage firms

Resolution No 03-46 of the Board of the Bank of Lithuania of 26 March 2015 on the amendment to Resolution No 03-190 of the Board of the Bank of Lithuania of 17 October 2014 on financial reporting

Resolution No 03-41 of the Board of the Bank of Lithuania of 26 March 2015 on the approval of a recast of Resolution No 03-199 of the Board of the Bank of Lithuania of 21 October 2014 on the approval of the description of coin creation procedure at the Bank of Lithuania

Resolution No 03-40 of the Board of the Bank of Lithuania of 26 March 2015 on the approval of the sample and the issuance into circulation of the collector coin of 5 euro denomination dedicated to Literature (from the series 'Lithuanian Science')

Resolution No 03-39 of the Board of the Bank of Lithuania of 26 March 2015 on the approval of the sample and the issuance into circulation of the collector coin of 20 euro denomination dedicated to the Struve Geodetic Arc (UNESCO World Heritage)

Resolution No 03-38 of the Board of the Bank of Lithuania of 26 March 2015 on the setting of the primary capital requirements for financial brokerage firms

Resolution No 03-37 of the Board of the Bank of Lithuania of 26 March 2015 on the amendment to Resolution No 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on the approval of the rules on licensing the brokerage firms

Resolution No 03-36 of the Board of the Bank of Lithuania of 26 March 2015 on the amendment to Resolution No 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations on granting, replacement and revocation of licenses for the activities of the management company or the investment company

Resolution No 03-35 of the Board of the Bank of Lithuania of 26 March 2015 on the approval of the description of procedures for the presentation of financial statements, financial statements intended for supervision and capital adequacy statements of financial brokerage firms and management companies and of forms of financial statements for supervisory purposes

Resolution No 03-34 of the Board of the Bank of Lithuania of 26 March 2015 on the approval of the regulations for the calculation of capital adequacy requirements for the management companies and on the capital adequacy statement forms

Resolution No 03-32 of the Board of the Bank of Lithuania of 12 March 2015 on the amendment to Resolution No 238 of the Board of the Bank of Lithuania of 24 December 2009 on licenses issued by the Bank of Lithuania to electronic and payment institutions

Resolution No 03-31 of the Board of the Bank of Lithuania of 12 March 2015 on the approval of the Macro-prudential Policy Strategy

Resolution No 03-26 of the Board of the Bank of Lithuania of 4 March 2015 on the amendment to Resolution No 03-290 of the Board of the Bank of Lithuania of 27 November 2014 on the approval of the rules on sales of numismatic valuables of the Bank of Lithuania

Resolution No 03-23 of the Board of the Bank of Lithuania of 24 February 2015 on the amendment to Resolution No 03-166 of the Board of the Bank of Lithuania of 12 July 2012 on the approval

of the remuneration policy requirements for employees of financial brokerage firms, management companies and investment undertakings

Resolution No 03-22 of the Board of the Bank of Lithuania of 24 February 2015 on the amendment to Resolution No 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on the approval of the regulations on granting, replacement and revocation of licenses for the activities of the management company or the investment company

Resolution No 03-20 of the Board of the Bank of Lithuania of 24 February 2015 on the exchange of soiled litas banknotes at *AB Lietuvos paštas*

Resolution No 03-17 of the Board of the Bank of Lithuania of 12 February 2015 on the approval of money laundering and/or terrorist financing prevention guidelines for financial market participants

Resolution No 03-14 of the Board of the Bank of Lithuania of 12 February 2015 on the amendment to Resolution No 03-168 of the Board of the Bank of Lithuania of 8 October 2013 on the approval of the guidelines for the selection of the temporary administrator

Resolution No 03-13 of the Board of the Bank of Lithuania of 12 February 2015 on the approval of the rules for personal transactions of the Bank of Lithuania employees

Resolution No 03-12 of the Board of the Bank of Lithuania of 29 January 2015 on the amendment to Resolution No 03-164 of the Board of the Bank of Lithuania of 18 October 2013 on the approval of the management policy of financial assets of the Bank of Lithuania and on the establishment of the size of the maximum investment portfolio of the Bank of Lithuania

Resolution No 03-10 of the Board of the Bank of Lithuania of 29 January 2015 on the approval of the description of procedures for employment at the Bank of Lithuania

Resolution No 03-8 of the Board of the Bank of Lithuania of 29 January 2015 on the amendment to Resolution No 03-145 of the Board of the Bank of Lithuania of 29 August 2013 on the approval of the description of procedures for harmonisation of the articles of association of insurance undertakings and insurance brokerage firms, amended due to the increase or decrease of the authorised capital

Resolution No 03-6 of the Board of the Bank of Lithuania of 15 January 2015 on the approval of the plan to issue collector euro coins in 2016–2017 and commemorative euro coins with the Lithuanian national side in 2015–2017

Resolution No 03-5 of the Board of the Bank of Lithuania of 15 January 2015 on the amendment to Resolution No 03-347 of the Board of the Bank of Lithuania of 23 December 2014 on the amounts of contributions of the supervised market participants for 2015

Resolution No 03-2 of the Board of the Bank of Lithuania of 15 January 2015 on the amendment to Resolution No 03-44 of the Board of the Bank of Lithuania of 28 February 2013 on the approval of the rules for drafting, approval of prospectus on securities and public disclosure of information

Circulation, Collector, Commemorative and Coin Sets Issued into Circulation in 2015

Circulation euro coins with the Lithuanian national side

Chart 1. The national side of the circulation euro coins of 2015 issue (2 euro, 1 euro; 50, 20, 10 euro cents and 5, 2, 1 euro cents)

Circulation euro coins with the Lithuanian national side were issued in eight denominations on 1 January 2015.

