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**LIETUVOS BANKAS**  
EUROSISTEMA

# Annual Report

**2020**



The 2020 Annual Report was approved by the Board of the Bank of Lithuania on 1 April 2021.

The cut-off date for the data included in this report was 2 March 2021.

## ABBREVIATIONS

AB	public limited liability company	LTRO	long-term refinancing operation
ABSPP	asset-backed securities purchase programme	MFI	monetary financial institution
AML	anti-money laundering	MREL	minimum requirement for own funds and eligible liabilities
ATM	automated teller machine	MRO	main refinancing operation
CBDC	central bank digital currency	MTPL	motor third party liability
CBPP	covered bond purchase programme	MVP	minimum viable product
CBPP3	third covered bond purchase programme	OPEC	Organization of the Petroleum Exporting Countries
CEBRA	Central Bank Research Association	O-SII	other systemically important institution
CEPR	Centre for Economic Policy Research	P2P	peer-to-peer
CIU	collective investment undertaking	PELTRO	pandemic emergency longer-term refinancing operation
CRD	Capital Requirements Directive	PEPP	pandemic emergency purchase programme
CSPP	corporate sector purchase programme	PSPP	public sector purchase programme
CTF	counter terrorist financing	RegTech	regulatory technology
DLT	distributed ledger technology	SEPA	Single Euro Payments Area
ECB	European Central Bank	SMP	securities market programme
EEA	European Economic Area	SREP	Supervisory Review and Evaluation Process
EIOPA	European Insurance and Occupational Pensions Authority	TLTRO	targeted longer-term refinancing operation
EU	European Union	UAB	private limited liability company
Fintech	financial technology	UK	United Kingdom
GDP	gross domestic product	US	United States of America
HICP	Harmonised Index of Consumer Prices		
IT	information technology		

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

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# Foreword

The year 2020 posed an exceptional challenge for both Lithuania and the whole world due to the coronavirus (COVID-19) pandemic and the devastating economic and social disruption that it has caused.

Nonetheless, it was also a year that proved the resilience of the Lithuanian economy and financial system, validated the advantages of euro area membership and highlighted the real impact of the monetary policy response undertaken by the ECB in view of the pandemic.

The Eurosystem, which includes the Bank of Lithuania, maintained a low interest rate environment and favourable borrowing conditions as well as consistently implemented other economic stimulus measures.

In 2020, the Bank of Lithuania, together with other members of the Eurosystem, continued purchasing Lithuanian debt securities and implemented the newly launched pandemic emergency purchase programme (PEPP), which provided necessary stimulus for the real economy affected by lockdown restrictions. Proactive purchases conducted by the Bank of Lithuania helped stabilise the Lithuanian government securities market in the spring of 2020 and actively supported the economy all through the year.

Purchases of government securities helped maintain low interest rates and ensure market stability following an increase in the borrowing needs of the Lithuanian government to support the affected businesses and workers. In 2020, the Bank of Lithuania, in tandem with the Eurosystem, purchased approximately €3 billion of Lithuanian government securities in domestic and foreign markets, in net terms, while the government issued €6.3 billion in new securities. Through purchasing government securities in the secondary market, the Bank of Lithuania provided additional liquidity for banks operating in the country as well as facilitated loan provision and refinancing and the implementation of moratoria during the pandemic period. Purchases of government securities also provided investors with funds and incentives to invest in other financial assets (such as bonds and shares), thereby transmitting the positive effect of the accommodative monetary policy.

This made a significant contribution to improving borrowing conditions for Lithuania – despite the pandemic, it tapped international markets at the most favourable terms in history.

As businesses and households faced lockdown restrictions, the Bank of Lithuania put to use both macroprudential policy instruments and resources that it had at its disposal as a centre of excellence in economics and finance in a bid to mitigate the potential fallout on the financial system and the country's economy.

The Bank of Lithuania strongly encouraged credit institutions to seek agreement on the terms and conditions for the deferral of loan payments. The respective moratoria were signed in late April 2020. In early 2021, banks agreed to renew their moratoria on loans to businesses and households, and keep them in place until 31 March 2021.

The Bank of Lithuania took an active part in the process of setting up a state aid fund for business aimed at supporting the country's medium-sized and large enterprises of socio-economic significance affected by the pandemic. The Bank of Lithuania put forward proposals pertaining to the operational strategy of this fund as well as the model of its financing and organisational structure geared towards independent decision-making. The fund with a target size of up to €1 billion will aim to attract up to €500 million from institutional investors.

The Bank of Lithuania also contributed to the development of new instruments of financial support for businesses that faced liquidity and other financial constraints due to the COVID-19 pandemic. Nearly 280 enterprises made use of the financial instrument called Loans for Payable Invoices, or ASAP loans, which was set up in



cooperation with other state authorities; the total amount of loans granted under this tool exceeded €10 million.

On 1 April 2020, the Bank of Lithuania reduced the countercyclical capital buffer rate from 1% to 0% in order to ensure the stability of the banking sector. This measure allowed freeing up €86 million from the capital buffer built up by the country's banks during the boom period. Until then, the Bank of Lithuania obliged commercial banks to accumulate capital buffers and lifted the countercyclical capital buffer rate on two occasions: to 0.5% in 2017 and to 1% in 2018. When reducing the rate, the Bank of Lithuania made it clear that the released capital should go towards absorbing potential losses and ensuring credit supply, i.e. stimulating economic growth, instead of paying dividends or directors' bonuses.

The Bank of Lithuania also relaxed some other capital requirements for banks, e.g. provisionally waived the recommended Pillar 2 requirement (P2R) and the liquidity coverage requirement.

The flow of bank loans to households bounced back to pre-pandemic levels and continued to rise. Meanwhile, the portfolio of business loans followed a downward trajectory, which, however, should also be assessed from the state aid perspective, or in view of the so-called substitution effect, where subsidies, tax loans and similar aid measures reduced the need for private borrowing.

The banking sector remained stable. Bank liquidity exceeded the minimum requirements nearly eightfold at the turn of the year, which implied that banks were well prepared for lending. The deposit portfolio shot to record highs in 2020 as household deposits increased by 20% and corporate deposits – by more than a third.

Although the pandemic and the ensuing restrictions on activities brought financial challenges, they also sped up progress in the field of payments. A representative survey commissioned by the Bank of Lithuania revealed that one in four Lithuanian residents made non-cash payments more often during the lockdown, which led to a significant increase in the use of payment cards as well as mobile phones and other devices for payments.

The Bank of Lithuania is constantly on the lookout for new ways to strengthen competition in the financial market. One of them is the promotion of innovative financial technologies.

For several years now, Lithuania has been the leader in mainland Europe by the number of licensed electronic money institutions. The scale of their operations is also reflected in the performance results of the CENTROLINK system, which is dominated by electronic money and payment institutions. In particular, the volume of payments executed through the system soared to more than 95 million in 2020, from 45 million in 2019, while the overall value of payments increased nearly twofold, to almost €170 billion.

Consistent efforts to foster innovation in the financial sector have led to tangible results – fintech companies have enlivened the market and forced the incumbents to respond to changes by rolling out more attractive products and services to customers, while the Bank of Lithuania has won prestigious awards for promoting innovation. Meanwhile, the number of specialised banks operating in the country has already risen to five.

In a pleasing development, in 2020 the Bank of Lithuania made history as the first central bank to issue a digital collector coin. By releasing LBCOIN, which commemorates Lithuania's Act of Independence of 1918 and its signatories, the Bank of Lithuania also contributed to promoting the achievements of the Lithuanian financial system across the globe.

The work carried out by the Bank of Lithuania in 2020 is described in greater detail in this publication.

**Vitas Vasiliauskas**

Chairman of the Board of the Bank of Lithuania

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



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



The Bank of Lithuania took an active role in providing assistance in terms of economic decision-making, put forward recommendations on the national minimum wage, issued conclusions on the government budget, developed and implemented support measures for businesses affected by the pandemic, and evaluated the effectiveness of subsidies issued during the pandemic period.



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



The Bank of Lithuania launched “[The pulse of economics and finance](#)”, presenting key economic and financial system indicators, and released a podcast on different economic topics.



The Bank of Lithuania maintained active communication and cooperation with different authorities and the general public (more than 80 presentations, 23 research papers, 29 expert commentaries).



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

**With the aim of becoming the national centre of excellence in economics and finance, the Bank of Lithuania has been strengthening its research activities and actively communicating with the general public and market participants.**

In pursuit of its strategic goals, in 2020 the Bank of Lithuania extended the range of its analysis and research directions as well as developed new tools for assessing and analysing the economic policy response to domestic economic problems. To present the results of research carried out at the Bank of Lithuania, its staff members made more than 80 presentations on issues related to economics and financial stability, focusing primarily on the COVID-19 pandemic and its impact on the Lithuanian and global economy. They also participated in various conferences, such as “Lithuanian Davos 2020”, “X individualių investuotojų”, and The IQ Forum, as well as regional events and met with the representatives of local businesses and institutions. The Bank of Lithuania also published 14 working papers, 5 discussion papers and 4 occasional papers, some of which were also published in international academic journals, namely *Economic Policy*, *International Journal of Finance and Economics*, and *The British Journal of Industrial Relations*. The Bank of Lithuania organised 6 conferences on topics in economics and finance, including the Bank of Lithuania Economics Conference, the Real Estate Conference, and the Annual Lithuanian Conference on Economic Research.

**The Bank of Lithuania has been actively cooperating with national and foreign authorities on relevant issues related to economic and financial policy.**

Taking into account the challenges faced by the country's economy, in 2020 the Bank of Lithuania played an active role in the development and implementation of business support measures, provided recommendations on the national minimum wage, issued conclusions on the government budget and evaluated the effectiveness of subsidies issued during the COVID-19 pandemic.

**The Bank of Lithuania remains visible in foreign and national media and publications.**

In 2020, Bank of Lithuania economists published 29 expert commentaries. The Bank of Lithuania also set up a virtual hub dubbed “[The pulse of economics and finance](#)” to enhance the accessibility of its analytical work on the financial system and in the field of economics as well as launched a podcast, which features expert discussions on a variety of economic issues. Media coverage on the Bank of Lithuania mainly focused on supervision (39%) and economic reviews and forecasts (35%).

**The Bank of Lithuania extended its involvement in international cooperation initiatives.**

As a participant in the EU Twinning project, the Bank of Lithuania has been cooperating with other foreign authorities to share best practices and expertise with the National Bank of Ukraine and the central banks in the Western Balkans.

## Main goals





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



The Bank of Lithuania concentrated measures to ensure the sustainable development of digital technologies and innovation and their employment for supervisory processes.



The Newcomer Programme has been further implemented.



The Bank of Lithuania issued 35 fintech authorisations.



A financial innovation was tested in the Bank of Lithuania's regulatory sandbox.



