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ANNUAL REPORT OF THE BANK OF LITHUANIA

2012

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Abbreviations and other explanations

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

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

FOREWORD

A triple anniversary was marked at the beginning of October 2012: the establishment of the first central bank in independent Lithuania (2 October 1922), the birth of the national monetary system (on 2 October 1922 the national currency, litas, was issued into circulation for the first time) and the rebirth of the national currency (the monetary system of independent Lithuania was established on 1 October 1992; the interim currency, *talonas*, became the national monetary unit and roubles were withdrawn from circulation). The Bank of Lithuania, established in March 1990, renewed the traditions of the country's central bank, which operated in the inter-war period.

This Annual Report provides a comprehensive presentation of the work performed by the Bank of Lithuania in 2012 in implementing the objectives of the central bank of the Republic of Lithuania and performing its functions in the context of the development of domestic and global economy and the financial system.

In 2012 global economic growth decelerated and the euro area entered the second recession in four years in the second half of the year. Economic activity in the euro area was suppressed by a tightening fiscal policy in most Member States, trying to minimize the government sector's debts, the uncertainty surrounding the development of this region, problems in the financial system of some countries. In late 2012 tension eased because the European Union institutions adopted or started implementing a number of measures aimed at stabilising the situation.

Lithuania's economic development in 2012 was among the strongest in the European Union. It was mostly stimulated by export that grew because of the capability of Lithuania's enterprises to compete on an international scale and record-high agricultural crops. However, household consumption expenditure growth decelerated and investment decreased. The unwillingness of enterprises to invest was driven most likely by the uncertainty surrounding further economic development of the main trading partners while stronger growth in consumer spending was hampered by a slower increase the disposable income of households.

With the growth of the economy, the situation in the labour market improved. Compared with 2011, employment and the number of job vacancies increased, the rate of unemployment declined. Nevertheless, the situation in the labour market remained rather complicated: the total and youth unemployment decreased, but remained high, and a significant share of the unemployed persons did not have a job for a year or longer.

In 2012 average annual inflation stood at 3.2 per cent — it was lower than in 2011 due to a slower rise of food and fuel prices associated with developments in international commodity markets. Development of global commodity prices was much more favourable to consumers than in 2011: food commodity prices decreased in 2012, the oil prices remained unchanged. Thus, the impact of external factors on inflation in Lithuania weakened, but remained substantially more important than that of domestic factors. In the context of a continuing rather complicated situation in Lithuania's labour market and slow growth of unit labour costs, core inflation related to domestic environment was modest.

The primary objective of the Bank of Lithuania — to maintain price stability — is implemented using the fixed litas exchange rate strategy. Under the conditions of the fixed litas exchange rate, the Bank ensures free exchange of litas into euro and vice versa, therefore it does not regulate the litas market interest rates and the amount of litas in circulation, as the latter is determined by the demand for litas. The fixed litas exchange rate helps to indirectly attain the primary objective in the long term, i.e. it maintains export and import prices at a more stable level, thereby facilitating international trade, and supports confidence in the economic policy of Lithuania. The Bank of Lithuania uses monetary policy instruments to maintain the fixed exchange rate of the litas against the euro and help to ensure an appropriate amount of liquidity in the banking system.

On 2 January 2012, a new structural unit at the Bank of Lithuania — the Supervision Service — started operating. Having merged three institutions that supervised separate financial market segments, the responsibility for the supervision of the whole financial market was shifted to the Bank of Lithuania. The functions performed by the Bank of Lithuania in the area of supervision also expanded, i.e., alongside prudential supervision, the supervision of the provision of financial services was started as well. This new infrastructure enabled supervision of all financial market participants according to the same principles, to pursue reliable and effective operation of the financial market, responsible behaviour of market participants and rational decisions made by consumers. This year saw a supervision integration process of three different financial sectors — different supervisory systems were merged into a single, more progressive one, an interrupted supervisory process was ensured. Introduction of the new supervisory model entailed a change of supervisory principles of the financial market participants — supervision has become more future-oriented, with the main focus on identification of all risks and problems, and decision making at an early stage. Moreover, a more risk-oriented supervisory process, began to be implemented by performing the closest supervision of systemically important and the riskiest financial market participants of individual sectors, thus enabling pursuit of a more reliable and safer financial system. The IMF positively assessed the actions of the Bank of Lithuania in the field of supervision: in the most recent report on cooperation under Article IV of the Articles of Agreement of the International Monetary Fund, it states that the enforcement measures, applied by the Bank of Lithuania to problem banks and credit unions, enhanced the stability of the country's financial system.

Particularly intensive work in 2012 was done in relation to *AB Ūkio bankas* — at the beginning of the year the plan prepared by the bank to reduce loans connected with controlling tightly its main shareholder, and starting with the quarter, the action plan for restructuring the said loans and presenting additional collaterals. During the *AB Ūkio bankas* inspection at the end of 2012–beginning of 2013, it was established that the bank's assets were significantly overestimated, its liabilities exceeded its assets and the bank *de facto* was insolvent. In view of these circumstances, the Board of the Bank of Lithuania declared a moratorium of the bank's activities on 12 February 2013, appointed a temporary administrator and six days later announced *de jure* the bank as insolvent and revoked its banking licence.

Particularly strong focus was given to strengthening of supervision of credit unions — more stringent requirements were set for the top management of credit unions. Persons not complying with these requirements and applicants for such positions were obliged to take a special examination. Aiming at sustainable development of credit unions and proper management of risk assumed by them, new prudential requirements (liquidity, capital adequacy, maximum exposure requirement) have been set. The supervision of systemically the most important (the largest) and the riskiest credit unions was also tightened, the number of inspections has been increased.

The amount of currency in circulation issued by the Bank of Lithuania increased in 2012, though its amount of money frontloaded from the Bank of Lithuania and accepted by it is smaller. 200 litas denomination banknotes became more popular, while the popularity of 100 and 500 litas denomination banknotes decreased.

In 2012, investment results were determined by the lowest ever and further decreasing profitability in the safest euro area countries in terms of credit risk and narrower profitability spreads between debt securities of these and other euro area countries. Interest rates on low risk investment reached their lowest level throughout all periods and approached zero, therefore positive investment results in managing financial assets have become more difficult to achieve.

The Bank of Lithuania prepared and published monetary and financial, external sector and other financial statistics, thus increasing transparency the operation of Lithuania's financial market. By improving and developing MFI balance and interest rate statistics, statistical data on the MFI balance, securitisation, loans and deposit rates are regularly compiled and submitted to the European Central Bank. In the area of external statistics, the Bank of Lithuania eased the burden of statistical reporting, drew up a trial balance of payments for 2010 according to renewed international standards of external sector statistics. Management of securities and foreign loan databases and the quality of data were improved. Also, the list of market participants providing data on a regular basis to the loan risk database was expanded. The Bank website's statistics section publishes the latest financial statistics data and statistical releases, that promptly provide the most up-to-date information on urgent economic issues.

The Bank of Lithuania conducted a Review of the Study of the Costs of Payment Services in 2011, thereby increasing transparency in the payment services market and stimulated sustainable and effective operation of this market. In addition, by continuing its activities in this direction, the payment services fee comparison webpage created the opportunity to learn the pricing dynamics of different payment service providers since October 2011.

The Bank of Lithuania took an active part in the activities of the European Central Bank, other institutions of the European Union, the activities of international organisations and forums, and prepared for the Presidency of the Council of the European Union. Agendas of the European Union and international organisations continue to focus mainly on issues related with the European debt crisis, strengthening of financial stability and improving economic management and activities of international institutions, further strengthening of the Economic and Monetary Union — the single bank supervision mechanism, bank recovery and restructuring system, as well as harmonisation of deposit guarantee schemes. Many initiatives will be further developed and implemented; they will be transposed into the agenda of Lithuania's Presidency of the Council of the European Union. As the major share of the Lithuanian banking sector is taken by banks belonging to large financial groups and foreign bank branches, in performing their supervision, the Bank of Lithuania has taken an active part in cooperation with supervisory institutions of the financial sector of other countries, participated in the activities of colleges established to supervise bank groups. It kept fostering bilateral relations with central banks of foreign countries, provided technical support to them.

For the Bank of Lithuania the year 2012 was the year of institutional renewal and restructuring. An entirely new organisational structure has been developed, the number of heads and the total number of employees decreased substantially, the main central bank functions have been consolidated and part of its auxiliary functions was relinquished.

From the very beginning of 2012, the Bank of Lithuania devoted considerable attention to financial education — an important instrument to ensure responsible consumption of financial products. The need for financial education initiatives has been assessed, target audiences and potential partners defined, the survey of the financial behaviour and literacy of the Lithuanian population made, the Financial Literacy Conception was worked out. Its aim is to improve the literacy of Lithuania's population, to encourage interest in the management of personal finances and taking of rational financial decisions. Information-training seminars in the area of management of personal finances and responsible borrowing were organised, a financial education website is underway.

The field of the Bank of Lithuania's communication activity expanded substantially after combining the supervision of all financial market participants at the beginning of 2012. The public was actively introduced to new areas of activity — oversight of insurance, investment and other services, settlement of consumer disputes. The public was warned about the threats of financial pyramids. A lot of attention was devoted to the communication related to the fast consumer credit market issue. Intensive communication activity, commenced in November 2011 and related to the suspension of operations and announcement of the bankruptcy of *AB bankas SNORAS*, was carried out further in the first half of 2012. Once the Bank of Lithuania took active action to manage the increasing risk of credit unions, the necessity of such decisions was explained publicly in detail. It was also actively informed about the Bank of Lithuania's activities in other areas, such as currency production (presentations and advertising of new litas coins), management of foreign reserves (the investment horizon was expanded).

I. REVIEW OF THE ECONOMY AND FINANCES

Global Economic Developments

The recovery of the global economy after the recession, that happened almost four years ago, is uneven: in 2010 the economy rose rapidly, but in 2011 and especially 2012, global GDP growth slowed down significantly. In 2012, advanced and emerging market economies were growing at a slower pace year on year. In the euro area a recession was officially registered at the end of 2012. Stronger economic development in advanced economies was hindered by financial system problems, private sector debt and attempts to decrease general government debts through the implementation of fiscal consolidation programmes.

In the environment of a slow settlement of structural problems by countries and decelerated growth of the major global economies, central banks did not change the monetary policy direction for the fifth consecutive year. In 2012 the key interest rates continued to be as low as never before, central banks applied additionally non-standard accommodative monetary policy measures aimed at stabilising the situation and increasing financial market liquidity.

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

	Real GDP growth			Average annual inflation		
	2011	2012	2013*	2011	2012	2013*
World	4.0	3.2	3.3	4.9	3.9	3.8
Advanced economies	1.6	1.2	1.2	2.7	2.0	1.7
USA	1.8	2.2	1.9	3.1	2.1	1.8
Euro area	1.4	–0.6	–0.3	2.7	2.5	1.5
Emerging market economies	6.4	5.1	5.3	7.2	5.9	5.9
Russia	4.3	3.4	3.4	8.4	5.1	6.7

Source: IMF.

** Forecasts.*

The situation in the US economy was the best among advanced economies — its economy continued to grow moderately in 2012. While economic growth was supported in part by an immensely accommodative monetary policy, the USA housing market started to recover, household balance sheets were adjusted and the labour market situation improved.

In 2012 the greatest focus in international markets was devoted to problems related with general government debts and stability of financial institutions of the euro area states. Four euro area countries (Ireland, Greece, Portugal and Spain) received international aid in 2012. The economic downturn in almost all countries receiving assistance was sizeable, but the economic activity was weakening in other states of the region as well.

At the end of 2012,the tensions in the euro area subsided and expectations regarding the prospects for the region improved because a number of measures to stabilise the situation were adopted and began to be implemented. First of all, the tensions in financial markets and the interest rates in peripheral euro area states were reduced by the Outright Monetary Transaction programme announced by the ECB in autumn 2012. It provided that under certain conditions the ECB may buy government securities with a maturity of 1 to 3 years in the secondary market without any restrictions. The confidence in euro area financial stability was also strengthened at the end of the of 2012 by the European Stability Mechanism aimed at providing assistance from a permanent common-pooled fund to the euro area countries facing financial difficulties. This fund has already started to provide assistance — the Spanish banking sector was the first to receive this aid. In order to strengthen the financial sector supervision, it was agreed to establish the Single Supervisory Mechanism. Once this mechanism is launched in 2014, the ECB will become responsible for the supervision of all participating member states' banks that are important or have received financial support. The fiscal situation in the euro area was gradually improved by economic reform and fiscal consolidation programmes, which were implemented by many states in the region, especially those receiving financial aid.

Development of the Economy of Lithuania

Real Sector

The Lithuanian economy has grown strongly in recent years, thus the negative GDP output gap, which had formed during the downturn, narrowed substantially. Export levels exceeded the pre-downturn levels already in 2010, and in 2012 exceeded the latter by approximately a third. Thus export was the main factor behind economic development, which has been driven by a fast recovery in the tradable sector competitiveness owing to wage flexibility. However, only a gradual recovery in domestic demand — private consumption and domestic investment — still prevented the activity of the Lithuanian economy to reach pre-crisis levels. Private consumption was restricted mainly by weak growth in the disposable income of households and their willingness to repay financial liabilities assumed before the downturn. The recovery in domestic investment was supressed mainly by uncertainty surrounding further global economic development. The need for investment during the recovery period was also diminished by previously accumulated excess production capital: during the upswing period, a lot of capital was accumulated, whereas in the downturn period it was too large to satisfy demand.

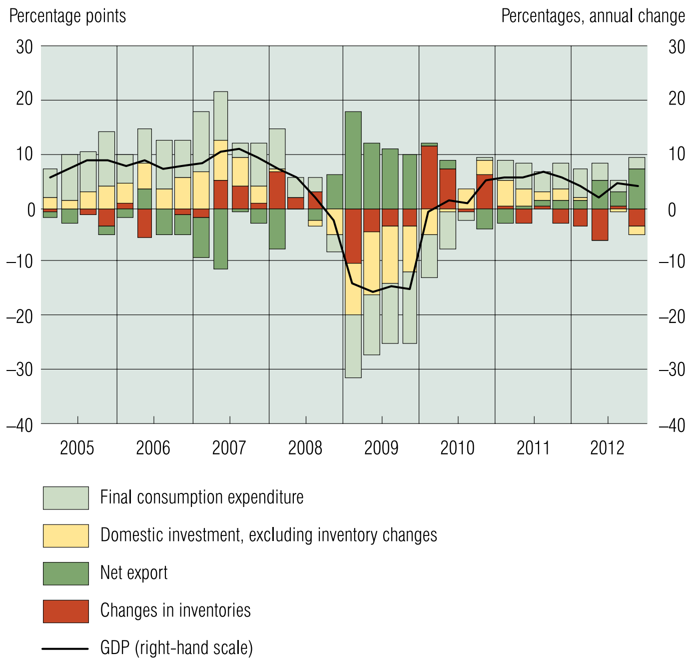
Table 2. Change of expenditure approach evaluated real GDP and its components
(Index, 2008 = 100)

	2006	2007	2008	2009	2010	2011	2012
GDP	88.5	97.2	100.0	85.2	86.4	91.5	94.8
Household consumption expenditure	86.6	96.4	100.0	82.2	78.3	83.2	87.2
General government consumption expenditure	98.1	99.6	100.0	98.6	95.2	95.7	96.4
Domestic investment	86.6	105.4	100.0	60.5	61.6	72.9	71.1
Export of goods and services	87.0	89.7	100.0	87.4	102.6	117.0	130.1
Import of goods and services	82.0	90.7	100.0	71.9	84.8	96.4	101.9

Sources: Statistics Lithuania and Bank of Lithuania calculations.

In 2012, Lithuania's GDP increased by 3.6 per cent, recording one of the fastest growth rates in the EU. Economic activity was encouraged mainly by net exports, while the positive impact of domestic demand weakened: growth of household consumption expenses weakened and, starting with the second quarter, domestic investment began to shrink.

Chart 1. Contributions to real GDP growth by the expenditure approach



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Particularly favourable dynamics of net export was driven by export growth supported by the capability of Lithuania's enterprises to compete on an international scale, record-high agricultural crops and subdued domestic demand, which limited import growth. Record-high agricultural crops influenced net export development in the second half of 2012, while the impact of slower growth of domestic demand was observed throughout the year. Decelerating growth of domestic demand had a negative impact on import because the demand for capital goods and final consumption products increased at a slower pace. Enterprise competitiveness, as a contributor to export growth, was favourably affected by the production cost development allowing Lithuania's enterprise to occupy larger market shares in the main trading partners.

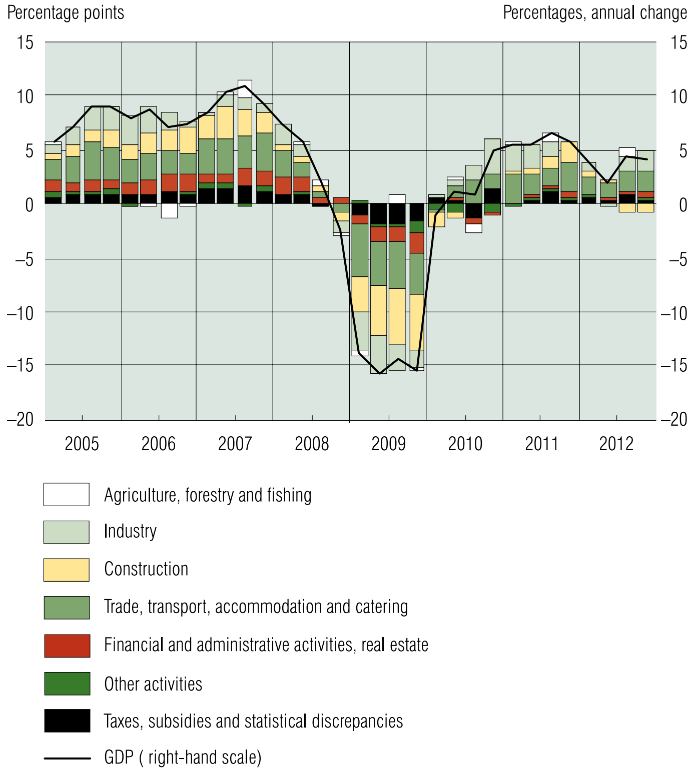
Within the three last quarters of 2012 investment was shrinking — such development worsens the potential of Lithuania's economic growth. The unwillingness of enterprises to invest was most likely driven by the uncertainty surrounding further economic development of the main trading partners and the fact that enterprises regarded their production capacity as adequate, although its use exceeded the long-term level of production capacity use. Financial difficulties were most likely not among the main factors that limited investment because the majority of investment projects in 2012 were financed by own funds of enterprises.

In 2012 household consumption expenditure kept increasing at a slower rate. This was due to slower growing real income of households, but the effect of this indicator was softened by a more favourable development of the household loan portfolio and weakening incentives of households to save due to their better financial situation. Data of consumer surveys suggest that in the second half of 2012 the household financial position was assessed as the best from the outset of the economic downturn.

Assessing by the production approach, value added grew in both tradable and non-tradable sectors in 2012. It's true though that in the second semi-annual period of the year value added in the tradable sector grew at a markedly more buoyant pace vis-à-vis the non-tradable sector. The growth of value added was registered in both activities of the tradable sector — agriculture and manufacturing. The abovementioned record-high agricultural crops were behind a more intensive activity of agriculture. Manufacturing was growing due to both stronger demand and expanding market shares in the main trading partners.

The largest increase of value added in the non-tradable sector was observed in trade and transport, information and communication activities. The trade activity was pushed up by increasing household consumption and the activity of transport was supported by the demand for transportation services both in Lithuania and abroad. It should be noted that due to smaller investment into civil and engineering constructions the activity of construction decreased, value added in financial and insurance activity has declined as well. The value added in other non-tradable sector activities grew at a moderate pace and the effect on GDP development was comparatively weak.

Chart 2. Contributions to real GDP growth by the production approach



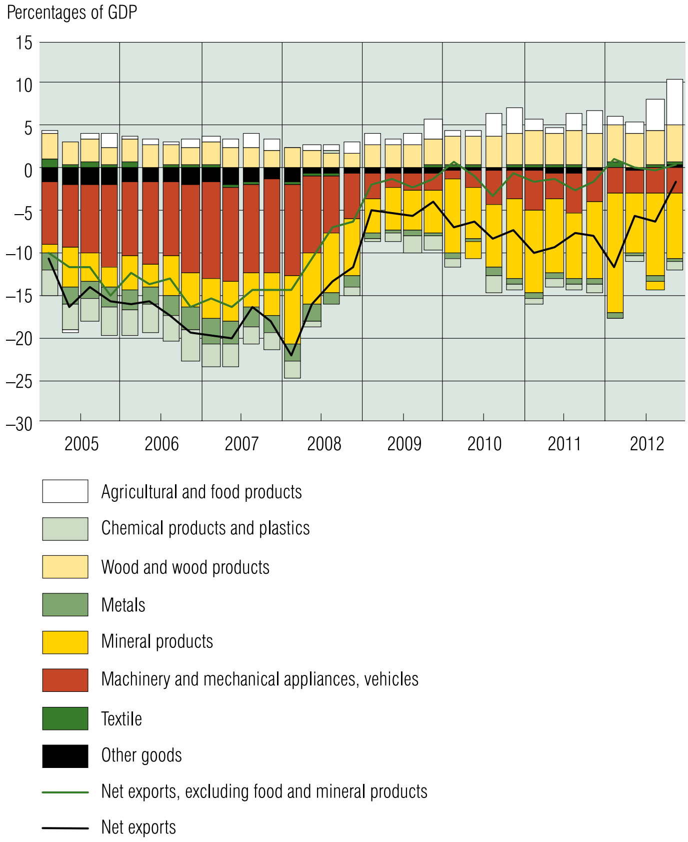
Sources: Statistics Lithuania and Bank of Lithuania calculations.

External Sector

In 2012 the deficit of foreign trade in goods was smaller year on year. Favourable trade balance development was basically entailed by buoyant export growth vis-à-vis import — particularly sales of record-high agricultural crops in international markets in the second semi-annual period.

Development of nominal export of goods was robust even under the impact of a significantly lower increase of foreign demand. Such a situation suggested, in part, good competitiveness of Lithuania's exporters. Nevertheless, at the beginning of the year export development was relatively weak because of unfavourable effects of both re-export and export of Lithuanian-origin products. Re-export was particularly impacted by the vehicles base effect (arising from changes in custom duties to some countries of CIS), and export of Lithuanian origin products — due to overhaul, the activities of *AB ORLEN Lietuva* were suspended for more than a month. In the second half of 2012 the development of export intensified: a step-up of domestic demand in CIS markets and a drying out negative base effect made a favourable impact on re-exports, while renewed activities of the oil processing industry and export of agricultural product crops supported a material increase of export of Lithuanian origin products. The year 2012 was especially friendly to Lithuania's farmers: the amount of corn alone grown this year was one-fourth larger year on year, and due to high global food prices the nominal value of exports more than doubled in the second half-year.

Chart 3. Foreign trade balance



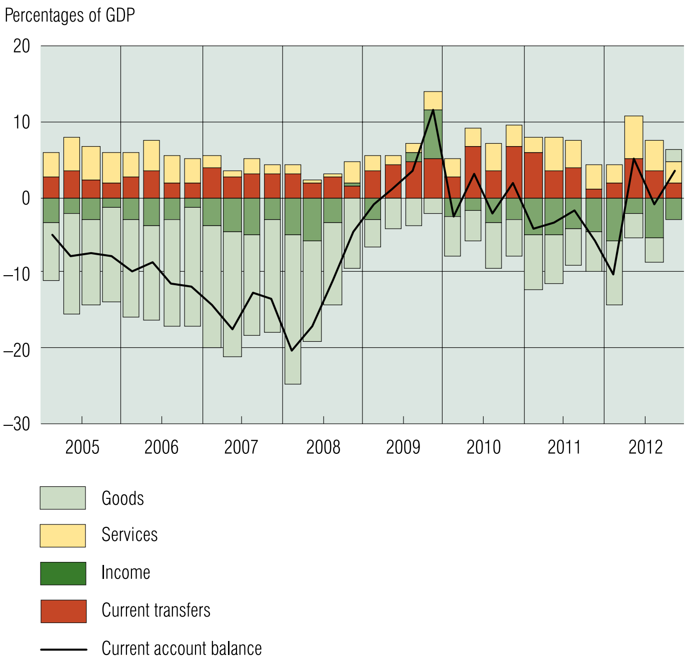
Sources: Statistics Lithuania and Bank of Lithuania calculations.

Because of a slower increase of domestic demand, nominal import of goods grew at the most moderate rate in the course of three previous years. Driven by an unstable demand for oil refinery industrial raw materials, import development was especially fluctuating at the beginning of the year; however in the second half-year it became more stable. Substantially smaller imports of both consumption and capital goods year on year evidenced reserved consumer and business expectations which were affected in particular by the uncertainty surrounding the intensifying euro area crisis

The current account deficit in 2012 was insignificant (0.5% of GDP). In the first half-year the current account balance fluctuated because of non-systemic factors: a share of EU structural fund transfers planned to be performed in the first quarter were delayed (to an investigation conducted by the European Commission) and the overhaul of *AB ORLEN Lietuva,* made in the second quarter entailed a marked redistribution of foreign trade flows. In the second half of the year the current account experienced an extremely favourable influence by a larger than normal surplus of foreign trade in goods and services.

In 2012 the current account balance was positively affected by current transfers — composed largely of the EU structural support funds and remittances of emigrants to Lithuania. EU fund current transfers to Lithuania were almost one-fifth larger than in 2011, whereas workers' remittances were smaller by approximately one-tenth. However, net positive effect of current transfers on the current account decreased largely due to more intensively increasing contributions to the EU budget and in particular due to workers' remittances from Lithuania. The development of the services balance was different — its surplus grew by one-fourth. This shift was influenced most of all by increasing volume of transportation, road transport in particular, and exports of additional transportation services; also by improving balance of travel. The latter shows that inbound tourism to Lithuania is increasing. As usual, income deficit exerted a negative impact on the current account balance, however, the deficit volume narrowed somewhat in the course of a year.

Chart 4. Components of the current account balance



Sources: Statistics Lithuania and Bank of Lithuania calculations.

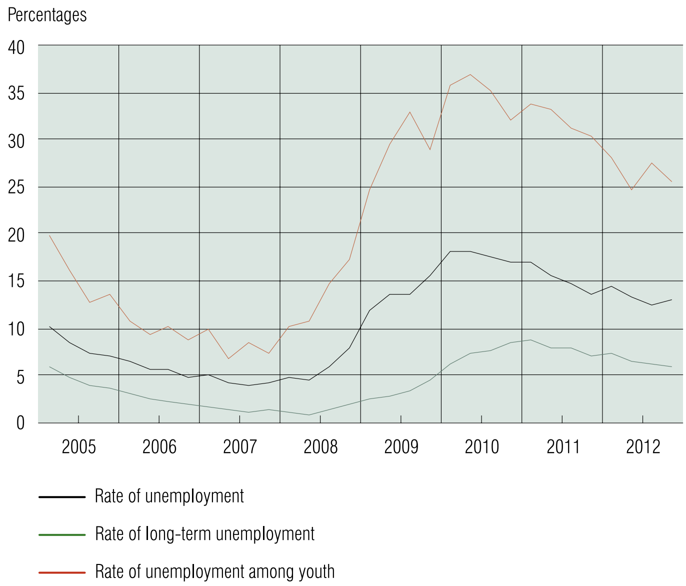
The accumulated current account deficit reflects a net financial flow to Lithuania which was largely formed by the soaring general government external debt. Net direct investment flow in Lithuania was positive as well, but it was almost half as small as in 2011 — basically due to dividends paid out by foreign capital manufacturing enterprises and reduced re-investments (as earlier, the major share of direct investment in Lithuania is composed of re-invested profit of foreign capital enterprises). The surplus of capital account reflecting capital transfers of the EU structural funds was almost the same as in 2011. The largest negative net financial flow was generated by the banking sector — especially the increase of assets held abroad and a further reduction of foreign liabilities. Foreign liabilities of banks are decreasing more rapidly year on year, but at a more moderate rate compared to 2009–2010.

Labour Market

The growing economy improved the situation in the labour market — the average annual rate of unemployment dropped to 13.2 per cent (15.3% in 2011). Unemployment in all age groups of the population was less; however, the rate of unemployment among young people fell significantly. Nevertheless, even one-fourth of young people wishing to work and able to work were unemployed in 2012. Already for the second year in a row long-term unemployment (lasting for a year or more) was slightly decreasing. The long-term unemployed are unlikely to find a job easily; therefore, a decrease in their number may suggest their withdrawal from the labour market. Nevertheless, nearly half of the unemployed were long-term. This ratio almost did not change year on year.

The number of employed in 2012 was larger by 1.8 per cent, but trends in the private and public sectors were different. Employment in the public sector might be influenced by restrictive fiscal policy, thus the number of the employed in this sector almost did not change. Compared to 2011, the tradable sector — manufacturing and agriculture — contributed relatively more to the growth of the number of employed. The capacity of the Lithuanian enterprises to compete internationally in generating good export results might have also contributed to employment growth in manufacturing. A bountiful harvest determined a significant effect of agriculture to the employment growth in the second half of the year, but, most likely this impact was of a temporary nature. The services sector, more dependent on domestic demand, made a substantial contribution to the employment growth in the first half of the year, however, later its positive effect diminished. In the last quarter, the number of the employed in this sector was even less year on year.

Chart 5. Rate of unemployment



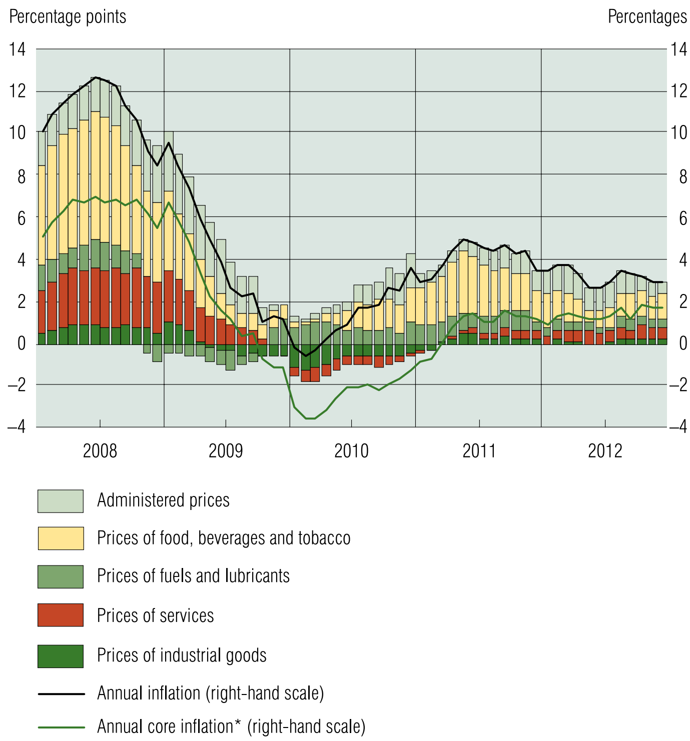
Sources: Statistics Lithuania and Bank of Lithuania calculations.
Note: data up to the first quarter of 2011 have been recalculated on the basis of the population and housing census of 2011.

In 2012 the average gross wage in the domestic economy rose by 2.7 per cent — slightly more rapidly than in 2011. Part of this change resulted from an increase of minimum monthly wages (by LTL 50 — to LTL 850) and minimum hourly pay from 1 August 2012. In the first half of the year trends in the tradable and non-tradable sectors diverged. In the tradable sector wages started to rise almost twice as fast as in the non-tradable sector and at the end of 2012 reached their pre-crisis level, whereas in the non-tradable sector this indicator remained smaller by 5 per cent. The growth of wages was most influenced by increasing regular payments. This movement is related to the recently decreasing uncertainty surrounding further economic development. Non-regular payments (irregular bonuses, premiums and additional payments, etc.) exercised a more touchable effect only on the growth of the private sector wages at the beginning of the year. The growth rate of wages in the private and public sectors was similar.

Prices and Costs

In 2012 the average annual HICP inflation amounted to 3.2 per cent. A large share of this indicator (about four-fifths) was associated with external factors: prices of food, including beverages and tobacco, and administered prices contributed one-third of inflation each; a smaller contribution was made by higher fuel prices. The strongest effect on inflation in the food group was made by more expensive meat and dairy products, and because of higher excise duties — by tobacco products. About half of the effect of administered prices was attributed to this group's component with the biggest weight in the consumer basket — heat energy. In 2012 its price rose by more than one-tenth. Gas (the price of natural gas for household consumers jumped in mid-2012 by more than one-fifth), passenger road transport and electricity also contributed to a rise of administered prices. Core inflation[1], covering prices of industrial goods and market services and closely related to the domestic situation, was modest in 2012 and had a minor effect on overall inflation.

Chart 6. Contributions to the annual HICP inflation



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

Compared to 4.1 per cent average annual inflation in 2011, in 2012 it decreased mostly due to a half as slow growth of food prices, including the prices of beverages and tobacco. Trends of these prices are attributed to a more favourable to consumers development of global food commodity prices: after a jump by almost one-fourth in 2011, global food commodity prices fell noticeably in 2012. Inflation in Lithuania decreased also due to a smaller rise in fuel prices: compared to 2011, it slowed down by more than a half, stimulated by changes in the international oil market. In 2011 the price of *Brent* oil in USD jumped by almost 40 per cent, whereas in 2012 it remained broadly unchanged. Administered prices and prices of market services precluded inflation from a bigger decrease — in 2012 these prices increased more buoyantly than in 2011. A

[1] *Core inflation is an inflation indicator, the calculation of which does not include certain prices that are most volatile. The Bank of Lithuania calculates the core inflation indicator as the change of the HICP, excluding prices of food, fuels and lubricants, and administered prices.*

rise in administered prices was accelerated most of all by the price of electricity (in 2011 it remained unchanged, while at the beginning of 2012 it increased), and the rise of market services prices — by increased prices of restaurant and café services. An increase in prices of industrial goods in 2012 was approximately the same as in 2011.

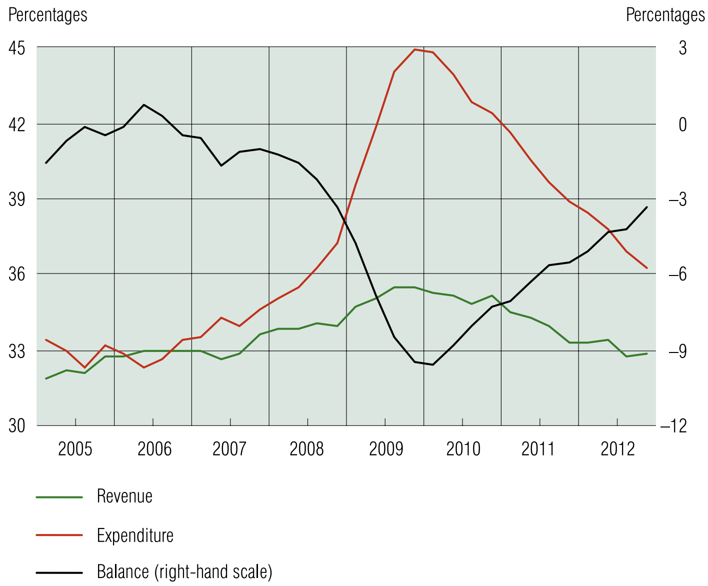
Trends of various price indicators were rather favourable to consumers in 2012. Annual rise of producer prices in the domestic market was subsiding almost throughout 2012, thus, pressure from the production chain on consumer prices was weak. At the end of 2012 import prices also rose at a much slower pace than at the beginning of the year. In each quarter of 2012, the annual change of unit labour costs was small and did not exert significant pressure on prices.

General Government Finances

In 2012, the general government sector situation improved further. General government deficit accounted for 3.3 per cent of GDP and was 2.2 p.p. smaller than in 2011, driven by the substantially decreased (by 2.6 p.p. — to 36.2%) government expenditure to GDP ratio. The main reason behind the decrease in this ratio was increased GDP; however, expenses decreased as well (by 0.8%). The decline was driven mainly by a fall in investment by approximately 5 per cent year on year. While cutting public expenditure improves the public finance situation in the short term, public investment, especially that which is for the renewal and development of the infrastructure, is indispensable for sustainable economic development in the longer term.

General government revenue surged in 2012, however, its ratio to GDP declined (by 0.4 p.p. — to 32.9%), as its growth was not as strong as that of the GDP. Growth in general government revenue was driven mainly by direct taxes and social contributions. The rise in the revenue of personal income tax and social contributions was prompted by the expansion of the wage fund; moreover, more income tax was collected due to the rise in taxable profit in the previous year. Higher profitability expectations encouraged enterprises to pay profit tax based exactly on the previous year's performance. Moreover, larger wage fund increased household consumption, and the latter, in its turn, indirect tax revenue. Increased tariffs of certain excise duties, as well as highly increased dividends from public enterprises also exerted positive influence on government revenues.

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



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Having divided central government balance into the structural and cyclical parts, one can see that some four fifths of the decline in deficit in 2012 year on year was driven by a decline in structural deficit. Cyclical deficit narrowed as well, yet to a minor extent, which suggested a low influence of the business cycle on deficit development. Out of the subsectors of the government sector, the impact of central government on the decline in primary structural deficit, which can be considered as the indicator of government finance consolidation, was probably the most pronounced. Central government deficit was significantly narrower than a year ago because of a significant rise in revenue, and its expenses were limited by budget related legal acts passed at the end of 2011.