Chart 2. Sets of circulation euro coins of 2015 issue (quality — *proof* and *BU*)

Sets of circulation euro coins with the Lithuanian national side, quality — *proof* and *BU*, were issued into circulation on 15 January: the mintage of the *proof* quality — 7 thousand pcs, *BU* quality — 35 thousand pcs. The *proof* quality set has a commemorative sign dedicated to the adoption of the euro in Lithuania.

Chart 3. 50 euro gold coin dedicated to Coinage in the Grand Duchy of Lithuania

A 50 euro gold coin dedicated to Coinage in the Grand Duchy of Lithuania was issued on 29 January. Diameter — 22.30 mm, weight — 7.78 g, quality — *proof*, mintage — 5 thousand pcs.

Designed by Liudas Parulskis and Giedrius Paulauskis.

Chart 4. 20 euro silver coin dedicated to the 500th anniversary of the birth of Mikołaj Radziwiłł 'the Black'

On 4 February, a 20 euro silver coin dedicated to the 500th anniversary of the birth of Mikołaj Radziwiłł 'the Black' was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage — 3 thousand pcs.

Designed by Rytas Jonas Belevičius.

Chart 5. 20 euro silver coin and 5 euro coin produced from copper/aluminium/zinc/tin alloy, dedicated to the 25th anniversary of the restoration of Lithuania's independence (from the series 'Lithuania's Road to Independence')

On 10 March, the coins dedicated to the 25th anniversary of the restoration of Lithuania's independence (from the series 'Lithuania's Road to Independence') were issued: a 20 euro silver coin and 5 euro coin from a copper/aluminium/ zinc/tin alloy. The diameter of the silver coin — 38.61 mm, weight 28.28 g, quality — *proof*, mintage — 4,000 pcs. The diameter of the coin produced from copper/aluminium/ zinc/tin alloy is 28.00 mm, weight — 10.00 g, quality — *proof-like*, mintage — 25 thousand pcs.

Designed by Rūta Ničajienė and Rytas Jonas Belevičius.

Chart 6. 20 euro silver coin dedicated to the Struve Geodetic Arc (UNESCO World Heritage)

On 11 May, a 20 euro silver coin dedicated to the Struve Geodetic Arc (UNESCO World Heritage) was issued. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage — 3 thousand pcs.

Designed by Tadas Žebrauskas.

Chart 7. 5 euro silver coin dedicated to Literature (from the series 'Lithuanian Culture')

On 11 June, a 5 euro silver coin dedicated to Literature (from the series 'Lithuanian Culture') was issued. Diameter — 28.70 mm, weight — 12.44 g, quality — *proof*, mintage — 4 thousand pcs.

Designed by Rytas Jonas Belevičius.

Chart 8. 20 euro silver coin dedicated to the 250th anniversary of the birth of Mykolas Kleopas Oginskis

A 20 euro silver coin dedicated to the 250th anniversary of the birth of Mykolas Kleopas Oginskis was issued on 11 September. Diameter — 38.61 mm, weight — 28.28 g, quality — *proof*, mintage — 3 thousand pcs.

Designed by Rūta Ona Čigriejūtė and Rytas Jonas Belevičius.

Chart 9. 2 euro commemorative coin dedicated to celebrate 30 years of the EU flag

A 2 euro commemorative coin dedicated to celebrate 30 years of the EU flag was issued on 17 November. This coin was issued collectively by all EU Member States whose currency is the euro. The external part of the coin is made of a copper-nickel alloy, the inner part — of three layers: nickel-brass/nickel/nickel-brass. Diameter — 25.75 mm, weight — 8.50 g. Mintage — 750 thousand pcs, of which 5 thousand coins are *BU* quality in a numismatic package.

The national side of the coin is designed by George Stamatopoulos.

The common side of the coin is designed by Luc Luycx.

Chart 10. 2 euro commemorative coin dedicated to the Lithuanian language

On 14 December, a 2 euro commemorative coin dedicated to the Lithuanian language was issued. The external part of the coin is made of a copper-nickel alloy, the inner part — of three layers: nickel-brass/nickel/nickel-brass. Diameter — 25.75 mm, weight — 8.50 g. Mintage — 1 million pcs, of which 10 thousand coins are *BU* quality in a numismatic package.

The national side of the coin is designed by Liudas Parulskis and Giedrius Paulauskis.

The common side of the coin is designed by Luc Luycx.

All coins bear the logo of the Lithuanian Mint.

Bank of Lithuania
Gedimino pr. 6, LT-01103 Vilnius, Lithuania
Tel. +370 5 268 0029
Fax +370 5 268 0038
E-mail: info@lb.lt
http://www.lb.lt