A minimum viable product was created within the scope of the LBChain project to help start-ups bring their ideas to life in a faster and more cost-efficient way.



The Bank of Lithuania created a RegTech solution prototype.

paid particular attention to adapting its supervisory practices to the changing market needs. At the end of 2020, the Financial Market Supervision Service established the Digitalisation and Advanced Analysis Division whose goal is to ensure sustainable development and introduction of digital technologies and innovations in supervisory processes.

**The Newcomer Programme** is a one-stop shop for information on authorisation and regulatory procedures as well as for consultations with potential market participants on business opportunities in Lithuania. In 2020, the Newcomer Programme was used by 108 potential market participants from more than 30 foreign countries. The majority of them were interested in acquiring an electronic money or payment institution licence (79% of all those interested). In 2020, the Bank of Lithuania issued 35 fintech authorisations.

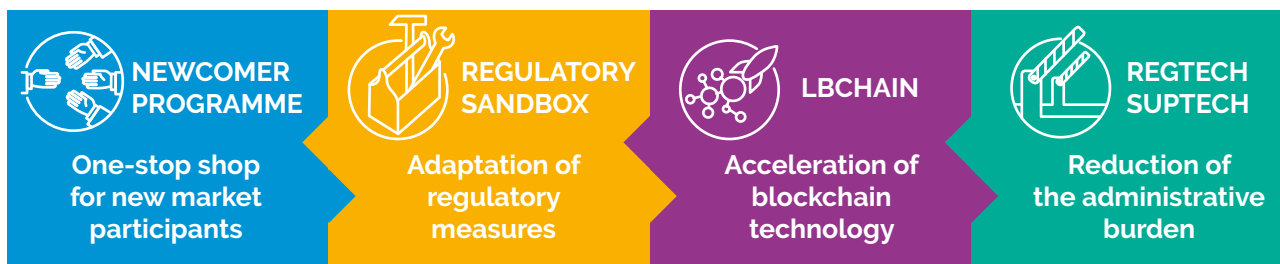
**The regulatory sandbox of the Bank of Lithuania** was created to pave the way for faster and easier access to new financial solutions.

In 2020, the regulatory sandbox had its first graduate upon the end of the testing period of a P2P insurance platform, which allows its members to form groups of peers in order to protect themselves against losses.<sup>1</sup>

A minimum viable product (MVP) for a unique sandbox was developed within the framework of the **LBChain project, which is the world's first-of-its kind platform developed by a financial market regulator that combines regulatory and technological infrastructures**. The MVP is aimed at helping start-ups to bring their ideas to life in a faster and more cost-efficient way. Five start-ups tested LBChain while developing their products. The companies participating in the testing process were of different maturity levels and developed different products. Traditionally, after the third phase of the project, the Bank of Lithuania organised an event where start-ups presented their products,<sup>2</sup> while the LBChain suppliers introduced the final version of LBChain created through a pre-commercial procurement. The third stage is the last stage of the pre-commercial procurement. It was followed by the formal closure of the project and preparatory works for the provision of the LBChain service.

**As a financial conduct authority, the Bank of Lithuania takes active measures to ensure that the road towards innovation and higher market competition remains open.**

In light of the rapid digitalisation of the financial sector, the Bank of Lithuania continued implementing innovations in its day-to-day activities, taking a leadership position in this field. It also



<sup>1</sup> Group members pool funds to compensate for their losses. They make their own decisions on loss compensation. If funds are still available after the compensation of all losses, the unused funds are returned to group members.

<sup>2</sup> BearingPoint sought insights from the Bank of Lithuania regarding their solution for regulatory reporting of transactions using distributed ledger technology (DLT). Earthbanc, a start-up creating a product in the field of sustainability and green finances, aimed at receiving consultations from the Bank of Lithuania regarding the compliance of their service with legal requirements. Two start-ups participating in the early stages, i.e. Probe Exchange and Deriveum, sought consultations from the Bank of Lithuania on the product's technological architecture. Ledgity, a start-up providing digital private banking services, focused on the implementation of the payment process using DLT. Specialists from the Bank of Lithuania provided consultations on whether their product meets legal requirements.

**Regulatory technologies (RegTech).** The companies that won the challenge announced by GovTech Lab in 2019 introduced a RegTech solution prototype, which was tested by a number of market participants. MVP testing was completed in 2020; thereafter the prototype was introduced to the market, kick-starting market consultations. The feedback received showed mixed results. It was concluded that the potential pace of integrating the proposed RegTech solution differed across the board. Therefore, it is vital that variations in the pace of integration would be taken into account when assessing the broader implementation of this RegTech solution. In 2020, the solution was introduced at the Digital Finance Outreach 2020, an event organised by the European Commission to shape the digital finance package with the financial market. Overall, the RegTech solution presented by the Bank of Lithuania fell in line with the goals of the European Commission's digital finance package and can make a significant contribution in the development of a uniform data strategy. The Bank of Lithuania's RegTech solution was presented in connection with the Digitalization Blueprint initiative of the ECB's Single Supervisory Mechanism. It underpins the emergence of a cluster of reporting solutions, where the Bank of Lithuania's RegTech prototype has the potential of growing into a more global solution. The RegTech solution is closely linked to the Data Management Maturity Programme of the Bank of Lithuania (DAMAMA), which is why further works relating to its development are coordinated within the scope of the said programme.

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

In light of the extraordinary situation brought by the COVID-19 pandemic, the Bank of Lithuania established both public and individual communication with the supervised financial market participants to ensure timely exchange of relevant information and promptly address corresponding issues. In this context, the Bank of Lithuania took measures to reduce the administrative burden for financial market participants and ensure flexibility. For instance, inspections and investigations were postponed, deadlines for rectifying deficiencies were extended, new reporting deadlines were set where deemed necessary, and customer authentication procedures were temporarily simplified.



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



Lithuania's payments market ensured smooth payments amid the lockdown environment.



Instant payments can be sent from nearly 90% of payment accounts.



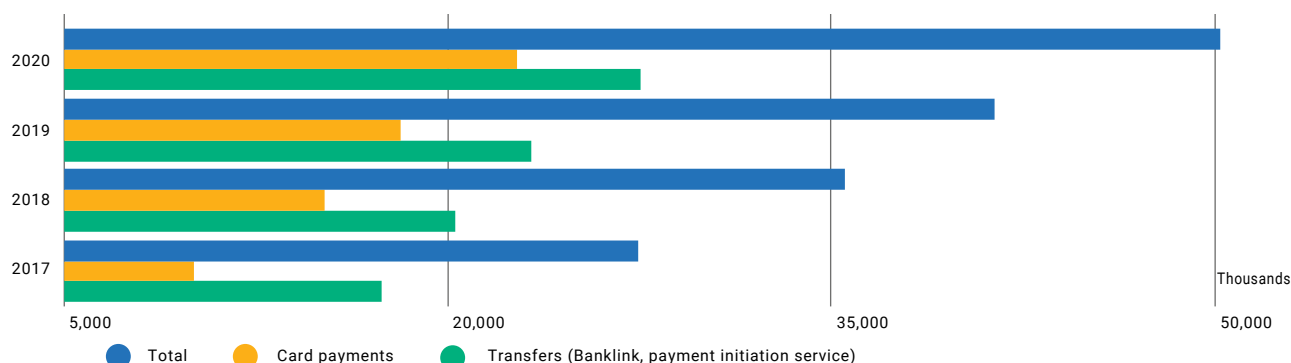
The Bank of Lithuania identified aspects of public sector payments that need to be improved.

**Amid lockdown restrictions, payment service providers were ready to offer more opportunities for contactless payments and ensure robust e-commerce payments.** In 2020, the possibility to have a payment account and use it remotely was as relevant as ever. In addition to the remote handling of financial matters or shopping online, it also enables to order and receive services rendered by the public sector, for instance, through the E-Government Gateway. During the lockdown, payment service providers continued opening payment accounts and providing means for accessing online banking services (e.g. Smart-ID). In view of changes in the environment, banks, in coordination with the Bank of Lithuania, increased the limit of contactless card payment transaction without PIN to €50, from €25, as they sought to make better use of the possibilities opened up by contactless payments. Estimates show that the volume of e-commerce payments surged in 2020 compared to the year before. The number of remote card payments increased by 25%, while the number of payments by transfer (using the Banklink service, payment initiation service), rose by 18%. These have been the most popular methods of payment for goods and services purchased online. At the same time, the value of cash withdrawn from ATMs decreased by 14%, while the amount of cash deposited at ATMs fell by 30% compared to 2019.

**Instant payments have become increasingly more accessible, in particular with the rollout of associated services designed to facilitate their usability.** Instant payments can be sent from nearly 90% of payment accounts held by residents, corporates and institutions with the Lithuanian payment service providers. SEPA instant payments in Lithuania were offered by 15 banks and electronic money institutions at the end of 2020. In most cases, they are offered under the same conditions as regular SEPA credit transfers. To facilitate payment initiation, two banks rolled out a pay-to-a-phone number service for private individuals who only need to have the recipient's phone number in the contact list of their smartphone to transfer them money. To provide this service, banks use the Bank of Lithuania's proxy lookup service, which enables to determine the recipient's account number according to a mobile phone number or an email address known by the payment initiator.

The public sector initiates and receives a significant number of payments, hence public authorities need to pay particular attention to make payments for public services as well as paying taxes and fees convenient for households and businesses. The Bank of Lithuania analysed the processes of payments in the public sector and identified several aspects that need improvements. In most cases, public authorities collecting payments from a large number of persons operate e-service portals that allow, among other things, making payments. They apply solutions similar to e-commerce payments. However, some payers, depending on the bank used, are forced to use the services of and pay extra charges to an intermediary selected for the collection of payments by a respective public authority through a tendering procedure. Similarly to the practice prevailing in the private sector, these costs should be borne by the payee, i.e. by public authorities. When collecting payments, authorities should focus on making the payment procedure customer-friendly and make sure that all payers are subject to equal conditions and therefore should apply identical pricing and consider ways to make use of other payment methods applied in e-commerce, such as card payments or the payment initiation service. Providing a possibility to make payments using a payment card would also enable the customers of payment service providers located in other countries to pay for services provided by Lithuanian institutions.

Number of e-commerce payments by Lithuanian residents in 2017-2020



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



Currency diversification and equity investments were increased.



The Bank of Lithuania started applying quantitative investment strategies.



An external management mandate for mortgage-backed securities was created.