The government sector debt to GDP ratio picked up by 2.2 p.p. — to 40.7 per cent in 2012. The favourable "snowball" effect — the positive difference between the economic growth rate and the average interest rate payable on a debt—prevented it from increasing stronger. The debt grew by more than LTL 5 billion over the year — to LTL 46.0 billion. Two thirds of this increase was driven by the expanded portfolio of long-term government securities, the remaining portion–long-term loans. According to the Ministry of Finance of the Republic of Lithuania, the Government of the Republic of Lithuania borrowed a total of LTL 11.3 billion in 2012, of which more than half (LTL 6.1 billion) were used for the discharge of previous liabilities. It should be noted that the debt of social security funds has been growing for a fourth consecutive year. In 2012, it amounted to LTL 9.7 billion (8.6% of GDP).

Financial State of the Private Sector

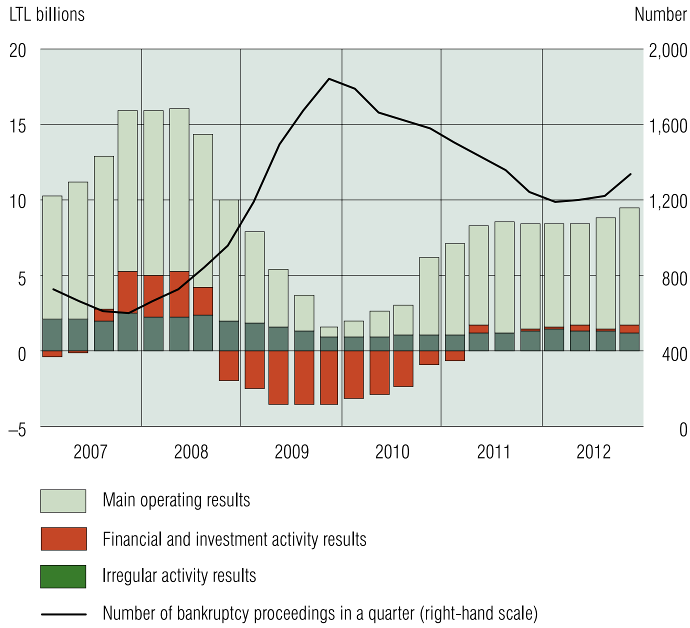
Activities of Non-financial Corporations

In 2012 the financial position of non-financial corporations was improving although at a more moderate rate than before. During the mentioned period, income and profit earned by business enterprises from sales were the largest from the outbreak of the economic downturn, resulting in a smaller share of enterprises confronted with financial difficulties. However, profitability and equity return indicators of sales of enterprises during the period under review were almost unchanging and worse than before the economic downturn. Persisting uncertainty surrounding the economic growth prospects and demand from export markets stimulated corporations to act in a cautious way. Insufficient demand remains among the main factors limiting enterprise activities, thus limiting investment because it is this contribution (e.g., industry) that is the most important when making investment decisions. In 2012 business tangible investment almost did not change and over half of this investment was financed by own funds. Contribution of domestic bank loans in financing tangible investment of non-financial corporations decreased somewhat year on year to 16.9 per cent.

The share of loans to production, trade, transport, construction and real estate economic activity enterprises[2], which are important to Lithuania's economy, because they create the major share of value added and employ almost half of all workers, remain the largest in the portfolio of MFI loans to non-financial corporations. Thus, the financial position of enterprises of these economic activities and capacity to return debt exert the most material effect on the quality of the portfolio of the banking sector loans to businesses and possible credit losses.

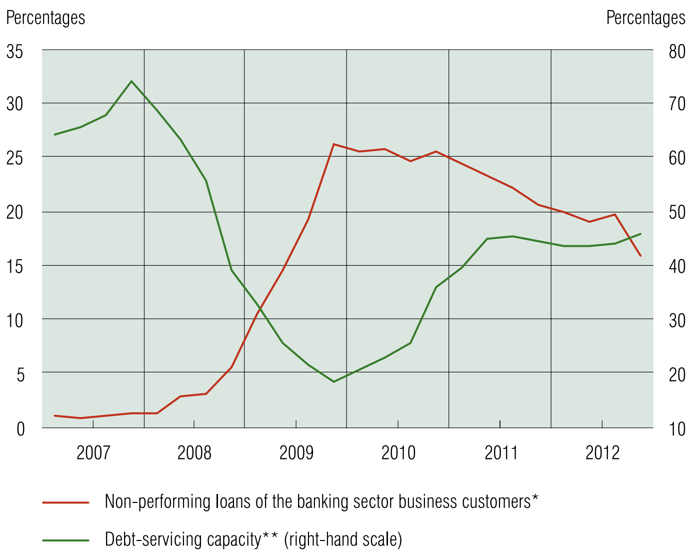
[2] *Names of some economic activities are abbreviated.*

Chart 8. Contributions determining operating results of non-financial corporations and the number of initiated bankruptcy proceedings per year



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

Chart 9. Capacity of non-financial corporations to return debt



Sources: Statistics Lithuania and Bank of Lithuania calculations.
**Compared to the total loan portfolio.*
***Profit before taxes, amortisation and depreciation, compared to financial liabilities.*
Note: fourth quarter of 2012, excluding AB Ūkio bankas.

Despite the fact that the average industrial confidence indicator was in 2012 two times worse than a year ago, sales income of manufacturing enterprises were the largest from the start of the publication of this indicator, i.e., in 1998. Although with the growth of income profit did not rise in the same way (at the end of the year the number of enterprises experiencing losses stepped up a bit), the sales profitability indicator and return on equity shrank somewhat, enterprises of this economic activity increased tangible investment, one-fifth of which was financed by borrowings from banks. Accordingly, banks assessed borrowing for manufacturing enterprises positively though the number of initiated bankruptcy proceedings grew slightly in the period under review. Still, ample capacity of these enterprises to return debts might have had an impact on this situation — their profit before taxes, amortisation and depreciation almost equalled all financial liabilities assumed. Persisting uncertainty in the main export markets forced enterprises to assess business development with particular caution, therefore, investment did not grow so fast although available production capacities are used more intensively compared to their usage in the past on average.

Gradually recovering private sector expectations and improving financial stance resulted in larger sales income of wholesale and retail trade enterprises. In 2012 this indicator was almost equal to the level before the economic downturn. About two-thirds of enterprises earned profit and their profit earned was moderately increasing since late 2009. In the context of strengthening of the financial stance of enterprises, growing sales profitability and return on equity; their capacities to return debt were expanding, thus mitigating credit risk to banks. Nevertheless, the confidence indicator of trade enterprises in 2012 was on average worse than a year ago. This might be the result of still persisting uncertainty and especially cautious private sector consumption and/or investment decisions. Activities of transport and storage enterprises, relatively closely related with trade enterprises, are recovering at a robust pace. Income of the latter sales in 2012 exceeded by more than one-third the income earned before the economic downturn, and the profit earned per year was the largest from 2007. In the course of four recent years, transport and storage enterprises reduced their financial leverage materially and their capacities to return debt improved substantially.

Table 3. Key performance indicators of non-financial corporations
(percentages)

Type of an economic activity*	Profitability**		Financial leverage***		Capacity to return debt****		Probability of bankruptcy*****	
	2011	2012	2011	2012	2011	2012	2011	2012
Forestry and fishing	8.3	6.8	29.8	29.0	416.6	334.1	3.8	4.2
Mining and quarrying	31.1	16.5	108.5	88.1	70.7	60.6	0.0	0.0
Manufacturing	3.7	3.3	93.0	95.4	57.7	55.2	2.6	3.0
Energy supply	1.5	3.1	38.8	51.4	73.1	59.9	0.0	0.3
Water supply	3.0	3.2	36.2	35.5	73.2	83.9	1.9	1.8
Construction	1.3	2.9	148.5	121.2	19.8	35.5	4.4	4.3
Wholesale and retail trade	2.8	2.7	143.3	145.3	43.9	45.8	2.0	2.1
Transport and storage	6.4	5.7	58.5	55.4	87.9	94.5	2.6	2.1
Accommodation and catering	4.4	3.1	201.8	213.9	17.2	15.3	3.8	4.1
Information and communication	10.3	9.3	63.7	69.9	78.9	77.1	1.4	0.9
Real estate operations	16.8	21.5	127.5	133.3	13.2	12.2	2.2	1.6
Professional, scientific and technical activities	32.2	35.0	20.4	15.0	58.7	90.7	1.3	1.1
Education	7.9	–0.6	40.6	45.7	177.2	58.5	0.8	1.4
Total	4.4	4.3	71.7	74.9	45.3	46.2	2.5	2.5

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 profit before taxes to sales over the period.*

**** Ratio of liabilities to own capital; end-of-period.*

***** Ratio of profit before taxes, amortisation and depreciation over the period to end-of-period financial debts.*

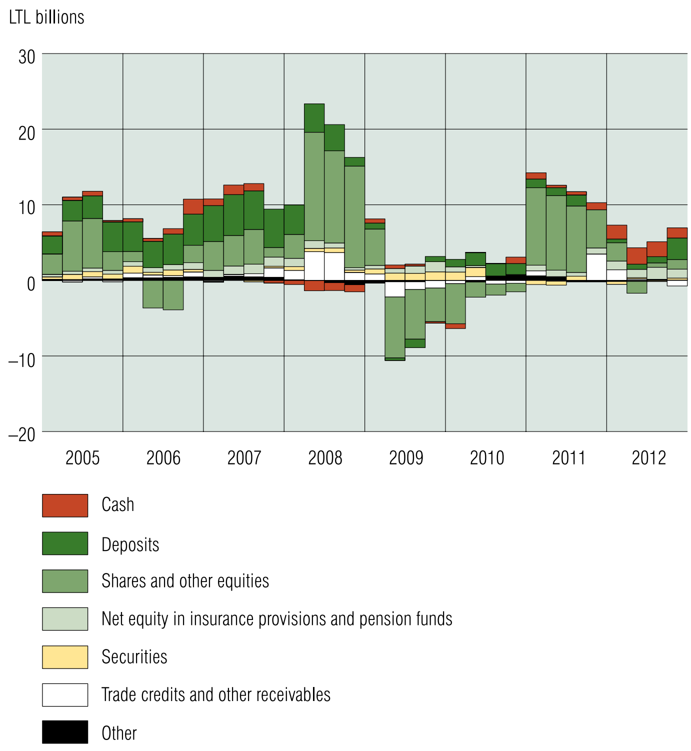
****** Ratio of the number of initiated bankruptcy proceedings during the year to the end-of-period number of corporations.*

With a decrease of the number of the unemployed and initiated bankruptcy proceedings, the financial position of the private sector started to improve and the number of transactions in the real estate market stepped up. As from 2010 orders for construction works have been growing and a larger number of enterprises reported an increasing scope of construction. However, construction enterprises are recovering at a very slow rate, their sales income in 2012 halved the level reached in 2008, sales profitability and return on equity is growing little by little, while the ratio of initiated bankruptcy proceedings to the total number of enterprises is the largest. Capacities of construction enterprises to return debt among enterprises of other economic activities were one of the worst; therefore, banks estimated lending to these enterprises conservatively. Also, in a rather conservative way the banks assessed lending to real estate enterprises, although the financial position of these enterprises improved within several years after the economic downturn. In the environment of increased sales income and not so rapid costs growth, more than half of real estate enterprises earned profit in 2012. However, their (as well as of construction enterprises) capacities to return debt were among the smallest and the number of initiated bankruptcy proceedings was still large.

Household Finances

In 2012 the financial position of households improved. In the environment of increasing sales in domestic and foreign markets, enterprises of some economic activities were confronted with the shortage of suitable skilled labour force. Increasing demand for labour force resulted in a rise of competition for workers — wages paid to them were growing, the number of the unemployed started to shrink. During the period under review, gross wages advanced in Lithuania by 2.6 per cent, and the number of registered unemployed dropped by 7.4 per cent. In the context of the strengthening financial position of consumers, in 2012 the confidence indicator improved. At the end of the year it was still negative, but reached its peak from the outbreak of the economic downturn.

Chart 10. Annual contributions to household financial assets

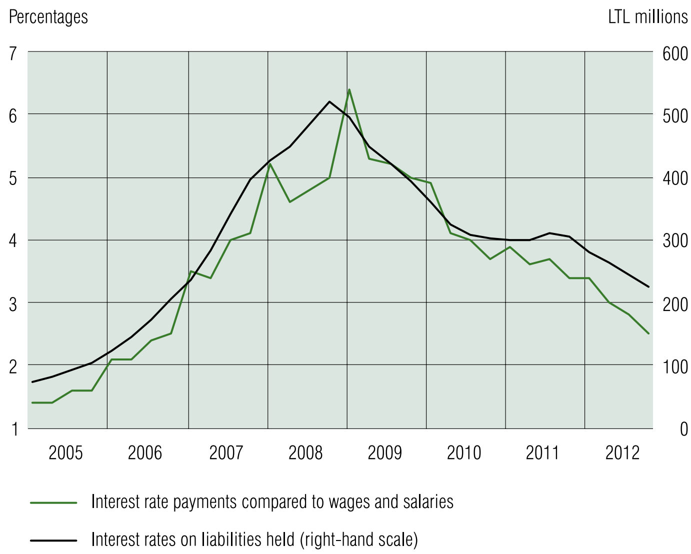


Source: Bank of Lithuania calculations.

Despite the improving financial position of households and growing confidence, households remained to be circumspect and were in no hurry to assume new financial liabilities, they kept raising their financial assets. As in previous periods, the most significant share (two-thirds) of total household financial assets was composed of equity held in non-financial corporations (unquoted shares basically) and deposits with the banking sector at the end of the third quarter of 2012. In fact, in the course of the recent year these financial asset items of households grew insignificantly, while the strongest influence on the rise of financial assets of the population was exerted by increased cash and equity in insurance companies and pension funds. The growth of cash held by households was affected by insured deposits paid out after instituting bankruptcy proceedings to *AB bankas SNORAS*. A part of these deposits did not return to the banking sector. Additionally, in the environment of interest rates charged on deposits being as low as never before, people were not inclined to save for a longer period and preferred cash and keeping of funds on accounts. An increased net equity of the population in pension funds resulted from several essential factors: in 2012 the number of 2nd pillar and 3rd pillar pension fund participants was growing, the value of assets held by these funds rose because of recovered financial markets and increased values of investment units held in pension funds.

During the entire period under review, household financial liabilities have, from late 2003, consisted of three instruments: loans (in the third quarter of 2012 they amounted to 90%), trade credits and payables and financial derivatives. The majority of these financial liabilities have been assumed in the banking sector. After the economic downturn when the financial position and expectations of households started to deteriorate rapidly, the consumption and investment prospect by borrowed funds became unattractive and the population started to reduce financial liabilities held in MFIs. Until 2012 people returned mainly not housing loans, but other loans. From 2012 the repayment of housing loans intensified. In the environment of average housing prices standing basically still for more than two years, a part of the population hurried to purchase their own housing (activity in the real estate market stepped up a bit). However, the gap between the number of transactions in the real estate market and the growth of the amount of new loans for housing expanded. This suggests that a relatively smaller share of the purchase of new housing was financed by lent funds. The major share of commercial banks surveyed by the Bank of Lithuania[3] in the nearest future do not expect any more significant changes of real estate prices and housing loan purchase portfolio, disregarding easier lending conditions and low as never before interest rates on loans for house purchase.

Chart 11. Households interest rate payment to MFIs burden



Source: Statistics Lithuania and Bank of Lithuania calculations.

[3] *Bank Lending Survey, April 2013.*

With strengthening of the financial situation of households, their credit risk to MFIs, to which the population assumed the largest amount of liabilities, mitigated in 2012. The rates paid by households for their loans from MFIs shrank within the period under review from LTL 2.4 billion to LTL 1.9 billion, basically due to decreased interest rates, because the loan portfolio did not change much. Interest rates on loans were influenced most of all by the change of interest rates on inter-bank loans in euro because about half of all new loans to the population is given in euro with a fixation period of up to one year. With the ECB further implementing expansionary monetary policy and maintaining a key interest rate as low as never before, the previous uncertainty dominating the inter-bank market subsided and the rate of inter-bank loans in euro at the end of 2012 were the smallest within the entire period under review from early 1999. An improving financial situation of the population and reducing burden of the return of financial liabilities exerted a positive impact on the quality of the banking sector loans for house purchase — it improved in the context of shrinking the share of non-performing loans in the loan portfolio.

Development of the Credit and Deposit Market[4]

With a slight slackening of economic growth, the EU banking sector loan portfolio shrank. In the third quarter of 2012 annual nominal GDP growth in 27 EU member states was more moderate and might determine smaller credit demand (in 2012 it shrank by 0.5%). The shrinkage of borrowing from MFIs was basically influenced by a decreased loan portfolio in euro area states (in 2012 bank lending conditions in the euro area became more stringent — this was felt most of all by non-financial corporations, a part of which (in Southern states in particular) is confronted with difficulties in reducing budget deficits, thus exerting a negative effect on real economy. Moreover, commercial banks are undertaking little by little to implement tighter capital adequacy requirements that will be enforced in the future. These requirements may slow down crediting of the economy. The growth of deposits in the EU banking sector was limited by their shrinkage in some euro area countries experiencing fiscal problems (e.g., Spain, Portugal, Cyprus). However, deposits in the EU member states that do not belong to the euro area were growing more rapidly disregarding still lower than before interest rates charged on them. A reason behind their increase may be still persisting uncertainty surrounding future economic development, poor expectations of the population and wish to accumulate a sufficient amount of reserves for emergencies.

In 2012 the bank sector loan portfolio in Lithuania showed more signs of recovery — it expanded by LTL 0.6 billion or 1.1 per cent. Slightly shrinking in the first months, it recovered in March–November and stepped up by LTL 0.9 billion (as usual, in the last month liabilities were reduced by the private sector). In the context of the improving financial position of the main bank debtors — non-financial corporations and households — the assessment of the bank lending to them became more favourable and crediting conditions softened. Furthermore, financing of consumption and/or investment by borrowed funds turned to be a more attractive source because interests on loans persisted to be low as never before.

[4] Statistical reporting data prepared by the Bank of Lithuania that are used in this part of the Annual Report, assessing the loan and deposit development in Lithuania, may differ from the data collected for supervision purposes.

Table 4. Developement of the total value of bank loan portfolios

(in parentheses is provided price excluding *AB bankas SNORAS*)

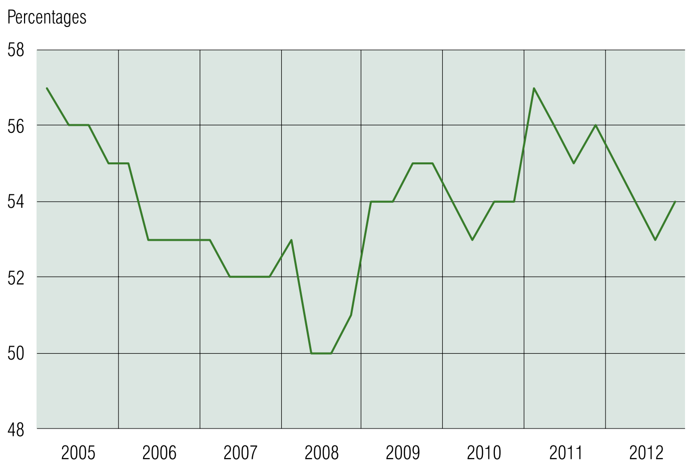
Percentages

	2010	2011	2012
Total loan portfolio	–4.9 (–5.6)	–5.3 (–0.9)	1.1
Portfolio of loans to financial intermediaries	27.6 (23.0)	–23.3 (–5.9)	38.5
Portfolio of loans to government	76.6 (76.6)	31.7 (34.1)	5.5
Portfolio of loans to non-financial corporations	–10.1 (–11.2)	–7.3 (–2.6)	0.3
Portfolio of loans to households	–5.3 (–5.2)	–4.5 (–1.9)	–1.9
Housing loans	–0.7 (–0.8)	–0.8 (–0.1)	–1.0
Consumer and other loans	–17.2 (–17.4)	–15.9 (–7.9)	–5.1

Source: Bank of Lithuania calculations.

In 2012 sales income of business enterprises was the largest within the previous fifteen years and the profit earned in a year was the most abundant from the outbreak of the economic downturn. In the context of increasing orders (basically not in the Lithuanian market) for the manufacturing of production and performance of works, non-financial corporations used their industrial capacities in 2012 at a more intensive rate on average than a year ago and financed an increasing part of their activities from lent funds (business financial leverage was rising). In the first eleven months of 2012 the banking sector lending to non-financial corporations (together with lending to leasing companies which allocate a part of their resources for the financing of business) became the main contribution of the growth of the loan portfolio. However, in December, enterprises, as usual, reduced their liabilities to MFIs. In 2012 the bank sector portfolio of loans to non-financial corporations increased by LTL 0.1 billion or 0.3 per cent (to compare: year on year, excluding data on *AB bankas SNORAS*, portfolio of loans to non-financial corporations shrank by LTL 0.7 billion or 2.6%).

Chart 12. Development of the business sector's share of assets financed by own funds



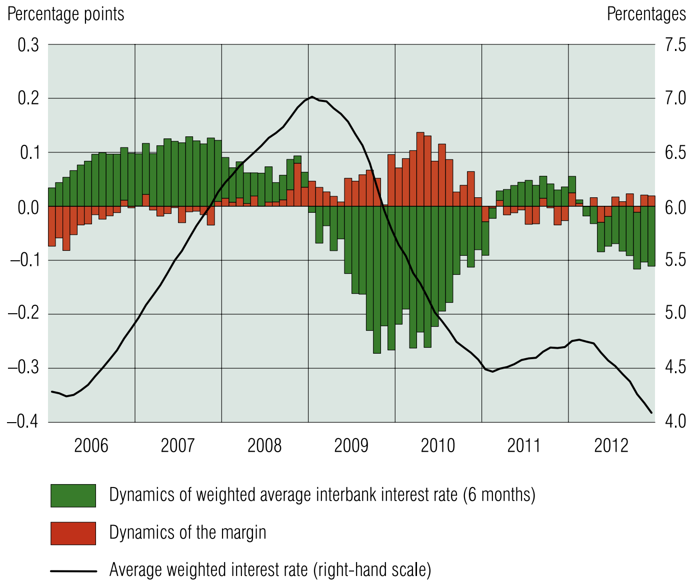
Source: Statistics Lithuania and Bank of Lithuania calculations.

An intensive development of the activities of non-financial corporations resulted in a situation that enterprises of some economic activities were confronted with the shortage of a suitable skilled labour force. Accordingly, this might have caused a rise in its demand, slowly growing wages and strengthening financial position of households. After a drop of the number of the registered unemployed in 2012 and growing up a little of gross wages, the wage and salary fund expanded by 2.4 per cent. Despite this fact, the population assessed the future with caution (although slightly better than a year ago) and curtailed (by a bit smaller volume than earlier) liabilities assumed to the banking sector. In 2012 the portfolio of loans to MFIs shrank by LTL 0.5 billion or 1.9 per cent and did not basically change from the reduction of the portfolio of loans to this sector in 2011 (excluding data of *AB bankas SNORAS*), but its structure changed and the population started to return loans for house purchase quicker.

Average weighted interest rates on the banking sector new loans to the private sector remain as low as never before. Given the composition of new loans to households and non-financial corporations by interest rates, expansionary monetary policy in the euro and decreased interbank interest rates (both in litas and euro, although the latter dropped at a more rapid rate) exerts the essential effect on still low interest rates, because the major share of interest rates on new loans is fixed for a shorter period than one year. However, the reduction of interest rates on new loans were set-off to some extent by slightly higher margins reflecting a cautious assessment of credit risk assumed by banks despite a gradually improving financial position of borrowers. In late 2012 average weighted interest rates on the banking sector new loans to the private sector accounted for 3.6 per cent and were 1.1 percentage point smaller year on year.

Despite a slight growth of the spread between interest rates on new loans in litas to the private sector and such loans in euro, enterprises and the population (the latter in particular) continued to increase their loans in litas although loans in this currency were still somewhat more expensive than loans in euro. Such a situation changed the loan portfolio structure by currency. A similar trend dominated in 2006–2007. At that time, after a decrease of the spread between interest rates on loans, the population preferred borrowing in the national currency rather than in euro, although such borrowing was more expensive. Having decreased in 2011, the spread between interest rates on new loans in 2012 with the fixation period of up to one year and those with a fixation period of over one year grew a bit. This also changed the composition of new loans (to households in particular) due to a larger share of loans with the fixation period of up one year. Thus, borrowing from MFIs, households are sensitive to the size of interest rates and assume financial liabilities at a cheaper price disregarding higher risk.

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

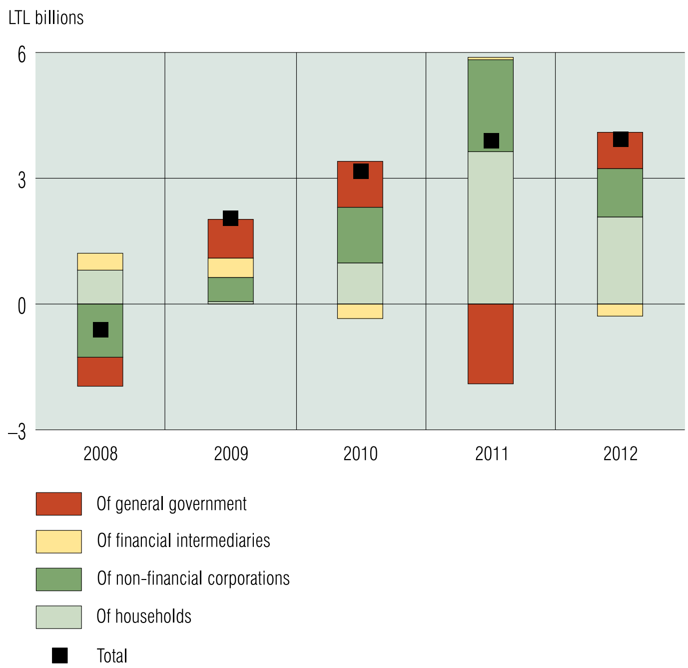


Sources: www.euribor.org and Bank of Lithuania calculations.

As always, having shrunk at the start of the year (basically due to deposits withdrawn by the private sector) deposits began to increase in later periods of 2012. The drop of deposits with banks was influenced by seasonal factors: the beginning of heating season and an increased demand for financial funds after a holiday period. Afterwards deposits grew and throughout 2012 expanded by LTL 3.8 billion or 9.0 per cent. The most significant influence on the growth of deposits with banks in the period under review was entailed by households, non-financial corporations and central government. More intensive growth of deposits in Lithuania compared to all of Europe might have resulted from relatively poor expectations for the future and related demand to accumulate additional reserves for emergencies. Moreover, households were still conservative and avoided assuming of additional risk and use of alternative investment measures. Their conservatism may be seen in the fact that despite of particularly low deposit rates, deposits were growing (increased confidence in financial institutions might have had an effect on this because after some bankruptcies insured deposits were returned quicker than provided in a law). However money in pension funds was accumulated more intensively.

In the context of the moderate recovery of the MFIs' crediting activity, the demand for the attraction of new deposits was insignificant; therefore, interest rates on deposits reached the lowest level within the recent eight years. In late 2012 interest rates on new private sector deposits amounted to 0.8 per cent and and were more than twice as small as at the beginning of the year. Low interest rates changed depositors' behaviour and structure of deposits. In 2012 term deposits held by the private sector shrank by LTL 0.9 billion, but funds of bank accounts (of overnight deposits) grew by LTL 3.3 billion.

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



Source: Bank of Lithuania calculations.

II. KEY FUNCTIONS OF THE BANK OF LITHUANIA

Exchange Rate and Monetary Policy

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

Exchange Rate Policy

In the context of the fixed litas exchange rate regime, the Bank of Lithuania ensures free exchange of litas into euro and vice versa, thus, it cannot directly regulate litas market interest rates and the amount of litas in circulation, as the latter is driven by the changing litas demand. For these reasons, the Bank is unable to directly regulate aggregate demand and the price level. However, the fixed exchange rate of the litas means that the primary objective is pursued indirectly, i.e. it helps to keep export and import prices stable and encourages international trade, forms low inflation expectations and supports confidence in Lithuania's economic policy. The fixed exchange rate of the national currency therefore helps to maintain relative price stability in the long term perspective. Such a strategy, applied from 1994, is quite successful due to the openness of Lithuania's economy and the relative flexibility of prices and wages.

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

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

One of the conditions for the adoption of the euro is the country's participation in the ERM II. Lithuania joined the ERM II on 28 June 2004; since then it has maintained the fixed exchange rate regime and a stable exchange rate of the litas against the euro, which is LTL 3.45280 for EUR 1. In its convergence programmes, the Government of the Republic of Lithuania repeatedly reaffirmed the country's plans to continue participation in the ERM II and maintain the fixed exchange rate of the litas against the euro at the current rate. The Bank of Lithuania continues to maintain institutional readiness for a smooth and rapid currency changeover in case the EU Council adopts a decision to introduce the euro in the country.

Monetary Policy Instruments

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

Implementing the fixed litas exchange rate regime, the Bank of Lithuania has assumed a commitment in respect to banks subject to reserve requirements to buy and sell anchor currency without restriction at the official exchange rate. The net result (the amount of euros purchased or sold by the Bank of Lithuania over a certain period of time) directly depends on the change in the autonomous factors[5] of the banking sector's reserves in litas, required reserves and excess reserves.

The Bank of Lithuania has the possibility to apply rather varied monetary policy instruments with, however, a limited impact. Of these, required reserves and standing facilities for transactions with the Bank of Lithuania are used constantly. In December 2011, in response to the interbank market volatility triggered by temporary factors (bankruptcy of *AB bankas SNORAS*), the Bank of Lithuania renewed open market operations of limited scope. Through these operations, banks operating in Lithuania have been offered wider possibilities to manage liquidity and cash flows. The operations were terminated in April 2012, after the required reserves of the banking sector reached their normal level.

Table 5. Monetary policy instruments of the Bank of Lithuania

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

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

Required Reserves and Banking Sector Liquidity Development Factors

In January 2013, the Bank of Lithuania reduced the reserve requirement ratio of 4 per cent, which was applied from October 2008, to 3 per cent. This change freed almost LTL 0.5 billion in the banking sector. The goal of the changes was to gradually approximate to the 1 per cent required reserve ratio prevalent in the euro area. Before the change, in 2012, the volume of required reserves increased by LTL 211 million (12.0%) solely due to a change in bank liabilities. The suspension of the operations of *AB Ūkio bankas* had minor impact on the required reserve ratio — the volume of required reserves decreased by less than 2 per cent.

Similar to previous years, the autonomous factors of the banking sector's reserves in litas contributed to the growth in the surplus of its reserves in litas, whereas the amount of euros purchased from the Bank of Lithuania by banks in the context of the fixed exchange rate of litas and self-regulation of money supply was higher than the amount of euros they sold to the Bank of Lithuania. In 2012, autonomous factors boosted the supply of bank reserves by LTL 3.8 billion. By exchanging the EU funds and the funds borrowed in foreign currencies into litas and using them in the internal market, the Government of the Republic of Lithuania boosted the supply of bank reserves in litas by LTL 4.6 billion. With a recovery in the economy, the demand for cash litas increased by LTL 0.6 billion, and required reserves — by LTL 0.2 billion. This reduced, accordingly, the surplus of the banks' required reserves in litas.

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

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

At the end of 2011, the banking sector's reserves in litas were unusually high, standing at LTL 6.2 billion, due to insurance compensations paid to depositors of the bankrupt *AB bankas SNORAS* in the amount of LTL 4 billion. They exceeded the required reserves more than three times. As the process of redistribution of insurance compensations among banks took place and banks concluded transactions with the Bank of Lithuania (purchased euros and took part in term deposit auctions), excess reserves contracted in the first quarter of 2012. The normal level of required reserves was achieved in April–June 2012. In July 2012, the ECB cut the interest rates on deposits held with it from 0.25 per cent to 0 per cent, and with negative interest rates on short-term government securities of such countries as Germany, banks faced difficulties earning on short-term, liquid and safe investments. As a result, part of them decided to hold litas on accounts with the Bank of Lithuania until new investment opportunities arise. This decision of the banks resulted in more than double accumulated amount of reserves as compared to required reserves.

Foreign Exchange Operations

In 2012, contrary to 2011, the amount of foreign currency in net terms sold by the Bank of Lithuania was by LTL 0.9 billion higher than that purchased. In 2012, the sale of foreign currency (mainly euros) in net terms to the Bank of Lithuania by the Ministry of Finance of the Republic of Lithuania and other depositors amounted to LTL 3.3 billion, while the purchase of euros by domestic banks in net terms amounted to LTL 4.2 billion. The significant sale of currency in the first quarter of 2012 was determined by the transfer to *VĮ Indėlių ir investicijų draudimas* of funds for the payment of insurance compensations to depositors of *AB bankas SNORAS* at the end of 2011. The formed litas excess was gradually exchanged by banks into euros at the Bank of Lithuania. After *AB Šiaulių bankas* took over the insured liabilities and the good assets of *AB Ūkio bankas,* whose operations were suspended at the beginning of 2013, there was no need to assign as much funds to the state enterprise *Indėlių ir investicijų draudimas* as after the termination of the operations of *AB bankas SNORAS*. Therefore, the amount of funds within the banking sector did not change significantly.

Table 6. Net purchase of foreign currency from the Bank of Lithuania (–) or net sale to the Bank of Lithuania

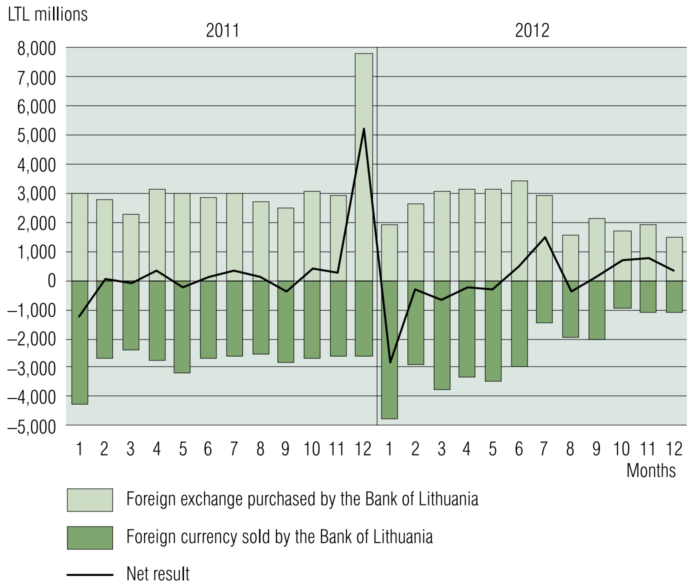
LTL millions

	2011	2012				
		Q1	Q2	Q3	Q4	Q1–Q4
Domestic banks	–5,741.0	–4,302.5	–1,222,3	1,293.1	0.0	–4,231.7
Other depositors of the Bank of Lithuania	10,527.7	476.9	1,173.4	–107.1	1,792.8	3,336.0
Total	4,786.7	–3,825.6	–48.9	1,186.0	1,792.8	–895.7

Source: Bank of Lithuania.

In 2012, the amount of foreign exchange transactions by the Bank of Lithuania with domestic banks and its other depositors totalled LTL 58.7 billion, which is almost one-fifth less than in 2011 (LTL 72.8 billion).

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



Source: Bank of Lithuania.

Financial Market Supervision

Trends and Results of Supervision

After merging three institutions that conducted supervision of separate segments of the financial market on 2 January 2012, the Bank of Lithuania became responsible for the supervision of the entire financial market. The supervisory functions of the Bank of Lithuania expanded also, i.e., alongside prudential supervision, the supervision of the provision of financial services began to be conducted as well. This new infrastructure enabled to supervise all financial market participants according to the same principles, to seek that the financial market operates reliably and effectively, market participants behave responsibly, and consumers make rational decisions.

The process of the integration of the supervision of three different financial sectors took place in 2012: different supervisory systems were merged into a single, more advanced one; the uninterrupted supervisory process was ensured; the mission, vision and operating principles of the Supervisory Service were formulated; short-term and long-term tasks were singled out. After the introduction of the new supervisory model, the principles of the supervision of the financial market participants changed as well — supervision became more future-oriented, major attention is now given to the identification of likely risks and problems at an early stage. Moreover, a more risk-based supervisory process began to be carried out — by supervising more closely the systemically important and riskiest financial market participants of individual sectors. The Supervision Service operating at the Bank of Lithuania further seeks to become not only a consultant to the entities it supervises (many more presentations for discussing issues of relevance were organised, methodical assistance was provided), but a demanding supervisor at the same time. It entered into a more intensive dialogue with the financial market participants subject to supervision. The aim was to achieve a substantial breakthrough in the effective use of the possibilities of information technologies and systems for the supervision of the financial market participants.

In supervising the financial market participants it was aimed that they hold sufficient capital and liquidity, have effective governance, and, at the same time, that the risk they assume is managed adequately. A more thorough quarterly analysis of the operation of each bank, credit union and insurance undertaking, as well as analysis of all types of risk was performed, including into this process experts of specific risk areas, obtaining additional information from the above institutions, and, having determined that problems may arise, banks, credit unions and insurance undertakings were subject to on-site inspection.