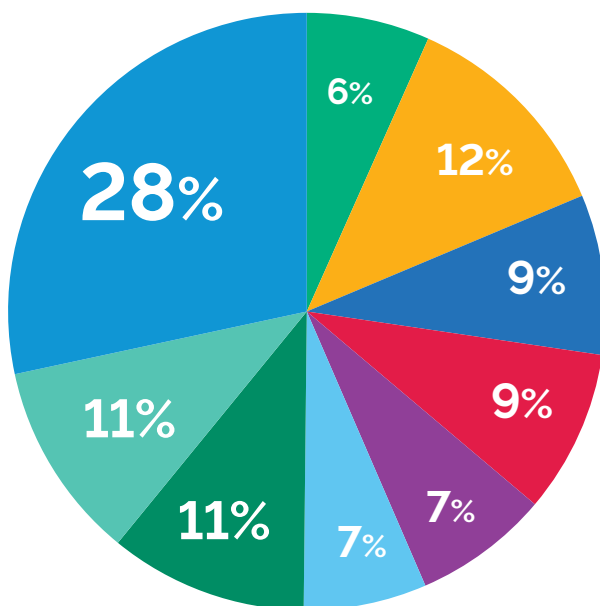


The Bank of Lithuania began developing investment-supporting information systems.

The Bank of Lithuania follows the risk parity approach for strategic asset allocation. Having conducted a thorough analysis, in early 2020 it took a decision to increase risk diversification **by including Canadian dollars and British pound sterling in its strategic investment structure and increasing the share of equity investments.**

**In 2020, the Bank of Lithuania started using quantitative investment strategies.** Having automated market monitoring and trading, the Bank of Lithuania entrusted carefully selected algorithms with part of its investment decision-making.

In terms of the management of the Bank of Lithuania's financial assets, it is important to make qualitative and timely adjustments in investment activities so as to adapt to the ever-changing investment environment and increase diversification by investing in new markets. **In order to ensure flexibility in investment activities, the Bank of Lithuania started developing investment-supporting information systems.**



Composition of the strategic benchmark portfolio as at 31 December 2020

- Equity
- Corporate debt securities in euro
- Corporate debt securities in US dollars
- US agency mortgage-backed securities
- Inflation-linked securities
- Chinese government debt securities
- UK government debt securities
- Canadian government debt securities
- US government debt securities

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



The Bank of Lithuania continued the implementation of its infrastructural project aimed at concentrating all activities in one location. It has been coordinating the technical design project for the new building and planning for the demolition of the old one.



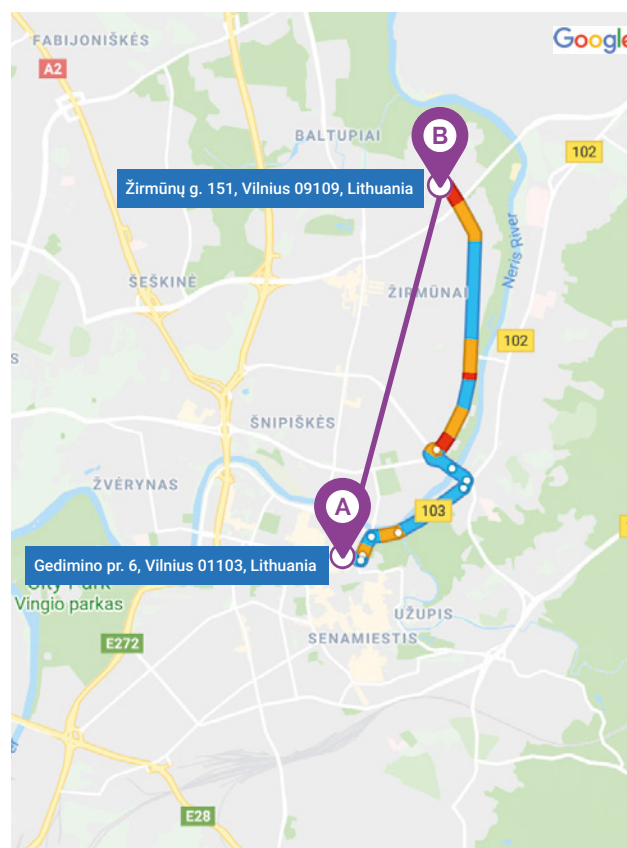
The Bank of Lithuania strengthened the management of operational risks and business continuity.



The project for updating the credit register was completed.

**The Bank of Lithuania strives to be a modern and efficient organisation and to organise and manage its activities based on the best management practices. Aiming to optimise internal and operational costs,** the Bank of Lithuania has been carrying out an infrastructural project aimed at concentrating all of the central bank's activities in one location (Žirmūnų g. 151, Vilnius). Notwithstanding the pandemic conditions, the technical project of the new building is being prepared and the demolition works of the old one are being planned. In the midst of the pandemic, quite a number of processes and procedures moved online. While expanding the possibilities of using an e-signature for the administration of staff-related information, the Bank of Lithuania allowed signing all staff-related orders and amended employment contracts with a qualified e-signature. The Bank of Lithuania approved the description of the process of executing procurements at the Bank of Lithuania in order to reduce third-party risk and enhance the quality of contracted services, establish a process allowing to accumulate information on suppliers, and collect information from contractors on contract performance and the services provided.

**Keeping up to date with the latest technology trends, the Bank of Lithuania continued reviewing its IT infrastructure,** looking for standard market solutions and implementing them in practice. In 2020, the project for renewing the credit register was completed and the register was upgraded, allowing to manage loan data and related information in real time. Moreover, the Bank of Lithuania held a public consultation with financial market participants in order to modernise its reporting data collection systems. The results of the consultation will serve as



the basis for upgrading respective information systems. Modern information systems will allow for more flexibility, acceleration of operating procedures, and more efficient service provision.

**While managing its internal activities, the Bank of Lithuania has been strengthening its competence in process management.** In 2020, the central bank continued to enhance and expand the use of LEAN system tools in order to objectively evaluate performance indicators, assess and effectively address emerging issues, as well as plan and manage business processes in a more efficient manner. The Bank of Lithuania has been also reviewing and constantly improving its project management processes. Under the conditions of the pandemic, the Bank of Lithuania reviewed its activities and has been successfully managing the crisis by using operational risk management controls and testing its business continuity processes in a real environment.

# Real economy



Lithuania's economy contracted by 0.8% in 2020.



Government support schemes had a profound positive effect on economic developments in Lithuania.



Strong corporate performance was underpinned by successful expansion in foreign markets, optimised stocks of inventories and cuts in investment.



Even though household disposable income increased at a rather robust pace, consumption was subdued.

**Lithuania's GDP shrank by 0.8% on a year-on-year basis, which was one of the best indicators in the EU.** Deeper economic downturn was contained by general government support schemes intended to stimulate economic recovery, a relatively small first wave of the COVID-19 pandemic, successful performance of the country's exporters and small dependence of the economy on the most restricted and affected activities, such as accommodation and catering, arts, entertainment and recreation.

**The operating surplus and mixed income showed a rather modest decline in the period under review, whereas household disposable income followed an upward path,** which was mainly due to the economic recovery and stimulus measures taken by the general government. For instance, the total amount of subsidies paid out by the general government

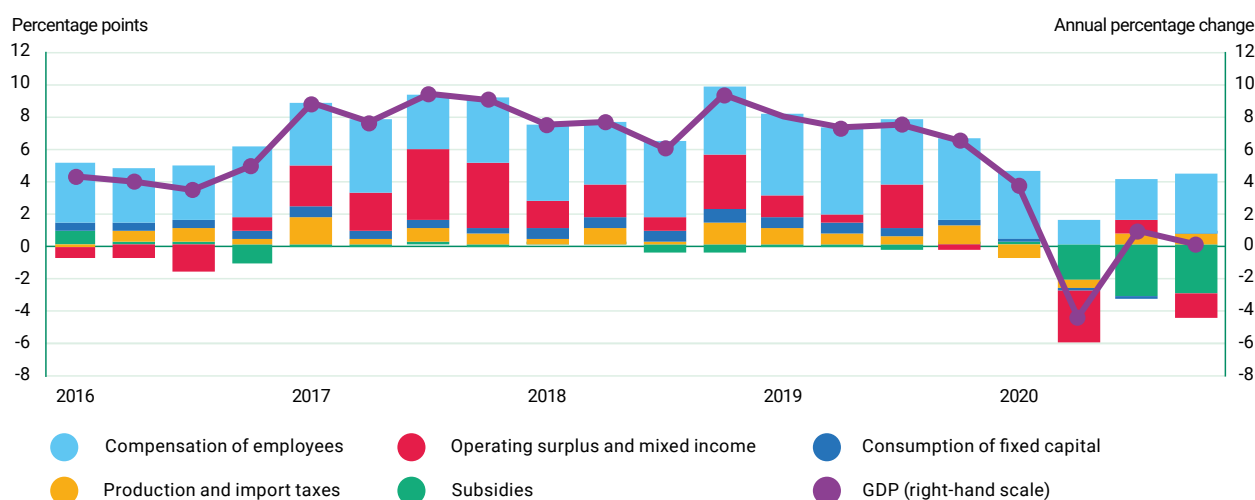
in the first three quarters of 2020 increased by €660 million year on year, and the amount of social transfers surged by €1,179 million. Moreover, the private sector benefitted from a nearly one-third increase in general government investment and a 7.1% rise in general government consumption. Soaring general government expenditure exceeded general government revenue by more than €2 billion in the first three quarters of 2020, which contributed to an increase in general government debt to 45.9% of GDP (from 35.9% in the fourth quarter of 2019).

**Robust corporate performance was well underpinned by successful expansion in foreign markets, optimised stock of inventories and cuts in investment.** In 2020, Lithuanian exporters managed to grow their export market shares in key export partners twice as fast as was observed in 2009-2019. This was mainly due to Lithuania's specialisation in the production of goods and the provision of services that were less affected by the COVID-19 pandemic or even saw their demand increase during the pandemic period. A significant part of goods and services sold came from existing inventories, which led to an improvement in corporate performance in the short term. A similar effect on corporate performance was produced by lower investment, which, as estimated by the Bank of Lithuania, had decreased for the first time over the last decade.

**Even though household disposable income increased at quite a rapid pace, consumption was subdued.** The Bank of Lithuania estimates showed that real disposable household income continued to increase at a rapid pace in 2020, whereas consumption shrank by 1.5%. These trends were driven by both lower household propensity to consume due to higher precautionary saving, as well as the constraints on the supply of certain goods and services. For instance, during the period under review there was a rather long period when it was difficult to travel abroad for vacation, various entertainment, sports and recreational activities were restricted and the prevalence of work from home led to a decline in demand for clothing and footwear. All this taken together forced the country's households to adjust their consumption basket.

## Contributions to nominal GDP (income approach)

(not adjusted for seasonal and workday effects)



Sources: Statistics Lithuania and Bank of Lithuania calculations.

# Price dynamics



Average annual inflation in Lithuania reached 1.1% in 2020 and was half the 2019 rate.



The drop in inflation mainly reflected a rapid fall in fuel prices. Prices for fuels and lubricants decreased by 9.1% on average year on year.



Average annual inflation was largely influenced by prices of services.



Prices of services also showed a slower pace of increase compared to 2019 and the average annual services inflation rate was 3.8%.



Administered prices had a dampening effect on inflation and fell by approximately 2%.

**Consumer price inflation in Lithuania reached 1.1% in 2020 and was half the rate recorded in 2019.** Nonetheless, the annual inflation rate was still as high as 3% in January. Major changes in price dynamics were triggered by the outbreak of the COVID-19 pandemic. A fall in oil prices, subdued demand for goods and services, and constrained supply of certain services due to the lockdown and other safety requirements had a profound effect on the evolution of prices.

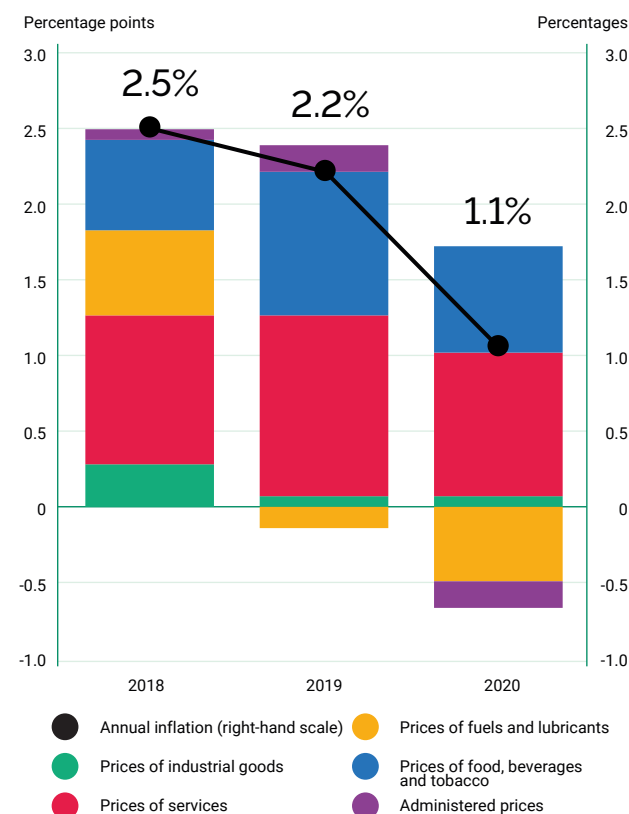
**Falling oil prices emerged as the key downward driver of inflation in the period under review.** The downward trend in oil prices was associated with a decline in global economic activity due to the outbreak of the pandemic, a deterioration in future expectations as well as insufficient compliance with OPEC+ production cuts during a certain period of time. Following a rise in surplus oil stocks, oil prices nearly halved in March compared to February. Even though global oil production was cut by nearly 10 million barrels a day from May, which helped draw down some of the excess oil inventories, oil prices remained low. It was not until December that the price of crude climbed above the \$50-per-barrel mark on the back of the start of vaccination campaigns across the globe and improvements in expectations about the recovery of fuel demand and the reduction of oil production volumes. The slump in crude oil prices in 2020 led to a significant fall in prices for oil-intensive products. As a result, prices for fuels and lubricants decreased by 9.1% on average compared to 2019.

**Service price inflation, which is driven by processes related to domestic economic developments, moderated to 3.8%.**

Even though the Lithuanian labour market stood up rather robustly to the impact of the pandemic shock in the period under review and wages maintained a growth pace similar to that of 2019, demand- and supply-side factors modified the dynamics of service prices. The deceleration in service price inflation was largely due to falls or slowdowns in the prices of services provided by sectors deeply affected by the pandemic. The year 2020 saw a slump in prices for tourism (3%), accommodation (4.8%) and flight (4.1%) services, which were pulled down by weaker demand. The growth of prices for catering services slowed down to 5.7% on average (from 6.4% in 2019). Meanwhile, the introduction of the lockdown and restrictions on the supply of medical and dental services, coupled with tightened safety requirements, put an upward pressure on the prices of these services, which increased by 9.4% and 10.6%, respectively.

**Food inflation, including alcoholic beverages and tobacco, decelerated in the period under review.** This was mostly due to a fall in prices for vegetables, which decreased by an annual 3.8% on average in 2020 as a result of bumper harvest.

## HICP inflation and contributions



Sources: Statistics Lithuania and Bank of Lithuania calculations.

# Labour market



The pandemic led to a significant decline in the number of workers, but economic stimulus measures helped stave off an even bigger decrease.



The second wave of the pandemic had a much smaller effect on jobs. The restrictions introduced in November and December did not accelerate job losses.



The unemployment rate increased substantially in spring before stabilising and then showing a slightly declining trend in the second half of 2020.



In 2020, the pandemic led to the largest positive migration balance in 20 years. Residents avoided or postponed making important decisions on migration due to, inter alia, increased uncertainty.



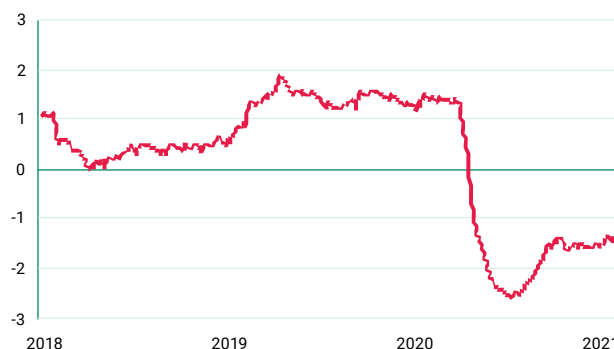
Lithuania broadly escaped a slowdown in wage growth despite the pandemic. Wages grew at a very rapid pace in the public sector and somewhat slower in the private sector.

**The pandemic triggered a significant decline in the number of workers but economic stimulus measures helped stave off an even bigger decrease.** In 2020, the number of people in employment shrank by 1.2% compared to 2019. During the first wave, i.e. in March to June, this number decreased at an especially rapid pace. Later, however, the situation showed signs of improvement before starting to stabilise from early September. New measures taken to combat the pandemic and even the severe restrictions imposed on many economic activities in mid-December did not accelerate the annual pace of job losses. Several economic activities, for instance, accommodation, catering, entertainment and recreation, did see a year-on-year pick-up in job losses, which was due to extremely stringent restrictions put in place in those segments. Nonetheless, the second wave of the pandemic had a substantial effect on a rather minor part of the economy, as opposed to the first wave, which led to significant job losses nearly across the board.

**The unemployment rate increased substantially.** According to the data from Statistics Lithuania, the unemployment rate rose by 2.2 percentage points in 2020, from 2019, to 8.5%. The

## Jobs

Annual percentage change (7-day moving average)



Sources: Sodra and Bank of Lithuania calculations.

registered unemployment rate, however, showed a different trend. This rate increased by a much larger margin – as much as 4.2 percentage points – and reached 15.6% in 2020. Still, this indicator appeared to be a very inaccurate reflection of the actual situation in the labour market, given that its increase was mostly driven by the payment of jobseekers' allowances, legitimisation of the granting of the unemployment status for full-time students, a positive migration balance and other factors, rather than rising unemployment. The rise in unemployment was mainly fuelled by layoffs in trade, transport, accommodation and catering activities. Youth unemployment showed the steepest increase during the pandemic.

**The pandemic led to the largest positive migration balance in 20 years.** In 2019, Lithuania recorded the first positive migration balance from the outset of data collection, which increased twofold, to 20,000 people, in 2020 as a result of, among other things, the pandemic and the ensuing restrictions, which had the biggest impact on the migration of Lithuanians. Emigration fell steeply between March and June, mainly due to the suspension of international flights. The subsequent lifting of many travel restrictions only led to a partial recovery of emigration, which was substantially smaller than in 2019 as a result of uncertainty over the outlook of Lithuanian and foreign economies that prevailed all throughout the year. With this situation in the background, the general public avoided or postponed making important migration decisions.

**Lithuania broadly escaped a slowdown in wage growth despite the pandemic.** In 2020, wages increased by 9.6% and maintained a growth pace similar to that observed in the previous three years. During the spring lockdown, wages followed a path of slower growth, most likely due to the payment of wage subsidies equal to the minimum wage. However, starting from July, wages reverted back to the trajectory of rapid growth, which was driven quite substantially by the public sector. Wages in the public sector increased by 11.8% in 2020, inter alia, thanks to the bonuses paid to healthcare workers for their work related to the pandemic. In the private sector, wages also grew at a rapid pace (8.5%). Apart from the accommodation and catering sectors, where wages were greatly affected by the pandemic, other activities saw a minor deceleration in wage growth or no deceleration at all.



# Monetary policy of the Eurosystem

## Decisions



In 2020 and early 2021, the Eurosystem maintained a highly accommodative monetary policy stance. In order to contain the fallout from the COVID-19 pandemic on the economy and the path of inflation, the Governing Council of the ECB:

- » conducted net asset purchases under the PEPP;
- » applied more favourable borrowing terms to TLTRO operations;
- » started the monetary policy strategy review.

In view of the threat posed to the outlook for the euro area economy and inflation by the coronavirus outbreak, the Eurosystem in 2020 launched new asset purchases under a pandemic emergency purchase programme (PEPP). In March 2020, the Governing Council of the ECB decided to launch net asset purchases under the PEPP with an overall envelope of €750 billion. However, as the macroeconomic projections for the euro area got worse, the envelope was increased twice: by €600 billion in June and another €500 billion in December (to the overall amount of €1,850 billion). Purchases under the PEPP will continue until at least the end of March 2022 and will be conducted in a flexible manner over time, across asset classes and among jurisdictions. Moreover, net asset purchases under the additional €120 billion temporary envelope were continued until the end of 2020. Taken together, all these purchases contributed to easing the overall monetary policy stance, thereby helping to offset the downward impact of the pandemic on economic growth and the projected path of inflation.

In addition, the Governing Council of the ECB eased the conditions on the targeted longer-term refinancing operations (TLTROs). In April, the interest rate on these operations was reduced to -0.5% in a bid to support bank lending to firms most affected by the coronavirus pandemic. The conditions for banks maintaining their levels of credit provision were eased even further and the rate applied could be as low as -1%. TLTROs with exceptionally low interest rates will be available for banks until December 2021. In April 2020, the Governing Council also decided to conduct non-targeted pandemic emergency longer-term refinancing operations (PELTROs) at the interest rate of -0.25%.

The Governing Council of the ECB also launched the monetary policy strategy review. The monetary policy strategy of the Eurosystem was adopted in 1998 and some of its elements were clarified in 2003. Since then, however, the global economy and, simultaneously, the euro area economy have been undergoing profound structural changes. Slowing productivity, declining potential growth and an ageing population have driven interest rates down, reducing the scope for the ECB to stimulate the economy, where appropriate. In light of these challenges, the review of the Eurosystem's monetary policy strategy was launched in January 2020. The whole review process, however, was suspended due to the crisis triggered by the COVID-19 pandemic and only resumed in September 2020. The review is expected to be concluded in the second half of 2021.