In 2012, work with *AB Ūkio bankas* was particularly intensive: at the beginning of the year, the plan for the reduction of loans related to the bank's main shareholder developed by the bank, and starting from the third quarter — the action plan for the restructuring of said loans and presentation of additional collaterals were subject to tight control. During the on-site inspection of *AB Ūkio bankas* at the end of 2012–beginning of 2013, it was established that the bank's assets had been significantly overestimated, its liabilities exceeded its assets, and the bank *de facto* was insolvent. Given these circumstances, on 12 February 2013 the Board of the Bank of Lithuania declared a moratorium on the bank's activities, appointed a temporary administrator, and six days later announced *de jure* the bank as insolvent and revoked its banking licence.

Significant changes took place in the licencing area. In 2012, the legal framework was developed, licences in written form were abandoned, and information about the licences of the financial market participants subject to supervision by the Bank of Lithuania and licenced by it were published on the Bank of Lithuania website. This decision reduced the administrative burden for business entities, and consumers were provided with the possibility to obtain comprehensive information about the licences issued to the financial market participants for the provision of financial services. The licencing process itself is further improved, seeking entry into the market of transparent and financially credible market participants, and that their heads and other persons in charge are competent and of impeccable reputation.

The global financial crisis revealed that regulation and supervision of the financial sector needs to be tightened. In response to the consequences of the financial crisis, the Basel Committee on Banking Supervision has worked out the Basel III framework. The fourth Capital Requirement Directive (CRD IV) will establish the legal regulation of EU credit institutions, which is based on the said framework. In 2012, the CRD IV project and the Capital Requirements Regulation (CRR) were improved, technical standards were developed. Intensive work on coordinating the provisions of these documents took place (many experts of the Supervision Service participated in working (expert) groups of EU institutions, which constantly contributed to the formulation of the country's position), with a major focus on the issues of liquidity, leverage indicator, structure of own funds, cooperation between home and host countries, enforcement measures, credit risk, and remuneration. Meetings were organised for representatives of domestic banks and the Association of Lithuanian Banks, management companies and financial brokerage firms, introducing them to the key principles of CDR IV/CRR and regulations projected to be applied gradually. The Bank of Lithuania and commercial banks began pilot calculations of new indicators. Banks operating in Lithuania are sufficiently well capitalized, maintain sufficient liquidity levels, thus, according to preliminary estimates, they would comply with the new ratios projected.

In order for the organisational structure and internal governance of banks to be effective, based on a bank's long-term business strategy, consistent with the bank's nature of business and, also, implementing the Europe Banking Authority's guidelines on this issue, Guidelines on Internal Governance were prepared. This legal act strengthens the responsibility of bank management bodies for safe and sound activities of banks, adequate management of risk, and self-control. The legal act stipulates that the bank's management bodies shall be responsible for effective governance of a bank, members of management bodies shall have adequate qualifications and competences in taking governance decisions; the need for not only individual, but also collegial qualification, competence and responsibility of a bank's management bodies is stressed.

In the field of supervision of insurance undertakings, preparations were made for the implementation of the EU directive "On the Taking-Up and Pursuit of the Business of Insurance and Reinsurance (Solvency II)". Proposals were submitted to the Ministry of Finance on how to improve the draft law on the amendment of the Law of the Republic of Lithuania on Insurance (hereinafter — "Law on Insurance"), into which the main provisions of the draft directive have been transposed; a package of legal acts, that will transpose the provisions of the Solvency II directive which have been left out of the draft law on the amendment of the Law on Insurance, was prepared. This Directive, which stipulates risk-based governance of insurance undertakings and the calculation of solvency capital, would lead to great changes in the business of insurance undertakings and their supervision, thus cooperation with the management and employees of insurance undertakings was pursued in order to explain all issues relating to the projected legal regulation of insurance undertakings.

As credit unions expanded their activities, the deficiencies and problems in the operation of these specific credit institutions surfaced; therefore it was necessary to revise the legal framework regulating their activities and tighten the requirements applicable to them. With the aim of properly curbing the risks assumed by credit unions and ensuring sustainable growth in this segment of the financial sector, the document "The Trends of Improvement of Credit Union Activities and Supervision" was prepared and began to be implemented. The Bank of Lithuania adopted legal acts that establish tighter qualification requirements for heads of administration, revised the ratios that limit operating risk, established requirements for the disclosure of information to consumers, and initiated amendments to the Law of the Republic of Lithuania on Credit Unions.

A number of enforcement measures were applied to credit unions, which signals the lack of competency in the heads of administration. It is particularly important that the heads of administration take adequate decisions in due time. This would help resolve the currently arising problems pertaining to credit union activities or even to avoid quite a large portion of them; thus, in order that heads of administration of credit unions become persons knowledgeable in the operations of credit unions, capable of taking qualified decisions, the Regulations for the Authorisation to Become the Head of Administration of a Credit Union and the Regulations for the Examination of the Head of a Supervised Financial Market Participant were prepared. All heads of administration of credit unions, whose qualifications are doubtful or candidates to these positions not meeting established minimum requirements must pass a special exam.

Seeking sustainable development of credit union activities and adequate management of the risks they assume, new prudential requirements were set. To reduce incentives to invest raised deposits in risky loans, the liquidity ratio was linked to annual growth rate of deposits — credit unions will be obliged to hold a sufficient amount of high quality liquid assets, will not be able to lend this money fast and lend irresponsibly. Attempts are made to limit increasing lending to associate members, particularly legal entities, which used to raise concerns, not always having adequately assessed the risk and not always following the principles of responsible lending, to a new capital adequacy ratio — it will depend on the ratio between loans granted to associate members and all loans granted by a credit union. In addition, the maximum exposure requirement was supplemented: maximum exposure for one borrower of a credit union shall not exceed LTL 500,000; moreover, the requirement that the amount of loan to one borrower is not in excess of 25 per cent of the credit union's adjusted capital remained in effect. The new requirement began to be applied to new loans granted after 1 February 2013. Obligating credit unions to make more accurate forecasts for cash flows, to project funding sources and thus avoid liquidity problems, the liquidity coverage ratio began to be applied.

Seeking higher transparency in the activities of credit unions and aiming to ensure that members of credit unions dispose of sufficient information to be able to take rational financial decisions, a legal act obligating credit unions to publish annual financial statements of their own or associations combining credit unions on their websites was approved. For the first time credit unions will be obligated to publish their 2012 financial statements audited or revised, and approved by their general members meetings.

In addition, the Bank of Lithuania initiated amendments to the Law on Credit Unions, which propose, in the establishment of credit unions, to set the bar higher for own funds, share contributions, membership, governance, and set other requirements that will help ensure higher stability in operations. In March 2013, by order of the Finance Minister of the Republic of Lithuania, a working group for the improvement of legal acts regulating credit union activities was set up, which comprises specialists from the Ministry of Finance and the Bank of Lithuania, credit union associations, and the management of the Central Credit Union. This working group was assigned with submitting proposals on measures necessary to ensure safe and sound activities of credit unions in establishing a proper balance between the expansion of credit union activities and their possibilities to amortize risk assumption related losses, to prepare and submit for the Government of the Republic of Lithuania draft legal acts to be submitted, necessary for the implementation of the above measures.

Major attention was devoted to the supervision of companies granting consumer credits (especially small ones — up to LTL 1,000), the area which was assigned to the competence of the Bank of Lithuania on 1 January 2012. The results of the study of activities of consumer credit lenders carried out revealed that the main shortcoming in the operation of these entities is inadequate assessment of the solvency of credit borrowers. Given the above, Draft Regulations on the Assessment of Consumer Credit Lender Solvency and Responsible Lending were prepared. They establish uniform principles of responsible lending for all consumer credit lenders. Following these principles, a credit borrower's average credit repayment contributions and interest rates under all liabilities normally must account for up to 40 per cent of that person's income. Furthermore, in order to provide preconditions for more efficient supervision of consumer credit lenders, the Regulations on Submitting Mandatory Information to the Bank of Lithuania by Consumer Credit Lenders were adopted, which regulate the contents of information to be submitted by consumer credit lenders to the Bank of Lithuania (it is intended to collect much information about small consumer credits) and the periodicity of submission (it is intended to collect information on a quarterly basis).

The Bank of Lithuania, seeing problems arising from improper operations of the financial market participants (irresponsible marketing; offering as often as not of services and products that are not within the interest of or not compliant with the needs of consumers; inadequate competence of consultants acting in the financial market) devoted major attention to the improvement of practices applicable in the market. To that end, a study of the behaviour of companies providing investment services and of the life insurance market participants was conducted, invoking third parties (mystery shopping); the Guidelines on the Advertising of Financial Services were approved, which are aimed at explaining the requirements of legal acts set for the advertising of financial services, drawing the financial market participants' attention to the key aspects in the preparation and dissemination of financial services advertising, helping them to duly implement the provisions of respective legal acts. Moreover, to identify advertising that may pose a significant risk for potential users of an advertised service, the advertising of entities providing financial services was monitored. Considering the shortcomings of the existing supervisory process, a Description of the Procedure for the Provision of Information about Financial Products to the Bank of Lithuania was prepared and approved. The aim of it is to observe the trends in the development of the financial products market in collecting information about new financial products or the existing products that are subject to major changes, also to assess whether the financial market participants select proper instruments to manage the risks involved in a financial product. To improve the pension funds supervisory process, a methodology regulating the procedure for dealing with requests of pension accumulation companies to be authorised to a higher limit for investing the assets of a pension fund in securities issued by one issuer and/or guaranteed securities was developed with respective amendments to legal acts.

In conducting issuer supervision, the Bank of Lithuania focused on major objectives — to ensure proper and urgent disclosure of regulated information, as well as compliance of the issuers' financial statements with International Financial Reporting Standards. In issuer supervision practices, the principles of risk-weighted supervision began to be applied. A new Methodology for the Selection of Risk-Weighted Planned Inspections of Issuer Regulated Information and of its Public Disclosure was prepared; the methodology for the selection of companies that prepare financial statements according to the International Accounting Standards was improved. In addition, in the area of the regulation of issuer activities, preparations for the implementation of the Directive on the prospectus to be published when securities are offered to the public or admitted to trading, and Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market were made.

To enhance the supervision of trading in financial instruments, the automated system of the generation of signals of abuses in the securities market was virtually improved. It enables identification of suspicious trading transactions according to pre-defined parameters from a huge amount of transaction or order data.

To address problems arising in the market that are driven by consumer behaviour patterns (e.g., their low financial literacy, limited understanding of responsibility for their decisions), a feasibility study was conducted; in conducting it, the need for financial education initiatives was assessed, target audiences and potential partners were identified, a survey of the financial behaviour and literacy of the Lithuanian population was conducted, a financial literacy conception was worked out. The aim of the latter is improvement of the population's financial awareness, encouragement of the taking interest in the management of personal finances and take rational financial decisions. In addition, free information-training seminars in the area of personal finance management and responsible borrowing were organised, a financial education website is under way.

Supervision of the Financial Market Participants

Banks

At the end of 2012, the banking sector comprised of eight banks and nine foreign bank branches. At the beginning of 2013, the number of participants of the banking system decreased, as in February the Board of the Bank of Lithuania suspended the operations of *AB Ūkio bankas* and revoked its licence. The Lithuanian branch of AS UniCredit Bank is going to withdraw from the banking system in the first half of 2013. UniCredit group decided to operate in Latvia and to close its branches in Estonia and Lithuania; however, it is going to operate without establishing a branch. Liabilities of the branches should be taken over by the bank in Latvia. By market share in Lithuania, the Lithuanian branch of AS UniCredit Bank is not considered a significant foreign bank branch in the Lithuanian banking system (about 1.7% of the market). The Lithuanian branch of *Pohjola Bank Plc*, which is going to work with large-scale business clients and has far-reaching plans for business, is embarking in its operations in March.

A moratorium declared on *AB Ūkio bankas*. During the inspection of *AB Ūkio bankas* at the end of 2012–beginning of 2013 it was established that the Bank's assets were significantly overestimated, its liabilities exceeded its assets, and the Bank *de facto* was insolvent. Moreover, independent auditors conducted valuation of the Bank's assets and identified significant mismatches in the real value of the assets. Major problems of *AB Ūkio bankas* are related with irresponsible actions of its main shareholder, financing of business projects related to him, and not implemented business projects. The Bank of Lithuania had for more than a year already closely controlled transactions concluded by *AB Ūkio bankas,* applied various restrictions, approved for *AB Ūkio bankas* a plan according to which it was to gradually reduce the exposure to credit risk. All these measures did not lead to desirable results, though; to ensure the Bank's operation, additional capital was necessary, but the Bank's main shareholder did not provide it. Given these circumstances, the Board of the Bank of Lithuania declared a moratorium on the Bank's operations on 12 February 2013, appointed a temporary administrator, and six days later announced the Bank as *de jure* insolvent and revoked its banking licence. In the findings of the Temporary Administrator submitted to the Board of the Bank of Lithuania it was proposed to separate part of the assets and liabilities of *AB Ūkio bankas* and to transfer them to some operating bank. Under the proposed plan, the good part of the Bank's assets and all insured liabilities (deposits up to LTL 345,000, or EUR 100,000) would be transferred to another, already operating bank, whereas for the other part bankruptcy proceedings would be initiated. On 22 February, a trilateral agreement was signed among the Temporary Administrator of *AB Ūkio bankas, AB* Šiaulių *bankas* and *VĮ Indėlių ir investicijų draudimas* on the transfer of part of the liabilities, assets, rights and transactions of *AB Ūkio bankas* to *AB Šiaulių bankas*. Under this agreement, LTL 2.7 billion of insured deposits and LTL 1.9 billion of the good assets were transferred to *AB* Šiaulių *bankas*, whereas the funds of *VĮ Indėlių ir investicijų draudimas* were only used in covering the difference between the good assets and total insured liabilities (LTL 0.8 billion). After initiating bankruptcy proceedings against *AB Ūkio bankas*, *VĮ Indėlių ir investicijų draudimas* is to become a creditor to *Ūkio bankas* and would seek recovery of these funds during the process of bankruptcy proceedings.

According to the unaudited data of the financial statements of *AB Ūkio bankas* submitted to the Supervision Service of the Bank of Lithuania, as of 1 January 2013 the Bank's liabilities amounted to LTL 3.6 billion, of which deposits — LTL 3.4 billion. According to the deposit market share, the Bank was the fourth in size (7.2% of the market). The bulk of the deposits consisted in residential deposits — LTL 2.6 billion, private enterprise deposits — LTL 617 million, deposits of financial institutions — LTL 96.6 million, deposits of public authorities and state and municipal enterprise deposits — LTL 59.6 million. Deposits of Lithuanian residents amounted to LTL 2.8 billion, non-resident deposits — LTL 0.6 billion. While, in the Bank's estimation, its assets as of 1 January 2013 were worth LTL 3.9 billion, according to the data of the inspection commission of the Bank of Lithuania and independent audit company *UAB KPMG Baltics*, the real value of the Bank's assets was lower by at least one-fourth.

The suspension of the operations of *AB Ūkio bankas* did not have a systemic impact on the banking sector; banks did not hold funds with *AB Ūkio bankas.* There were no changes in deposits of some significance that could significantly affect the banking sector or its individual participants either.

Developments in banking supervision. With the start of functioning of a general financial market supervisory system at the Bank of Lithuania last year, the model of supervision was changed somewhat — from now on banks not only periodically submit to the Bank of Lithuania financial and supervision reports, but also different internal information of banks, e.g., minutes of meetings of a bank's Board and Supervisory Board, as well as minutes of meetings of different committees of banks, bank risk reports, internal audit reports, etc. Obtaining multiple information on a periodical basis enables the Bank of Lithuania to supervise banks more effectively, to get insight into likely problems more easily at an early stage, and to prevent their increase. Furthermore, closer, constant communication with bank risk specialists, as well as bank management, was commenced. Where trends raising concerns are seen, a bank is immediately advised about it and is asked to eliminate the deficiencies observed in its operation.

Having implemented these changes, the Bank of Lithuania feels the constant pulse of individual banks and of the entire banking sector. Where fairly serious problems are identified (the risk of individual banking areas increases), banks are subject to inspection. In 2012, two banks and one foreign bank branch were inspected, and for 2013 a greater number of inspections have been projected.

Bankruptcies of the few recent years (*AB bankas SNORAS*, *AB Ūkio bankas,* two credit unions) revealed once again the importance of the credibility and responsibility of asset valuers and external auditors. It should be noted that already from 2012 the Supervision Service of the Bank of Lithuania came to closer terms with external audit companies in order to discuss the audit procedures and performance of individual banks. The Supervision Service also started cooperating more actively with the service supervising asset valuation so that the quality of asset valuation performed by asset valuers and their responsibility are ensured. Moreover, after identifying deficiencies in the provision of external audit or asset valuation services, the Supervision Service started informing the services supervising respective companies about it; it is also intended to submit proposals to the Ministry of Finance of the Republic of Lithuania on the revision of legal acts regulating these areas.

Activities of the banking sector. Analysis of banking activities in 2012 does not include the data of *AB Ūkio bankas,* as the findings of the inspection of *AB Ūkio bankas* carried out in December 2012–January 2013 showed that this bank's financial reports and reports for supervisory purposes submitted to the Supervision Service of the Bank of Lithuania did not show the real situation.

In 2012 a particularly rapid increase in deposits was observed and the loan portfolio picked up after a few years' pause.

In 2012, bank assets contracted slightly, yet the contraction from the previous year was insignificant — just LTL 0.5 billion (0.7%). As of 1 January 2013, banks assets stood at LTL 74.3 billion.

Following the contraction during the first quarter, the loan portfolio grew constantly during the remainder of the year. In 2012, the loan portfolio of banks grew by LTL 1.1 billion and amounted to LTL 52.9 billion as of 1 January 2013.

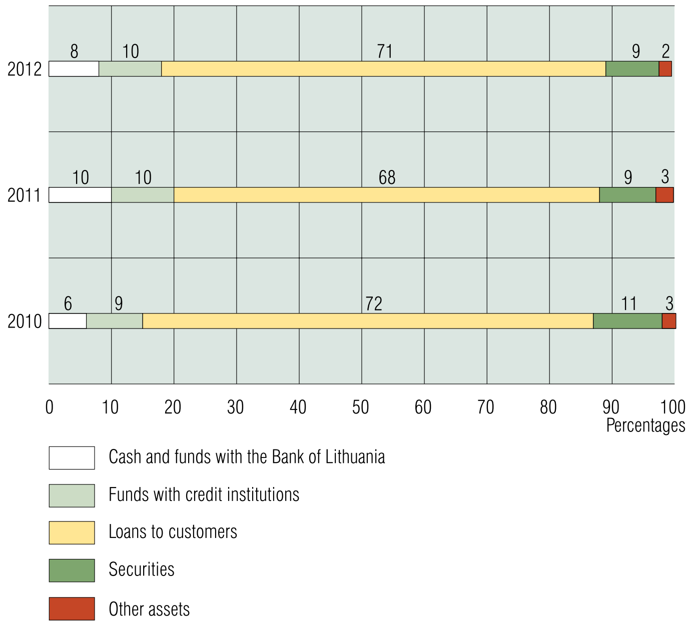
Bank investments in debt securities rose by LTL 0.4 billion during the year and stood at LTL 5.2 billion as of 1 January 2013. Investments in securities of the Government of the Republic of Lithuania during the reporting period amounted to LTL 3.3 billion. Bank holdings of securities of other countries amounted to LTL 0.2 billion. Moreover, banks had invested a sizeable portion of funds (LTL 1.2 billion) in debt securities of highly rated banks of EU countries. Bank investments in Southern European countries, the stability of whose economies has been doubted lately, were minimal.

Nearly the banks' entire LTL 1.1 billion equity securities portfolio consists of investments in parent undertakings. In 2012, the share of equity securities increased by 36 per cent, or nearly LTL 0.3 billion. According to the data as of 1 January 2013, banks' other holdings of equity securities (not of parent undertakings) stood at just LTL 5.1 million.

Funds with banks (cash and funds held with the Bank of Lithuania and other banks) was the asset type that contracted the most in 2012, by LTL 2.2 billion over a year — to LTL 13.4 billion. Such contraction was driven by the relatively large comparative base at the end of 2011, as, with the start of the process of repayment of *AB Bankas SNORAS* deposit insurance compensations, many new deposits flew into banks that were directed to the accounts of the Bank of Lithuania or parent banks. Later, banks, seeking to use these funds more efficiently, invested them in more profitable measures (loans, debt securities) or used them to cover more expensive liabilities to parent banks. Despite their contraction, funds still account for a particularly significant portion of bank assets — about one fifth.

Chart 17. Composition of bank assets

(end-of-period)



Source: Bank of Lithuania.

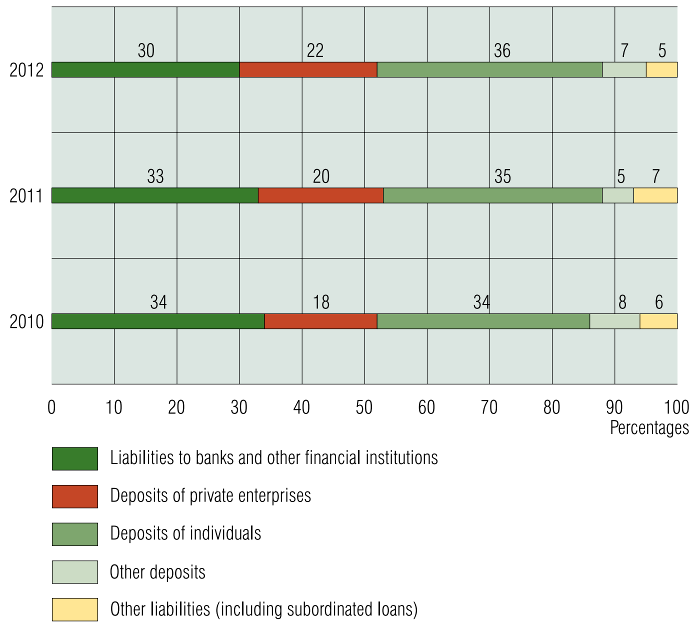
Albeit dominating particularly low interest rates, deposits of the banking sector grew significantly last year. Deposits within the banking sector as of 1 January amounted to as much as LTL 43,6 billion. Annual growth rate of deposits was even 9.6 per cent. The highest contribution to deposit growth last year came from an increase in resident deposits over the year by LTL 1.6 billion. In 2012, strong growth in deposits of private companies (LTL 1.3 billion), public authorities (LTL 0.7 billion), and state and municipal enterprises (LTL 0.2 billion) was recorded. With low interest rates, depositors look for more profitable saving instruments (e.g., the volume of Government saving notes placed increased); moreover, depositors do not tend to keep funds for a lengthy term, thus the share of demand deposits grew markedly.

Out of banks operating in Lithuania, *AB Ūkio bankas* worked most actively with non-resident clients. After termination of this Bank's operations, the volume of the Lithuanian banking sector's activities with non-residents became minimal. As of 1 January 2013, non-resident deposits in the banking sector accounted for a mere 3.8 per cent of total deposits (LTL 1.6 billion). The Bank of Lithuania focuses major attention on the implementation of requirements for the prevention of money laundering. A few inspections in the area of the prevention of money laundering are scheduled for 2013.

Structural changes in banks' funding sources have been observed for several years already — very important previous funding from parent banks has been declining. At the same time banks aim at increasing the share of funding attracted from the local market (deposits). Debt to parent banks in 2012 contracted by LTL 4.1 billion — to LTL 19.4 billion. Despite gradual reduction in debt to parent banks, it remains high — at the end of 2012, the funds of parent banks were used to finance about a fourth of bank assets. The Lithuanian banking sector is not exceptional in terms of structural changes of funding sources. This method — funding reorientation to the local market — is being chosen by a number of banks in the countries of our region. The eruption of the global financial crisis in 2008 showed that unsustainable growth in external funding may trigger overheating of the economy, which may lead to new financial crises. Banks' striving to reorient funding to the local market is reflected in the constantly decreasing loan-to-deposit ratio, which in 2012 decreased by as much as 8.9 per cent and as of 1 January 2013 was 121 per cent. This suggests that the banking system is becoming increasingly balanced.

Chart 18. Composition of bank liabilities

(end-of-period)

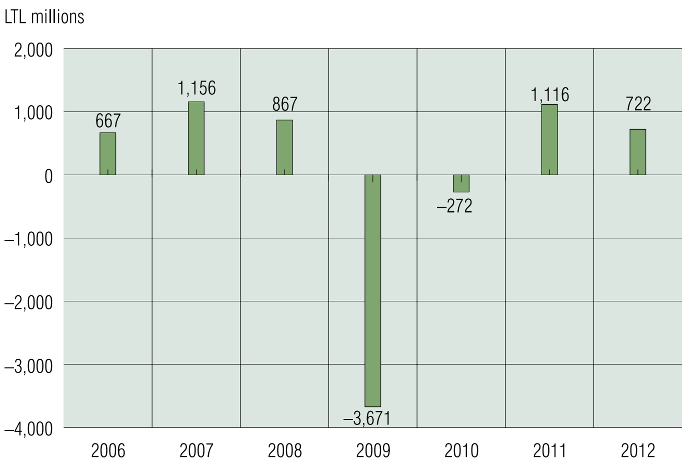


Source: Bank of Lithuania.

In 2012, banks earned LTL 721.7 million profit — down by more than a third (35.6%) from 2011. Profit contraction was likely — many banks, in scheduling their operations for 2012, had envisaged profits fairly lower. Last year, the operations of six banks and six foreign bank branches were profitable; those of one bank and two foreign bank branches were loss incurring.

Chart 19. Net profit of banks

(end-of-period)



Source: Bank of Lithuania.

The currently dominant low interest rate environment is particularly unfavourable for banks in terms of profitability. It led to a significant decrease in banks' major income — net interest income. Banks' assets and liabilities are currently balanced so that banks' net interest income decreases with a decline in interest rates and, vice versa, net interest income rises with a rise in market interest rates. Banks' net interest margin, which shows the difference between the interest banks receive on invested assets (loans, debt securities, funds with banks, etc.) and the interest banks pay to their creditors (depositors, etc.), is currently significantly down and is a mere 1.5 per cent. As a result, banks' major income — net interest income — declined by a tenth in 2012 year on year (to LTL 1.1 billion).

Meanwhile, banks' net gains from commissions and fees picked up by 9.6 per cent and stood at LTL 0.6 billion. The increase was driven by the increased volume of the banks' operations and increased charges for some of the banks' services. The recently expanding activities of non-banking institutions (payment institutions, consumer credit companies) increase competition in the provision of certain services, thus banks are likely to face difficulties in maintaining their market share.

Last year, banks improved markedly their operating performance in carrying out trading and other financial activities: year on year, the performance grew by 2.5 times — to LTL 0.2 billion (most of the improvement was driven by an increase in banks' tradable portfolio). Such an additional source of income is useful for banks, particularly under present conditions, when interest income earned from the loan portfolio is declining; however, this type of income is quite unstable, dependent on the market composition and investment decisions of banks.

Unlike in 2011, in 2012 banks incurred losses due to loan impairment. Last year, this led to LTL 51.3 million of costs due to this, whereas in 2011, banks earned an income of LTL 164.4 million due to the recovery of the previously recognized impairment.

Annual operating performance of the banking sector was also diminished by penalties assigned to three banks by the Competition Council of the Republic of Lithuania (LTL 47.7 million) for breaches of the Republic of Lithuania Law on Competition. While the banks have not paid these penalties yet and have lodged complaints against them in disagreement, according to the International Financial Reporting Standards, the banks included such penalties in their expenses for 2012.

Total operating expenses of banks in 2012, as compared to 2011, increased a little; the increase, however, was driven basically by one bank's project being implemented in the updating of its IT systems. The operating expenses of a number of banks in 2012 were at similar or lower levels as compared to 2011. This basically suggests that banks further seek streamlining their operating expenses, thus the reduction of bank units and of the number of employees continued to be observed. In 2012, the average number of employees in the banking sector contracted by 3.4 per cent.

While bank operations last year were profitable, owing to lower profits, the indicators defining the operating efficiency of banks were worse than a year ago and continued to be quite low as compared to historical data. The cost-to-income ratio, defining the operating efficiency of banks, increased (worsened) by 2.6 percentage points over a year and, as of 1 January 2013, was 58.3 per cent, the annual ratio of the return on assets of the banking sector was 1 per cent, and the return on equity ratio was 8.7 per cent.

Prudential requirements for banking activities. The Bank of Lithuania has established prudential requirements for banking activities to limit the risks assumed by banks. They regulate capitalisation levels, liquidity, open position in foreign currencies and maximum exposure requirement of banks. As of 1 January 2013, all banks (except *AB Ūkio bankas*) complied with all prudential requirements for banking activities. As of 1 January 2013, the bank capital adequacy ratio was 14.4 per cent (minimum requirements is 8%), the liquidity ratio — 40.8 per cent (minimum requirement is 30%).

Maintaining adequate capital levels and their ensuring in the future still remains relevant to all banks, with local capital in particular. The Supervision Service of the Bank of Lithuania constantly encourages banks to hold capital buffer in line with their business profile that would be much higher than the minimum required capital level. The issue of capital levels will become still more relevant after entering into effect of amendments to the Capital Requirements Directive, when capital ratios will be tightened. After the global financial crisis, the international supervisory community admits that the capital ratios currently in effect are insufficient for modern banks. The Basel Committee on Banking Supervision and European Union institutions make an effort to enhance bank capitalisation levels; it is, therefore, intended to begin applying new and more stringent capital adequacy ratios. Moreover, modern supervision is orientated to self-establishments by banks of internal minimum capital adequacy ratios — higher than those established by the supervisory institution — after assessing their individual risk profiles and scope of activity. To this end, banks perform on an annual basis the internal capital assessment process to assess all the risks they face and the results of stress testing. During this process, all banks operating in Lithuania self-established the capital adequacy ratios at least 2 percentage points higher than the minimum requirement.

Credit risk. The shrinkage of banks' loan portfolio, triggered by a downturn in real estate, came to a halt in 2012. In 2012, new loans granted by banks already exceeded the return flow of previously granted loans and amounted to LTL 52.9 billion towards the end of the year. During the year, lending to private companies, financial and government institutions increased, while lending to natural persons, as well as public and municipal enterprises declined. Growth in the loan portfolio is expected to be positive in 2013 as well. The preconditions for further growth in the loan portfolio are provided by moderate growth in the domestic economy, increasing credit liabilities, also the size of freely disposed funds that has increased due to the reduced ratio of required reserves by the Bank of Lithuania.

As was already mentioned, in 2012 banks credited most actively private companies and financial institutions. Loans to the segment of private companies grew by LTL 0.5 billion (2.1%) over the year. Annual growth in loans to financial institutions amounted to as much as LTL 1.1 billion (59.3%), and the growth in the fourth quarter was driven by an increase in crediting to parent leasing companies. Furthermore, growth in loans extended to public authorities was recorded; in 2012, they increased by LTL 208 million (12.4%). The volume of loans to individuals still continued to decrease: their total amount contracted by LTL 618 million (2.6%), of which loans for house purchase — by LTL 278.7 million (1.4%).

In 2012, specific provisions for loans continued to decline in the banking sector (declined by LTL 796.6 million, or 21.1%) and stood at LTL 3 billion at the end of the year. The main reason behind such a decline in specific provisions last year, as compared to 2011, though, was a different one: in 2011, the decline in specific provisions was particularly greatly affected by an improvement in the financial standing of some borrowers of banks and their ability to repay loans, while in 2012, non-performing loans were written off faster. This can be explained by the fact that several years have already passed since the beginning of the economic crisis in the country, when many debtors faced difficulties in continuing operation and meeting liabilities, during which banks managed to complete the procedures of recovery of a significant portion of non-performing loans, and wrote off the portion of loans which they no longer expected to recover. Bad debts amounting to some LTL 0.9 billion were written off in the banking sector in 2012. The writing off of non-performing loans is expected to remain the main factor behind the improvement of loan portfolio quality indicators in the near future.

Due to the decline in specific provisions mentioned above, also, as the share of new (quality) loans began to increase as a result of growth in new loans, the ratio of specific provisions to the loan portfolio declined by 1.4 per cent over the year — to 5.4 per cent. Other indicators, defining the quality of the loan portfolio, improved as well. Over the year, the share of impaired loans declined to 11 per cent of the loan portfolio, or by 2.8 p.p., the ratio of loans overdue for more than 60 days (but not impaired) to the loan portfolio — to 2.1 per cent, or 0.4 p.p., the ratio of non-performing loans — to 13.1 per cent, or 3.1 p.p. (in 2010, when the highest value of this ratio was recorded, the ratio of non-performing loans was 19.6%). These trends were also replicated in the statistics of borrower distribution by risk (established ratings): the quality of the loan portfolio of many banks improved — mainly because of positive developments in the composition of the ratings of legal entities (the distribution of natural persons by rating remained at similar levels). Furthermore, according to bank data, the portfolios of problem loans of most banks declined too.

The quality of the portfolio of housing loans remains good, notwithstanding that the quality of these loans worsened for slightly longer than the loan portfolio in other segments. In the second half of 2012, the quality of housing loans stabilised, however, and began moderately improving. This shows in the developments of these loans' quality indicators: the ratio of specific provisions for housing loans declined in 2012 by 0.2 p.p. — to 3.1 per cent, and the ratio of non-performing housing loans declined by 0.5 p.p. — to 8.0 per cent.

It should be noted that the definition of non-performing loans applied in Lithuania is exceptionally strict, thus it is comparable with difficulty to similar definitions applied in other countries. Currently, application of a uniform definition of non-performing loans across the EU has been initiated on an EU level. Currently such a definition has already been worked out and is submitted to the market for assessment; the Member States will have to approve it. Attention should be drawn to the fact that the proposed definition is rather strict and in its essence is similar to that applied in Lithuania. More stringent treatment of non-performing loans is likely to greatly worsen the respective ratio in a number of European countries.

Table 7. Loan portfolio quality indicators

(31 December 2012; share of the loan portfolio, percentages)

	Loan impairment (specific provisions)	Loans overdue for more than 60 days	Impaired loans	Non-performing loans
Loans to customers	5.3	2.1	11.0	13.1
housing loans	3.1	2.4	5.6	8.0
consumer loans	10.0	5.4	10.2	15.6

Source: Bank of Lithuania calculations.

Last year, residents and enterprises began borrowing more actively in litas, not euros, as was previously the case. Banks, too, began encouraging such crediting; furthermore, the interest rates on borrowing both in litas and euros are basically the same. Due to these reasons, loans in litas grew by LTL 919.3 million and the portfolio of loans in foreign currency (mainly euros) — by a mere LTL 135 million.

Over the year, the loans extended to non-residents shrank by 24.8 per cent and amounted to LTL 366.5 million, or 0.7 per cent of the total loan portfolio at the end of 2012.

Liquidity risk. Stable liquidity condition of the banking system continued into 2012: the key source of financing for banks — deposits — continued to increase, the volume of liquid assets in banks increased, and the coverage of the net financing gap of up to one month with liquidity buffer improved. Sufficient liquidity buffer of the banking system should enable banks to withstand a potential decrease in deposits without facing serious difficulties. As the history of *AB bankas SNORAS* showed, small banks that do not have parent banks suffer most, although temporarily, due to increased lack of confidence in banks, while in banks that have parent banks deposits even rise. On the other hand, stability of deposits is ensured by the deposit insurance scheme functioning in the country, whose credible functioning was proved by the smooth ensuring of the deposit compensation process following the past few years' bankruptcies of financial institutions. It should be noted that *AB Ūkio bankas,* in liquidity terms, was the banking system's weakest link (with the worst liquidity ratios, insufficient liquidity buffer to cover cash flows of up to one month), thus suspension of its operations will only improve the system's liquidity ratios in the long run. The liquidity condition of the other three local banks is sufficiently good to withstand the shock a shock of a decline in deposits no less than that observed in local banks after the suspension of the operations of *AB bankas SNORAS.*

The liquidity of parent banks is managed in an increasingly centralised manner, therefore both their liquidity buffer is formed, and their ratios are ensured by agreeing on decisions and actions with parent banks, taking into consideration the whole group of a parent bank. However, increasing funding in the local market increased also the dependence of banks within this group on local deposits. Banks without parent banks manage liquidity and ensure requirements by forming liquidity buffer and agreeing the terms of assets and liabilities themselves, and their liquidity depends mainly on fluctuations in the volume of their deposits. Growth in liquidity buffer in these banks is driven by the funding possibilities of banks — major financial resources for their operation are time deposits of individuals, while attracting them in an environment of strong competition (especially with credit unions) is a complicated task, requiring more time.

Currently in the EU, one of the directions of supervision, aimed at enhancing banking supervision after the break-out of the global financial crisis, is orientated to the enhancement of liquidity risk management. As in many countries there had been no quantitative ratios limiting this risk to date, it is intended to begin applying two quantitative liquidity ratios — one for limiting short-term, the other one — long-term liquidity risk. Although these two ratios will become mandatory for banks of the EU countries only after a few years, banks in Lithuania began calculating them last year already. According to the calculations presented by the banks, Lithuania's banking system would comply already with the future liquidity ratios.