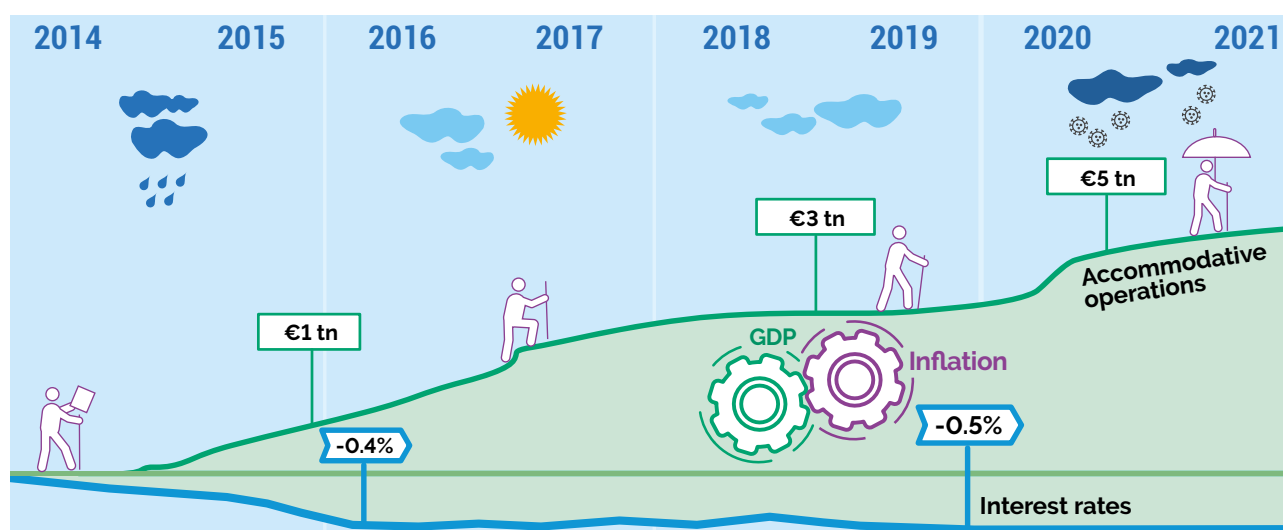
## Actual euro area macroeconomic indicators and their December 2020 projections

(annual percentage change)

	2020	2021	2022	2023
Real GDP	-7.3	3.9	4.2	2.1
HICP	0.2	1.0	1.1	1.4
Unemployment rate	8.0	9.3	8.2	7.5
Compensation per employee	-1.1	3.6	2.1	2.3

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

Value accumulated through accommodative monetary policy operations (asset purchases and targeted refinancing operations) and evolution of short-term interest rates





# Monetary policy of the Eurosystem

## Instruments



The main monetary policy instruments of the Eurosystem include open market operations, standing facilities and minimum reserves.



The PEPP and PELTROs specifically designed to address the fallout from the pandemic were added to the toolbox of monetary policy operations.



In 2020, the Bank of Lithuania, together with the Eurosystem, purchased approximately €3 billion of Lithuanian government securities in domestic and foreign markets, in net terms.

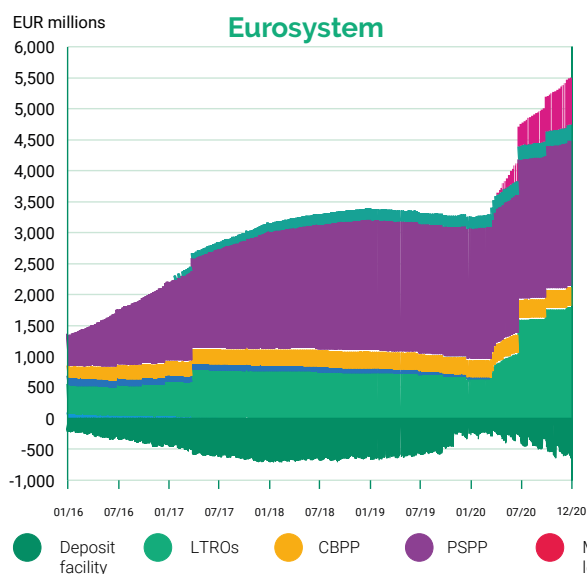
## In 2020, the Eurosystem carried out 246 open market operations via tenders.

At the end of 2020, the outstanding amount of funds borrowed by counterparties under main refinancing operations (MROs) was €0.5 billion, and through long-term refinancing operations (LTROs), including TLTROs and PELTROs – €1,793 billion. Compared to 2019, lending via LTROs increased by €1,176 billion due to active participation of counterparties in TLTRO III operations and PELTROs. The Bank of Lithuania counterparties increased borrowing under these operations as well, and the respective balance amounted to €0.2 billion at the end of 2020. The Bank of Lithuania counterparties also took recourse to MROs on several occasions during the period under review and borrowed €3 million on average. However, the balance pertaining to these operations was zero at the end of the year.

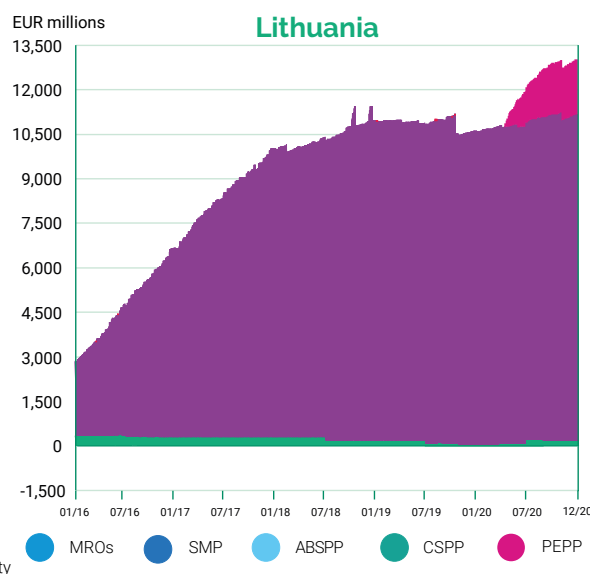
## The monetary policy securities portfolio of the Eurosystem soared by €1,066 billion (to €3,705 billion) in 2020.

Purchases under the PEPP accounted for the bulk of the increase (€756 billion). Purchases of securities under the asset purchase programme, which includes the CBPP3, the ABSPP, the CSPP and the PSPP, amounted to €310 billion. The monetary policy securities portfolio of the Bank of Lithuania increased by €2.3 billion, which was also mostly due to purchases under the PEPP, and reached €12.8 billion, including €5 billion in government securities of the Republic of Lithuania and €7.9 billion in bonds issued by European institutions.

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



Sources: ECB and Bank of Lithuania calculations.



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

Indicator	Region	Year-end volume, EUR	Annual change, %	Annual average, EUR	Highest value, EUR	Lowest value, EUR
Minimum reserves	Eurosystem	145.5 billion	8.2	140.0 billion	145.5 billion	134.5 billion
	Lithuania	294.5 million	24.0	260.4 million	294.5 million	237.4 million
Current account holdings	Eurosystem	2,805.5 billion	82.5	2,288.3 billion	3,242.2 billion	1,537.7 billion
	Lithuania	12,156.3 million	68.5	9,113.7 million	12,519.3 million	6,760.2 million
Recourse to deposit facility	Eurosystem	683.9 billion	148.0	372.1 billion	683.9 billion	84.5 billion
	Lithuania	0.0 million	0.0	0.0 million	0.0 million	0.0 million
Recourse to marginal lending facility	Eurosystem	0.2 billion	8.6	0.0 billion	0.4 billion	0.0 billion
	Lithuania	0.0 million	0.0	0.0 million	0.0 million	0.0 million

Source: Bank of Lithuania calculations.

# Monetary policy of the Eurosystem

## Impact



The enhanced degree of the Eurosystem's monetary policy accommodation helped mitigate the fallout from the COVID-19 pandemic on the economy of both Lithuania and the entire euro area in 2020 and early 2021.

- » Bank funding costs decreased slightly.
- » The borrowing cost in financial markets for governments declined.
- » The bank lending cost to the real economy remained low.

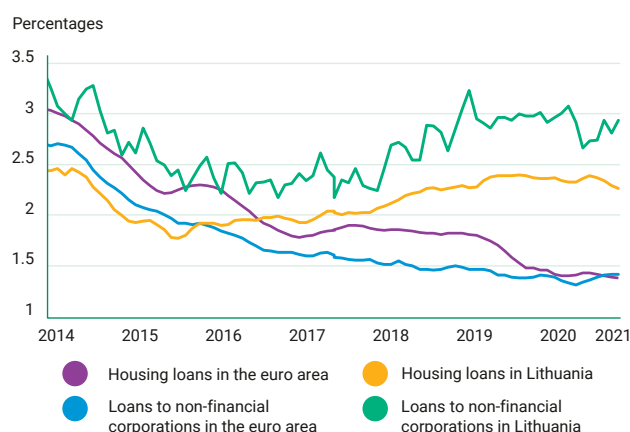
**In 2020, short-term interbank lending rates remained at a record low, even during the pandemic.** Interbank interest rates decreased steadily thanks to the accommodative monetary policy measures and came even closer to the deposit facility interest rate of the ECB (-0.5%).

**Starting from the second quarter of 2020, the cost of borrowing in financial markets for governments followed a downward path in most euro area countries.** In March 2020, increased market uncertainty due to the coronavirus pandemic and expectations of an increase in bond supply swung the yields of government bonds to an upward trajectory in many euro area countries. However, the additional monetary policy package adopted by the ECB reversed this upside trend in bond yields in most euro area countries starting from the second quarter of 2020. The ten-year Lithuanian government bond yields also increased in March 2020 but later steadily declined due to the abovementioned monetary policy measures and stood nearly 0.4 percentage point below its early 2020 level at the end of the year.

**Accommodative monetary policy measures of the Eurosystem contributed to interest rates on loans remaining low in the euro area and Lithuania.** Interest rates on new housing loans and loans to non-financial corporations in the euro area went on a steady decline in mid-2014 before stabilising during the coronavirus pandemic at some of the lowest levels in history. In Lithuania, the average interest rate on loans to non-financial corporations and new housing loans varied slightly in 2020 and its year-end level broadly matched the level observed in early 2020. However, average interest rates in Lithuania continue to exceed those in the euro area due to, among other things, the high level of concentration in the banking sector and potentially higher risks related to new loans. Nonetheless, interest rates on loans in Lithuania would likely be even higher if not for the accommodative monetary policy pursued by the Eurosystem.