Market risk. In 2012, banks became slightly more sensitive to market risk factors. For banks operating in Lithuania, interest rate risk was the most relevant, and its increase was determined both by the increase in the securities portfolio and structural changes in bank balance sheets. A widening gap (15%) in the assets and liabilities sensitive to interest rate developments entailed increased sensitivity of banks' net interest income (NII) to a change in the interest rate. The widening in the aggregate compound gap of up to one year was driven both by growth in the assets sensitive to interest rate developments (securities, loans) and a decline in the liabilities sensitive to interest rates (time deposits became demand deposits). Due to these developments, an interest rate change would have a greater influence on the net interest income of banks than a year ago. An interest rate change of 1 p.p. would change banks' NII by LTL 190 million (which would account for 20% of NII earned in 2012). Despite high sensitivity of banks' interest income to interest rate developments, banks would only be negatively affected by further decline in interest rates, which is hardly probable in 2013.

The rise in an interest rate would increase banks' interest income, yet would impair banks' debt securities. Nevertheless, the influence of an interest rate change on the value of banks' debt securities would be much lower than on net interest income. An increase of 1 p.p. would reduce the value of debt securities, calculated at banks' market value, by LTL 60.8 million (1.7%). The slight increase in the sensitivity of the value of debt securities resulted from growth in their volume, as the average term of portfolio, which also determines sensitivity to interest rate developments, remained almost unchanged over the year (1.9 years). With the decline in interest rates in 2012, the trade portfolio of banks generated a positive result; next year, banks' trading performance is likely to worsen, though. Overall, the quality of banks' debt securities portfolio is sufficiently good — the main part of the portfolio consists of investments in the bonds of the Lithuanian government and the governments of other EU countries, whereas investments in the government bonds of countries facing financial difficulties are insignificant.

The insignificant influence of developments in the exchange rates of foreign currencies (except for the euro) on the Bank's performance continued in 2012, whereas the overall open position (excluding the euro) decreased somewhat. Banks stick to the policy of not holding large open positions in foreign currencies and not assuming foreign exchange risk, therefore the resulting positions are closed using derivatives. However, banks' balance sheet composition with the prevailing loans and debt securities in euros and deposits in litas determines a large open position of the euro. With a decline in the debt in euros to parent foreign banks, in 2012 the open position of the euro increased by another LTL 276 million; however, its ratio to capital remained almost unchanged (90%) due to enhancement of the capital base. Given the fixed exchange rate of the litas against the euro, the size of the open position of the euro is not limited, yet banks calculate quite a sizeable capital requirement for it, which is 7 per cent of the capital. Bank's available position of the euro is long, thus banks might incur losses only in case of depreciation of the euro against the litas.

Operational risk. According to the data reported by banks, the total loss of the banking system on operational risk amounted to some LTL 4.5 million and was slightly less than in 2011. Banks incur most losses due to inadequate processes, when errors of employees and weak internal control result in inadequate conduction of transactions and customer consultancy, loss of documents, inadequate evaluation of assets. Another dominant type of loss is external fraud, which depend mainly on illegal card payments. In addition, the risk of information technologies (IT) remains a most significant area of operational risk. Although banks did not incur heavy losses due to IT incidents, they do incur reputation and indirect losses due to IT system failures that banks do not always assess. This risk is especially relevant because of permanent processes of updating of infrastructure, technologies, software; also, because of services transferred or being transferred to third parties, as well as repeating cyber-attacks.

The highest potential operational risk loss is related with penalties assigned to banks by the Competition Council (LTL 47.7 million) due to a contract with the G4S company (three banks were assigned penalties for breaches of The Republic of Lithuania Law on Competition). The assigned penalties are litigated, yet in 2013 potential losses are likely to become real. It is scheduled to take measures in the future that banks devote more attention to the recording of potential operational risk losses (prepare minimum requirements, etc.).

Significant progress was achieved in 2012 in the area of supervision of operational risk. Banks started submitting to the Bank of Lithuania multiple information related with operational risk management, including summaries of operational risk events. After summarizing the obtained information, the Bank of Lithuania submits the summary of the entire banking sector's operational risk events to banks. While in a number of countries such data bases are built and banks, seeking to better manage and assess operational risk, may use their data, in Lithuania, however, banks have not shared such information to date. Disposing of more information about operational risk events taking place in the Lithuanian market and their scope, banks are expected to be able to improve their operational risk management systems. In addition, meetings of operational risk management specialists began to be organised on the initiative of the Bank of Lithuania, during which experience in operational risk management is shared.

Insurance Undertakings

Changes in supervision of insurance undertakings. The Bank of Lithuania carries out continuous supervision of market participants, inspecting enterprises and analysing the financial statements and statistical reports, as well as other information provided by participants of the insurance market. Analysis of the operating performance of insurers is performed on a permanent basis (on the basis of financial statements and statistical reports), compliance with ratios is controlled, publishing of findings and of summarized statistical and financial data of insurance undertakings registered in the Republic of Lithuania and of branches of EU insurance undertakings on the website is coordinated.

To expand closer cooperation between insurance undertakings and branches of insurance undertakings of other EU Member States and the Bank of Lithuania, meetings with the boards of insurance undertakings and heads of branches were held, the aim of which was to discuss important areas of the insurance market that may significantly affect the operating performance of insurance undertakings and financial stability of the entire insurance market. Apart from compulsory motor third party liability insurance problems that have been the focus of attention for a number of years, given the market trends, greater attention began to be focused on other insurance groups. During the meetings, last year's operating performance, the issues of the operating strategies for 2012–2014, implementation of the Solvency II Directive, as well as other issues of relevance to the Bank of Lithuania and participants of the insurance market were addressed. Taking into consideration developments in the insurance market and macroeconomic environment, the Bank of Lithuania, in the performance of supervision, constantly urges insurers to more closely assess assumed risks.

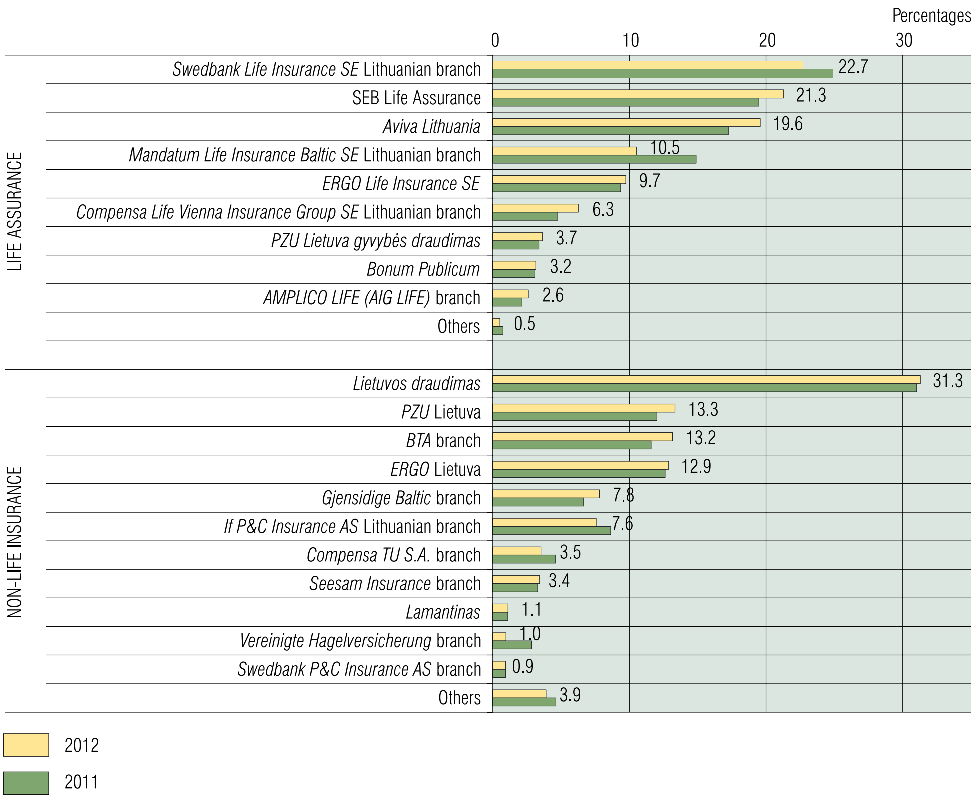
In 2012, one planned inspection of an insurance undertaking was conducted. During the inspection, major focus was on the adequacy of reserves formed by the insurance undertaking, i.e. insurance technical provisions, as well as the assessment of other areas related with the undertaking's financial standing and the quality of its management system.

During a presentation to heads of non-life insurers, analysis of the annual performance of Lithuania's non-life insurance market was presented.

Under the provisions of the Solvency II Directive, insurance undertakings may apply internal models for the assessment of their capital adequacy. As one of the insurance undertakings, *AB Lietuvos draudimas* was going to approve the internal model for the calculation of capital adequacy; the Bank of Lithuania assessed the company's preparedness to apply the internal model.

The insurance market. At the end of 2012, 24 insurers provided insurance services in the domestic market, of which 11 are insurance undertakings registered in Lithuania and 13 — branches of insurance undertakings established in other EU countries. In order to streamline capital management and reduce costs, enterprise restructuring processes have been taking place in the insurance market for a few years already; one company is being set up in the Baltic region, in other countries business is carried out via branches. Over five years, the market share held by branches has expanded from 25.4 per cent to 40.4 per cent. It should be noted that the Bank of Lithuania is responsible for stability in the entire banking sector; therefore, in implementing financial control of registered insurance undertakings and control of compliance with risk ratios, it also carries out preventive supervision of the entire insurance sector.

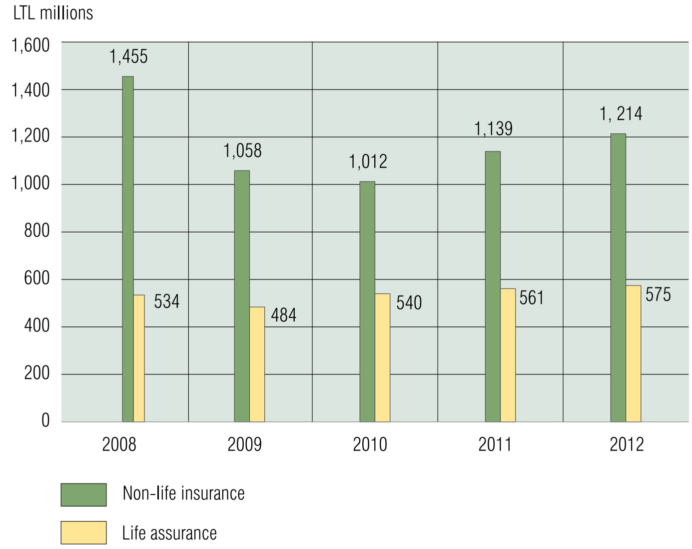
Chart 20. Insurers' market share by premiums written



Source: Bank of Lithuania.

The scope of Lithuania's insurance market expanded. In 2012, LTL 1.8 billion of insurance premiums were written, 5.2 per cent more year on year. This increase resulted from moderate growth in the non-life insurance market and a significant expansion in the scope of life assurance activity towards the end of the year. A rather marked increase in written life assurance premiums in the last quarter of the reporting period determined that the insurance market, after declining in the initial quarters, expanded during the whole of 2012 by as much as 2.5 per cent. In the non-life insurance market there were no such great changes — during the whole of the year the market grew moderately.

Chart 21. Development of premiums written



Source: Bank of Lithuania.

In the non-life insurance activity, motor vehicle insurance-related classes traditionally prevailed. In 2012 their scope increased from previous periods — to 58.7 per cent of the overall scope of non-life insurance premiums. Expansion in the scope of the latter insurance classes was driven by the significant rise of written insurance premiums in both liability arising out of the use of motor vehicles and land vehicles (other than railway rolling stock) insurance. A shrinkage of LTL 8.7 million in the scope of the property insurance class last year did not have a great influence on the whole of the non-life insurance market. No significant changes were recorded in the life assurance market last year — the scope of both the life assurance class, when investment risk is borne by insurance policy holders, and of traditional insurance classes kept expanding.

Towards the end of last year, the number of valid insurance contracts rose by 6.4 per cent — to 3.7 million. Growth for a few consecutive years in the number of both concluded and valid non-life insurance contracts signals the expansion of the non-life insurance market. In the development of the life assurance market, the opposite trend is observed — insurance contracts that are close to an end and their on-going terminations do not outweigh growth in new contracts, thus valid life assurance contracts are declining in number (–2.5%) — to 386.9 thousand).

The amount of insurance compensations paid in 2012 was almost the same as in 2011. The amount of compensations paid over the year stood at LTL 1.1 billion, just 0.6 per cent above the figure for 2011. As regards compensation developments by insurance branch, it is obvious that trend developments diverged: the paid non-life insurance amounts contracted (by 6.2% — to LTL 697.7 million), whereas the paid life assurance amounts increased (by 15.7% — to LTL 390.1 million). The decline in the payment of non-life insurance compensations was driven by paid property and vehicle insurance (CASCO) compensations. Significant growth during the recent couple of years in life assurance compensations was driven by growth in the amounts paid in the survival insurance class. At the end of validity of survival insurance contracts concluded ten years ago, the scope of compensations expanded by 89.1 per cent — to LTL 166.5 million. The tax environment of life assurance has changed since 2003, hence individuals, seeking to make use of the benefits that were effective in 2002, were more active in entering into life assurance contracts.

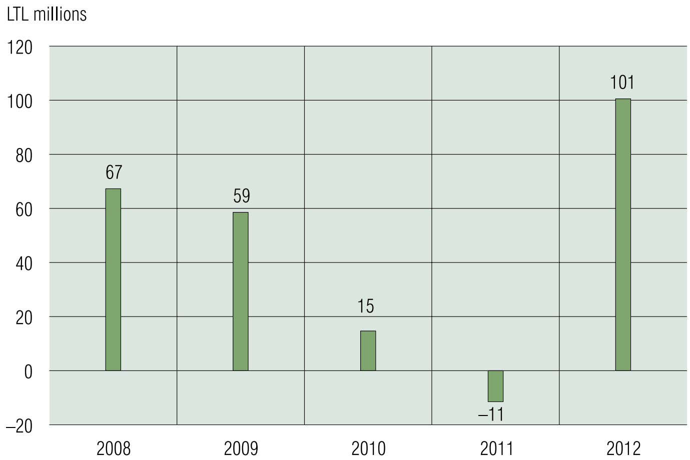
To ensure proper discharge of obligations to insurance policy holders, insurance undertakings form technical provisions, showing the scope of the insurance risk assumed. These technical provisions increased in each quarter of 2012, and expanded by 6.8 per cent over the year. The technical provision of investment life assurance, accounting for 41.4 per cent of total provisions, grew by 20 per cent over the year — to LTL 1.4 billion.

Growth in the scope of insurance activity entailed growth in the assets of insurance undertakings. In 2012, assets of insurance undertakings[6] grew by 7.9 per cent and amounted to LTL 3 billion[7]. Growing value of investment provided favourable preconditions for the assets of insurance undertakings to increase. The assets of non-life insurance undertakings grew just a little over the year, while growth in the assets of life assurance undertakings was stronger. As regards the assets of life assurance undertakings, in can be seen that, excluding investment life assurance investments, which accounted for 48 per cent of total assets of life assurance undertakings, their growth was 6.8 per cent.

Last year, the amount of life assurance undertaking investments grew by 2.5 per cent and stood at LTL 1.6 billion at the end of the year. The composition of the investment portfolio remained almost unchanged over 2012 — most investments (65%) went to government securities, 17 per cent — corporate bonds, 6 per cent — term deposits with banks. Investments of life assurance, when investment risk is borne by insurance policy holders, grew by 22 per cent and in 2012 amounted to LTL 859.1 million.

According to unaudited financial data, insurance undertakings registered in Lithuania earned record profits — LTL 100.5 million in 2012, while a year ago undertakings operated at a loss. During the recent five years, the highest profits were driven by profitable activity of both insurance and investment. In 2012, insurance market growth had an impact on higher income from undertakings' insurance activity, and successful implementation of changes in insurance risk management led to a relatively lower rate of cost growth, with even a decline in administrative costs year on year. Due to a favourable investment environment, quite a significant return on own funds investment was received, while the prevailing environment of exceptionally low interest rates has not had a great influence on insurance undertakings' investment performance so far. Furthermore, the rise in the prices of investment units in 2012 also increased the value of investment undertakings' investment portfolio.

Chart 22. Results of the activities of insurance undertakings



Source: Bank of Lithuania.

[6] *Financial performance is presented based on the data reported by insurance undertakings registered in the Republic of Lithuania as of 31 December 2012.*

[7] *Financial performance is presented based on the data reported by insurance undertakings registered in the Republic of Lithuania as of 31 December 2012.*

Last year, non-life insurance undertakings earned LTL 51.6 million profits, as compared to LTL 47.9 million losses in 2011. The changes in the operating performance of life assurance undertakings are less pronounced — their profits earned, LTL 48.9 million, were 34.2 per cent above the figure for 2011.

In 2012, of the 11 insurance undertakings registered in Lithuania, eight earned profits. Similarly to the previous periods, the loss of *UAB Būsto paskolų draudimas*, state capital enterprise engaged in credit insurance activity, accounted for the largest share of the loss. This enterprise suffered a loss of LTL 21.3 million, but this loss was more than two times lower than in 2011.

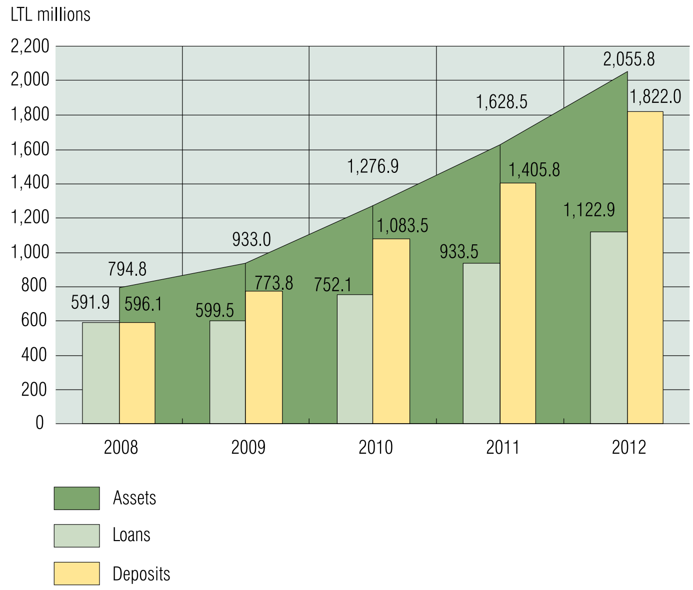
One of the major indicators of financial stability in the insurance market, solvency margin coefficient, was sufficiently high — 2.7 (solvency margin requirements are met when the solvency coefficient is above 1). The adequate solvency coefficient means a financially stable market.

Credit Unions

As of 1 January 2013, 77 credit unions were in operation in Lithuania, with nearly 146 thousand members. In 2012, three credit unions were established (one in Panevėžys and two in Vilnius), their total membership increased by 17 thousand. The increasing membership of credit unions and their members' share contributions, necessary for the issuance of loans, led to growth in their share capital. Since the beginning of the year, the share capital has increased by 33 per cent and as of 1 January 2013 amounted to LTL 236.2 million. It should be noted that share capital, which grows due to increased funding, is not that stable, because, having repaid a loan or part of it, such share contributions are often repaid. In addition, members of credit unions are not willing to pay additional contributions to capital, and do not assume the responsibility for the activity of the credit union in hard times, despite that each shareholder is the owner of the credit union.

Chart 23. Performance indicators of credit unions

(end-of-period)



Source: Bank of Lithuania.

The growing membership of credit unions prompted further expansion of credit union operations. Their assets surged by 26.2 per cent over the year (to LTL 2.1 billion), granted loans — 20.3 per cent (to LTL 1.1 billion), deposits held with credit unions — 29.6 per cent (to LTL 1.8 billion). As of 31 December 2012, the assets managed by credit unions accounted for 2.6 per cent of the assets of the domestic banking sector, a 0.5 percentage point increase since the beginning of the year. It should be noted that city-based credit unions are characterised by exceptionally strong growth rates and have been deviating from the classical model of the credit union.

Credit unions provide increasingly more loans to associate members — legal entities; therefore, there was an increase in riskier loans, issued to finance business (most of them were used to finance real estate projects, one-project enterprises), and at the end of the year, the loan portfolio quality indicators became worse than those of banks' loan portfolio. Specific provisions formed by credit unions expanded 2.8 times — to 80.2 million, and the ratio of specific provisions to the loan portfolio — from 3 per cent to 6.7 per cent.

In 2012, the operating performance of credit unions — a loss of LTL 60.1 million — was the worst since the beginning of the operation of credit unions in 1995 (in 2011 credit unions incurred an LTL 14 million loss). 51 credit unions operated profitably, 26 — at a loss. While their income was rising, loan impairment charges, especially of two credit unions whose licences were revoked in January 2013, led to the operating loss higher than a year ago.

According to the statements as of 31 December 2012, the liquidity indicator of credit unions was 48.85 per cent (the ratio is 30%). The capital adequacy requirement applied to credit unions is higher than that for banks — it should be at least 13 per cent. As of 31 December 2012, the capital adequacy indicator of the credit union sector was 16.53 per cent.

At the end of 2012, LCCU membership included 63 credit unions (in 2012, one credit union became its member). The assets of this credit union grew by LTL 16.3 million during the year and amounted to LTL 370.8 million. The portfolio of loans extended to members of the LCCU expanded by 12.3 per cent and as of 31 December 2012 stood at LTL 53 million. Under the combined business (consortium) agreement signed with the manager of the Entrepreneurship Promotion Fund *UAB Investicijų ir verslo garantijos* (INVEGA), LTL 17.3 million of loans for financing small business were extended to credit unions from this fund. The CCUL loan portfolio quality remained good: no specific provisions were formed; there were no loans with regular payments overdue for more than 60 days either.

The liquidity maintenance reserve (formed from contributions of LCCU members) surged to LTL 13.4 million in 2012, and the amount of funds accumulated in the Stabilisation Fund — to LTL 7.1 million. However, given the increasing scope of activity of credit unions, the impaired quality of loans issued to credit unions in recent years and related losses, as well as the need to enhance the ability of the system of credit unions to withstand likely shocks, the funds accumulated in the Stabilisation Fund are still insufficient for carrying out the LCCU's major function — ensuring liquidity and solvency of its members (credit unions), and maintaining stability of the system of credit unions.

The share capital of the LCCU grew by LTL 2.1 million over the year, to amount to LTL 31.2 million on 31 December 2012.

In 2012, the LCCU earned a profit of LTL 321 thousand (in 2011, incurred a loss of LTL 15.3 million). Major influence on the LCCU's operating performance came from interest income received from investment in government securities.

Other Financial Institutions

Payment institutions and electronic money institutions. Nine Payment Institution Licences for the provision of payment services were issued in 2012. Apart from payment services, Electronic Money Institution Licences, entitling to the issue of electronic money, were issued to 2 payment institutions.

The Public List of Payment Institutions on 1 January 2013 included 28 payment institutions and 2 electronic money institutions. It should be noted that out of all payment institutions holding licences, only 2 provided not the money remittance payment service but a mobile communication network operator's provided payment service.

The activity of the issuance of electronic money and the related activity of the provision of payment services provide conditions for natural and legal entities to open electronic purses (virtual accounts) aimed at storage of electronic money and using it to make payments to the sellers of different goods (services), transfer of funds to banks in Lithuania and foreign banks, payment at different online shops, and, at the user's request, redeem the cash value held on the account according to the procedure established in an electronic money institution's agreement with the customer.

The provision of payment services of most payment institutions and issuance of electronic money of the two electronic money institutions was not their major activity. The income of electronic money institutions from the issuance of electronic money and provision of payment services in 2012 accounted for 39 per cent of total income, whereas this figure of payment institutions was only 5 per cent.

All payment institutions and electronic money institutions complied with the safeguarding requirements established in laws for the protection of funds received from the users of payment services or electronic money holders, as well as own capital requirements. Owing to rather low volumes of payment transactions and other financial data used in calculating own capital requirement, own capital requirement of eight payment institutions did not exceed its minimum ratio established by the law (EUR 20 thousand). To enhance their own capital base, two payment institutions in 2012 increased their authorized paid–up capital and covered losses.

Insurance broker companies. The number of insurance brokers companies declined in 2012 — at the end of the year, 101 insurance brokers companies were operating in Lithuania's insurance market. In 2012, 5 insurance brokerage licences were issued, 9 licences were revoked. Similarly to 2011, the number of insurance contracts concluded by insurance brokers companies exceeded one million. In 2012, insurance brokers companies intermediated in concluding 1.1 million insurance and pension accumulation contracts, 9.9 per cent more year on year. Even 99.9 per cent of the insurance and pension accumulation contracts, concluded through the mediation of insurance brokers companies, were non-life insurance contracts.

Compulsory motor third-party liability (MTPL) insurance dominated in the insurance contracts concluded by insurance brokers companies. In 2012, the structure of the portfolio of insurance contracts concluded through insurance brokers companies was similar to that in the previous periods. The largest share of the contracts concluded by the insurance brokers companies was MTPL insurance, with 62.3 per cent of a total amount of the contracts.

The assets and own capital of insurance brokers companies remained almost unchanged (a decline of 0.6% and 0.3% respectively year on year): on 31 December 2012, the assets stood at over LTL 69 million, own capital — LTL 34 million. In 2012, one fourth of insurance brokerage firms operated at a loss; however, the sector's result for the reporting period was a profit of LTL 10.9 million. Major influence on the result came from a surge in income, which as of 31 December 2012 exceeded LTL 97 million. Year on year, it grew by 8.6 per cent. The income of the five largest insurance brokers companies accounted for 39.4 per cent of the income of all insurance brokers companies.

According to the whole sector, on separate bank accounts, insurance brokers companies held LTL 3.6 million more than were their liabilities to insurers. Under Article 164 of the Law on Insurance, an insurance brokers company must open a separate bank account, in which it would hold insurance contributions from insurance policy holders, the insured, beneficiaries and aggrieved third parties for paying benefits to these entities. Particular attention is devoted to satisfying the above provision of the Law, as a lack of funds on a separate bank account poses the risk of both the use of someone else's funds and the risk that payment for insurers will not be made in due time. It should be noted that one licence of an insurance brokers company was revoked in 2012 because of the breach of the legal provision mentioned above. As of 31 December 2012, insurance brokers companies held over LTL 9.9 million on separate bank accounts, whereas their liabilities to insurers (insurance contributions payable) were less and stood at LTL 6.3 million. This shows that, at according to the whole sector, the requirement mentioned above was met with a sufficient reserve.

Management companies. As of 31 December 2012, 14 management companies operated in Lithuania's financial market. On 31 December 2012 they managed 30 2nd pillar pension funds for the accumulation of a part of state social insurance contribution, 9 supplementary voluntary pension accumulation 3rd pillar pension funds, and 33 collective investment undertakings. In 2012, the assets of management companies grew by 3.3 per cent and as of 31 December 2012 amounted to LTL 78 million. The composition of their asset structure remained almost unchanged over the year — traditionally, over half the assets was invested in government securities or held in bank accounts.

Management companies earned LTL 9.0 million unaudited profit during 2012, up from just LTL 3.5 million year on year. Most management companies, managing second-pillar pension funds, carried out traditionally profitable activity. Higher operating performance of management companies in 2012 was driven by a surge in major operating income (commissions, management and customer service) of LTL 3.3 million over the year, while major operating costs remained almost unchanged over the year.

As of 31 December 2012, all management companies complied with the capital adequacy ratio, which must be not below 1.0. The average capital adequacy ratio of management companies as of 31 December 2012 was 4.4, a slight increase over the year (from 4.3 at the end of 2011).

Financial brokerage companies. As of 31 December 2012, as at the end of 2011, 10 financial brokerage companies were operating in Lithuania, of which 2 held a category A licence of a financial brokerage company, 7 — category B, and 1 — category C licence (licence category depends on the scope of investment services provided).

Year on year, the assets of financial brokerage companies shrank by 14 per cent in 2012, amounting to LTL 24.9 million as of 31 December 2012. Their asset structure was similar to that in the previous year: category A financial brokerage companies had invested over 50 per cent of their assets in equity securities, while category B and C companies had held over 60 per cent of their assets on bank accounts.

The total operating performance of financial brokerage companies was worse in 2012 than a year ago. In 2012, financial brokerage companies suffered LTL 7.3 million unaudited losses, up from LTL 1 million a year ago. In 2012, the activity of only 3 financial brokerage companies was profitable, while 7 operated at a loss. The loss-bearing operation of financial brokerage companies in 2012 was affected by a year-on-year decline in customer service revenue, which decreased by 36.8 per cent from 2011 and stood at LTL 9.1 million. Such impairment in financial brokerage companies' operating performance was driven by huge losses (LTL 6 million) incurred by one financial brokerage company, whose licence, at the company's request, has already been revoked.

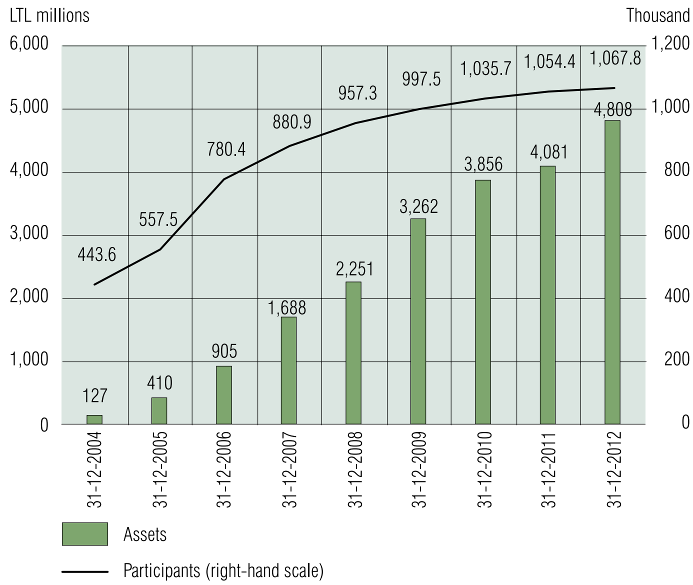
In 2012, the average financial brokerage company capital adequacy ratio declined from 2.3 to 1.9. In order to ensure compliance with capital requirements, 2 financial brokerage companies covered part of incurred losses by shareholders' additional contributions and 2 companies increased their capital by subordinated loans in 2012. One financial brokerage company did not comply with capital adequacy requirements and applied to the Bank of Lithuania regarding the change of the category of its licence of a financial brokerage company into the licence category which requires less capital.

Financial Services and Markets Supervision

Pension Funds

30 2nd pillar pension funds operate in Lithuania. They are managed by 9 pension accumulation companies, 7 management companies and 2 life assurance undertakings. During 2012 the assets managed by 2nd pillar pension funds grew by LTL 727.17 million (17.82%) and stood at LTL 4.8 billion at the end of the year. 2nd pillar pension fund participants surged by 1.27 per cent and amounted to 1,067.8 thousand.

Chart 24. Developments in the number and assets of 2nd pillar pension fund participants



Source: Bank of Lithuania calculations.

Medium equity share pension funds (investing up to 70% of funds in shares) continued to be the most popular, with 54.5 percent of all participants accumulating their pensions there. The value of their assets accounted for 51.8 per cent of total assets of pension funds. The second most popular strategy is that with small equity share pension funds (up to 30% of shares), counting over 266 thousand participants (24.9% of the market). New participants, who joined the pension accumulation system in 2012 (over 18.7 thousand), chose mainly the funds with medium equity share pension funds (42.08%) too, yet stock pension funds were also quite popular, they counted 26.90 per cent of new participants.

The upswing in global financial markets resulted in positive performance across the pension funds. In 2012, the equity pension fund unit value rose by as much as 13.1 per cent, the unit value of funds with medium equity exposure — 12.2 per cent, that of funds with small equity exposure — 10.9 per cent, and that of conservative investment pension funds — 6.5 per cent. The unit value of all pension funds increased by an average of 11.2 per cent during the year.

In describing the investment portfolio of 2nd pillar pension funds, it should be noted that towards the end of 2012 most of the investments (56.4%) consisted of investments in units or shares of collective investment undertakings (CIUs), of which — equity CIUs (LTL 1.61 billion) and debt security CIUs (LTL 1.00 billion). As of 31 December 2012, the major share of pension fund assets (about 64.6%) were invested in euros; the share of investment in litas accounted for 16.9 per cent, US dollars — 14.6 per cent. Nearly 60 per cent of the total 2nd pillar pension fund assets were invested in Lithuania and Luxembourg. By investment volumes, these countries are followed by Germany, Ireland and France.

In 2012 the Bank of Lithuania performed a profitability analysis of pension accumulation companies managing 2nd pillar pension funds, evaluated different scenarios for setting maximum deduction amounts. The results of the analysis revealed that if a decision would be taken to establish the maximum amount of deduction from pension assets (0.5%) from 1 January 2013, in the period 2017–2020 as many as 7 out of the 8 pension accumulation companies analysed would not be able to achieve compliance with the profitability ratio that is usual for management companies (according to the estimate of the Bank of Lithuania, the expected return on assets of management companies is likely to be around 15%). In case the deductions from pension funds would be differentiated and would account for up to 0.7 per cent of average annual value of a participant's pension account in a conservative pension fund and up to 1 per cent in another type of pension fund, then 7 companies out of 8 would be able to achieve the target profitability ratio, and all of them would be able to operate profitably. Taking into consideration the results of the analysis and seeking to avoid market monopolization, create favourable conditions for the management and shareholders of pension accumulation companies to have sufficient motivation in managing pension funds responsibly and effectively, the Bank of Lithuania proposed to agree to the deduction model presented by the Government of the Republic of Lithuania in the Draft Law on the Amendment of the Law on Pension Accumulation. It should be noted that the Seimas of the Republic of Lithuania has passed the Law on the Amendment of the Law on Pension Accumulation, under which the established amounts of deduction from pension fund assets are close to those proposed by the Government of the Republic of Lithuania.

Nine voluntary pension accumulation funds, managed by five companies, operate in Lithuania. During 2012 the unit values of all these funds rose by an average of 11.05 per cent and managed assets by 15.69 per cent — to LTL 108.7 million at the end of the year. The number of participants accumulating their pension in supplementary voluntary pension funds increased by 8.27 per cent and counted over 28.6 thousand at the end of December.

The investment composition of 3rd pillar pension funds is similar to that of 2nd pillar pension funds. At the end of 2012, the bulk of pension fund investments (63.4%) consisted of investments in CIU units or shares (LTL 68.89 million). The second most popular investment is government securities, with invested 24.8 per cent of the assets of 3rd pillar pension funds (LTL 26.92 million). Most of the assets of 3rd pillar pension funds (about 50.8%) were invested in euros, investments in US dollars accounted for 27.5 per cent, and investments in litas — 15.4 per cent of pension fund assets. In Luxembourg, the funds invested 45.0 per cent, in Lithuania — 20.7 per cent, in Ireland — 9.6 per cent of assets.

Collective Investment Undertakings

At the end of 2012, 11 management companies had established 33 collective investment undertakings in Lithuania (32 investment funds and 1 investment company of variable capital). A new management company was established in 2012, which currently manages one investment fund. Last year, assets managed by CIUs expanded, but the number of those accumulating in them declined. Since the beginning of 2012 fund assets have increased by LTL 128.99 million (25.17%) — to LTL 641.38 million, yet the number of investors declined by 9.90 per cent — to 18.9 thousand. Such a trend has been prevalent for a few years already; the number of participants has been declining since the end of 2008 due to fund performance which is not to the satisfaction of participants, and mergers of funds. In addition, because of little choice in the market, Lithuanian investors chose other investment alternatives (foreign investment funds, unit-linked life insurance, investment deposits, bonds and other instruments).

Developments in the unit values of collective investment undertakings in 2012 were also positive, with average growth of 12.6 per cent recorded. Major increases were recorded for the unit values of CIUs investing in shares — 16.0 per cent, CIUs for mixed investment — 13.0 per cent, CIUs investing in debt securities — 8.1 per cent.

At the end of 2012, the bulk of CIU investments (42.49%) comprised investments in the units or shares of other CIUs. The second most popular investment is shares. Direct investment in them accounted for 25.57 per cent of CIU assets. At the end of 2012, over 40 per cent of CIU assets had been invested in euros, CIU investments in US dollars accounted for 25.06 per cent, in litas — 20.39 per cent of fund assets. The other share of CIU funds had been invested in Polish zloty, Swedish krona, Japanese yen and other currencies.

Primary and Secondary Markets

The list of issuers supervised by the Bank of Lithuania remained almost unchanged in 2012. After the successful initial public offering of securities in Lithuania and Poland, the electricity supply company *AB INTER RAO Lietuva* became the issuer, and two companies (*AB Lifosa* and the public limited liability company *ALT investicijos*) were removed from the list. Following these developments, as of 31 December 2012 the Bank of Lithuania supervised 47 issuers, of which 18 companies with their shares listed in the Official Trade List of *AB NASDAQ OMX Vilnius*, 15 — in the Additional Trade List; the shares of 2 issuers were traded in the Warsaw Stock Exchange only, of 1 issuer — in both stock exchanges. In addition, the bonds of two issuers were included in the list of debt securities of *AB NASDAQ OMX Vilnius*. 10 issuers whose securities are not traded in regulated markets are also considered as reporting to the Bank of Lithuania.

Shares with a total face value of LTL 44.5 million were placed during 2012: two companies — *AB Invalda* and *AB Klaipėdos nafta* — increased their authorized capital (in 2011, 7 issues of shares, payable by additional contributions of shareholders, were placed in the primary market, investors acquired shares with a total face value of LTL 130.5 million and the issue price of LTL 272.2 million). In 2012, 4 issuers (*AB Limarko laivininkystės kompanija*, *AB Anykščių vynas*, *AB Invalda* and *AB Klaipėdos baldai*) reduced their authorized capital (the total face value of the reduced authorized capital is LTL 98.4 million). For comparison, in 2011 such decisions had been taken by 3 issuers (reduced by a total face value of LTL 38.6 million).

In 2012, 4 takeover bids were submitted and their implementation was completed, shares with a value of LTL 51 million were bought. Shareholders that have acquired controlling interest in three issuers — public limited liability company group of companies

ALITA, *AB Anykščių vynas* and *AB Snaigė* — submitted mandatory takeover bids to buy the remaining shares of the issuers. One voluntary takeover bid to buy the remaining ordinary registered shares of *TEO LT*, *AB* was also submitted by the Swedish company *TeliaSonera AB* (*publ*). Thus, of the total of shares offered by the offeror for buying in 2012, their total value amounting to LTL 313.68 million, 16.35 per cent of the value of the offered shares was bought.

63 issues of non-equity securities were placed in Lithuania's bond market in 2012, whose total face value amounted to LTL 727.5 million (37.2% below the figure for 2011). Unlike in previous periods, when more bonds were placed publicly, in 2012 as much as 94.8 per cent (35 issues with a total face value of LTL 690 million) were short-term non-publicly placed fixed rate bonds. All of them were issued by *Swedbank*, *AB* and only one — by *AB Ūkio bankas,* which made use of the prospectus preparation exception. *AB SEB bankas* offered publicly non-equity securities (financial instrument related bonds, investment notes, also new debt products that began to be offered during the reference year — structured notes) (28 issues with a total face value of LTL 37.5 million). Low demand for bonds is likely to have been driven both by a low interest rate (0.55%–0.66% on bonds with a fixed interest rate at the end of the year) and the fear for investment security following the bankruptcy of *AB bankas SNORAS*, as well as a lack of general stability in financial markets.

While trade at *AB NASDAQ OMX Vilnius* was not active, the value of *OMXV* increased by nearly 19 per cent during 2012 (after falling by 27% in 2011). Year on year, the total turnover of *AB NASDAQ OMX Vilnius* contracted by 23.6 per cent in 2012 and amounted to LTL 688.2 million; the number of transactions contracted by 55.6 per cent. Notwithstanding this and unlike in 2011, when there was an increase in the market prices of the shares of only 13.2 per cent of companies, in 2012 an increase in the share prices of 51.5 per cent of companies was recorded (65.1% — *AB Kauno energija*, 40.7% — *AB Linas Agro Group*, 46.5% — *AB Apranga*, etc.). The most pronounced decline was recorded in the share prices of *AB Limarko laivininkystės kompanija* (–84.5%). Total market capitalization of the stock exchange increased by 4.5 per cent in 2012 — from LTL 15.46 billion to LTL 16.19 billion. This increase resulted from intensified issue of government securities (an increase of 26.9%, or LTL 5.87 billion), whereas share capitalization decreased by 4.7 per cent and stood at LTL 10.33 billion.

Chart 25. Change in turnover and *OMXV* index (right-hand scale)

Source: AB NASDAQ OMX VILNIUS.

Other Financial Services and Markets

The Bank of Lithuania, after taking over the function of the oversight of activities of consumer credit lenders since early 2012, focuses on this area heavily. The public list of consumer credit lenders currently includes 146 companies (on 31 December 2011 — 133). At the end of 2011[8] consumer credit lenders had concluded 818 thousand consumer credit contracts, under which they had extended to consumer credit borrowers credits in the amount of LTL 1,798 million. Credit institutions and leasing companies dominated the consumer credit market both by the number of concluded contracts and the amount of credit balances (with 76.22% of concluded contracts and 85.63% of credit balances). The market share of other consumer credit lenders is significantly smaller (23.78% and 14.37% respectively).

Small consumer credits (those whose amount is up to LTL 1,000) comprised just a small share of all consumer credits (4.6%) in 2011. Consumer credit lenders extending small consumer credits (31 companies) had concluded 118 thousand contracts, the balance of the total consumer credit amount of which as of 31 December 2011 stood at LTL 82.9 million. The average size of the small consumer credits extended was LTL 647 and the average term of credit — 2 months. The average annual percentage rate on small consumer credit during the conclusion of a contract was 214 per cent, and the average annual interest rate — 110 per cent. The amount of overdue debts of small consumer credit as of 31 December 2011 stood at LTL 76.5 million. The number of contracts with payment overdue, at the end of the above period, was over 41.1 thousand. As much as 39 per cent of all payments overdue were made by persons aged below 25, 29 per cent — by persons aged 25 to 35.

Settlement of Disputes

In 2012, the Bank of Lithuania received 616 applications regarding disputes with the financial market participants (of which 23.4% could not be handled at the Bank of Lithuania due to procedural obstacles (the dispute is or was handled at court, the dispute has arisen not between a consumer and a service provider, the nature of the dispute is not within the competence of the Bank of Lithuania, etc.). In 2012, consumers applied to the Bank of Lithuania mainly (54% of cases) asking for handling of their disputes with insurance undertakings. Disputes with banks accounted for 35 per cent of a total of applications received, whereas other disputes were those with other financial market participants (consumer credit lenders, leasing companies, providers of payment services, etc.).

In analysing the results of the disputes dealt with at the Bank of Lithuania it should be noted that during 2012 in 51 cases the dispute between a consumer and a financial market participant was settled peacefully, i.e. the Bank of Lithuania did not need to take any decisions regarding the dispute, as the consumer and the financial market participant by way of agreement ended the dispute that arose in one or another phase of handling the dispute. In another 33 cases consumer claims were satisfied fully or in part. In the other 82 cases there were no grounds for recognising consumer claims, thus the Bank of Lithuania had to dismiss them.

Financial Education

Since early 2012 financial education, as an important element in seeking to ensure responsible usage of financial products, has become a priority field in the operation of the

[8] *The Bank of Lithuania so far is only being provided with annual statistical information on the activities of consumer credit lenders, thus the text contains the data for 2011 (the data for 2012 will be provided on 1 May 2013).*

Bank of Lithuania. Given the above, a primary opportunity case study was prepared; in carrying it out, the need for financial education initiatives was assessed; active cooperation with an initiated financial education group, which is made up of the most active representatives of market participants, responsible for coordination of financial education projects, was maintained; the guidelines for financial education activity and further principles of cooperation were agreed.

In order to identify the level of financial awareness and the peculiarities of the financial behaviour and needs of the Lithuanian population, a household survey was conducted, whose questionnaire was based on the methodology prepared by the Organization for Economic Cooperation and Development and tested internationally. The survey, during which 1,207 respondents were surveyed, revealed that while the population assessed its ability to manage its finances quite favourably and was aware of most financial products, it does not use them actively enough — the most popular saving means is holding cash at home or cash balance accumulated on a bank account. As many as a third of the survey participants, before choosing financial products, do not consider any other proposals, a fifth only considered various proposals by the same company. The data obtained during the survey has been forwarded to the OECD for comparison on an international scale, and the insights have been used in preparing the Bank of Lithuania's financial education concept.

The financial education concept of the Bank of Lithuania was developed in 2012. It specified the purpose of financial education — to improve the population's financial awareness, encourages taking interest in the management of personal finances and taking rational financial decisions. This concept is not professional market participant oriented. The necessity to enhance financial education is driven by the complexity of new financial instruments, demographic changes and a new European financial market regulatory framework. The concept is to be implemented in cooperation with entities concerned — state authorities, the financial sector, professional trade unions, consumer associations and individual persons, taking into account the needs of social groups, arising new challenges in relation to economic development processes, globalisation, etc.

Three free information-educational seminars on the subject of personal finance management and responsible lending were held in 2012. They were attended by almost 800 Lithuanian residents. The participants took a major interest in the principles of responsible lending, as well as saving alternatives. 95 per cent of the participants claimed they would use their knowledge acquired in managing personal finances and investment.

A website for financial education was developed during the reported period. The main purpose of this website is to provide impartial information and instruments that would enable the population to manage their personal finance more effectively, i.e., help take rational financial decisions. The website will post calculators and other instruments, using which the user will be able to compare analogous financial products, statistical information, information collected during surveys, expert opinion on various financial issues, financial market news, etc.

Cash Management

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

Currency Issue and Withdrawal

In 2012, the value of currency in circulation, including collectors (commemorative) coins and numismatic sets, increased by LTL 589.5 million: LTL 3,066.9 million was put into circulation and LTL 2,477.4 million — withdrawn from it. Over the year, the value of cash increased by 5.4 per cent (22.7% in 2011). As of 31 December, currency in circulation amounted to LTL 11,416.5 million (LTL 10,827.0 million, a year ago).

Table 8. Net currency issue or withdrawal (–)

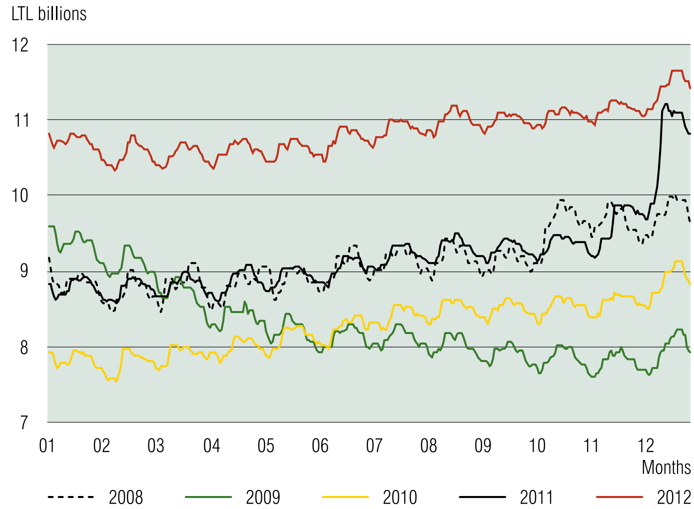
LTL millions

Year	Quarter				
	I	II	III	IV	I–IV
2010	–105.6	393.2	211.1	393.2	891.8
2011	–143.9	298.3	248.0	1,600.7	2,003.1
2012	–376.7	270.5	239.4	456.3	589.5

Source: Bank of Lithuania.

Traditionally, in 2012 the value of currency in circulation decreased most noticeably in January and increased in December.

Chart 26. Litas in circulation



Source: Bank of Lithuania.

As of 31 December 2012, banknotes in circulation totalled 91.3 million pieces, with their value standing at LTL 11,160.6 million. Since the beginning of the year, the number of banknotes in circulation has grown by 3.3 million (3.7%) pieces and their value by LTL 562.6 million (5.3%). The average value of a banknote in circulation has increased from LTL 120.4 to LTL 122.2 over the year.

Although the amount of cash in circulation rose, in 2012 the Bank of Lithuania frontloaded and accepted a smaller amount of banknotes than in the previous year: it frontloaded 166.8 million pieces (186.1 million pieces — in 2011) and accepted 163.5 million pieces (176.4 million pieces — in 2011).

In 2012 the same banknote returned to the Bank of Lithuania twice on average (2.3 times in 2011). 22 per cent on average of the banknotes that returned to the Bank of Lithuania were unfit for use (23% — in 2011). 163.5 million banknotes accepted by the Bank of Lithuania over the year were recognised as unfit for further circulation and 35.1 million banknotes were destroyed (in 2011 — 38.2 million banknotes).

On 31 December, 1,102.7 million circulation coins were in circulation, with their value standing at LTL 241.1 million. Since early 2012, the number of coins in circulation has increased by 69.8 million (6.8%) and their value — by LTL 26.1 million (12.1%).

Table 9. Banknotes and coins in circulation

Denomination	31-12-2011		31-12-2012		31-12-2011		31-12-2012	
	LTL millions	%, share	LTL	%, share	Million pcs.	%, share	Million pcs.	%, share
Banknotes								
LTL 1	2.6	0.0	2.6	0.0	2.6	3.0	2.6	2.9
LTL 2	2.6	0.0	2.6	0.0	1.3	1.5	1.3	1.4
LTL 5	2.2	0.0	2.2	0.0	0.4	0.5	0.4	0.5
LTL 10	97.4	0.9	100.6	0.9	9.7	11.1	10.1	11.0
LTL 20	214.4	2.0	223.2	2.0	10.7	12.2	11.2	12.2
LTL 50	432.6	4.1	460.7	4.1	8.7	9.8	9.2	10.1
LTL 100	2,159.8	20.4	2,000.1	17.9	21.6	24.5	20.0	21.9
LTL 200	5,868.4	55.4	6,593.8	59.1	29.3	33.3	33.0	36.1
LTL 500	1,817.9	17.2	1,774.7	15.9	3.6	4.1	3.5	3.9
Total banknotes	10,597.9	100.0	11,160.6	100.0	88.0	100.0	91.3	100.0
Circulation coins								
LTL 0.01	4.0	1.9	4.3	1.8	403.7	39.1	429.8	39.0
LTL 0.02	4.3	2.0	4.6	1.9	214.5	20.8	229.6	20.8
LTL 0.05	4.1	1.9	4.3	1.8	81.6	7.9	85.9	7.8
LTL 0.1	15.3	7.1	16.0	6.6	152.8	14.8	160.1	14.5
LTL 0.2	14.7	6.9	15.7	6.5	73.7	7.1	78.7	7.1
LTL 0.5	11.5	5.4	12.4	5.1	23.0	2.2	24.8	2.2
LTL 1	43.9	20.4	48.3	20.0	43.9	4.3	48.3	4.4
LTL 2	54.4	25.3	61.6	25.6	27.2	2.6	30.8	2.8
LTL 5	62.8	29.2	73.8	30.6	12.6	1.2	14.8	1.3
Total circulation coins	215.0	100.0	241.1	100.0	1,032.9	100.0	1,102.7	100.0
Collectors (commemorative) coins and numismatic sets	14.1		14.9		0.3		0.3	

Source: Bank of Lithuania.

The average number of circulation litas and centas coins per capita in Lithuania increased by 14 per cent to 368 coins, of which 143 coins were 1 centas coins.

Collectors (Commemorative) Coins

In 2012, the Bank of Lithuania issued five collectors (commemorative) coins: one gold (Au 999.9) and four silver (Ag 925) coins. The coin minting quality — a mirror surface with matte relief (*proof).* It also issued four 2 litas collectors (commemorative) circulation coins (both *proo*f and *unc* quality each) and a numismatic set of circulation coins. The quality of the coins in the set — shiny plane and relief surface (BU).

All of them were minted at *UAB* Lithuanian Mint.

On 16 January, the Bank of Lithuania issued a new numismatic set of circulation coins of the 2012 issue with a commemorative sign dedicated to the national monetary system of Lithuania. Its mintage is 4 thousand pieces.

Chart 27. Numismatic set of 2012 issue circulation coins

The 50 litas silver coin dedicated to the 200th anniversary of Dionizas Poška's *baubliai* was issued on 11 May. The coin's diameter is 38.61 mm, weight 28.28 g, mintage 4 thousand pieces.

The reverse of the coin features a stylised hollowed trunk (*baublys*) of Dionizas Poška, the inscription "DIONIZO POŠKOS BAUBLIAI, 200" is inscribed in a semicircle. A stylised National Coat of Arms with the inscription "LIETUVA, 2012, 50 LITŲ" (Lithuania, 2012, 50 litas) in a semicircle is in the centre of the obverse of the coin. The obverse and reverse of the coin bear a quotation from Dionizas Poška's work *Mužikas Žemaičių ir Lietuvos* (*The Peasant of Samogitia and Lithuania*). The edge of the coin bears the inscription "VAISTINĖ PROTO YRA PO TUO STOGU" (A pharmacy of the mind is beneath that roof).

The coin was designed by Rūta Ničajienė and Giedrius Paulauskis.

Chart 28. 50 litas silver coin dedicated to the 200th anniversary of Dionizas Poška's *baubliai*

The 10 litas silver coin dedicated to fine arts was issued on 26 June. It is the third coin in the series "Lithuanian Culture". The coin's diameter is 28.70 mm, weight 12.44 g, mintage 4 thousand pieces.

The coin's obverse and reverse artistically depict an artist's stylised palette and on the relief surface of the obverse of the coin is a stylised Coat of Arms surrounded by the inscriptions "LIETUVA, 2012, 10 LITŲ" (Lithuania, 2012, 10 litas). There is an oval aperture in the coin, which runs through the numeral "0". On the edge of the coin is the inscription "LIETUVOS KULTŪRA * DAILĖ" (Lithuanian Culture * Fine Arts).

The coin was designed by Rūta Ničajienė and Giedrius Paulauskis.

Chart 29. 10 litas silver coin dedicated to fine arts (from the series "Lithuanian Culture")

The 10 litas gold coin from the series "Lithuanian Science" was issued on 14 September. It is the first coin in this series. The coin's diameter is 13.92 mm, weight 1.244 g, mintage 5 thousand pieces.

The reverse of the coin artistically depicts a surgeon's hands and a stylised heart, created according to the motifs of the medal of Stanislovas Kuzma "Vilnius University Cardiac and Vascular Laboratory and Clinics in 1962–1982". The inscription "LIETUVOS MOKSLAS" (Lithuanian Science) runs in a semi-circle around it. The obverse of the coin carries a stylised image of the Coat of Arms surrounded by the inscriptions "10 LITŲ, 2012" (10 litas, 2012). The edge of the coin is plain.

The coin was designed by Rytas Jonas Belevičius.

Chart 30. 10 litas gold coin from the series "Lithuanian Science"

The 50 litas silver coin dedicated to the 150th birth anniversary of Maironis (Jonas Mačiulis) was issued on 25 September. The coin's diameter is 38.61 mm, weight 28.28 g, mintage 3 thousand pieces.

The reverse of the coin features a stylised portrait of Maironis, a fragment from one of his poems, a facsimile of his signature and the number 150, which signifies his birth anniversary. The obverse of the coin carries a stylised image of the Coat of Arms in the centre, the inscriptions "LIETUVA, 50 LITŲ, 2012" (Lithuania, 50 litas, 2012) are arranged in a semi-circle around it. On the edge of the coin there is the inscription "GINKIME KALBĄ, ŽEMĘ, JOS BŪDĄ!" (Protect our language, land, traditions).

The coin was designed by Rytas Jonas Belevičius.

Chart 31. 50 litas silver coin dedicated to the 150th birth anniversary of Maironis (Jonas Mačiulis)

The 50 litas silver coin dedicated to Lithuanian nature was issued on 20 November. The coin's diameter is 38.61 mm, weight 28.28 g, mintage 3 thousand pieces.

The reverse of the coin features a stylised pond turtle included in the Red Data Book of Lithuania. The inscriptions "BALINIS VĖŽLYS" (pond turtle), "*Emys orbicularis*" and "50 LITŲ" (50 litas) are arranged in a semi-circle. The obverse of the coin carries a stylised image of the

Coat of Arms, the inscriptions "LIETUVA, 2012" (Lithuania, 2012) are arranged in a semi-circle around it. On the edge of the coin is the inscription "LIETUVOS GAMTA" (Lithuanian Nature).

The coin was designed by Gediminas Karalius.

Chart 32. 50 litas silver coin dedicated to Lithuanian nature

On 4 December, the 2 litas collectors circulation coins dedicated to the Lithuanian resorts of Birštonas, Druskininkai, Neringa and Palanga were issued into circulation. Proof quality coin mintage — 2.5 thousand coins in each. These coins formed 500 sets. *Unc* quality coin mintage — 100 thousand pieces of each coin.

Diameter of the coin — 25.00 mm; weight — 7.50 g. Alloy of the ring — Cu/Al/Ni, and alloy of core — Cu/Ni. The reverse of the coin features the coat of arms of a respective resort in the centre, the inscriptions of the name of the towns "BIRŠTONAS, DRUSKININKAI, NERINGA, PALANGA", respectively, and 2012 are arranged in a semi-circle around the coat of arms. Heraldic signs of the proof coin quality are printed by pad printing. The obverse of the coin carries the National Coat of Arms — Vytis; the inscriptions "LIETUVA, 2 LITAI" (Lithuania, 2 litas) are arranged in a semi-circle around it. The edge of the coin has 105 rims (5 sectors with 21 rims in each, rimmed at intervals).

The coin was designed by Giedrius Paulauskis.

Chart 33. 2 Litas *proof* and *unc* coins dedicated to Lithuanian resorts and a set of these coins

Counterfeit Banknotes and Coins

621 counterfeit banknotes and 23 counterfeit 1 litas coins were identified in Lithuania in 2012. The number of counterfeit banknotes was almost the same as in 2011 (then, 619 counterfeits were detected). The largest number of counterfeits was found of 20 litas banknotes of the 2007 issue. They accounted for 27 per cent of all counterfeits. Counterfeit 100 litas banknotes of the 2000 issue accounted for 24 per cent of the counterfeits.

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

The counterfeits identified in 2012 in Lithuania accounted for around 0.0007 per cent of total banknotes in circulation: one counterfeit banknote per 147 thousand pieces of banknotes in circulation (28 thousand pcs. in the euro area). In Lithuania, the overall level of currency counterfeiting was significantly lower, compared to the euro area countries.

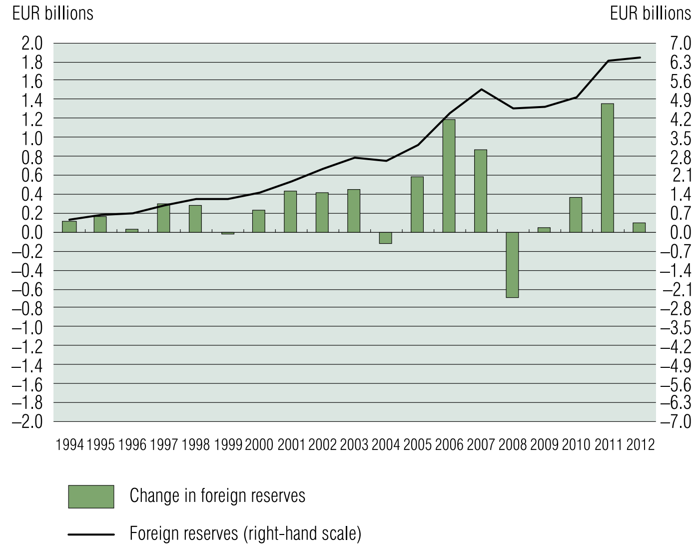
Management of Investment of Financial Assets

The Bank of Lithuania aims to invest its financial assets in a safe, liquid and return generating way, thereby ensuring the fixed exchange rate regime. Acting as a State Treasury agent, the Bank of Lithuania manages accounts of the State Treasury, Lithuanian and EU institutions, foreign banks and international financial institutions.

Financial Assets and Key Principles of Their Management

Official foreign reserve assets (hereinafter — "foreign reserves") form the main part of financial assets managed by the Bank of Lithuania. As of 31 December 2012, this indicator amounted to 97 per cent of total assets of the Bank of Lithuania. In 2012, foreign reserves increased by EUR 90.1 million (LTL 311.2 million), or 1.4 per cent. On 31 December, they amounted to EUR 6,438.0 million (LTL 22,229.2 million).

Chart 34. Foreign reserves



Source: Bank of Lithuania.

Foreign reserves increased on account of an increase in central government deposits by EUR 642.3 million (LTL 2,217.9 million), currency in circulation by EUR 170.5 million (LTL 588.7 million) and other factors by EUR 68.8 million (LTL 237.5 million). Because of MFI deposits, foreign reserves shrank by EUR 490.2 million (LTL 1,692.4 million), on account of the change in external liabilities — by EUR 297.4 million (LTL 1,026.7 million) and reduced value of Special Drawing Rights — by EUR 4.0 million (LTL 13.7 million).

The main objective of the Bank of Lithuania in managing foreign reserves is to ensure such an amount of liquid financial resources that is sufficient to maintain the fixed exchange rate of the litas against the anchor currency at all times. To maximize return and diversify risk, the one–year investment period applied up to now was changed in 2012 into a three-year period. Therefore, when managing foreign reserves, the Bank of Lithuania seeks the highest return over a three-year horizon, adhering to tight liquidity and safety requirements.

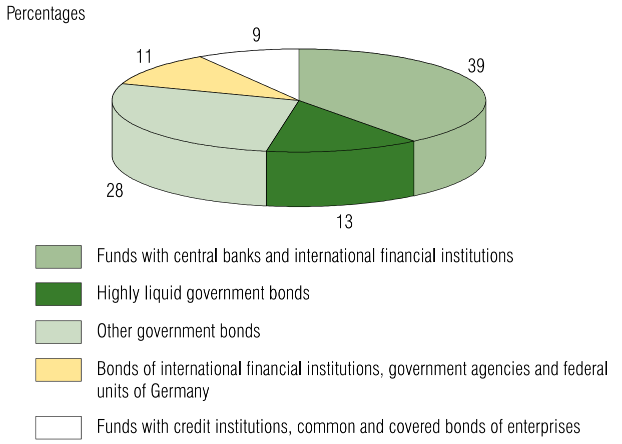
Foreign assets have been divided into separate functional parts according to their purpose: current operations, investment and gold portfolios.

Particular parts of foreign reserves are subject to different objectives and individual investment strategies. Reserves within the current operations portfolio are primarily aimed to ensure urgent liquidity needs of the Bank of Lithuania. Investment portfolio funds can also be used for this purpose, however, with little probability that this will ever be needed. The aim is to invest this portfolio more profitably than the funds of the current operations portfolio. Given the purpose of gold and the specificity of its management, gold investment is attributed to a separate portfolio.

Liquidity, Safety of and Return on Financial Assets

Following the principle of liquidity, the Bank of Lithuania manages its financial assets so as to ensure that, where needed, they can be liquidated quickly and without significant costs. On 31 December 2012, investment in highly liquid government bonds and funds in other central banks and international financial institutions accounted for 53 per cent of investment. At the year-end, German, French and Dutch bonds of were regarded as highly liquid bonds.

Chart 35. Breakdown of investment by financial instrument
(31 December 2012)



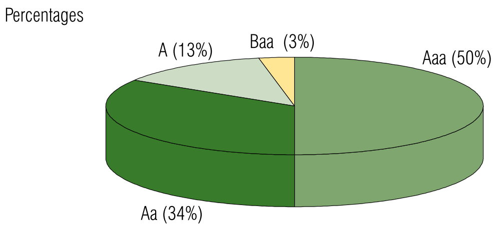
Source: Bank of Lithuania.

The Bank of Lithuania also applies other liquidity requirements, which ensure that regular-scope interventions in the domestic foreign exchange market are made and liabilities vis-à-vis depositors could be met without liquidating any investment.

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

Credit risk is limited by compiling and updating regularly lists of eligible counterparties and issuers of securities with particularly low probability of default assumed by rating agencies. Despite the deteriorating average credit quality of potential investment counterparties and issuers in 2012, the Bank of Lithuania's share of investment in the highest-rated financial instruments boosted from 36 to 50 per cent over the year.

Chart 36. Breakdown of investment by rating
(31 December 2012)



Source: Bank of Lithuania.

To reduce credit risk, the principle of investment diversification is widely used. To implement it, limits for financial instruments, issuers, counterparties and their groups, as well as for issuers of one particular country are set. As of 31 December 2011, it was invested in debt securities issued by 62 issuers. The concentration of investment in government securities shrank by over 35 per cent over the year. These funds were invested in well diversified investments, i.e., in deposits and accounts with central banks, securities of international financial organizations, government agencies, Germany's federal units covered by specialised credit institutions, good credit quality corporations, as well as in investment outside the euro area. The volume of the latter investment tripled, eliminating at the same time foreign exchange rate risk by currency swaps.

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

On 31 December, gold accounted for 4.4 per cent of financial assets not related to liabilities in foreign currencies. The amount of gold remained unchanged over the year at 5.8 tons. Its price in euro rose by 5.7 per cent over the year.

Implementing the principle of safety, the Bank of Lithuania manages interest rate risk in addition to credit and exchange rate risks. Volatility in market interest rates changes the market value of Bank of Lithuania assets. Longer-term, riskier investments tend to generate higher returns, yet sometimes the return over one-year horizon can be negative due to a rise in interest rates. Interest rate risk is managed by setting benchmarks and their modified durations (MD) for each functional part of foreign reserves and then placing limits on portfolio real investment deviations (in terms of MD) from benchmark MD.

Table 10. Modified Financial Duration of foreign reserves and their functional parts
(31 December 2012; by year)

Functional parts	2011	2012
Current operations portfolio	0.09	0.13
Investment portfolio	0.93	1.09
Gold portfolio	0.02	0.00
Total	**0.50**	**0.69**

Source: Bank of Lithuania.

Investment results in 2012 were determined by the lowest ever and further decreasing yields in the safest euro area countries and in the environment of declining credit risk and yield spreads between debt securities of the safest and other euro area countries.

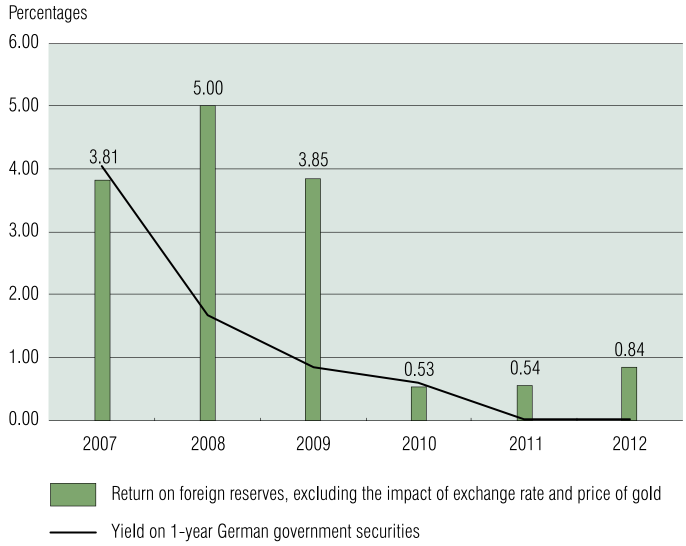
Table 11. Return on functional parts of foreign reserves
(percentages)

	2007	2008	2009	2010	2011	2012
Current operations portfolio	4.05	4.09	1.19	0.67	1.04	0.30
Investment portfolio	3.76	5.57	4.47	0.19	0.22	3.07
Gold portfolio, excluding the gold price contribution	0.04	0.09	0.04	0.00	0.24	0.15
Return, excluding the contribution of exchange rates and gold price	**3.81**	**5.00**	**3.85**	**0.53**	**0.54**	**0.84**

Source: Bank of Lithuania.

Interest rates on low risk investments reached their through and approached zero; therefore, to generate excess return in managing financial assets becomes very problematic.

Chart 37. Return on foreign reserves and yield on 1-year maturity German government securities



Source: Bank of Lithuania.

Handling of Statistics

The Bank of Lithuania is the major institution handling financial statistics in the country. To increase transparency in the domestic financial market, MFI balance sheet and interest rate statistics, investment fund assets and liabilities statistics, inter-bank lending and foreign exchange market statistics, payment instrument statistics, official reserve asset statistics, balance of payments and international investment position statistics, external debt statistics, foreign direct investment statistics, quarterly financial accounts and government finance statistics was developed, prepared and disseminated in 2012. The major part of these statistics is prepared following EU and ECB legal acts, international statistics standards and manuals.

Developing, preparing and disseminating the MFIs balance and interest rate statistics, in 2012 the Bank of Lithuania regularly compiled and submitted to the ECB statistical data of the MFI balance sheet, securitisation, loan and deposit interest rates on the basis of requirements set in ECB regulations ECB/2008/32 and ECB/2009/7 and Guidelines ECB/2007/9 with later partial amendments. Assisting the ECB in developing monetary and financial statistics to properly regard new consumer demands and implement new requirements of the European System of Accounts (ESA 2010), the Bank of Lithuania prepared and presented to the ECB responses to questionnaires of statistical research works and cost evaluations of the MFIs balance sheet and interest rates, assets and liabilities of investment funds, payment instruments and insurance corporations.

Governed by the 6th edition of the IMF's Balance of Payments and International Investment Position Manual, the Bank of Lithuania compiled a trial balance of payments for 2010, enhanced the calculation methodology of air services and own capital of direct investment indicators. For the sake of reduction statistical reporting burden to enterprises, all indicators related with foreign loans have been eliminated in three statistical reporting forms, because this information can be available from the foreign loan database.

In late 2012, by a resolution of the Board, the Bank of Lithuania changed statistical reporting requirements for payment instruments by providing a possibility for small payment institutions to be exempted from this responsibility. Data not subject to the actual reporting entirety of small payment institutions will be assessed by using statistical methods on the basis of data in financial and supervisory reports of payment institutions. These actions soften the statistical reporting burden of payment institutions.

In 2012 the Bank of Lithuania enhanced the management of securities and foreign loan databases and the quality of data by revising historical data and harmonizing the terms used. The introduction of additional security measures and tools for the drawing-up of statements, reporting and data processing was continued in the statistical information systems of securities issue and of their holders. Additional interfaces among the Bank's securities database and other databases available at the Bank were installed. Information from these databases is used to compile statistics of investment fund assets and liabilities, securities issue statistics, external statistics, and to draw quarterly financial statements.

The loan risk database is further developed. Its purpose is to ensure efficient functioning of the credit system and the Bank of Lithuania's right to access information necessary for supervision, monetary policy and financial stability analysis and statistics. Supplementing the number of market participants providing data with the Lithuanian Central Credit Union and other credit unions, the assessment of the borrowers' reliability has become more accurate and possibilities to analyse the Lithuanian credit market have been widened.

By further expanding the statistical information dissemination, the Bank of Lithuania supplemented data of national quarterly financial statements posted on the website by institutional sector debt indicators grouped by institutional sectors and sub-sectors. To strengthen the institutional co-operation in the area of statistics and aiming at a better quality of statistical data, the Bank of Lithuania and Ministry of Finance signed the data and statistical information provision agreement. The Bank of Lithuania introduced a safe data exchange system among institutions. After its introduction, the exchange of financial data on MFIs balance sheet, external sector, general government financial data and other statistical information between Statistics Lithuania and the Ministry of Finance was started.

Payment and Securities Settlement Systems

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

Litas Payment Systems

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

On 31 December 2012, the system LITAS-RLS had 24 participants: the Bank of Lithuania, eight commercial banks, five foreign bank branches, Central Securities Depository of Lithuania (CSDL), Lithuanian Central Credit Union (LCCU), seven financial brokerage firms and operator of the payment cards scheme *Visa Europe Services Inc.* All these participants, except *Visa Europe Services Inc*., also participated in the system LITAS-MMS. Compared to the end of 2011, the number of participants in the system LITAS-RLS remained unchanged, while in the system LITAS-MMS it decreased: the *EA fjarfestingarfelag hf.* branch discontinued its participation in both systems, while the operator of the payment cards scheme *Visa Europe Services Inc*. became a new participant of LITAS-RLS.

Table 12. LITAS-RLS and LITAS-MMS transactions

Year	Volume of transactions, thousands			Value of transactions, LTL millions		
	Total	Daily average	Concentration level*, %	Total	Daily average	Concentration level*, %
2011	393 (LITAS-RLS)	1.6	57.7	326,755	1,291.5	50.0
	30 205 (LITAS-MMS)	119.4	69.9	194,499	768.8	57.8
2012	446 (LITAS-RLS)	1.8	66.0	265,851	1,055.0	49.9
	31,169 (LITAS-MMS)	123.7	74.6	188,826	749.3	59.5

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

Euro Payment System

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

At the end of the year, the system TARGET2-LIETUVOS BANKAS had 14 participants: the Bank of Lithuania, seven commercial banks, four foreign bank branches, the Central Securities Depository of Lithuania and the Lithuanian Central Credit Union.

Table 13. TARGET2-LIETUVOS BANKAS transactions

Year	Volume of transactions			Value of transactions, EUR millions		
	Domestic payments	Cross-border payments sent	Cross-border payments received	Domestic payments	Cross-border payments sent	Cross-border payments received
2011	16,432	37,438	119,998	2,892	120,179	120,088
2012	21,975	103,777	137,043	2,724	134,671	135,352

Source: Bank of Lithuania.

Oversight of Payment and Securities Settlement Systems

The Bank of Lithuania conducts the oversight of three payment systems (LITAS-RLS, LITAS-MMS and KUBAS[9]) and of the securities settlement system (SSS)[10]. The Bank of Lithuania participates in the cooperative oversight of TARGET2 together with the Eurosystem and from 2010 – in the cooperative oversight of the TARGET2-Securities platform, which is under development, together with other supervisory authorities.

In 2012 the operation of systems overseen by the Bank of Lithuania was stable (without critical incidents) and their operators followed requirements established in the Law on Settlement Finality in Payment and Securities Settlement Systems.

[9] *The LCCU is the owner and operator of the system KUBAS.*
[10] *The owner and operator of SSS is the CSDL.*

In 2012, the Bank of Lithuania assessed its available measures aimed to ensure the execution of critical payments in the event of a failure in a normal operation of the system TARGET2. It has been identified that these measures should be more flexible and the implementation of required improvements was projected for 2013.

In 2012 the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) together with the Technical Committee of the International Organisation of Securities Commissions (IOSCO) prepared new Principles for Financial Market Infrastructures which will substitute the Core Principles for Systemically Important Payment Systems set by the BIS and the Recommendations for Securities Settlement Systems prepared by BIS together with IOSCO used by the Bank of Lithuania in making systems' assessments. With this in regard, the Bank of Lithuania is going to apply the Principles for Financial Market Infrastructures set by CPSS-IOSCO.