**Accommodative monetary policy measures implemented in 2020 mitigated the fallout from the COVID-19 pandemic on the Lithuanian and euro area economies.** According to the November 2020 ECB estimates, the new monetary policy

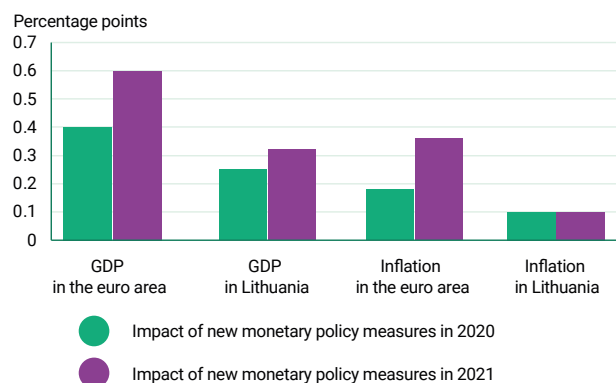
## Average interest rates on new MFI housing loans and loans to non-financial corporations



Sources: ECB and Bank of Lithuania calculations.

Notes: 3-month moving average. Data includes renegotiations of existing loan contracts.

## Projected impact of new accommodative monetary policy measures of the Eurosystem on real GDP growth and inflation in the euro area and Lithuania in 2020-2021



Sources: ECB and Bank of Lithuania calculations.

measures reduced the fall of euro area GDP by 0.4 percentage point and added 0.18 percentage point to the level of prices in 2020. According to the estimates of the Bank of Lithuania, these measures mitigated the decline of Lithuania's GDP by 0.25 percentage point and added 0.1 percentage point to the price level. In line with the ECB staff projections, in 2021, new monetary policy measures will add 0.6 percentage point to the euro area economic growth rate and 0.36 percentage point to inflation. The Bank of Lithuania, in turn, anticipates that these rates will increase by 0.32 percentage point and 0.1 percentage point, respectively, as a result of new monetary policy measures. The effect of monetary policy measures on the euro area is potentially bigger due to higher debt levels and more developed financial markets.

# Macroprudential policy

## Analysis of systemic risks



Increased credit risk for firms and households affected by operational constraints.

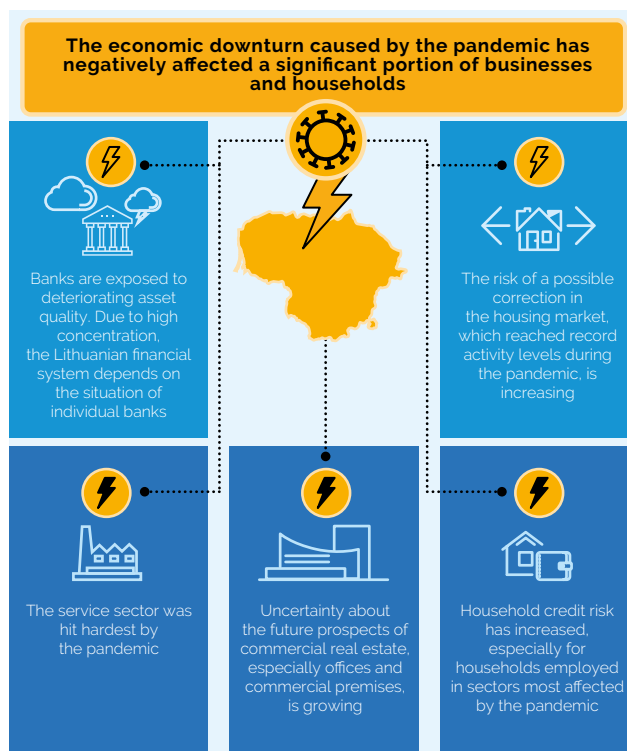


Higher impairment risk with regard to commercial real estate.



Risks concerning potential overheating of the residential real estate sector, where activity levels are at historic highs.

**Financial stability could be undermined by an increase in the credit risk of firms and households directly affected by operational constraints due to the COVID-19 pandemic.** As the pandemic continues and resulting constraints remain binding, some businesses are becoming increasingly vulnerable. For example, financial indicators confirm that the services sector, including catering and accommodation services, administrative and support services, and entertainment services, is the most reactive to the COVID-19 shock. The share of loans granted to firms engaged in these activities accounts for nearly 9% of the portfolio of all loans granted to companies by monetary financial institutions (MFIs). Moreover, the credit risk of companies affected by the pandemic, in particular those active in the services sector, may increase even further should the adverse epidemiological situation protract, economic recovery be weaker than anticipated, and corporate payment chains start breaking. Although business liquidity is currently supported by state aid measures and the possibility to defer loan repayments, it is likely that the number of corporate bankruptcies might surge after these measures run out. In this case, the credit risk of households previously or currently employed by companies affected by operational constraints would increase even further despite being already higher due to the COVID-19 pandemic, resulting in a worsening financial situation of some residents and their rising level of unemployment. According to the data of Statistics Lithuania, unemployment stood at 9% (19.2% in the 15-24 age group) at the end of 2020 and was among the highest across the entire EU. These younger residents (under 29 years old) take 16.3% of the value of consumer and other (non-housing) loans, therefore, the worsening financial situation of these residents increase the risk of loss for the credit institutions granting such loans. Moreover, although the moratorium period for loans was extended, there is a risk that the share of restructured household loans, which in the third quarter of 2020 accounted for 17% of the household loan portfolio, could potentially become non-performing after payment deferrals end, especially in the case of a protracted slowdown in economic growth. However, the latest results of the stress testing regularly performed by the Bank of Lithuania show that banks operating in Lithuania have adequate buffers to absorb potential losses and are able to withstand a significant economic downturn.



**Uncertainty surrounding future prospects of commercial real estate, in particular office and commercial spaces, is increasing, while the housing market remains active.** After significantly dropping during the first lockdown, the price index of real estate funds traded on Baltic real estate stock exchanges has by now returned to the level observed at the beginning of 2020, which shows that investors' expectations have not deteriorated. The vacancy rate of commercial premises has markedly increased, while rent prices of commercial premises in the main marketing streets of Vilnius plummeted in the first year of renting to 50% from the highs reached in 2019. Tensions in the market of office spaces are also escalating: the supply of new commercial spaces is actively increasing, yet their demand is not picking up as rapidly due to the structural changes steered by the COVID-19 pandemic, therefore, the vacancy rate of office spaces might rise. This would increase the pressure on rental prices and the value of commercial real estate, while the potential impairment of commercial real estate would incur risk and potential losses for funding providers. The market of residential real estate rebounded from the first lockdown and remained active during the second, yet the house price growth rate somewhat scaled down. Although growth of the housing loan portfolio during the last three years was relatively robust, housing affordability remains historically high. For quite some time, wages have been increasing at a faster rate than house prices, developments in the income-to-house price ratio have been showing no signs of overheating, and the relatively low debt level of the private sector and the sustainable financial situation of real estate development companies have been reducing the likelihood of this risk materialising.

**The greatest risk to the banking sector stems from the deteriorating quality of assets. Due to high concentration, the Lithuanian financial system depends on the situation of individual banks.** As income from banking activities declined and loan losses increased due to the pandemic, bank profits sank, yet, overall, the profitability levels of banks operating in Lithuania remain high and their performance indicators are among the best in Europe. However, the share of non-performing loans took an upward trend. This mostly applies to the segments of non-financial corporations (up by 0.9 percentage point to 3.8% in the third quarter of 2020) and consumer loans (up by 1.6 percentage points to 3.4% in the third quarter of 2020). The share of non-performing loans is likely to

continue to grow as the country's unemployment rate remains high and some businesses will go bankrupt after the expiry of state aid measures, thus adding to bank losses. With the quality of assets deteriorating, banks would have less free capital for financing the economy, which would in turn put an additional burden on Lithuanian businesses and would hamper economic recovery. Banks operating in Lithuania are also still dependent on the decisions and situation of their parent banks in Sweden, for example, in case of the correction of imbalances in Sweden. As the Lithuanian banking sector is densely concentrated, even the decision by a single banking group to reduce riskier exposures by restricting lending to certain segments in Lithuania could significantly aggravate funding possibilities for Lithuanian firms.

# Macprudential policy

## Credit and the real estate market



The significant slowdown in credit growth, especially due to reduced lending to firms, was offset by fiscal stimulus measures.



The housing loan portfolio continued to rapidly increase as a result of active lending for house purchase.



House prices rose at a slower pace, showing no signs of overvaluation.



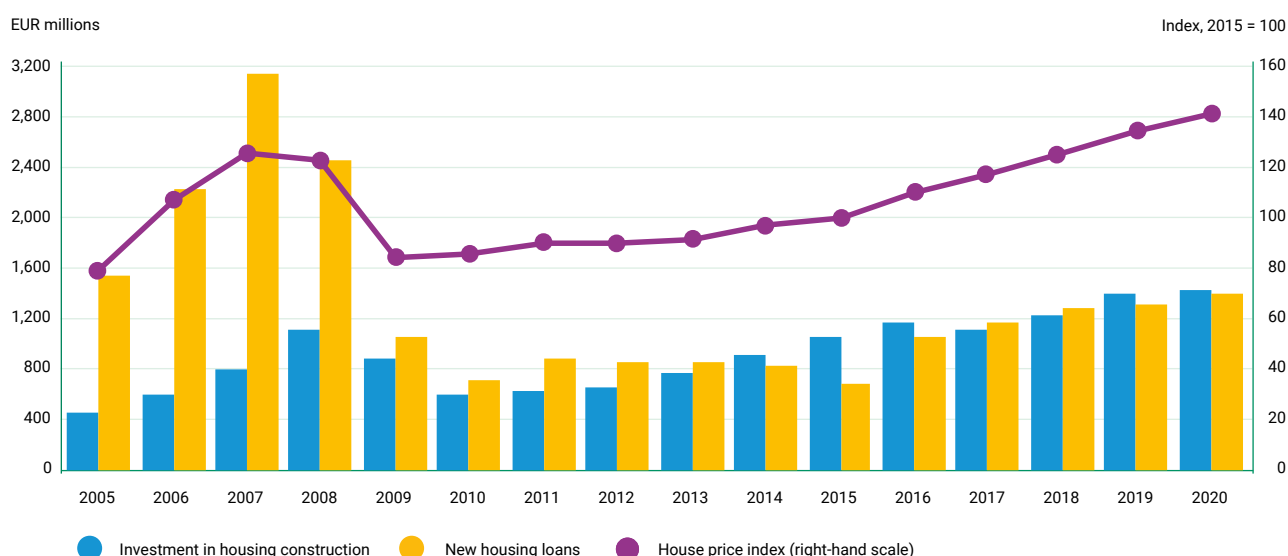
Activity in the real estate market was still at historical highs, although the contribution of housing loans somewhat reduced.