Non-Cash Payments

The increase of the volume of non-cash payment transactions in 2012 was driven by the growing use of modern non-cash payment instruments. In this period the particularly buoyant growth was in the number of card payment transactions, the number of electronic credit transfers also increased markedly. However, after the growth of the volume and value of direct debit transactions in 2011, the number of these transactions dropped in 2012 by almost 11 per cent and the value of transactions — by nearly 8 per cent. Such a situation resulted mainly from the termination of activities of *AB bankas SNORAS* which determined a significant decrease of paper based direct debit transactions. Direct debit transactions this year, similar to the previous year, continued to increase (in 2011 the volume of these transactions increased by 14.2% and in 2012 — by 12.6%). The volume and value of cheque transactions, that were never very popular, continued to decrease.

Table 14. Non-cash payments in 2012

	Number of transactions		Value of transactions		Average value per transaction, LTL thousands
	Millions	Compared to 2011; more, less (–), %	LTL millions	Compared to 2011; more, less (–), %	
Total non-cash payments	311.6	13.04	740,401	–3.97	2.38
Total credit transfers	166.7	8.94	728,855	–4.16	4.37
Electronic credit transfers	101.0	15.48	576,739	1.27	5.71
Paper-based credit transfers	65.7	0.20	152,116	–20.36	2.31
Direct debit	13.2	–10.94	2,088	–7.90	0.16
Card payments (debit, credit and virtual)	131.6	22.23	8,293	21.27	0.06
Cheques	0.1	–17.37	1,165	–15.24	8.44

Source: Bank of Lithuania calculations.

On 31 December 2012, compared to 31 December 2011, the number of payment cards dropped by 6.61 per cent — they amounted to about 3.69 million. Although the number of all card types was reducing, the rate of decrease was slower compared to 2011. Terminated activities of *AB bankas SNORAS* exerted the strongest impact on the reduced number of credit cards in 2011 (–28.3%), and in 2012 the reduction in the number of this type of payment cards was the slowest (–1.53%). The number of debit cards dropped a bit more (by –7.1%) and stood at 3.23 million. In 2011, an increase was observed only in the number of virtual cards, and in 2012 their number dropped most of all (more than 11%). Therefore, the market share of virtual cards shrank even more (in 2012, it accounted for only 0.04%).

Despite the drop in the number of payment cards, in 2012, compared to 2011, the volume and value of payments executed by all types of payment cards increased.Particularly marked growth was registered in the volume of virtual card payments (27.9%), although as has already been mentioned, these cards recorded the largest decrease in the market. A slightly smaller, though significant, increase was in the number of debit card payments (23.8%). Similar to 2011, debit cards by the volume of transactions at trade outlets were dominating among all types of payment cards: LTL 8 out of LTL 10 was paid by debit cards (last year — LTL 7 out of LTL 10).

Table 15. Payments by payment cards issued in Lithuania in 2012

	Volume of transactions		Value of transactions		Average value per transaction, LTL
	Thousands	Compared to 2011; more, less (–), %	LTL millions	Compared to 2011; more, less (–), %	
Debit cards	118,053	23.8	6,362.7	24.9	53.90
Credit cards	12,799	9.4	1,833.3	9.9	143.24
Virtual cards	716	27.9	96.8	26.1	135.26

Source: Bank of Lithuania calculations.

On 31 December 2012, 1,323 ATMs operated in Lithuania, of which 1,211 ATMs had the cash withdrawal function and 156 — deposited cash (44 ATMs had both functions). Compared to the end of 2011, the number of ATMs increased by only 1.4 per cent and almost did not change after the termination of activities of *AB bankas SNORAS* (in late 2011, year on year, the number of ATMs fell by almost 17% due to the termination of activities of *AB bankas SNORAS* and amounted to 1,305). As of 31 December 2012, there were 444 ATMs per 1 million of the population in Lithuania (in 2011 — 434 ATMs in Lithuania and 870 ATMs in the EU).

In 2012, cash withdrawn from ATMs amounted to LTL 25.36 billion. Year on year, this amount grew by 3.9 per cent. The average value of cash issued by ATMs increased by LTL 5 and was equal to LTL 375. From bank branches the population and enterprises withdrew LTL 8 billion in cash, i.e., LTL 0.5 billion less than in the previous year. However, another LTL 100 billion they withdrew in cash through cash registers in shops — LTL 14 million more year on year.

Aiming to provide more favourable conditions for the public to get and compare information about standard fees for payment services applicable by domestic banks, credit unions, payment and e-money institutions to natural persons, in 2011 the Bank of Lithuania began to publish this information on its website and continues to post it.

Moreover, to increase transparency in the payment services market and encourage sustainable and effective operation of this market, in 2012 the Bank of Lithuania in 2012 conducted a study of the costs and income from the services provided by banks in 2011. Its survey has been made public. In 2011, banks' private costs of cash handling, payment cards, domestic credit transfers in litas, credit transfers in euro and direct debit transactions amounted to LTL 580 million (0.55% of GDP) and income was LTL 481.9 million.

Banks incurred the largest amount of costs (30%) in the execution of cash handling transactions, this activity generated the highest losses for them too. In 2011 they received the largest sum of income from domestic credit transfers in litas (LTL 135.5 million), however, the most profitable activity for banks was the execution of credit transfers in euro — income earned exceeded the amount of costs by almost 1.6 times.

Payment cards, electronically initiated credit transfers and direct debit are technologically more advanced and effective payment instruments in terms of costs than cash. A wider use of these instruments would allow reduce average costs per transaction. This, perhaps, would create preconditions for a decrease in the fees for bank payment services.

Single Euro Payments Area Project

The banks operating in Lithuania have been participating for some time already in the Single Euro Payments Area (SEPA) project designated to standardise the execution of retail payments in euro at the European level. The majority of them offer SEPA credit transfer service for their customers. Some banks began in 2012 to provide SEPA direct debit services. From February 2012, the Bank of Lithuania executes payments in euro also according to SEPA credit transfer scheme rules. Moreover, payment cards issued in Lithuania, POS terminals and ATMs comply with SEPA requirements.

Aiming to accelerate SEPA implementation, in 2012 the European Parliament and the Council approved Regulation No. 260/2012 (hereinafter — "SEPA Regulation") establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009. The SEPA Regulation provides that as of 1 February 2014 credit transfers and direct debits complying with SEPA requirements would substitute analogous national instruments in euro area countries. Non-euro area countries must comply with the requirements of this Regulation in one year after the adoption of the euro but no later than on 31 October 2016.

Approval of the SEPA Regulation and a decision to aim for adoption of the euro in Lithuania as from 2015 formed directions of the priorities and tasks for the national SEPA Coordination Committee (hereinafter referred to as SEPA Committee) which coordinates the preparation of the introduction of SEPA standards in our country. Among the most urgent issues is the issue related with the substitution of national direct debit and of debit payments for agricultural products by SEPA payment instruments, the choice of an optimal decision regarding clearing infrastructure for SEPA payments which would be in line with needs of payment service providers and expectations of payment service users in terms of the price and service level when the majority of payments in Lithuania executed in euro. The SEPA Committee is comprised of representatives of banks operating in Lithuania and is chaired by the Bank of Lithuania. Other payment service providers to which SEPA Regulation requirements are relevant will also be included into activities of this Committee in the near future.

Next year much attention will be focussed on the preparation of payment service users to use SEPA payment instruments and providing information on the SEPA project because the SEPA Regulation, *inter alia*, sets certain requirements for the mutual relationship between payment service providers and users.

TARGET2-Securities Project

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

In 2012, a lot of essential work was done. These works enabled the move from the preparation stage to the project development and user preparation stage. In June 2012, 24 European Central Securities Depositories (hereinafter—"CSDs"), including CSD of Lithuania (CSDL), concluded with the Eurosystem the T2S Framework Agreement. This Agreement stipulates the rights and liabilities of the Eurosystem and CSDs in the T2S development and operation period, including the preparation of the technical platform, its testing, user migration, services level agreement, project management, implementation of changes, pricing and withdrawal from the project. The central banks, that would ensure access of fund to T2S (both euro area central banks and non-euro area central banks connected to the system TARGET2) and CSDs, have prepared their T2S feasibility assessment and indicated how they intend to adapt their internal systems and processes for the interaction with T2S technical platform; they also identified barriers that might hamper migration to T2S in due time. Intensive planning works and preparation for testing and migration works have been started.

After the CSDL decided to join the T2S project, the Bank of Lithuania, considering the current securities settlement practice started preparations for the migration to the T2S technical platform. The Bank of Lithuania as a non-euro area central bank connected to the system TARGET2, intends to open accounts for participants of the payment system TARGET–LIETUVOS BANKAS on the T2S platform, thereby providing them with the possibility to settle their securities transactions. The Bank of Lithuania intends to join the T2S technical platform together with the CSDL in February 2017.

Administration of the Accounts of the State Treasury and Institutions

Acting as a fiscal agent for the state as established by the Law on the Bank of Lithuania, in 2012 the Bank of Lithuania administered litas and foreign currency accounts of the State Treasury. The state monetary resources held on these accounts which are accumulated and used in accordance with the procedure set forth by the State Treasury Law of the Republic of Lithuania and other legal acts, are managed by the Ministry of Finance of the Republic of Lithuania. The Bank of Lithuania also administered litas and foreign currency accounts of other domestic institutions, EU institutions, foreign banks and international financial institutions (hereinafter — "institutions"). Monetary resources held in the State Treasury accounts that are managed by the Ministry of Finance of the Republic of Lithuania form the largest share of funds held on all accounts.

On 31 December 2012, 199 accounts of the State Treasury and institutions were administered by the Bank of Lithuania (245 in 2011), of which 85 were litas accounts and 114 — foreign currency accounts (88 and 157, respectively, in 2011). These accounts were opened at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania and the Bank of Lithuania, whereas the terms of their administration and the services provided are established by agreements.

The Bank of Lithuania provides the following services to the State Treasury and institutions: transfers funds according to the payment orders of fund managers, credits these funds into accounts, exchanges currencies, accepts time deposits in euro and US dollar, prepares and submits statements of accounts and other information. For some institutions of our state, the service of litas cash collection and issue is provided.

Participation in the European System of Central Banks and International Cooperation

As part of the ESCB, the Bank of Lithuania, within its competence, participates in the decision-making process in the EU and international financial institutions. It also maintains bilateral relations with foreign central banks and supervisory authorities of the financial sector.

Participation in the European System of Central Banks

The Bank of Lithuania is a full member of the ESCB, which consists of the ECB and the national central banks of all the EU Member States. The primary objective of the ESCB is to maintain price stability. ESCB tasks and functions are defined in the Treaty on the Functioning of the European Union and in the Protocol on the Statute of the ESCB and of the ECB.

The ECB ensures implementation of the ESCB tasks acting on its own or through national central banks. The ESCB is governed by the decision-making bodies of the ECB: the Governing Council and the Executive Board. The General Council is the third decision-making body of the ECB, which is also attended by central bank governors of all EU Member States. In 2012, the General Council considered the macroeconomic situation in the EU, money and financial market developments, the functioning of ERM II, assessed the progress achieved by the EU Member States in meeting economic policy obligations as well as compliance with the requirements in relation to the prohibition to finance government and to grant privileges to financial institutions. It also considered the issue of the size of interest rates on government deposits in relation with the probable objection against the principle of the prohibition to finance government.

Representatives of the Bank of Lithuania also participate in the work of the ESCB committees and working groups. They address all issues of central banking and assist the ECB's decision-making bodies in fulfilling their assignments. Employees of the Bank of Lithuania participate in the work of 12 ESCB committees, the Human Resources Conference and almost 30 different working groups. Participation in the ESCB committees and their working groups provides favourable conditions for experts of national central banks to discuss and exchange views on various issues of central banking.

The Bank of Lithuania jointly with other members of the ESCB in 2012 signed amendments to the updated agreement on TARGET2 related with amendments to TARGET2 guidelines.

The national authorities of the EU Member States must consult the ECB regarding drafts of legal acts within the ECB's competence. National central banks are also entitled to submit their comments and proposals relating to the ECB's draft opinions. In 2012, the Bank of Lithuania consulted it in relation to the amendments to the rules on the calculation of the reserve requirement of credit institutions and provided its comments and proposals on the ECB opinion regarding consultations of the Ministry of Finance of the Republic of Lithuania on amendments to the Law on Tax Administration, drafts of Law on Stabilising Budget Policy and Law on amendments to the Law on Public Debt, and regarding the implementation of the Agreement on Stability, Coordination and Governance in the Economic and Monetary Union in Lithuania.

Participation in the Activities of EU Institutions

The Bank of Lithuania maintains close relations with the Economic and Financial Affairs Council of the EU (ECOFIN Council) and the European Commission (EC).

The Bank of Lithuania, within its competence, provides its opinion and judgements in the formulation of the Republic of Lithuania position regarding issues addressed at the ECOFIN Council. The Chairman of the Board of the Bank of Lithuania takes part in informal ECOFIN Council's meetings in which finance ministers and central bank governors of Member States consider relevant economic and financial issues, agree on necessary legal and political decisions. At the ECOFIN Council's informal meetings in 2012 the EU economic development, financial stability, and sovereign debt sustainability were assessed. Also, the EU perennial financial programme for 2008–2013, more stringent regulation requirements for shadow banking and credit rating agencies were considered.

One of the principal issues considered at the ECOFIN Council and its preparatory meetings in relation to which the Bank of Lithuania actively provided its opinion and assessments, were discussions on the first element — single supervisory mechanism of banks — presented by the banking union and the European Commission, also on further strengthening of the Economic and Monetary Union. It was actively participated in discussions regarding the Capital Requirements Directive and Regulation (CRD IV/CRR), forming the framework of common rules for EU financial services, also in relation to the harmonisation of the bank recovery and resolution and deposit guarantee schemes. Within the range of competence, part was taken in the preparation of the Convergence Programme of Lithuania and national reform agenda, thereby contributing to the coordination of the budget, macroeconomic and structural policies of the Member States

Representatives of the Bank of Lithuania are actively involved in the activities of one of the most important advisory committees of the ECOFIN Council — the Economic and Financial Committee (EFC). In 2012, this Committee considered both general issues of the assessment of the EU economic situation and financial stability, such as: the financial support to Greece programme, monitoring of ERM II, support of states to the banking sector, regulation of the shadow banking sector, crises management and other issues.

The Bank of Lithuania is within the European System of Financial Supervisors; therefore, it participates in the work of the General Board of the European Systemic Risk Board and its Advisory Technical Committee. Employees of the Bank of Lithuania participate in the work of over 80 different committees and task groups which have been set up by the EU Council, the European Commission, the ESRB and European supervisory authorities. The Chairman of the Board of the Bank of Lithuania takes part in the work of the General Council of the ESRB. At the meetings held in 2012 major attention was devoted to the analysis and assessment of systemic risks, analysis of macroprudential aspects related with the activities of the insurance sector, establishment of the banking union, and reform of the regulation of inter-bank interest rates. In addition to this, in 2012, the ESRB adopted a recommendation for national supervisory authorities and the European Banking Authority in relation to financing of credit institutions and a recommendation for for the European Commission on money market funds.

Cooperation with the IMF and Other International Institutions

In 2012, the Bank of Lithuania cooperated closely with the IMF, organisations of the World Bank groups, European Bank for Reconstruction and Development, Bank for International Settlements, international rating agencies and other international institutions. Particularly close cooperation was maintained with the IMF, in whose supreme management body — the Board of Governors — the Republic of Lithuania is represented by the Chairman of the Board of the Bank of Lithuania.

Lithuania's bilateral cooperation with the IMF is based on economic consultations under Article IV of the Articles of Agreement of the IMF. In July 2012, a regular semi-annual mission of the IMF experts worked in Lithuania. It assessed economic development trends, macroeconomic and financial vulnerability risk, provided proposals on economic policy measures. The IMF mission's final report gave a favourable assessment of Lithuania's actions in carrying out financial consolidation and maintaining confidence in the banking sector. The IMF recommended to further implement measures aimed at strengthening of fiscal consolidation, structural reforms, and ensuring stability of the financial system.

In its cooperation with the Nordic-Baltic Constituency of the IMF, the Bank of Lithuania sought agreement on general positions of this Constituency related with the IMF policy issues considered in the Executive Board of the IMF. Fundamental strategic cooperation directions of the Constituency were addressed at the Monetary and Financial Committee and the Nordic-Baltic countries. The EU's joint position on IMF policy issues was coordinated at the meetings of the Economic and Financial Committee and its IMF subcommittee.

In June 2012, Lithuania agreed to the IMF quota and management reforms; therefore, when amendments of the IMF Articles of Agreement take effect, the Republic of Lithuania's IMF quota will be increased from LTL 738 million to LTL 1.8 billion. Furthermore, in 2012 Lithuania joined the IMF initiative to distribute LTL 2.8 billion profits earned after selling the IMF gold, to Member States and return received funds to the IMF Poverty Reduction and Growth Facility.

In 2012, the issues of international macroeconomic environment and prospects, financial stability, management of the euro area crisis, strengthening of the international financial infrastructure, management, monitoring and finances dominated the agendas of the IMF, World Bank and other international institutions. The year 2012 was of an immense importance for the IMF in enhancing on-going monitoring: a decision on new integrated monitoring, uniting initiatives of bilateral and multilateral monitoring, was taken, a new monitoring strategy and measures for the monitoring of the IMF financial sector were approved.

Relations with Foreign Central Banks and Financial Supervisory Authorities

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

It also actively cooperates at supervisory colleges. Their activities involve representatives of the financial supervisory authorities of all countries in which a certain banking or insurance group is operating. These colleges are highly important in carrying out the function of banks and insurance undertakings relevant information on the activities and performance of banks, insurance undertakings and their groups, on the economic situation in individual countries is exchanged at these colleges, prospects for the supervision of financial institutions are discussed, a joint supervisory strategy is prepared there. In 2012, representatives of the Bank of Lithuania participated in the activities of banking supervision colleges founded by financial supervisory authorities of Denmark, Latvia, Norway and Sweden, also in the activities of insurance at supervisory colleges established by the financial supervisory authorities of the United Kingdom, Germany, Poland, Sweden. Risk assessment of supervised units within the group, performed by individual countries continued to be the most important issue at banking supervisory colleges. At supervisory colleges of insurance enterprises the main focus was devoted to preparations for the implementation of the Solvency II Directive requirements and the review process of the internal models method to calculate solvency capital requirements was discussed.

When inspecting parent banks of foreign banks or reviewing foreign bank branches, the Bank of Lithuania cooperates with financial supervisory authorities of foreign countries. It informs these authorities about awaiting inspections or reviews, and when finishes these inspections or reviews, the Bank informs about their results and exchanges relevant information with them. Foreign financial supervisory authorities inform about the results of inspections of parent banks carried out by them. Similar cooperation practice with foreign financial supervisory authorities is envisaged to be applied in inspections of insurance enterprises within the EU insurance enterprise groups.

Cooperation in Other Areas

The Bank of Lithuania continued to enhance bilateral institutional relations with foreign central banks. At international workshops, conferences and bilateral meetings expert experience was exchanged, international issues relevant for central bank activities and cooperation were discussed. In 2012, the Bank of Lithuania provided technical support to central banks of Armenia, Azerbaijan and Georgia. These Caucasian states have been enlisted into the official development aid list of beneficiaries complied by the Development Aid Committee of the Organisation of Economic Cooperation and Development. The Bank of Lithuania technical support was in the form of training central bank employees of the mentioned countries on external statistics management and issues to ensure introduction of information technologies used in a central bank and their effective operation.

III. ORGANISATION OF ACTIVITIES OF THE BANK OF LITHUANIA

Staff and Organizational Structure

Mission, Values and Ethics

The mission of the Bank of Lithuania is to foster the sustainability and integrity of the state's monetary and financial market, its stable, reliable and effective functioning, thus creating favourable conditions for optimal development of the national economy.

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

Adherence to public interest: responsibility to the public of the country is an integral part and principle of the activities performed by the Bank.

Competence and quality: in the decision-making process, the Bank is governed by the knowledge and good performance of its staff.

Non-partisan attitudes and professional analysis: the Bank values the non-partisan attitudes of its experts, advanced ideas, professional assessment, a thorough and comprehensive analysis of information and phenomena.

Integrity: the Bank pursues adherence to the highest ethical principles of integrity, objectivity, discretion and tolerance in cooperation of its staff with employees of other institutions and with the public.

Transparency of activities: the Bank aims towards operating transparency as the principle of reporting to the public of the country.

Ethics is regulated by the Code of Ethics for the staff and by the Code of Ethics for the Board of the Bank of Lithuania. They establish the principles of conduct and standards of professional ethics. These Codes are to ensure proper separation between public and private interests is made and they ensure observance of tight standards of professional ethics.

Staff and Organizational Structure

For the Bank of Lithuania, the year 2012 was the year of institutional renewal and structural reorganisation. After this reorganisation an entirely new organisational structure was created, the number of employees was cut significantly, structural units are headed by a new generation of officials selected by way of internal and external tenders, the main functions of the central bank were strengthened and other organisational changes were implemented.

Staff

On 31 December 2012, the Bank of Lithuania employed 586 members of staff (23 of which were employed on fixed-term contracts).[11] Over the year, the number of staff

[11] The number of staff actually employed does not include 24 staff members who were on maternity/paternity leave or unpaid leave during the period of their work at the ECB or the IMF.

dropped by nearly 20 per cent.[12] This reduction was mainly effected by a reduction of managing positions and servicing staff, optimisation of one of the main functions — cash issue into and withdrawal from circulation.

To achieve organisational efficiency, the potential of the main functions of the central bank was strengthened and the number of staff in the areas of economic analysis, financial stability and supervision increased. Centralization of functions in the field of supervision of banks, securities and insurance expanded the scope of functions performed by the Bank of Lithuania and raised the staff number by 8 per cent respectively. However, at the state level, the same functions began to implemented with a smaller number of staff (25%).

Structure

The new structure is based on 5 services and 6 independent structural units of a smaller size. This structure replaced the previous composition formed of 19 independent structural units, which included two independent regional branches in Kaunas and Klaipėda.

All main functions of the central bank, i.e. those established in the Republic of Lithuania Law of the Bank of Lithuania, are now performed by 4 services out of 5: Economics and Financial Stability Service, Supervision Service, Banking Service and Cash Service.

The Economics and Financial Stability Service was created by merging the Economics and Statistics Departments and founding a new Financial Stability Department. The Financial Stability Department was established strengthening the main functions carried out by a central bank and pursuing timely identification, assessment and neutralisation of threats to the stability of the financial system.

The Supervision Service was founded by merging three institutions or their structural units that were engaged in the supervision of financial market segments — the Credit Institutions Supervision Department of the Bank of Lithuania, the Securities Commission of the Republic of Lithuania and the Insurance Supervision Commission of the Republic of Lithuania. The new structure provided the possibility to supervise all financial market participants according to the principle of levelling the playing field and more effective use of the state resources for the organisation and execution of supervision.

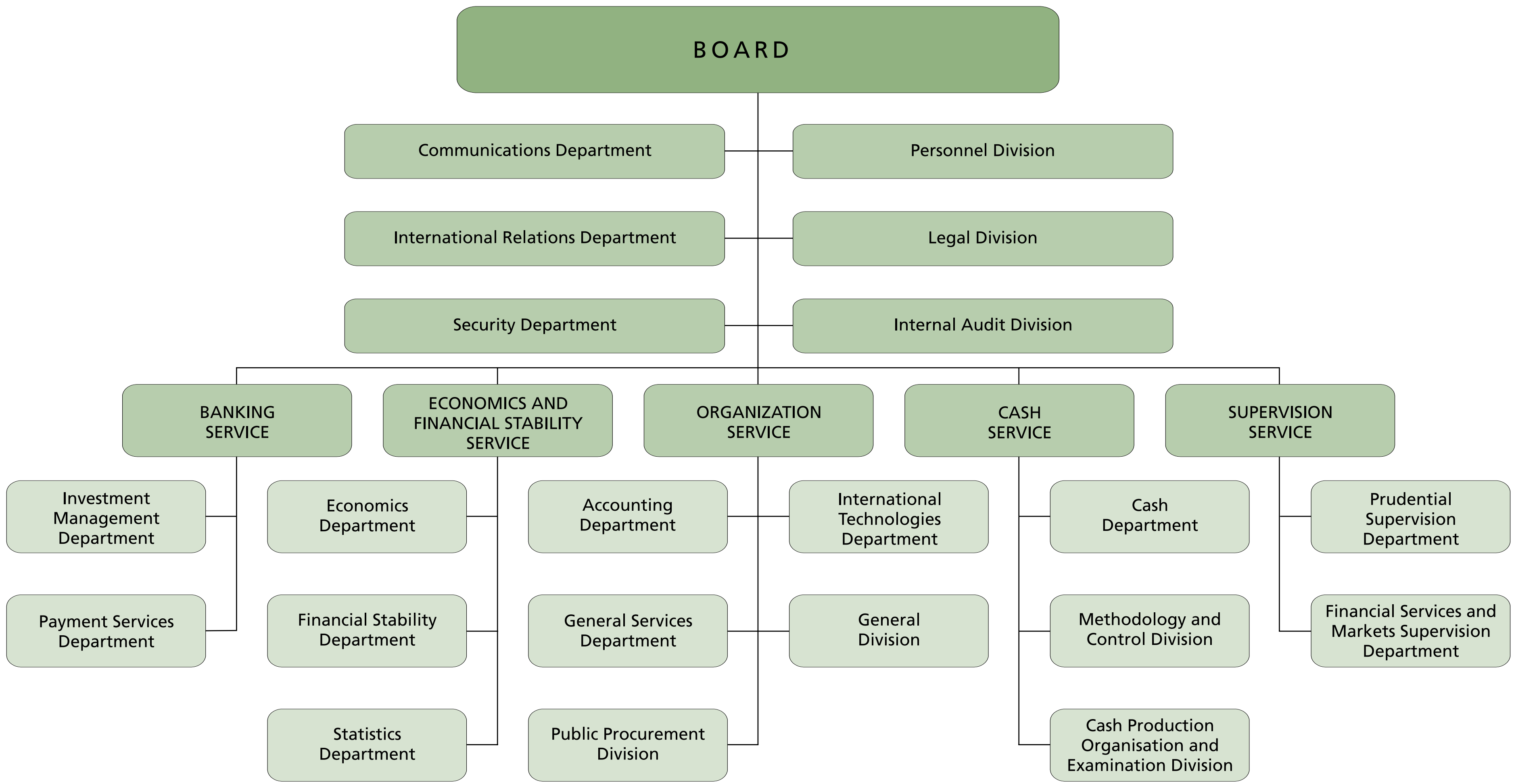
The Banking Service was established by combining and streamlining the functions that had been performed by the Market Operations Department, Payment Systems Department and part of the staff of the Accounting Department. The new Service performs all banking functions of the Bank of Lithuania — foreign reserve management, investment of depositor funds, payments and settlements of depositors, credit institutions and the Bank of Lithuania.

The Cash Service was founded instead of three structures previously in operation unsubordinated to one another — the Cash Department, Kaunas Branch and Klaipėda Branch, i.e., optimising cash management and establishing one centralised structure responsible for the issue into circulation and withdrawal from it banknotes and coins of aesthetical appearance, modern and well protected against counterfeiting.

Ancillary functions needed for a proper execution of the main functions are concentrated basically in the Organisational Service and six smaller size units, independent, in terms of the execution of functions.

[12] *At the beginning of 2012, the Bank of Lithuania took over the functions of the liquidated Securities Commission of the Republic of Lithuania and of the Insurance Supervision Commission of the Republic of Lithuania. Therefore, the number of employees at the Bank of Lithuania rose by 8 per cent. Thus, in terms of the Bank of Lithuania functions performed earlier, the staff number decreased actually by 28 per cent.*

Chart 38. Organisational chart of the Bank of Lithuania
(31 December 2012)



The Organisation Service carries out the activities of the previously in operation Accounting Department, Information Technologies Department and General Services Department, as well as of the General Division and of the newly founded Public Procurement Division. The Service has been established in pursuit of effective management of the infrastructure, coordination of internal services provision, thus forming preconditions for further optimisation of the provision of internal services.

The status of **independent structural units**, whose activities or a part of activities are sufficiently different in many aspects to be integrated on a rational basis to the structure of services, has not been changed. These units include: the Internal Audit Division, Legal Division, Personnel Division, and the Communications Department, Security and International Relations Departments.

Management

The new organisational structure enabled creation of a new, substantially flatter management structure based on the principle of subordination. This structure permitted to reduce the number of managing positions by 42 per cent. By way of internal and external tenders the composition of the managerial corps has been renewed. One-fourth of the managers have been selected from outside the Bank, about half of them — by way of tenders among the Bank of Lithuania staff. Other heads perform their previous duties. The average age of heads of independent structural units decreased by 9 years and is at the present moment 41.

The present management structure consists mainly of three hierarchical levels: manager/head of the service, executive director of a department and head/manager of a division. This management structure replaced the previous one which consisted of heads, deputy heads of departmental divisions and subdivisions, governors of independent regional branches, etc.

Staff Training and Development

Staff training in 2012 was organised with the aim of developing the level of the professionalism of the management and specialists. In 2012, 2.2 per cent of wage funds were allocated for staff training.

The staff extended their knowledge mainly by professional areas. Much attention was devoted to specialised training for employees of the members of the European System of Central Banks. Structural units organised introductory training for their new staff, introducing it to the Bank's structure and activities. These arrangements were also attended by students interning at the Bank of Lithuania.

It is encouraged at the ESCB level to gain work experience through working at other central banks of the EU Member States. In 2012, eight Bank of Lithuania members of staff worked at the ECB on short-term contracts during unpaid leave from the Bank of Lithuania. They had an opportunity to acquire expert knowledge on issues of economics, international relations, market operations and IS auditing. One member of staff is working at the IMF.

Vladas Jurgutis Award and Scholarship

The Scholarship of Vladas Jurgutis, the first Governor of the Bank of Lithuania, is granted jointly with the Lithuanian Academy of Sciences for significant works in the area of banking, finance, monetary and macroeconomic research of our State. The scholarship was established in 1997 when commemorating the 75^{th} anniversary of the establishment of the Bank of Lithuania and issue of the litas. In 2012, Vladas Terleckas became the laureate of the Vladas Jurgutis Scholarship for his monograph "Banking in Lithuania in 1795–1915".

The Vladas Jurgutis Scholarship was established in 1990. It is awarded to two best-performing full-time students of banking and finance at universities in Lithuania for one academic year. Candidates for the Scholarship are nominated by university faculties, which have banking and finance departments. Decisions on awarding the Scholarship are taken by the Board of the Bank of Lithuania. The Scholarship amounts to one minimum monthly wage. In 2012, the Vladas Jurgutis Scholarship was awarded to two students from Vilnius University and Vytautas Magnus University for excellent academic performance and active participation in scientific activity.

Social Dialogue

Changes in the organisational structure of the Bank of Lithuania were agreed on with the Labour Council comprised of representatives of the Bank of Lithuania staff. Representatives of this Council participate in social dialogue meetings at the ECB. Social dialogue has been developed at the Bank of Lithuania since 2007.

Transparency of Activities and Public Communication

By regular provision of information about its activities and educating society with the help of various measures, the Bank of Lithuania strengthens confidence in the national central bank and the financial system of the country. Transparency of is ensured through compliance with the public reporting principle.

A wide field of communication activity opened in early 2012 after merging supervision of all financial market participants and having established the Supervision Service at the Bank of Lithuania. The public was actively presented new areas of activity — insurance, supervision of investment and other financial services, settling of disputes between consumers and financial institutions. The public was warned about threats of financial pyramids. Much attention has been focused on communication related to the quick consumer credit market issue.

Intensive communication activity from November 2011, related with suspension of the activities of *AB bankas SNORAS* and declaration of its bankruptcy, continued in the second half of 2012. This activity was positively assessed by the IMF. It accented that transparent and clear public information by providing a quick possibility for depositors to dispose of their funds resulted in maintaining confidence in the banking sector.

When, at the beginning of the year the Bank of Lithuania took intensive actions to manage rising risks to credit unions, substantiated publicly in detail the necessity of such decisions. Communication activity related to credit unions became more intensive in the second half-year. After the suspension of activities of a problematic National Credit Union (*Nacionalinė kredito unija*), the public was given detailed grounds for such a decision. A hot-line was established at the Bank of Lithuania, used to consult the population on issues of concern. Aiming to maintain tranquillity in the credit unions sector, the Bank of Lithuania closely cooperated with organisations uniting credit unions.

Information on the Bank of Lithuania's other activities, such as currency production (presentations and advertising of new litas coins), foreign reserve management (the investment horizon has been expanded), was presented in an intensive way. The Bank of Lithuania continued active communication that was started in 2011 on the issue of pricing applied by banks. The results of the study of the costs and income of payment services were presented in detail in 2012. Having performed a survey of the financial behaviour and literacy of the Lithuanian population, its results were presented to the public. Dispersion of macroeconomic news intensified — macroeconomic forecasts began to be presented at press conferences.

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

The Bank of Lithuania's website, www.lb.lt, is one of the most important sources of information about the central bank. The website informs in Lithuanian and English about resolutions of the Board, presents financial statistics, information on payments, financial stability reviews, macroeconomic forecasts, reviews of activities of financial institutions operating in Lithuania, and provides information about the Bank's participation in the ESCB and its international relations.

"At the Bank of Lithuania — Doors Open" is an event that is becoming a tradition and was organised for a second time in Vilnius and Kaunas at the beginning of October of 2012. It was organised to mark a triple anniversary: the establishment of the first central bank in independent Lithuania (2 October 1922), the birth of the national monetary system (on 2 October 1922 the national currency, litas, was issued into circulation for the first time) and the rebirth of national currency (the monetary system of independent Lithuania was established on 1 October 1992; the interim currency unit, *talonas*, became the national monetary unit and roubles were withdrawn from circulation). To mark this occasion, the exhibition "Road of the Litas in 1922–2012" was arranged at the Bank of Lithuania and a page "Road of the Litas" was created on the social network Facebook. All Bank of Lithuania publications, the website, new expositions of the Money Museum, were marked with the Bank of Lithuania sign created for the anniversary by students of the Vilnius Academy of Arts.

Developing economic ideas and increasing financial awareness, the Bank of Lithuania organised in 2012 for the first time a competition of scientific works of students, under the name "New Economic Ideas". Such a competition will be organised every year.

A significant educational and enlightenment role is played by the Money Museum of the Bank of Lithuania based in central Vilnius. Its visitors are introduced to the world and national history of money, are informed about the central bank of the Republic of Lithuania. In 2012 the Money Museum exposition was supplemented and the Museum's functionality expanded. The Money Museum in Vilnius and its exposition in the Bank's premises in Kaunas and arrangements held in this location were visited by 26 thousand visitors. The Museum introduced an automated guide adapted for people with hearing impairment. The Lithuanian Association of People with Disabilities, having surveyed 69 cultural and leisure facilities, announced the Money Museum as "The Most Friendly Museum in 2012" and awarded it with a special prize and diploma. A special page on Facebook posts information about the Money Museum, information about it is disseminated on other websites.

The Bank of Lithuania prepares and distributes publications about its activities, the most important economic phenomena. Periodical publications publish monetary and banking, balance of payments, and financial statistics. Informative publications about litas banknotes and coins provide information on currency in circulation and its security features.

The journal *Monetary Studies* published by the Bank presents research and survey papers by Lithuanian and foreign authors on the development of economics, finance, money and banking, simulation and forecasting of macroeconomic processes, as well as other topicalities, scientific comments and reviews of research papers.

As part of the ESCB, the Bank of Lithuania closely cooperates with ECB experts; jointly it prepared the following ECB publications in Lithuanian in 2012: ECB Annual Report 2011, editorials of the ECB Monthly Bulletin as well as editorials and summaries of the quarterly versions of the Bulletin, ECB Convergence Report (May 2012), Report of the European Systemic Risk Board 2011. Electronic versions of all these publications are available on the Bank of Lithuania website.