**In 2020, credit provision in Lithuania declined significantly and the portfolio of MFI loans to the private non-financial sector started to contract**, mostly due to the declining portfolio of loans to non-financial corporations, which decreased by an annual 12.7% at the end of 2020. However, the decline in the

flow of new loans to enterprises, which reduced even further as a result of elevated risks during the COVID-19 crisis, was offset by financial aid measures: in March-December 2020, the overall flow of MFI loans to enterprises was €245 million lower than a year ago, while the value of used financial aid measures<sup>3</sup> stood at €2.2 billion. The portfolio of household loans, on the other hand, was steadily increasing, supported mostly by still active mortgage lending, which saw a year-on-year increase of 9.4% at the end of 2020. The portfolio of consumer loans and other loans contracted in the respective period and was 5.8% smaller at the end of the year.

**The housing market remains active.** In the fourth quarter of 2020, the number of housing units sold increased by 6.7% year on year. At the end of the year, the primary housing market of Vilnius was particularly active, as the number of apartments reserved in the fourth quarter of 2020 surged by 40% over the year. At the end of 2020, the annual growth rate of house prices moderated to 4.1% and was 2.3 percentage points lower than a year ago. Relative housing market indicators showed no overvaluation in house prices. In the period under review, the house price-to-income ratio declined, whereas the ratio between house prices and wages remained basically unchanged. At the end of 2020, an average housing unit cost a net wage of roughly five years, compared to three additional months needed at the beginning of the year. The average annual share of housing transactions with a mortgage, compared to all housing transactions, somewhat decreased and amounted to 41.7% in 2020 (46.5% in 2019).

## Housing loan and market developments



Sources: Statistics Lithuania and Bank of Lithuania.

Notes: New housing loans since 2015 do not include renegotiations. The latest observations for the house price index are for Q3 2020.

<sup>3</sup> The amount of measures implemented by INVEGA, subsidies to enterprises, tax credits, and arrears.

# Macprudential policy

## Macprudential policy instruments



The countercyclical capital buffer rate remains unchanged at 0%.

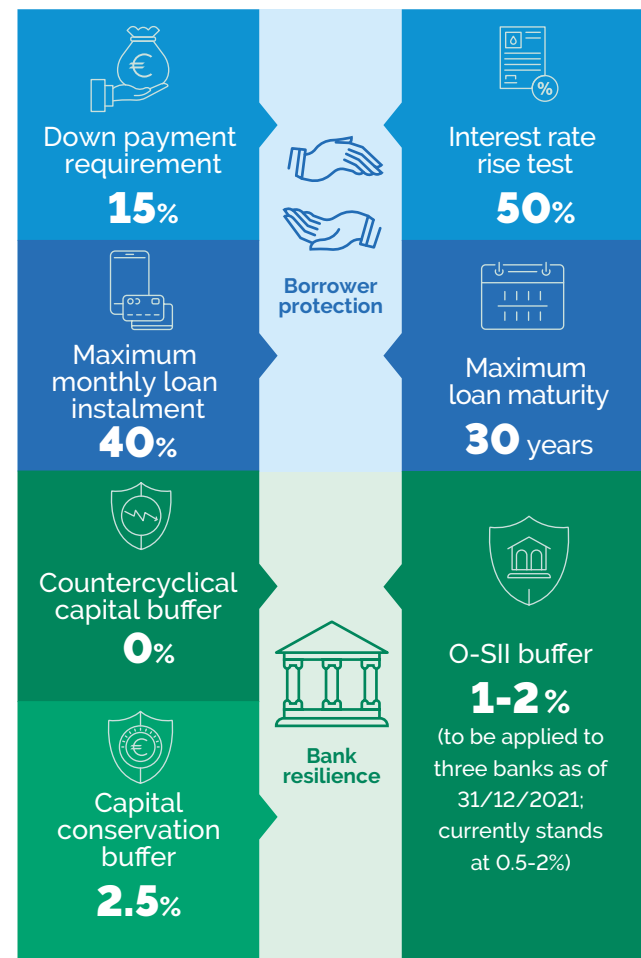


The Bank of Lithuania plans to amend the Rules of the Capital Buffers Formation.

With regard to the negative impact of the COVID-19 pandemic on Lithuania's economy, the Bank of Lithuania left the countercyclical capital buffer (CCyB) rate unchanged at 0%. The CCyB rate was reduced to 0% on 1 April 2020. Prior to then, banks operating in the country had been subject to a 1% CCyB rate (valid from 30 June 2019). The CCyB requirement is intended to ensure that the banking sector accumulates sufficient capital to be able to cover potential losses in case of cyclical systemic risk or during periods of economic downturn or stress. The relaxed CCyB rate helps mitigate credit cyclicity and increase the ability of credit institutions to maintain credit supply, thus diminishing the negative impact of the COVID-19 outbreak on the country's economy.

With the national transposition of the Capital Requirements Directive (CRD), the Bank of Lithuania will have more flexibility in the application of macroprudential requirements for specific lending segments, should these significantly contribute to systemic risk growth. CRD amendments will be implemented once the Bank of Lithuania Rules for the Capital Buffers Formation are amended. The implementation of these amendments will place the conditions for the application of a systemic risk buffer (one of the additional capital requirements) for lending to specific segments. This will improve the ability to react to structural and cyclical risks that arise in certain segments. The dimensions, based on which the Bank of Lithuania will be able to establish subsectors subject to the systemic risk buffer, are established under the guidelines approved by the European Banking Authority.<sup>4</sup> For example, these segments may include loans secured by residential or commercial real estate in all parts or a specific part of Lithuania that pose a systemic risk to the financial sector. Furthermore, the maximum size of the capital buffer set for other systemically

## Macprudential policy measures effective in Lithuania



important institutions (O-SIIs) will be increased from 2% to 3%. The O-SII buffer and the systemic risk buffer will have to be used to address different risks, while their aggregate amount will not be allowed to exceed 5% of risk-weighted assets.<sup>5</sup>

<sup>4</sup> Final guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer in accordance with Article 133(5)(f) of Directive 2013/36/EU (EBA/GL/2020/13).

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

# Management of financial assets

## Investment policy



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

## Investment composition



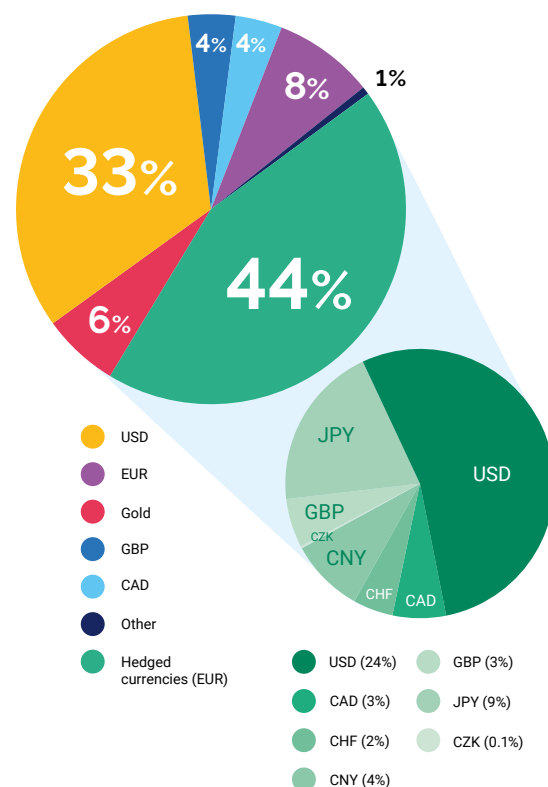
The main bulk of the Bank of Lithuania's financial assets is invested in money market instruments and US government debt securities. The Bank of Lithuania holds 5.8 tones of gold.

**In 2020, the main bulk of the Bank of Lithuania's investments was in euro and other currencies (US dollar, Japanese yen, British pound sterling, Czech koruna, Chinese renminbi, Swiss franc, Canadian dollar) with hedged currency risk.** Aiming at higher investment diversification, the currency risk of some investments (48% on average in 2020) was not hedged. The majority of investments with unhedged currency risk were in US dollars (33%), Canadian dollars (3.9%) and British pound sterling (3.9%).

**Security of financial assets is ensured through diversifying investments, concluding transactions with investment-grade rating financial institutions that are of good repute, and investing only in debt securities with an investment grade rating.** The investment grade rating assigned to financial institutions and issuers of debt securities by international rating agencies indicates low probability of default on their liabilities. At the end of 2020, 55% of investments were rated AAA (the highest rating), 30% – A, while the remaining part – AA.

**In terms of financial instruments, most investments made in 2020 were in government debt securities and money market instruments.** The Bank of Lithuania invested in securities issued by various governments, government agencies, international organisations and municipalities. Money market instruments mainly consisted of deposits with other central banks and international organisations. Lithuania's gold is held at the Bank of England. Under favourable market conditions, gold is invested in gold deposits, thus earning interest, or through gold swaps, i.e. temporarily exchanging gold into other currencies and then investing them.

## Average investment composition by currency



## Average investment composition

### Percentages

7.2	Mortgage-backed securities
20.4	Money market instruments
38.0	US government debt securities
3.9	Chinese government debt securities
11.1	Other government debt securities
3.3	Agency debt securities, municipal debt securities and international organisation debt securities
12.0	Corporate debt securities
4.0	Equity



# Management of financial assets

## Investment goals and results



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



The three-year return was **5.11%**, or €224.7 million.