Table 16. Publications of the Bank of Lithuania in 2012

Report on the Implementation of the Primary Objective of the Bank of Lithuania, Performance of its Functions and the Situation in the Banking System (to be presented to the Seimas of the Republic of Lithuania twice a year)
Annual Report of the Bank of Lithuania 2011 (in Lithuanian and English)
Monthly Bulletin of the Bank of Lithuania (in Lithuanian and English)
External Statistics (quarterly and annual; in Lithuanian and English)
Annual Report of the Bank of Lithuania 2011 (in Lithuanian and English)
Banking Statistics Yearbook 2011 (in Lithuanian and English)
Financial Stability Review 2012 (in Lithuanian and English)
Lithuanian Economic Review (quarterly, in Lithuanian and English)
Academic Journal *Monetary Studies* (biannual)
Working Paper Series publications (in English)
Survey of the Activities of Credit Unions and the Central Credit Union of Lithuania (quarterly)
Information on the Activities of Payments Institutions (quarterly)
Information on the Activities of Electronic Money Institutions (quarterly)
Review of the Activities of Financial Brokerage Firms (quarterly)
Review of the Activities of Management Companies (quarterly)
Information on the Activities of Insurance Brokerage Firms (quarterly)
Information of the Activities of Banks (quarterly and annual)
Review of the Lithuanian Insurance Market (quarterly)
Review of the Operating Performance of Issuers (quarterly and annual)
Review of the Consumer Credit Market (annual)
Survey of the Lithuanian 2nd Pillar and 3rd Pillar Pension Funds and the Market of Collective Investment Undertakings (quarterly)
Dispute Settling at the Bank of Lithuania (quarterly)
Booklets of collectors (commemorative) litas coins to present the collectors (commemorative) coins issued in 2012 (in Lithuanian and English)
Catalogue *Lithuanian Collectors Coins 1993–2012* (in Lithuanian and English)

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

Six presentations of new litas coins were arranged in 2012. On 12 May, the 50 litas collectors silver coin dedicated to the 200th anniversary of Dionizas Poška's *baubliai* was presented to the public by the Bank of Lithuania in Bijotai (Šilalė region). The 10 litas collectors' silver coin dedicated to the fine arts (from the series "Lithuanian Culture") was presented on 26 June at Vilnius Academy of Arts. The presentation, attended by a group of scientists, of the 10 litas collector gold coin, the first from the series "Lithuanian Science", was organised for the public at the Money Museum of the Bank of Lithuania on 14 September. The 50 litas collectors' coin dedicated to the 150th birth anniversary of Maironis (Jonas Mačiulis) rejoiced collectors on 25 September in the Pasandravis historical reservation in Maironis' native land of Bernotai in Raseiniai region. The 50 litas collectors silver coin dedicated to Lithuanian nature was presented on 20 November in the Lithuanian Zoo Park. On 4 December, the 2 litas collector circulation coins dedicated to Lithuanian resorts: Birštonas, Druskininkai, Neringa and Palanga were presented at the Money Museum of the Bank of Lithuania.

Media monitoring and public opinion surveys were conducted regularly, their results were analysed. Their results are taken into consideration while implementing public information and communication policy, preparing financial stability and other surveys.

IV. THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA 2012

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

We have audited the accompanying financial statements of the Bank of Lithuania (hereinafter "the Bank"), which comprise the balance sheet as at 31 December 2012, the statement of income for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank of Lithuania as at 31 December 2012, and its financial performance for the year then ended in accordance with the Accounting Principles adopted by the Bank of Lithuania.

Deloitte Lietuva, UAB
Licence No. 001275

Jekaterina Jocienė
Lithuanian Certified Auditor
Licence No. 000436

Vilnius, Republic of Lithuania
28 March 2013

BALANCE SHEET OF THE BANK OF LITHUANIA

LTL millions

	Notes	31 December 2012	31 December 2011
ASSETS			
1. Gold	**1**	**811.02**	**786.01**
2. Claims on foreign institutions denominated in foreign currency		**21,381.27**	**21,304.60**
2.1. Receivables from the International Monetary Fund	**2**	551.71	565.55
2.2. Deposits, securities and other investments denominated in foreign currency	**3**	20,829.55	20,739.05
3. Claims on domestic institutions denominated in foreign currency	**4**	**142.19**	**81.13**
4. Securities of domestic institutions held for monetary policy purposes denominated in litas	**5**	**131.73**	**171.80**
5. Other assets		**410.03**	**365.51**
5.1. Tangible fixed and intangible assets	**6**	108.93	139.67
5.2. Investments into non-marketable equity instruments	**7**	17.51	18.94
5.3. Off-balance-sheet instruments revaluation differences	**17**	95.49	–
5.4. Accruals and deferred expenses	**8**	171.71	187.47
5.5. Sundry	**9**	16.39	19.43
Total		**22,876.24**	**22,709.04**
LIABILITIES			
6. Banknotes and coins in circulation	**10**	**11,416.52**	**10,827.02**
7. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	**11**	**4,691.56**	**6,250.57**
8. Liabilities to other domestic institutions denominated in litas	**12**	**423.60**	**107.82**
9. Liabilities to foreign institutions denominated in litas	**13**	**25.36**	**90.73**
10. Liabilities to domestic institutions denominated in foreign currency	**14**	**3,612.59**	**1,814.19**
11. Liabilities to foreign institutions denominated in foreign currency	**14**	**33.32**	**994.66**
12. Counterpart of special drawing rights allocated by the International Monetary Fund	**2**	**551.30**	**565.12**
13. Items in the course of settlement	**15**	**113.28**	**19.23**
14. Other liabilities	**16**	**10.34**	**18.44**
14.1. Off-balance-sheet instruments revaluation differences	**17**	0.31	8.81
14.2. Accruals and deferred income		1.52	2.27
14.3. Sundry		8.51	7.36
15. Revaluation accounts	**18**	**580.12**	**534.08**
16. Capital	**19**	**1,397.56**	**1,359.15**
16.1. Authorised capital		200.00	200.00
16.2. Reserve capital		1,197.56	1,159.15
17. Profit for the year	**29**	**20.67**	**128.04**
Total		**22,876.24**	**22,709.04**

PROFIT AND LOSS ACCOUNT OF THE BANK OF LITHUANIA

LTL millions

	Notes	2012	2011
Interest income	**20**	186.03	404.71
Interest expense	**21**	(10.77)	(36.57)
1. Net interest income		**175.26**	**368.14**
Realised gains (losses) arising from financial operations	**22**	(66.50)	118.57
Unrealised losses from revaluation	**23**	(1.13)	(288.55)
2. Net result of financial operations and revaluation losses (169.98)		**(67.63)**	
Fees and commissions income		18.21	13.71
Fees and commissions expense		(3.00)	(2.85)
3. Net income from fees and commissions	**24**	**15.21**	**10.85**
4. Dividend income	**25**	**1.94**	**4.93**
5. Other income		**5.58**	**1.66**
TOTAL NET INCOME		**130.36**	**215.60**
6. Staff costs	**26**	**(58.25)**	**(54.83)**
7. Administrative expenses	**27**	**(25.77)**	**(17.01)**
8. Depreciation and amortisation of tangible fixed and intangible assets	**6**	**(11.02)**	**(10.84)**
9. Banknote and coin production services and circulation expenses	**28**	**(14.66)**	**(4.89)**
PROFIT FOR THE YEAR	**29**	**20.67**	**128.04**

The Annual Financial Statements 2013 of the Bank of Lithuania were approved on 28 March 2013 by Resolution No. 03-70 of the Board of the Bank of Lithuania.

Chairman of the Board Vitas Vasiliauskas

Director of the Accounting Department of the Organization Service Lina Našlėnienė

EXPLANATORY NOTES

FUNCTIONS OF THE BANK OF LITHUANIA

The Bank of Lithuania shall perform the following functions:

- issue the currency of the Republic of Lithuania;
- formulate and implement monetary policy;
- determine the litas exchange rate regulation system and announce the official exchange rate of the litas;
- manage, use and dispose of the foreign reserves of the Bank of Lithuania;
- act as an agent of the State Treasury;
- perform the financial market supervision;
- investigate disputes between consumers and financial market participants out of court;
- encourage sound and efficient operation of payment and securities settlement systems;
- collect monetary, banking and balance of payments statistics, as well as the data of financial and related statistics of the Republic of Lithuania, implement standards on the collection, reporting and dissemination of said statistics and compile the Balance of Payments of the Republic of Lithuania.

The Bank of Lithuania supervises securities and insurance markets and investigates out of court disputes between consumers and participants of financial markets from 1 January 2012.

After Lithuania's accession to the European Union (EU) on 1 May 2004, the Bank of Lithuania became a part of the European System of Central Banks (ESCB). Lithuania has been participating in the Exchange Rate Mechanism II from 28 June 2004.

BASIS FOR PREPARATION AND PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

The financial accounting of the Bank of Lithuania is managed and the Annual Financial Statements are prepared in accordance with the Law on the Bank of Lithuania, other legislation of the Republic of Lithuania applicable to the Bank of Lithuania and the Accounting Policy approved by the Board of the Bank of Lithuania, which is in line with the accounting and financial reporting guidelines established by the European Central Bank (ECB) to the extent that such requirements are applicable to a national central bank of the Member State which has not yet adopted the euro. If a specific accounting treatment is not laid down in the Accounting Policy of the Bank of Lithuania and in the absence of the decisions and instructions to the contrary by the ECB, the Bank of Lithuania shall follow the principles of the international accounting and financial reporting standards as adopted by the European Union relevant to the activities and accounts of the Bank of Lithuania.

Following the principles of consistency and comparability, the respective comparable financial data for 2011 have been presented.

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

ACCOUNTING POLICY

GENERAL PRINCIPLES

In managing financial accounting and drawing up financial statements, the Bank of Lithuania follows the following general accounting principles: economic reality and transparency, prudence, materiality, going concern, accrual, consistency and comparability.

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

Results arising from revaluation of gold holding and foreign currency (on a currency-by-currency basis) at official rates are accounted for separately. Results arising from revaluation of securities (on a code-by-code basis), interest rate off-balance-sheet instruments and forward transactions in securities (on an item-by-item basis) at market prices are accounted for separately as well.

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

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

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

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

GOLD

Gold holdings are revalued on the last business day of each month on the basis of the gold market price in US dollars per one Troy ounce. This price is converted into litas at the official exchange rate of the litas against the US dollar on the day of revaluation.

No distinction is made between the gold market price and US dollar revaluation differences for gold, but a single gold revaluation gain or loss is recorded in the gold revaluation account.

In the event of the recognition of unrealised revaluation loss on gold at year-end, the average cost of gold is correspondingly adjusted to the gold market price and US dollar exchange rate prevailing on the last business day of the financial year.

Transactions related to gold swaps are accounted for in the same way as repurchase agreements.

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

FOREIGN CURRENCY

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

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

Litas (LTL) per unit

Currency	Code	31 December 2012	31 December 2011
Euro	EUR	3.4528	3.4528
Swiss franc	CHF	2.8562	2.8302
US dollar	USD	2.6060	2.6694
100 Japanese yen	JPY	3.0186	3.4347
Special Drawing Rights (SDR)	XDR	4.0171	4.1178

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

In the event of recognition of unrealised revaluation loss on a separate foreign currency at year-end, the average rate of that currency is correspondingly adjusted to the official exchange rate on the last business day of the financial year.

FOREIGN EXCHANGE TRANSACTIONS

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

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

MARKETABLE SECURITIES

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

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

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

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

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

Dividend bought together with equity security is included in the acquisition cost of the security. If equity security is bought after the dividend announcement date, the dividend due is presented in a separate balance sheet item as other assets.

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

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

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

FORWARD TRANSACTIONS IN SECURITIES

Forward purchases or sales of securities are recognised in off-balance-sheet accounts from the trade date to the settlement date at the forward price of the transaction. Securities to be purchased or sold under these transactions are revalued on the last business day of each month at forward market price.

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

NON-MARKETABLE EQUITY INSTRUMENTS

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

REVERSE TRANSACTIONS

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

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

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

INTEREST RATE TRANSACTIONS

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

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

TANGIBLE FIXED AND INTANGIBLE ASSETS

In 2012, one of the tangible fixed assets' recognition criteria was changed in the Accounting Policy of the Bank of Lithuania: tangible fixed assets include such tangible items whose acquisition cost (including VAT) is no less than LTL 2,000 (before was LTL 500) and whose useful life is longer than one year. The Museum stocks, pieces of art and tangible assets included into the list of historical and art valuables are also treated as tangible assets with no regard to their acquisition cost. Intangible assets include items without physical substance whose useful life is no less than one year. Tangible fixed and intangible assets are recorded in the balance sheet at cost less accumulated depreciation (amortisation). Depreciation (amortisation) is calculated on a straight-line basis over the estimated useful life of the asset. Assets acquired free of charge are booked at the value indicated in the good delivery note or, when the value is not indicated, at the value not exceeding the market value of the assets. The value of the tangible fixed and intangible assets acquired free of charge is recognised as income accordingly to their depreciation (amortisation).

Depreciation (amortisation) rates of tangible fixed and intangible assets

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

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

BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation are presented at nominal value as liabilities in the balance sheet. The cost of printing of banknotes and minting coins, as well as other expenses associated with the issue of the national currency into circulation, are recorded as expenses when incurred, irrespective of when the coins and banknotes were put into circulation.

RECOGNITION OF INCOME AND EXPENSE

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

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

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

Dividend of marketable equity securities is booked upon its announcement.

Interest income and expense related to financial assets and liabilities denominated in litas are booked monthly, except interest income and expense related to the monetary policy instruments, which are booked daily. Other income and expense of the year denominated in litas are booked till the year-end.

POST-BALANCE SHEET EVENTS

Annual Financial Statements are adjusted for post-balance sheet events that occur between the balance sheet date and the date on which the Annual Financial Statements are approved by the Board of the Bank of Lithuania, if those events provide evidence of conditions that existed on the balance sheet date and therefore the amounts reported in the Annual Financial Statements have to be adjusted.

No adjustment is made for the data of the Annual Financial Statements of post-balance sheet events that are indicative of conditions that arose after the balance sheet date. Events which are of such importance that their non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements are disclosed in the Explanatory Notes to the Annual Financial Statements.

FINANCIAL RISK AND ITS MANAGEMENT

The main object of the financial risk of the Bank of Lithuania is foreign reserves that at 31 December 2012 accounted for 97 per cent (the same as at the end of 2011) of the total assets of the Bank of Lithuania.

In managing foreign reserves the Bank of Lithuania is exposed to different types of financial risk such as market, credit, liquidity and settlement risk. These risks are managed by an established system of limits for risk exposures and other means aimed at reducing risks.

Exchange rate risk has been mainly eliminated — practically all foreign reserves not related to liabilities in foreign currencies are invested in the anchor currency — the euro or, if they are invested in other currency, simultaneously they are hedged against the possible exchange rate risk. The part of foreign reserves corresponding to liabilities is invested in the currency of the liabilities (see Note 30).

The Bank of Lithuania uses the indicator of the modified duration (MD)[2] as the main tool for managing interest rate risk. Interest rate risk is managed by setting benchmarks to each portfolio of foreign reserves, its MD and largest allowed deviations of portfolio real investment MD from the MD of the benchmarks. The average MD of foreign reserve was 0.75 in 2012 (0.81 in 2011).

[2] MD shows approximately how much the percentage value of an investment will change, if the profitability rates increase by 100 basis points.

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

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

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

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

NOTES

Note 1. Gold

	31 December 2012	31 December 2011
Gold holdings in:		
Troy ounces	187,026.59	187,012.75
Kilograms	5,817.18	5,816.75
Price of one Troy ounce, USD	1,664.00	1,574.50
Value of gold, LTL millions	**811.02**	**786.01**

Gold investment

Troy ounces

	31 December 2012	31 December 2011
Non-invested reserves	187,026.59	167,650.57
Swaps	–	19,362.19
Total	**187,026.59**	**187,012.75**

Note 2. Receivables from the International Monetary Fund

LTL millions

	31 December 2012	31 December 2011
Reserve tranche position with the International Monetary Fund	0.14	0.14
Balance in Special Drawing Rights account with the International Monetary Fund	551.58	565.41
Total	**551.71**	**565.55**

The reserve tranche position with the International Monetary Fund (IMF) holdings belongs to the Republic of Lithuania, which has been a member of the IMF since 1992. The Bank of Lithuania performs the function of depository of the IMF funds.

Reserve tranche position with the International Monetary Fund

SDR millions

	31 December 2012	31 December 2011
Lithuania's quota in the IMF (total value)	183.90	183.90
Claims of the IMF corresponding to the promissory note of the Government of the Republic of Lithuania in litas	(183.37)	(183.33)
IMF accounts with the Bank of Lithuania in litas	(0.49)	(0.53)
Reserve tranche position with the IMF	**0.03**	**0.03**

As at 31 December 2012 the value of the quota of Lithuania in the IMF totalled SDR 183.90 million. Pursuant to the Law on the increase of the quota of Lithuania in the International Monetary fund (No. XI-2114 adopted on 28 June 2012), the quota of Lithuania in the IMF will be increased by SDR 257.70 million (to SDR 441.60 million). Lithuania's quota in the IMF is secured by the non-interest-bearing promissory note denominated in litas and issued by the Government of the Republic of Lithuania.

The major part of the SDR balance in the SDR account with the IMF managed by the Republic of Lithuania is comprised of SDR 137.24 million (LTL 551.30 million) allocated by the IMF in 2009, the counterpart of which is disclosed under the balance sheet of the Bank of Lithuania liability item "Counterpart of Special Drawing Rights allocated by the International Monetary Fund". The interest payable and receivable on SDR funds coincide.

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

LTL millions

	31 December 2012	31 December 2011
Debt securities (other than those classified as held-to-maturity)	12,789.61	14,441.93
Debt securities classified as held-to-maturity	–	1,151.35
Accounts with foreign institutions	5,137.99	3,079.25
Claims on the ECB (TARGET2[3] account)	2,658.52	305.59
Marketable equity securities	242.53	–
Reverse repurchase agreements	0.90	1,760.93
Total	**20,829.55**	**20,739.05**

Due to the increase of credit risk in the international financial markets, credit ratings of several issuers were not in line with the credit risk provisions of the Bank of Lithuania. Therefore, at the beginning of 2012 a significant part of securities, which included those classified as held-to-maturity, was sold upon the decision of the Board of the Bank of Lithuania.

The item "Marketable equity securities" presents the investments in exchange traded funds (ETFs), which repeat corporate bonds' indexes and were launched in 2012. This item also includes the purchase of LTL 80.80 million in ETFs which was contracted in 2012 but settled in the first days of 2013 (the amount payable under this transaction is presented in the balance sheet liability item "Items in the course of settlement").

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

The breakdown of deposits, securities and other investments by currency is presented in Note 30.

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

LTL millions

	31 December 2012	31 December 2011
Euro area countries	14,852.42	16,213.74
Swiss Confederation	2,205.20	–
Non-euro area EU Member States	1,908.39	945.22
Other countries	1,504.09	1,063.56
International financial institutions	359.45	2,516.53
Total	**20,829.55**	**20,739.05**

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

LTL millions

	31 December 2012	31 December 2011
On demand	7,796.51	3,384.84
Up to 1 year	6,074.15	10,711.19
1–5 years	6,067.18	5,540.35
Over 5 years	649.18	1,102.67
Without term	242.53	–
Total	**20,829.55**	**20,739.05**

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

Note 4. Claims on domestic institutions denominated in foreign currency

LTL millions

	31 December 2012	31 December 2011
Securities of the Government of the Republic of Lithuania, classified as held-to-maturity	95.55	81.10
Securities of the Government of the Republic of Lithuania, other than those classified as held-to-maturity	46.60	–
Claims on domestic credit institutions	0.04	0.03
Total	**142.19**	**81.13**

Securities of the Government of the Republic of Lithuania were acquired in the secondary market. Part of these securities is intended to hold to maturity. As at 31 December 2012 the market value of securities classified as held-to-maturity amounted to LTL 100.82 million.

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

From December 2011 to February 2012, the Bank of Lithuania has arranged securities purchase auctions for the purpose of banking system liquidity regulation. In 2012 the Bank of Lithuania earned LTL 6.48 million in interest income on the securities purchased in these auctions.

LTL millions

	31 December 2012	31 December 2011
Securities of the Government of the Republic of Lithuania	131.73	171.80
Total	**131.73**	**171.80**

Note 6. Tangible fixed and intangible assets

LTL millions

	Tangible fixed assets				Intangible assets	**Total**
	Buildings and construction in progress	Cash count and computer equipment (including asset under construction)	Vehicles	Other tangible assets (including asset under construction)		
Acquisition cost as at 31 December 2011	161.30	71.91	5.79	38.23	16.70	**293.93**
Additions in 2012	–	4.57	–	0.58	1.02	**6.17**
Disposals in 2012	(36.30)	(17.22)	(0.19)	(10.87)	(0.11)	**(64.69)**
Reclassification in 2012	0.46	(0.07)	–	(0.39)	–	**–**
Acquisition cost as at 31 December 2012	125.46	59.19	5.60	27.54	17.61	**235.41**
Accrued depreciation as at 31 December 2011	(42.95)	(60.91)	(4.84)	(30.15)	(15.42)	**(154.26)**
Depreciation in 2012	(3.72)	(3.91)	(0.56)	(1.32)	(1.50)	**(11.02)**
Written-off depreciation in 2012	11.30	16.65	0.19	10.55	0.11	**38.80**
Reclassification of depreciation in 2012	(0.41)	0.03	–	0.38	–	**–**
Accrued depreciation as on 31 December 2012	(35.78)	(48.15)	(5.22)	(20.53)	(16.81)	**(126.48)**
Net book value as at 31 December 2012	**89.68**	**11.05**	**0.39**	**7.01**	**0.80**	**108.93**
Net book value as at 31 December 2011	**118.36**	**11.00**	**0.95**	**8.08**	**1.28**	**139.67**

The effect of changes in the Accounting Policy of tangible fixed assets' recognition criteria was immaterial, therefore the adjusted comparative information for 2011 has not been presented.

Pursuant to a resolution of the Board of the Bank of Lithuania the real estate with the carrying amount LTL 25.14 million was retired as not necessary for the Bank's activities. In 2012 this property was transferred to the State property fund and other state institutions. Under the provisions set in the Law amending Article 23 of the Law on the Bank of Lithuania the Bank of Lithuania received the compensation at the market value of transferred property LTL 16.68 million, using the part of the profit of 2011 withheld for this purpose (see Note 29).

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

Note 7. Investments into non-marketable equity instruments

The Bank of Lithuania is a member of the ESCB. In accordance with Article 28 of the Statute of the ESCB and of the ECB, the Bank of Lithuania is the subscriber to the capital of the ECB. Shares of the national central banks in the subscribed capital of the ECB depend on the established key for the ECB capital subscription, which is adjusted in accordance with Article 29.3 and Article 48.3 of the Statute of the ESCB and of the ECB. The share of the Bank of Lithuania in the capital of the ECB as of 1 January 2009 comprises 0.4256 per cent.

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

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

Euro

Central Bank	Subscribed capital as at 31 December 2012	Paid-up capital on 26 December 2012	Paid-up capital since 27 December 2012
Nationale Bank van België/ Banque Nationale de Belgique	261,010,384.68	220,583,718.02	261,010,384.68
Deutsche Bundesbank	2,037,777,027.43	1,722,155,360.77	2,037,777,027.43
Eesti Pank	19,261,567.80	16,278,234.47	19,261,567.80
Central Bank of Ireland	119,518,566.24	101,006,899.58	119,518,566.24
Bank of Greece	211,436,059.06	178,687,725.72	211,436,059.06
Banco de España	893,564,575.51	755,164,575.51	893,564,575.51
Banque de France	1,530,293,899.48	1,293,273,899.48	1,530,293,899.48
Banca d'Italia	1,344,715,688.14	1,136,439,021.48	1,344,715,688.14
Central Bank of Cyprus	14,731,333.14	12,449,666.48	14,731,333.14
Banque centrale du Luxembourg	18,798,859.75	15,887,193.09	18,798,859.75
Central Bank of Malta	6,800,732.32	5,747,398.98	6,800,732.32
De Nederlandsche Bank	429,156,339.12	362,686,339.12	429,156,339.12
Oesterreichische Nationalbank	208,939,587.70	176,577,921.04	208,939,587.70
Banco de Portugal	188,354,459.65	159,181,126.31	188,354,459.65
Banka Slovenije	35,381,025.10	29,901,025.10	35,381,025.10
Národná banka Slovenska	74,614,363.76	63,057,697.10	74,614,363.76
Suomen Pankki – Finlands Bank	134,927,820.48	114,029,487.14	134,927,820.48
Subtotal for euro area NCBs	**7,529,282,289.35**	**6,363,107,289.36**	**7,529,282,289.35**
Българска народна банка (Bulgarian National Bank)	93,467,026.77	3,505,013.50	3,505,013.50
Česká národní banka	155,728,161.57	5,839,806.06	5,839,806.06
Danmarks Nationalbank	159,634,278.39	5,986,285.44	5,986,285.44
Latvijas Banka	30,527,970.87	1,144,798.91	1,144,798.91

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

Central Bank	Subscribed capital as at 31 December 2012	Paid-up capital on 26 December 2012	Paid-up capital since 27 December 2012
Lietuvos bankas	45,797,336.63	1,717,400.12	1,717,400.12
Magyar Nemzeti Bank	149,099,599.69	5,591,234.99	5,591,234.99
Narodowy Bank Polski	526,776,977.72	19,754,136.66	19,754,136.66
Banca Naţională a României	265,196,278.46	9,944,860.44	9,944,860.44
Sveriges Riksbank	242,997,052.56	9,112,389.47	9,112,389.47
Bank of England	1,562,145,430.59	58,580,453.65	58,580,453.65
Subtotal for non-euro area NCBs	**3,231,370,113.23**	**121,176,379.25**	**121,176,379.25**
Total	**10,760,652,402.58**	**6,484,283,668.61**	**7,650,458,668.60**

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with 1,070 shares, which acquisition cost is LTL 11.51 million and the nominal value is SDR 5,000 per share. The Bank of Lithuania has paid 25 per cent of the value of these shares. In 2012 the Bank of Lithuania received dividends of LTL 1.37 million for BIS shares (LTL 1.21 million in 2011).

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

On 3 January 2012 the Bank of Lithuania sold its owed portfolio of shares of the Central Securities Depository (CSD) at the public tender. The net gain from the sale, amounted to LTL 11.50 million, is presented in the item "Other income" of the Profit and Loss Account of the Bank of Lithuania.

Note 8. Accruals and deferred expenses

LTL millions

	31 December 2012	31 December 2011
Accrued interest income	105.78	134.11
Accrued coupon on debt securities	105.03	133.66
Accrued interest on financial derivatives	0.74	0.07
Accrued interest on reverse repurchase and repurchase agreements	–	0.33
Other accrued interest	0.01	0.04
Coupon purchased with debt securities	62.58	51.18
Other accrued income	1.79	0.07
Deferred expenses	1.56	2.11
Total	**171.71**	**187.47**

Note 9. Sundry

LTL millions

	31 December 2012	31 December 2011
Staff loans	11.65	14.88
Dividends receivable	3.57	–
Inventories	0.92	1.79
Advances and other receivables	0.24	2.76
Total	**16.39**	**19.43**

Pursuant to a resolution of the Board of the Bank of Lithuania, staff loans were ceased to be issued as of 27 August 2009.

Part of the dividends was recognised as income and presented in Note 25. Another part of the dividends receivable (LTL 2.99 million) consists of dividends purchased together with ETFs acquired.

Note 10. Banknotes and coins in circulation

This balance sheet item presents the nominal value of litas banknotes and coins in circulation. In 2012 the value of banknotes and coins put into circulation by the Bank of Lithuania (including collector (commemorative) coins and numismatic sets) was LTL 3,066.91 million (LTL 4,638.56 million in 2011) and the value of those withdrawn from circulation was LTL 2,477.41 million (LTL 2,635.49 million in 2011).

Banknotes and coins in circulation

LTL millions

	31 December 2012	31 December 2011
Banknotes	11,160.56	10,597.93
Circulation coins, including numismatic sets of circulation coins	241.44	215.30
Collector (commemorative) coins and their sets	14.52	13.78
Total	**11,416.52**	**10,827.02**

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

LTL millions

	31 December 2012	31 December 2011
Accounts (including required minimum reserves)	4,691.56	6,172.07
Fixed-term deposits	–	78.50
Total	**4,691.56**	**6,250.57**

This item consists of the holdings of required minimum reserves held by commercial banks in their current accounts with the Bank of Lithuania. In 2012 credit institutions were subject to 4 per cent reserve requirement. The Bank of Lithuania paid interest for the part of commercial bank required reserves that did not exceed the required reserve ratio used by the ECB for that period by applying marginal interest rates of the main refinancing operations of the Eurosystem set by the ECB (see Note 21). In 2012 the interest rate used for calculations of interest paid by the Bank of Lithuania for the part of required reserves of commercial banks fluctuated from 0.75 to 1.00 per cent (in 2011 fluctuated from 1 to 1.50%). Pursuant to the resolution of the Board of the Bank of Lithuania, as of 24 January 2013 credit institutions have been subject to 3 per cent required reserves ratio. Interests for the required reserves held are calculated using the deposit facility interest rates set by the ECB.

From December 2011 to February 2012 the Bank of Lithuania arranged fixed-term deposits auctions for the purpose of liquidity regulation in the banking system. In 2012 the Bank of Lithuania incurred LTL 0.51 million (LTL 0.03 million in 2011) interest expense on these deposits.

Note 12. Liabilities to other domestic institutions denominated in litas

LTL millions

	31 December 2012	31 December 2011
Liabilities to government institutions	346.37	50.45
Liabilities to other domestic institutions	77.23	57.37
Total	**423.60**	**107.82**

Note 13. Liabilities to foreign institutions denominated in litas

LTL millions

	31 December 2012	31 December 2011
Balances in current accounts of international organisations	25.23	90.63
Balances in current accounts of foreign banks	0.12	0.10
Total	**25.36**	**90.73**

Note 14. Liabilities denominated in foreign currency

Liabilities to domestic institutions denominated in foreign currency

LTL millions

	31 December 2012	31 December 2011
Fixed-term deposits of government institutions	3,572.95	790.87
Balances in current accounts of TARGET2 participants	39.65	163.12
Fixed-term deposits of government institutions	–	860.06
Balances in current accounts of other domestic institutions	–	0.14
Total	**3,612.59**	**1,814.19**

Liabilities to foreign institutions denominated in foreign currency

LTL millions

	31 December 2012	31 December 2011
Balances in current accounts	33.32	124.23
Repurchase agreements	–	787.03
Gold swaps	–	83.40
Total	**33.32**	**994.66**

Breakdown of liabilities to foreign institutions in foreign currency by the economic area of counterparty

LTL millions

	31 December 2012	31 December 2011
International financial institutions	33.32	124.23
Non-euro area EU Member States	–	870.42
Total	**33.32**	**994.66**

Breakdown of liabilities denominated in foreign currency by maturity

LTL millions

	31 December 2012	31 December 2011
On demand	3,645.78	1,078.22
Up to 1 year	–	1,730.49
Without term	0.14	0.14
Total	**3,645.91**	**2,808.85**

Note 15. Items in the course of settlement

The balance of items in the course of settlement consists of cash management operations with commercials banks in the course of settlement and not settled ETF purchase transaction (see Note 3).

Note 16. Other liabilities

LTL millions

	31 December 2012	31 December 2011
Accruals and deferred income	1.52	2.27
Accrued interest expenses	0.44	1.17
Deferred income	1.08	1.10
Other liabilities	8.51	7.36
Provisions for employment-related liabilities	7.48	3.12
Sundry	1.03	4.24
Off-balance-sheet instruments revaluation differences (see Note 17)	0.31	8.81
Total	**10.34**	**18.44**

In 2012, the Bank of Lithuania created provisions for: i) termination benefits payable for employees in subsequent financial periods in accordance with made up agreements; ii) termination benefits payable for employees who become entitled to draw state social insurance pension while working in the Bank of Lithuania; iii) termination compensations to the members of the Board of the Bank of Lithuania as established in the Law on the Bank of Lithuania and iv) related contributions to the State Social Insurance Fund. These provisions complemented to the existing staff-related provision for the annual leave in the Bank of Lithuania.

Note 17. Off-balance-sheet instruments revaluation differences

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

Off-balance-sheet instruments revaluation differences

LTL millions

	31 December 2012		31 December 2011
	Gain	Loss	Loss
Foreign Exchange Swap transactions	95.34	–	8.74
Forward transaction in securities	0.16	–	0.07
Interest Rate Swap transactions	–	0.31	–
Total	**95.49**	**0.31**	**8.81**

Note 18. Revaluation accounts

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

LTL millions

	31 December 2012	31 December 2011
Revaluation accounts		
Gold	498.98	474.03
Debt securities	80.56	59.97
Equity securities	0.37	–
Foreign currency	0.06	0.08
Financial derivatives	0.16	–
Total	**580.12**	**534.08**

Unrealised revaluation loss, recognised as expenses at the last working day of 2012, is presented in Note 23.

Note 19. Capital

Statement of changes in equity for 2012

LTL millions

	31 December 2011	Distribution of profit for 2011	31 December 2012
Capital			
Authorised capital	200.00	–	200.00
Reserve capital	1,159.15	38.41	1,197.56
Total	**1,359.15**	**38.41**	**1,397.56**

Note 20. Interest income

LTL millions

	2012	2011
Interest income on:		
Securities other than those classified as held-to-maturity	156.66	334.04
Securities classified as held-to-maturity	12.19	41.54
Monetary policy instruments	6.48	0.07
Financial derivatives	4.23	2.29
Reverse repurchase agreements	2.87	15.15
Repurchase agreements	1.85	6.85
Accounts balances and fixed-term deposits	1.20	4.09
Staff loans	0.55	0.68
Total	**186.03**	**404.71**

In 2012, 96.2 per cent (99.8% in 2011) of interest income was earned in foreign currency.

Note 21. Interest expense

LTL millions

	2012	2011
Interest expense on:		
Monetary policy instruments	5.03	12.63
Fixed-term deposits of government institutions	2.62	15.46
Balances in current accounts of government institutions	2.38	3.38
Financial derivatives	0.43	0.00
Gold swaps	0.28	3.17
Fixed-term deposits of other domestic institutions	0.03	1.23
Repurchase agreements	0.00	0.69
Total	**10.77**	**36.57**

In 2012, 53.3 per cent (65.5% in 2011) of interest expense was incurred in foreign currency.

Note 22. Realised gains (losses) arising from financial operations

LTL millions

	2012	2011
Realised gains (losses) arising from:		
Foreign exchange transactions	0.02	(0.05)
Transactions in gold	–	121.02
Interest rate transactions	(3.37)	(36.36)
Transactions in securities	(63.15)	33.96
Total	**(66.50)**	**118.57**

Note 23. Unrealised losses from revaluation

LTL millions

	2012	2011
Unrealised revaluation losses on:		
Securities	0.78	288.54
Interest rate transactions	0.31	–
Foreign currency	0.04	0.00
Total	**1.13**	**288.55**

The decrease of unrealised losses from revaluation was determined by favourable changes in the yield of held securities and decreased security risk due to the sales of part of the securities.

Note 24. Net income from fees and commissions

LTL millions

	2012	2011
Fees and commissions from:		
Contributions of supervised financial market participants	7.94	–
Settlement services	7.31	7.13
Sale of numismatic valuables	2.70	6.33
Usage of the Loan Risk Database	0.16	0.13
Other services	0.10	0.11
Total	**18.21**	**13.71**
Expenses relating to fees and commissions	(3.00)	(2.85)
Net income from fees and commissions	**15.21**	**10.85**

From 2012 pursuing to the Law on the Bank of Lithuania, costs of the financial markets' supervision are funded by contributions of supervised financial market participants and own funds of the Bank of Lithuania. In 2012, the amount of the financial market participants' contributions was LTL 7.96 million and comprised 50 per cent of planned costs by the Bank of Lithuania related to the financial markets supervision.

Note 25. Dividend income

LTL millions

	2012	2011
Dividend income from:		
Non-marketable equity securities	1.37	4.93
Marketable equity securities	0.58	–
Total	**1.94**	**4.93**

Note 26. Staff costs

LTL millions

	2012	2011
Expenses on wages and salaries:	38.76	39.58
To the members of the Board	1.19	1.13
To the heads of structural divisions	2.46	2.24
To other staff of the Bank of Lithuania	35.12	36.21
Termination benefits:	5.55	2.13
To the members of the Board	–	0.23
To the heads of structural divisions	0.44	0.17
To other staff of the Bank of Lithuania	5.11	1.73
Other emoluments	0.20	0.19
Contributions to State Social Insurance Fund	13.74	12.93
Total	**58.25**	**54.83**

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

In 2012, the Bank of Lithuania developed and implemented the conception of a new organisational structure with four specialised services established to perform main functions and the internal services service. The total number of employees in the Bank of Lithuania as at 31 December 2012 was 610 (2011 — 743 employees) of which 23 were on fixed-term labour contract (2011 — 11 employees) and 24 were on parental leave or unpaid leave for short-term contracts with the ECB and the IMF or for studies abroad (2011 — 15 employees).

Note 27. Administrative expenses

LTL millions

	2012	2011
Administrative expenses:		
Maintenance expenses	10.31	8.29
Provisions related to staff termination benefits	4.57	–
Participation fees	2.01	0.62
Information subscription expenses	2.00	2.32
Business trips	1.56	1.28
Mail and communication	1.52	1.58
Training of the staff	0.86	0.54
Public relations	0.51	0.62
Library acquisitions and press subscriptions	0.12	0.21
Honorarium	0.10	0.11
Other	2.23	1.44
Total	**25.77**	**17.01**

In 2012, pursuing to the change of tangible fixed assets recognition provisions (see Accounting Policy part "Tangible fixed and intangible assets") and using a retrospective approach of accounting policy change, the carrying amount of assets in use with acquisition cost less than LTL 2,000 amounting to LTL 0.72 million was recognised as expenses (other administrative expenses).

Note 28. Banknote and coin production services and circulation expenses

LTL millions

	2012	2011
Banknotes printing expenses	10.75	–
Coin minting expenses	3.54	4.63
Cash circulation expenses	0.36	0.26
Total	**14.66**	**4.89**

Note 29. Distribution of the profit of the Bank of Lithuania

Pursuing to the amendments of Article 23 of the Law on the Bank of Lithuania entered into force, the profit (loss) for the year 2012 and subsequent years 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;
- to the authorised capital up to the amount specified in the Law on the Bank of Lithuania;
- to the reserve capital up to the amount, independently established by the decision of the Board of the Bank of Lithuania taking into account potential impact of risks, however this capital shall be not 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 succeeding financial years.

Profit distribution

LTL

	2012	2011	2010
Profit distribution			
Transfer to the state budget	**20,666,921**	72,947,773	63,341,216
Compensation at the market value of real estate envisaged to be transferred	–	16,677,000	–
Allocation to the reserve capital of the Bank of Lithuania	–	38,410,617	27,146,235
Total	**20,666,921**	**128,035,390**	**90,487,452**

Note 30. Assets and liabilities of the Bank of Lithuania by currency

LTL millions

	LTL	EUR	CHF	JPY	XDR	XAU	Other	Total
31 December 2012								
ASSETS								
Gold	–	–	–	–	–	811.02	–	**811.02**
Claims on foreign institutions denominated in foreign currency	–	17,366.99	2,211.55	1,148.07	551.71	–	102.95	**21,381.27**
Receivables from the IMF	–	–	–	–	551.71	–	–	**551.71**
Debt securities	–	11,544.23	–	1,146.89	–	–	98.49	**12,789.61**
Equity financial instruments	–	242.53	–	–	–	–	–	**242.53**
Deposits and other investments	–	5,580.23	2,211.55	1.18	–	–	4.46	**7,797.41**
Claims on domestic institutions denominated in foreign currency	–	142.17	–	–	–	–	0.02	**142.19**
Securities of domestic institutions related to monetary policy operations denominated in litas	131.73	–	–	–	–	–	–	**131.73**
Other assets	141.63	171.37	(0.76)	95.05	–	–	2.75	**410.03**
Total on-balance-sheet assets	**273.36**	**17,680.52**	**2,210.79**	**1,243.12**	**551.71**	**811.02**	**105.72**	**22,876.24**
LIABILITIES								
Banknotes and coins in circulation	11,416.52	–	–	–	–	–	–	**11,416.52**
Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	4,691.56	–	–	–	–	–	–	**4,691.56**
Liabilities to other domestic institutions denominated in litas	423.60	–	–	–	–	–	–	**423.60**
Liabilities to foreign institutions denominated in litas	25.36	–	–	–	–	–	–	**25.36**
Liabilities to domestic institutions denominated in foreign currency	–	3,609.80	0.00	–	0.14	–	2.66	**3,612.59**
Liabilities to foreign institutions denominated in foreign currency	–	33.32	–	–	–	–	–	**33.32**
Counterpart of special drawing rights allocated by the IMF	–	–	–	–	551.30	–	–	**551.30**
Items in the course of settlement	32.48	80.80	–	–	–	–	–	**113.28**
Other liabilities	9.67	0.62	–	0.04	–	–	0.02	**10.34**
Revaluation accounts	501.47	78.45	–	0.01	–	–	0.20	**580.12**
Capital	1,397.56	–	–	–	–	–	–	**1,397.56**
Profit	20.67	–	–	–	–	–	–	**20.67**
Total on-balance-sheet liabilities	**18,518.89**	**3,802.98**	**0.00**	**0.05**	**551.44**	**–**	**2.87**	**22,876.24**
NET ON-BALANCE-SHEET ASSETS (LIABILITIES)	**(18,245.52)**	**13,877.54**	**2,210.79**	**1,243.07**	**0.27**	**811.02**	**102.84**	**0.00**
Off-balance-sheet assets included into currency position								
Receivables under foreign exchange transactions	96.68	3,589.54	–	–	–	–	–	**3,686.22**
Off-balance-sheet liabilities included into currency position								
Payables under foreign exchange transactions	34.53	96.68	2,210.14	1,243.01	–	–	101.86	**3,686.22**
Net off-balance-sheet assets (liabilities) included into currency position	**62.15**	**3,492.86**	**(2,210.14)**	**(1,243.01)**	**–**	**–**	**(101.86)**	**0.00**
NET ASSETS (LIABILITIES)	**(18,183.37)**	**17,370.40**	**0.64**	**0.06**	**0.27**	**811.02**	**0.98**	**0.00**
31 December 2011								
Total on-balance-sheet assets	**347.20**	**19,961.97**	**0.22**	**1,044.70**	**565.55**	**786.01**	**3.39**	**22,709.04**
Total on-balance-sheet liabilities	**19,269.00**	**2,862.76**	**0.00**	**8.77**	**565.26**	**–**	**3.25**	**22,709.04**
NET ON-BALANCE-SHEET ASSETS (LIABILITIES)	**(18,921.79)**	**17,099.21**	**0.22**	**1,035.93**	**0.29**	**786.01**	**0.13**	**0.00**
Off-balance-sheet assets included into currency position	**20.72**	**1,036.15**	**–**	**–**	**–**	**–**	**–**	**1,056.86**
Off-balance-sheet liabilities included into currency position	**–**	**20.72**	**–**	**1,036.15**	**–**	**–**	**–**	**1,056.86**
Net off-balance-sheet assets (liabilities) included into currency position	**20.72**	**1,015.43**	**–**	**(1,036.15)**	**–**	**–**	**–**	**0.00**
NET ASSETS (LIABILITIES)	**(18,901.08)**	**18,114.64**	**(0.08)**	**(0.22)**	**0.29**	**786.01**	**0.44**	**0.00**

ANNEXES

Resolutions Passed by the Board of the Bank of Lithuania and Published In *Valstybės Žinios* (Official Gazette) In 2012

Resolution No. 03-287 of the Board of the Bank of Lithuania of 21 December 2012 on the amounts of contributions of the supervised financial market participants for 2013 (Official Gazette No. 1-33, 2013);

Resolution No. 03-286 of the Board of the Bank of Lithuania of 21 December 2012 amending Resolution No. 202 of the Board of the Bank of Lithuania of 16 December 2008 on approval of the rules for the calculation of maximum exposure to one borrower and large exposures of credit unions (Official Gazette No. 1-32, 2013);

Resolution No. 03-285 of the Board of the Bank of Lithuania of 21 December 2012 amending Resolution No. 37 of the Board of the Bank of Lithuania of 26 March 2009 on the calculation of prudential requirements for credit unions (Official Gazette No. 1-31, 2013);

Resolution No. 03-284 of the Board of the Bank of Lithuania of 21 December 2012 amending Resolution No. 105 of the Board of the Bank of Lithuania of 3 November 1995 on prudential requirements for credit unions (Official Gazette No. 1-30, 2013);

Resolution No. 03-276 of the Board of the Bank of Lithuania 21 December 2012 supplementing Resolution No. 123 of the Board of the Bank of Lithuania of 7 August 2008 on approval of the procedure for the registration with the Bank of Lithuania of foreign loans received without the state guarantee by legal entities of the Republic of Lithuania and of loans granted to foreign economic operators (Official Gazette No. 1-29, 2013);

Resolution No. 03-289 of the Board of the Bank of Lithuania of 21 December 2012 amending Resolution No. 148 of the Board of the Bank of Lithuania of 8 November 2007 on approval of the rules for granting the euro-denominated intraday credits (Official Gazette No. 154-7963, 2012);

Resolution No. 03-288 of the Board of the Bank of Lithuania of 29 December 2012 amending Resolution No. 136 of the Board of the Bank of Lithuania of 18 October 2007 on approval of the operating rules of TARGET2 – Bank of Lithuania payment system (Official Gazette No. 154-7962, 2012);

Resolution No. 03-256 of the Board of the Bank of Lithuania of 29 December 2012 amending Resolution No. 123 of the Board of the Bank of Lithuania of 19 July 2001 on granting a license for the activities of the central credit union (Official Gazette No. 151-7748, 2012);

Resolution No. 03-266 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 58 of the Board of the Bank of Lithuania of 6 May 2004 on approval of general regulations on filing and examining the credit, electronic money and payment institutions' applications for licenses and on their granting (Official Gazette No. 151-7758, 2012);

Resolution No. 03-265 of the Board of the Bank of Lithuania of 13 December 2012 repealing certain resolutions of the Board of the Bank of Lithuania (Official Gazette No. 151-7757, 2012);

Resolution No. 03-264 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the rules for the issue and revocation of licenses, organisation of activities and provision of investment services of the financial advisory firms (Official Gazette No. 151-7756, 2012);

Resolution No. 03-263 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the rules on licensing the brokerage firms (Official Gazette No. 151-7755, 2012);

Resolution No. 03-262 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for the issue, replacement and revocation of licenses to the management and investment companies (Official Gazette No. 151-7754, 2012);

Resolution No. 03-261 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the rules on licensing the branches of the independent insurance intermediaries (Official Gazette No. 151-7753, 2012);

Resolution No. 03-260 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the rules on licensing the insurance broker's firms (Official Gazette No. 151-7752, 2012);

Resolution No. 03-259 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the rules on licensing the insurance and reinsurance business, rules on licensing the branches of foreign insurance and reinsurance companies and on the form of the undertaking to notify (Official Gazette No. 151-7751, 2012);

Resolution No. 03-258 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 03-43 of the Board of the Bank of Lithuania of 23 February 2012 on the rules on licensing the branches of foreign electronic money institutions established in the Republic of Lithuania (Official Gazette No. 151-7750, 2012);

Resolution No. 03-257 of the Board of the Bank of Lithuania of 13 December 2012 amending 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 (Official Gazette No. 151-7749, 2012);

Resolution No. 03-255 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 195 of the Board of the Bank of Lithuania of 16 December 2008 on licenses issued by the Bank of Lithuania to credit unions (Official Gazette No. 151-7747, 2012);

Resolution No. 03-254 of the Board of the Bank of Lithuania of 13 December 2012 on publishing the information about licenses of the financial market participants supervised by the Bank of Lithuania (Official Gazette No. 151-7746, 2012).

Resolution No. 03-271 of the Board of the Bank of Lithuania of 13 December 2012 on the statistical reporting on payment instruments (Official Gazette No. 150-7717, 2012);

Resolution No. 03-270 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 230 of the Board of the Bank of Lithuania of 15 August 1996 on approval of key principles of financial accounting and accountability policies of credit institutions (Official Gazette No. 150-7716, 2012);

Resolution No. 03-269 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 149 of the Board of the Bank of Lithuania of 25 September 2008 on the regulations for the organisation of internal control and risk assessment (management) (Official Gazette No 150-7715, 2012);

Resolution No. 03-268 of the Board of the Bank of Lithuania of 13 December 2012 amending Resolution No. 145 of the Board of the Bank of Lithuania of 23 November 2006 on approval of the general regulations for the internal capital adequacy assessment process and of the general regulations for the supervisory review and evaluation process (Official Gazette No. 150-7714, 2012);

Resolution No. 03-267 of the Board of the Bank of Lithuania of 13 December 2012 on approval of the table of the base annuity rates for pensions (Official Gazette No. 150-7713, 2012);

Resolution No. 03-250 of the Board of the Bank of Lithuania of 6 December 2012 repealing Resolution No. N-118 of the Insurance Supervisory Commission of the Republic of Lithuania of 28 December 2006 on approval of the description of the procedure for recognising the gender as a decisive factor in assessing the insurance risks (Official Gazette No. 145-7502, 2012);

Resolution No. 03-249 of the Board of the Bank of Lithuania of 6 December 2012 on approval of the methodology for the calculation of the base annuity rates for pensions (Official Gazette No 145-7503, 2012;

Resolution No. 03-248 of the Board of the Bank of Lithuania of 6 December 2012 on approval of the rules for providing to the Bank of Lithuania the mandatory information of consumer creditors (Official Gazette No. 145-7501, 2012);

Resolution No. 03-245 of the Board of the Bank of Lithuania of 29 November 2012 on approval of the rules of calculation of the annual percentage rate of charge (Official Gazette No. 140-7230, 2012);

Resolution No. 03-246 of the Board of the Bank of Lithuania of 29 November 2012 on declaring four numismatic (commemorative) coins of 2 litas denomination dedicated to the resorts of Lithuania a payment and settlement instrument and issuing them into circulation (Official Gazette No. 139-7176, 2012);

Resolution No. 03-235 of the Board of the Bank of Lithuania of 16 November 2012 amending Resolution No. 03-160 of the Board of the Bank of Lithuania of 2 December 2010 on approval of key principles of financial accounting and accountability policy of credit unions (Official Gazette No. 135-6950, 2012);

Resolution No. 03-234 of the Board of the Bank of Lithuania of 29 December 2012 on approval of the description of the procedure for notifying the Bank of Lithuania about financial products (Official Gazette No. 135-6949, 2012);

Resolution No. 03-233 of the Board of the Bank of Lithuania of 29 December 2012 on declaring the numismatic (commemorative) coin of 50 litas denomination dedicated to the nature of Lithuania a payment and settlement instrument and issuing it into circulation (Official Gazette No. 130-6605, 2012);

Resolution No. 03-227 of the Board of the Bank of Lithuania of 29 December 2012 on approval of the rules of compulsory civil liability insurance of the contactor (Official Gazette No. 128-6461, 2012);

Resolution No. 03-226 of the Board of the Bank of Lithuania of 23 October 2012 on approval of the rules of compulsory civil liability insurance of the technical supervisor of the construction of a construction works (Official Gazette No. 128-6460, 2012);

Resolution No. 03-225 of the Board of the Bank of Lithuania of 23 October 2012 on approval of the rules of compulsory civil liability insurance of the designer of a construction works (Official Gazette No. 128-6459, 2012);

Resolution No. 03-219 of the Board of the Bank of Lithuania of 19 October 2012 amending Resolution No. 5 of the Board of the Bank of Lithuania of 13 January 2005 on the code of ethics of employees of the Bank of Lithuania (Official Gazette No. 125-6320, 2012);

Resolution No. 03-220 of the Board of the Bank of Lithuania of 19 October 2012 amending Resolution No. 37 of the Board of the Bank of Lithuania of 26 March 2009 on the calculation of prudential requirements for credit unions (Official Gazette No. 125-6321, 2012);

Resolution No. 03-222 of the Board of the Bank of Lithuania of 19 October 2012 on the regulations for the sale of numismatic items of the Bank of Lithuania (Official Gazette No. 125-6322, 2012);

Resolution No. 03-209 of the Board of the Bank of Lithuania of 27 September 2012 on the rules for providing the information about the internal governance and activities of banks to the Bank of Lithuania (Official Gazette No. 116-5924, 2012);

Resolution No. 03-207 of the Board of the Bank of Lithuania of 27 September 2012 amending Resolution No. 151 of the Board of the Bank of Lithuania of 7 December 2006 on approval of requirements for the publicly disclosed information (Official Gazette No. 116-5922, 2012);

Resolution No. 03-208 of the Board of the Bank of Lithuania of 27 September 2012 amending Resolution No. 132 of the Board of the Bank of Lithuania on the insolvency of credit institutions (Official Gazette No. 116-5923, 2012);

Resolution No. 03-202 of the Board of the Bank of Lithuania of 18 September 2012 on approval of the financial asset management policy of the Bank of Lithuania (Official Gazette No. 109-5560, 2012);

Resolution No. 03-203 of the Board of the Bank of Lithuania of 18 September 2012 on declaring the numismatic (commemorative) coin of 50 litas denomination dedicated to the150th birth anniversary of Maironis (Jonas Mačiulis) a payment and settlement instrument and issuing it into circulation (Official Gazette No. 109-5561, 2012);

Resolution No. 03-197 of the Board of the Bank of Lithuania of 12 September 2012 amending Resolution No. N-40 of the insurance Supervisory Commission of the Republic of Lithuania of 13 April 2004 on approval of the methodology for the calculation of the solvency buffer (Official Gazette No 109-5559, 2012);

Resolution No. 03-192 of the Board of the Bank of Lithuania of 6 September 2012 on declaring the numismatic (commemorative) coin of 10 litas denomination from the "Lithuanian Science" series a payment and settlement instrument and issuing into circulation (Official Gazette No. 105-5361, 2012);

Resolution No. 03-193 of the Board of the Bank of Lithuania of 6 September 2012 on approval of the description of the coins' creation procedure (Official Gazette No. 105-5362, 2012);

Resolution No. 03-184 of the Board of the Bank of Lithuania of 17 August 2012 amending Resolution No. 195 of the Board of the Bank of Lithuania of 16 December on licenses issued by the Bank of Lithuania to credit unions (Official Gazette No. 99-5089, 2012);

Resolution No. 03-188 of the Board of the Bank of Lithuania of 17 August 2012 supplementing Resolution No. 85 of the Board of the Bank of Lithuania of 20 May 2004 on approval of the rules for supervision of foreign bank branches and cooperation with supervisory authorities of other European Union Member States carrying out the supervision of branches (Official Gazette No 98-5030, 2012);

Resolution No. 03-187 of the Board of the Bank of Lithuania of 17 August 2012 amending Resolution No. 105 of the Board of the Bank of Lithuania of 3 November 1995 on prudential requirements for credit unions (Official Gazette No. 98-5029, 2012);

Resolution No. 03-186 of the Board of the Bank of Lithuania of 17 August 2012 amending Resolution No. 202 of the Board of the Bank of Lithuania of 16 December 2008 on approval of the rules for the calculation of maximum exposure to one borrower and large exposures of credit unions (Official Gazette No. 98-5028, 2012);

Resolution No. 03-185 of the Board of the Bank of Lithuania of 17 August 2012 on approval the examination rules for the manager of a financial market participant supervised by the Bank of Lithuania (Official Gazette No. 99-5090, 2012);

Resolution No. 03-176 of the Board of the Bank of Lithuania of 2 August 2012 on approval of the general guidelines on internal governance of banks (Official Gazette No. 94-4874, 2012);

Resolution No. 03-158 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the organisation of activities of financial brokerage firms (Official Gazette No. 86-4521, 2012);

Resolution No. 03-161 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the accounting rules for the financial instruments and their circulation (Official Gazette No. 87-4564, 2012);

Resolution No. 03-144 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the organisation and performance of activities of the management companies (Official Gazette No. 85-4494, 2012);

Resolution No. 03-147 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for assessing and managing the risks of undertakings for collective investment and for calculating the extent of assumed risks of financial instruments and the counterparty risk (Official Gazette No. 85-4497, 2012);

Resolution No. 03-166 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the remuneration policy requirements for employees of the financial brokerage firms, management companies and investment companies (Official Gazette No. 87-4569, 2012);

Resolution No. 03-167 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the joint (consolidated) supervision of the financial group (Official Gazette No. 87-4570, 2012);

Resolution No. 03-168 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the calculation of capital adequacy requirements for the financial brokerage firms and management companies (Official Gazette No. 88-4645, 2012);

Resolution No. 03-145 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the requirements for the mergers and master-feeder structures relating to undertakings for collective investment (Official Gazette No. 85-4495, 2012);

Resolution No. 03-160 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the publicly disclosed information of the financial brokerage firms and management companies (Official Gazette No. 87-4563, 2012);

Resolution No. 03-159 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules on the preparation and submission of reports on activities of the financial brokerage firms and credit institutions providing investment services (Official Gazette No. 86-4522, 2012);

Resolution No. 03-162 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the procedure for drafting, amending and approving the rules of the pension fund (Official Gazette No. 87-4565, 2012);

Resolution No. 03-157 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for the provision of investment services and acceptance and fulfilment of customer orders (Official Gazette No. 86-4520, 2012);

Resolution No. 03-156 of the Board of the Bank of Lithuania of 12 July 2012 on approval of requirements for the assets of harmonised collective investment undertakings (Official Gazette No. 86-4519, 2012);

Resolution No. 03-155 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for the use of benchmark indices (Official Gazette No. 86-4518, 2012);

Resolution No. 03-154 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the preparation and provision of the information of the collective investment undertakings and pension funds (Official Gazette No. 86-4517, 2012);

Resolution No. 03-153 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the methodology for the calculation of net asset value (Official Gazette No. 86-4516, 2012);

Resolution No. 03-152 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for granting, replacement and revocation of licenses for the activities of the management company or the investment company (Official Gazette No. 86-4515, 2012);

Resolution No. 03-151 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the procedure for issuing licenses laid down by Law on collective investment undertakings and by Law on supplementary voluntary accumulation of pensions (Official Gazette No. 86-4514, 2012);

Resolution No. 03-150 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations on the content and submission of the prospectus and key investor information document of the collective investment undertakings (Official Gazette No. 86-4513, 2012);

Resolution No. 03-149 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the procedure for the notification about essential changes and of the requirements for the standard list of essential changes (Official Gazette No. 86-4512, 2012);

Resolution No. 03-148 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the methodology for the calculation of the synthetic risk and reward indicator and the on-going charges (Official Gazette No. 86-4511, 2012);

Resolution No. 03-163 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the rules for approving the pension associations' documents specified by Law on the accumulation of occupational pensions (Official Gazette No. 87-4566, 2012);

Resolution No. 03-164 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for granting authorisations for the change of status of the pension association (Official Gazette No. 87-4567, 2012);

Resolution No. 03-146 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the procedure for the marketing of units and shares of harmonised collective investment undertakings (Official Gazette No. 85-4496, 2012);

Resolution No. 03-165 of the Board of the Bank of Lithuania of 12 July 2012 on approval of the regulations for the preparation and provision of information of the pension associations (Official Gazette No. 87-4568, 2012);

Resolution No. 03-143 of the Board of the Bank of Lithuania of 27 June 2012 amending Resolution No. 137 of the Board of the Bank of Lithuania of 18 October 2007 on approval of the operating rules of LITAS-PHA system (Official Gazette No. 75-3920, 2012);

Resolution No. 03-142 of the Board of the Bank of Lithuania of 27 June 2012 amending Resolution No. 173 of the Board of the Bank of Lithuania of 28 December 2006 on approval of the operating rules of LITAS-RLS payment system and LITAS-MMS retail payment system (Official Gazette, 2012 06 29, No. 75, publication No. 3919);

Resolution No. 03-133 of the Board of the Bank of Lithuania of 14 June 2012 on approval of the rules of compulsory civil liability insurance of a property or business appraisal company or of an independent property of business appraiser (Official Gazette No. 69-3587, 2012);

Resolution No. 03-135 of the Board of the Bank of Lithuania of 14 June 2012 on declaring the numismatic (commemorative) coin of 10 litas denomination dedicated to the fine arts (from series "Lithuanian Culture") a payment and settlement instrument and on issuing it into circulation (Official Gazette No. 69-3589, 2012);

Resolution No. 03-134 of the Board of the Bank of Lithuania of 14 June 2012 amending Resolution No. 84 of the Board of the Bank of Lithuania of 4 September 2003 on approval of the procedure for the registration of payment and securities settlement systems and for the management and publication of their data (Official Gazette No. 69-3588, 2012);

Resolution No. 03-122 of the Board of the Bank of Lithuania of 22 May 2012 on approval of the description of the procedure of the professional civil liability insurance of audit companies (Official Gazette No. 60-3049, 2012);

Resolution No. 03-108 of the Board of the Bank of Lithuania of 8 May 2012 on declaring the numismatic (commemorative) coin of 50 litas denomination dedicated to the 200th anniversary of Baubliai of Dionizas Poška a payment and settlement instrument and on issuing it into circulation (Official Gazette No. 54-2716, 2012);

Resolution No. 03-102 of the Board of the Bank of Lithuania of 3 May 2012 on approval of the rules for the granting and revocation of the financial brokers' licenses (Official Gazette No. 54-2713, 2012; Official Gazette No. 85, 2012);

Resolution No. 03-104 of the Board of the Bank of Lithuania of 3 May 2012 amending Resolution No. 03-74 of the Board of the Bank of Lithuania of 28 March 2012 on the amounts of contributions of the supervised financial market participants for 2012 (Official Gazette No. 54-2715, 2012);

Resolution No. 03-103 of the Board of the Bank of Lithuania of 3 May 2012 amending Resolution No. N-5 of the Insurance Supervisory Commission of the Republic of Lithuania of 21 January 2004 on approval of the form of the insurance broker's certificate (Official Gazette No. 54-2714, 2012);

Resolution No. 03-101 of the Board of the Bank of Lithuania of 3 May 2012 on approval of the description of the procedure of the insurance brokers' qualification examination (Official Gazette No. 54-2712, 2012);

Resolution No. 03-91 of the Board of the Bank of Lithuania of 19 April 2012 amending Resolution No. 21 of the Board of the Bank of Lithuania of 12 February 2009 on approval of the regulations of the system of the non-banking sector companies' certificates (Official Gazette No. 52-2636, 2012);

Resolution No. 03-79 of the Board of the Bank of Lithuania of 5 April 2012 amending Resolution No 03-32 of the Board of the Bank of Lithuania of 15 March 2011 on approval of the methodology of statistical survey of the financial condition of households with loans (Official Gazette No. 42-2110, 2012);

Resolution No. 03-74 of the Board of the Bank of Lithuania of 28 March 2012 on the amounts of contributions of the supervised financial market participants for 2012 (Official Gazette No. 42-2109, 2012);

Resolution No. 03-73 of the Board of the Bank of Lithuania of 28 March 2012 on approval of the description of the methodology for the calculation of contributions of the supervised financial market participants and of their payment procedure (Official Gazette No. 42-2108, 2012);

Resolution No. 03-69 of the Board of the Bank of Lithuania of 15 March 2012 amending Resolution No. 64 of the Board of the Bank of Lithuania of 6 May 2004 on the participation of employees of the Credit Institutions Supervision Department of the Bank of Lithuania in an observer capacity in the work of management bodies and committees of credit institutions (Official Gazette No. 34-1695, 2012);

Resolution No. 03-68 of the Board of the Bank of Lithuania of 15 March 2012 amending certain resolutions of the Board of the Bank of Lithuania relating to the functions of the Board of the Bank of Lithuania in the sphere of supervision of the financial market (Official Gazette No. 34-1694, 2012);

Resolution No. 03-67 of the Board of the Bank of Lithuania of 15 March 2012 on assigning the performance of certain financial market supervision related functions of the Board of the Bank of Lithuania to the structural subdivisions of the Bank of Lithuania (Official Gazette No. 34-1693, 2012);

Resolution No. 03-63 of the Board of the Bank of Lithuania of 15 March 2012 amending Resolution No. 152 of the Board of the Bank of Lithuania of 7 December 2006 on the procedure for granting the permission to use the internal ratings based credit assessment approach and the advanced operational risk assessment method (Official Gazette No. 35-1768, 2012);

Resolution No. 03-58 of the Board of the Bank of Lithuania of 8 March 2012 repealing certain resolutions of the Securities Commission of the Republic of Lithuania, the Insurance Supervisory Commission of the Republic of Lithuania and of the order of the Director of the State Consumer Rights Protection Authority (Official Gazette No. 31-1489, 2012);

Resolution No. 03-51 of the Board of the Bank of Lithuania of 8 March 2012 on withdrawal from circulation of 10 and 20 litas banknotes issued in 1997 (Official Gazette No. 31-1488, 2012);

Resolution No. 03-41 of the Board of the Bank of Lithuania of 23 February 2012 amending Resolution No. 238 of the Board of the Bank of Lithuania of 24 December 2009 on the authorisations granted by the Bank of Lithuania to payment institutions (Official Gazette No. 28-1281, 2012);

Resolution No. 03-46 of the Board of the Bank of Lithuania of 23 February 2012 on financial statements of the electronic money and payment institutions (Official Gazette No. 28-1286, 2012);

Resolution No. 03-45 of the Board of the Bank of Lithuania of 23 February 2012 amending Resolution No. 247 of the Board of the Bank of Lithuania of 30 December 2009 on requirements for payment institutions with regard to internal control, management of risk and protection of received funds (Official Gazette No. 28-1285, 2012);

Resolution No. 03-44 of the Board of the Bank of Lithuania of 23 February 2012 amending Resolution No. 246 of the Board of the Bank of Lithuania of 30 December 2009 on the regulations for keeping the public list of payment institutions (Official Gazette No. 28-1284, 2012);

Resolution No. 03-43 of the Board of the Bank of Lithuania of 23 February 2012 on the rules for licensing of braches of foreign electronic payment institutions set up in the Republic of Lithuania (Official Gazette No. 28-1283, 2012);

Resolution No. 03-42 of the Board of the Bank of Lithuania of 23 February 2012 amending Resolution No. 245 of the Board of the Bank of Lithuania of 30 December 2009 on approval of the regulations for exercising the right to provide payment services in the Republic of Lithuania and other Member States (Official Gazette No. 28-1282, 2012);

Resolution No. 03-47 of the Board of the Bank of Lithuania of 23 February 2012 amending Resolution No. 127 of the Board of the Bank of Lithuania of 22 July 2004 on approval of the regulations for exercising the right to provide financial services in the Republic of Lithuania and other Member States (Official Gazette No. 26-1221, 2012);

Resolution No. 03-40 of the Board of the Bank of Lithuania of 23 February 2012 on the preparation of the insurance brokers' qualification examination (Supplement No. 17-151, 2012 to Official Gazette);

Resolution No. 03-31 of the Board of the Bank of Lithuania of 2 February 2012 on the organisation of the competition of scientific works in finance and economics for students of higher education institutions (Official Gazette No. 17-794, 2012);

Resolution No. 03-25 of the Board of the Bank of Lithuania of 26 January 2012 on the provision of data submitted by AB bankas SNORAS to the loan risk database (Official Gazette No. 13-606, 2012);

Resolution No. 03-23 of the Board of the Bank of Lithuania of 26 January 2012 on approval of the description of the procedure on settlement of disputes of consumers and financial market participants (Official Gazette No. 16-745, 2012);

Resolution No. 03-24 of the Board of the Bank of Lithuania of 26 January 2012 amending Resolution No. 125 of the Board of the Bank of Lithuania of 21 December 1995 on approval of the rules for managing the loan risk database (Official Gazette No. 13-605, 2012);

Resolution No. 03-6 of the Board of the Bank of Lithuania of 12 January 2012 amending Resolution No. 82 of the Board of the Bank of Lithuania of 15 May 2008 on guidance for credit institutions aimed at the prevention of money laundering and (or) terrorist financing (Official Gazette No. 10-463, 2012);

Resolution No. 03-5 of the Board of the Bank of Lithuania of 12 January 2012 amending Resolution No. 240 of the Board of the Bank of Lithuania of 24 December 2009 on the regulations for the calculation of own funds of payment institutions (Official Gazette No. 10-462, 2012);

Resolution No. 03-4 of the Board of the Bank of Lithuania of 12 January 2012 amending Resolution No. 58 of the Board of the Bank of Lithuania of 6 May 2004 on approval of the general regulations on filing and processing of the credit and payment institutions' applications for authorisations and on their granting (Official Gazette No. 10-461, 2012);

Resolution No. 03-1 of the Board of the Bank of Lithuania of 3 January 2012 on the information provided by the administrators of banks (Official Gazette No. 5-174, 2012).

Banknotes and Coins in Circulation

10 litas

2001 issue

2007 issue

20 litas

2001 issue

2007 issue

50 litas

1998 issue

2003 issue

100 litas

2000 issue

2007 issue

200 litas

1997 issue

500 litas

2000 issue

1 centas – 1991 issue

2 centas – 1991 issue

5 centas – 1991 issue

10 centas – 1991 issue

20 centas – 1991 issue

50 centas – 1991 issue

10 centas – issues since 1997

20 centas – issues since 1997

50 centas – issues since 1997

1 litas – issues since 1998

2 litas – issues since 1998

5 litas – issues since 1998

Circulation Collectors (Commemorative) Coins

1997

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

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

1999

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

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

2004

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

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

2005

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

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

2009

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

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

2010

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

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

2011 m.

1 litas coin dedicated to Basketball

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

2012 m.

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

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

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

Glossary

This Glossary presents some selected terms that are used in the Annual Report.

Balance of payments: a statistical statement that summarises, for a specific time period, the economic transactions of an economy with the rest of the world. The transactions considered are those involving goods, services and income, financial claims on, and liabilities to the rest of the world, and those (such as debt forgiveness) that are classified as transfers.

Central government: the government as defined in the European System of Accounts 1995 but excluding regional and local governments.

Central securities depository (CSD): an entity that enables securities transactions to be processed and settled by book entry and plays an active role in ensuring the integrity of securities issues. Securities can be held in physical (but immobilised) or dematerialised form (i.e., so that they exist only as electronic records).

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

Commissions and other taxes: gross amount of commissions and other taxes paid and received while providing payment services and closely related auxiliary services.

Credit institution: an undertaking whose business is to receive deposits and other repayable funds from the public and to grant credit for its own account, or an undertaking or any other legal person, other than legal persons which issue means of payment in the form of electronic money.

Credit risk: the risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk and principal risk. It also includes the risk of the failure of the settlement bank.

Debt security: a promise on the part of the issuer (i.e., the borrower) to make one or more payment(s) to the holder (the lender) at a specified future dates. Such securities usually carry a specific rate of interest (the coupon) and/or are sold at a discount to the amount that will be repaid at maturity. Debt securities issued with an original maturity of more than one year are classified as long-term.

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

Economic and Financial Affairs Council (ECOFIN Council): the EU Council meeting in the organisation of the ministers of economy and finance.

Economic and Financial Committee (EFC): a consultative Community body which contributes to the preparation of the work of the ECOFIN Council and the European Commission. One of its tasks is reviewing the economic and financial situation of the Member States and of the Community, and budgetary surveillance.

EURIBOR: the average inter-bank offered rate at which a prime bank is willing to lend funds in euro to another prime bank in the European inter-bank market. This indicator is computed by the European Banking Federation on the basis of selected interest rates offered by inter-bank market participants. EURIBOR is computed of different maturities (from one week to twelve months).

Euro area: the area encompassing those EU Member States in which the euro has been adopted as the single currency in accordance with the Treaty, and in which a single monetary policy is conducted. Currently the following countries belong to the euro area: Ireland, Austria, Belgium, Estonia, Greece, Spain, Cyprus, Luxemburg, Malta, Netherlands, Portugal, France, Slovakia, Slovenia, Finland and Germany.

European Central Bank (ECB): the ECB lies at the centre of the Eurosystem and the European System of Central Banks (ESCB) and has its own legal personality. ECB ensures that the tasks conferred upon the Eurosystem and the ESCB are implemented either through its own activities or through those of the NCBs, pursuit to the Statute of the ESCB. ECB is governed by the General Council and the Executive Board, and as a third decision-making body, by the General Council.

European System of Central Banks (ESCB): the system is composed of the ECB and national central banks of all 27 EU Member States, i.e., it includes, in addition to the members of the Eurosystem, the NCBs of those Member States that have not yet adopted the euro. The ESCB is governed by the Governing Council, Executive Board and the General Council of the ECB.

Eurosystem: it is composed of the ECB and national central banks of euro area Member States.

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

Financial stability: condition in which the financial system– comprising financial intermediaries, markets and market infrastructures– is capable of withstanding shocks and the unravelling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities.

Foreign exchange swaps: simultaneous spot and forward transactions exchanging one currency against another.

General Council: one of the decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and the governors of all the NCBs of the European System of Central Banks.

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

Governing Council: the supreme decision-making body of the ECB. It comprises all the members of the Executive Board of the ECB and the governors of the NCBs of the Member States whose currency is the euro.

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

Interest expenses: interest paid by a credit institution on borrowed and other funds.

Interest income: interest received by a credit institution from the funds invested by service users and other service providers, as well as other available funds.

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

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

Key European Central Bank (ECB) interest rates: the interest rates, set by the ECB Governing Council, which reflect the monetary policy stance of the ECB. They are the rates on the main refinancing operations, the marginal lending facility and the deposit facility.

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

Market risk: the risk that a credit institution may suffer losses due to a price change of market variables, such as interest rates, foreign exchange rates, equity securities, and commodities.

Monetary financial institutions (MFI): financial institutions which together form the money-issuing sector of the euro area. These include the Eurosystem, resident credit institutions (as defined in Community law) and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credit and/or invest in securities. The latter group consists of money market funds.

Monetary policy income: income earned by NCBs from performing the Eurosystem's monetary policy. They are earned from the assets indicated in the Governing Council's guidelines that comprise banknotes in circulation and deposit obligations to credit institutions.

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

Payment institution: a legal entity that holds a licence of a payment institution or a licence of limited operations of a payment institution.

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

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

Repurchase agreement and reverse repurchase agreement: a contract to sell and subsequently repurchase securities, commodities or a guaranteed title to securities or commodities when such a guarantee is issued by a licensed Stock Exchange holding the title to the said securities and commodities, whereby the institution cannot assign or pledge certain securities or commodities to more than one counterparty at a time and makes a commitment to repurchase them (or the same type securities or commodities or substitutes of commodities) at a specified price and on a specified date, that had been indicated or will be indicated by the seller. In case of the securities or commodities seller it is a repurchase agreement, while for the buyer it is a reverse repurchase agreement.

Risk: the risk of losses (in both, on- and off-balance-sheet positions) arising from movements in market prices.

Securities Settlement System (SSS): a transfer system for settling securities transactions. It comprises all of the institutional arrangements required for the cleaning and settlement of securities trades and the provision of custody services for securities.

SEPA: the single euro payments area; the aim of this project is the standardisation of payment instruments in Europe.

Shares: equity securities representing ownership of a stake in a corporation. They comprise shares traded on stock exchanges (quoted shares), unquoted shares and other shares. Shares usually produce income in the form of dividends.

Systemic risk: the risk that the inability of one participant to meet its obligations to the system when due will cause other participants to be unable to meet their obligations when due. Such a failure may cause significant liquidity or credit problems and, as a result, could threaten the stability of the financial system. Such inability may be caused by operational or financial problems.

TARGET2: a new generation trans-European automated real-time gross settlement system operating on the basis of a single shared platform and providing harmonised services according to a unified price system.

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

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