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

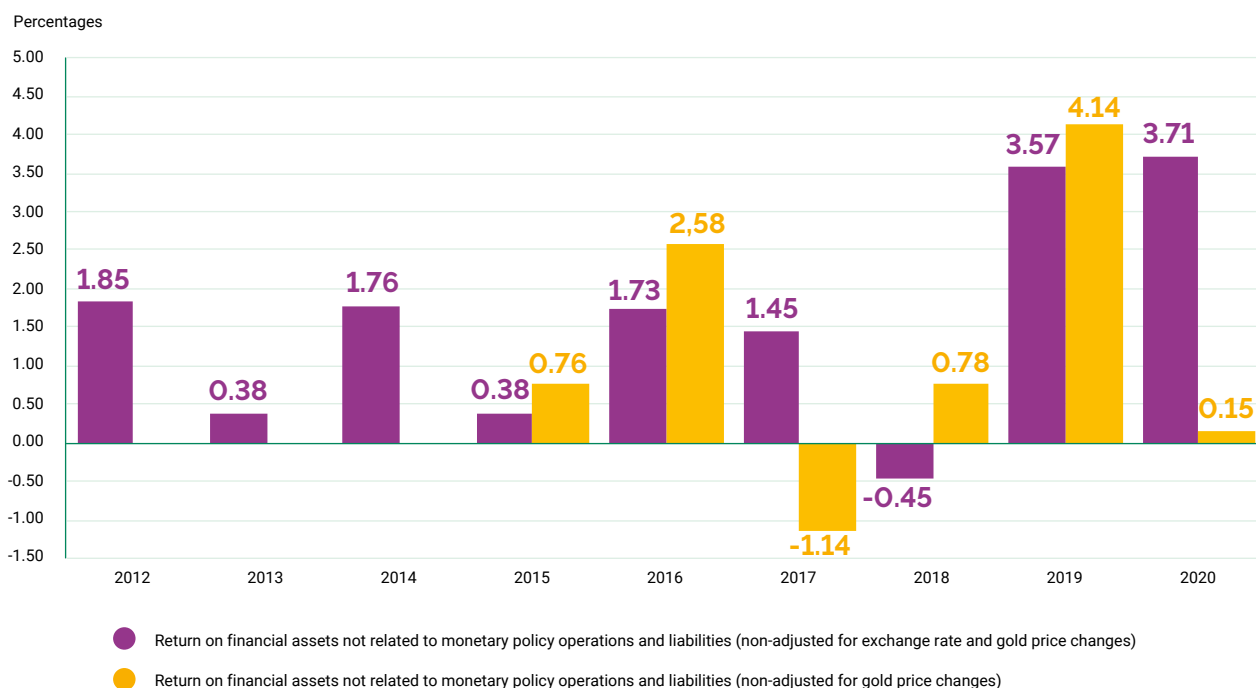
**The three-year return on the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities was 5.11%, or €224.7 million.**

**In 2020, the Bank of Lithuania's financial assets not related to monetary policy operations and liabilities amounted to, on average, €4,377 million.** Return on these assets in euro (adjusted for exchange rate changes but non-adjusted for gold price changes) reached 0.15%, a year-on-year decrease of 4 percentage points. Return on financial assets not related to monetary policy operations and liabilities (non-adjusted for exchange rate and gold price changes) was 3.71% in 2020, a 0.14 percentage point increase compared to 2019. Financial market developments in 2020 supported Bank of Lithuania investments. The increase in the market price of gold, the decline in the yields of government debt securities and the rise in equity prices had a positive effect on investment return, while the strongest negative effect came from the 10.6% annual depreciation of the US dollar against the euro.

**The Bank of Lithuania's gold reserves remained unchanged and amounted to 5.8 tonnes.** Return on the gold portfolio reached 13.92%, mainly due to the appreciation of the gold market in US dollars (30.3%), although return in euro was dampened by the strengthening euro.

Most market developments that boosted return on investment in 2020 have been significantly undermining the prospects for return in 2021.

## Return on investment



# Payments



The number of payments executed via CENTROlink, a payment system operated by the Bank of Lithuania, increased twofold, as did their total value.



The Bank of Lithuania worked to improve the risk assessment and control tools of payment service providers accessing CENTROlink.



Lithuanian market participants continued preparations for the consolidation of TARGET2 and T2S.



Following the expansion to Iceland, the activities of Nasdaq CSD SE remained sound and efficient.

**In 2020, the number of payments executed via CENTROlink, a payment system managed by the Bank of Lithuania, soared twofold, as did their total value, while instant payments showed a more than fourfold surge.** Users of CENTROlink services are not limited to the Lithuanian credit, payment and electronic money institutions and include their peers from other EEA countries. CENTROlink handled more than 95 million SEPA payments (credit transfers, instant credit transfers and direct debits) worth nearly €170 billion. Compared to 2019, the number of payments soared more than twofold, while their total value increased by 92%. The number of SEPA instant transfers surged to 17.1 million in the period under review, from 3.6 million in 2019, and their total value increased to €12.4 billion, from €3 billion. 26 payment service providers operating in Lithuania and EEA countries have a possibility to provide instant payment services to their customers via CENTROlink.

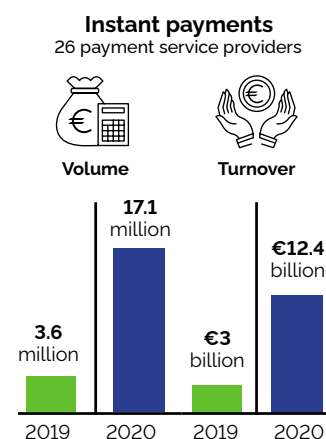
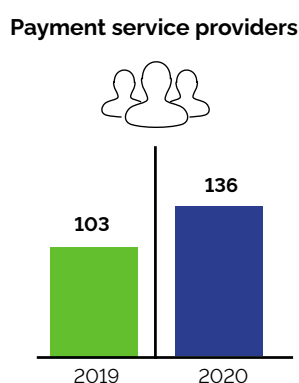
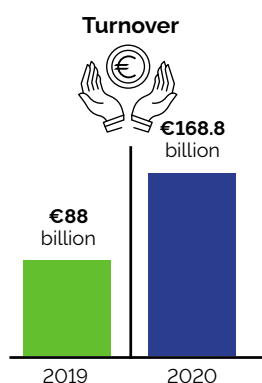
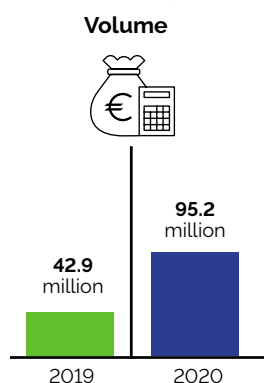
**With the ranks of participating CENTROlink payment service providers expanding, the Bank of Lithuania attaches increasing importance to improving the risk assessment and control tools pertaining to their activities.** In the period under review, 39 financial

institutions started using CENTROlink services, which brought the total number of users to 136 payment service providers (up from 103 in 2019) from 14 EEA countries by the end of 2020. Among these, 26 payment service providers from Lithuania and EEA countries offered instant credit transfer services. In view of the development of CENTROlink and the growing interest of financial market participants, the Bank of Lithuania continued to strengthen the control of both new and already participating firms rendering payment services, which involved more stringent assessment of the good repute of companies, their shareholders and executives as well as of the actions applied against undertakings by their supervisory authorities.

**In 2020, the Bank of Lithuania, the Lithuanian banking community and the Lithuanian branch of Nasdaq CSD SE continued preparations for the changes of financial market infrastructures taking place in Europe.** The Eurosystem continued to implement a project aimed at consolidating TARGET2, a real-time gross settlement system under its management, and T2S, a central standardised securities settlement platform, into a single platform in a bid to improve the resilience of European financial market infrastructures and increase their operational efficiency. Moreover, in 2020, the Governing Council of the ECB decided to improve TIPS, a TARGET instant payment settlement service, by the end of 2021 with the aim to ensure pan-European reach of instant payments in euro for banks and payment systems using TIPS. The Bank of Lithuania coordinated the necessary arrangements as it sought to ensure timely preparation of Lithuanian financial market participants for the consolidation project. For that purpose, it mobilised and is chairing a group of Lithuanian payment market participants. In 2020, TARGET2-LIETUVOS BANKAS, a component operated by the Bank of Lithuania, processed 137,000 payments worth a total of €158.9 billion.

**Nasdaq CSD SE extended its services to Iceland and continued to operate in a sound and efficient manner.** In 2020, Nasdaq CSD SE finalised a merger with Nasdaq CSD Iceland hf., which turned Nasdaq CSD Iceland hf. into a branch of Nasdaq CSD SE. Moreover, the Bank of Lithuania, in tandem with the Latvian and Estonian authorities supervising the activities of Nasdaq CSD SE, undertook an annual evaluation of the activities of the depository under the CSD Regulation. The assessment revealed that the functioning of Nasdaq CSD SE and the securities settlement system operating in Lithuania under its management was stable and efficient.

**CENTROlink**



# Payments



Consumer protection when using payment cards for online payments was strengthened.



Recommendations made by the Payments Council will contribute to the development of open banking and non-cash payments in education institutions.



The Bank of Lithuania added instant payments to the basic payment account package.



The maximum fee of a basic payment account was reduced to €1.45 per month starting from 2021.



The ECB, together with other euro area central banks, initiated a discussion on a possible introduction of a digital euro.

While implementing the requirements of the Payment Services Directive, payment service providers and e-merchants put in place certain measures ensuring a greater level of protection for consumers when using payment cards to pay for goods and services online. Hence, starting from 2021, when paying for online purchases with a payment card, consumers will often have to authorise the payments with authentication means that are used to access their online banking. The Bank of Lithuania took steps to ensure the smoothest possible transition to the new practice and to prevent any major disruptions in payments.

The Bank of Lithuania reviewed the list of services comprising the package of services linked to the basic payment account and the maximum fee charged. With more and more market players rolling out the service of instant payments, which has been evolving into a new market norm, the Bank of Lithuania

added instant payments to the basic payment account package. Changes in the charges of payment services in recent years led to a lower maximum fee for the basic payment account package and, starting from 1 January 2021, the maximum fee for the basic payment account cannot exceed €1.45 per month, or €0.72 per month for those receiving social benefits. Credit institutions also offer various other payment service packages to different groups of customers. A survey of payment habits of Lithuanian residents commissioned by the Bank of Lithuania found that at least 65% of adults with a bank account use payment service packages and approximately 20% pay for each service separately.

**In 2020, the Payments Council made recommendations on the promotion of non-cash payments in education institutions and the development of open banking.** As regards non-cash payments in education institutions, the Payments Council recommended deploying infrastructure adapted to non-cash payments in canteens of education institutions, simplifying the process of acquiring non-cash payment instruments for minors, reducing the costs of such payment instruments and developing practical financial literacy skills among students. The Payments Council has also identified areas for the development of open banking related to the creation of new financial services and invited payment service providers to continue developing services aimed at evaluating client creditworthiness, combating fraud and preventing money laundering as well as developing skills for the analysis and management of personal finance. In 2021, the Payments Council will examine the possibilities of providing access to data stored in public registries and ensuring access to cash services in Lithuania.

**The Bank of Lithuania actively contributed to the ECB's initiative on the analysis and public consultation on the need to issue a digital euro.** The digital euro would be an electronic form of money – like banknotes but digital – issued by the central bank and accessible to all citizens and companies that would be a fast, easy and secure instrument for daily payments. The digital euro would complement other means of payment, such as cash and payment instruments offered by payment service providers (e.g. payments from a bank account). Rapid advances of financial services and technologies as well as changes in consumer behaviour sparked discussions on central bank digital currencies (CBDC) all over the world. The Eurosystem has not yet decided whether to issue a digital euro. However, in 2020, it launched a public consultation in a bid to achieve a better understanding of the technologies adaptable to CBDC, possibilities, as well as the needs and expectations of the public and market participants.

## Choice of the pricing method for payment services in Lithuania in 2020



# Supervision

## Financial market



The Bank of Lithuania supervises 688 market participants.



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

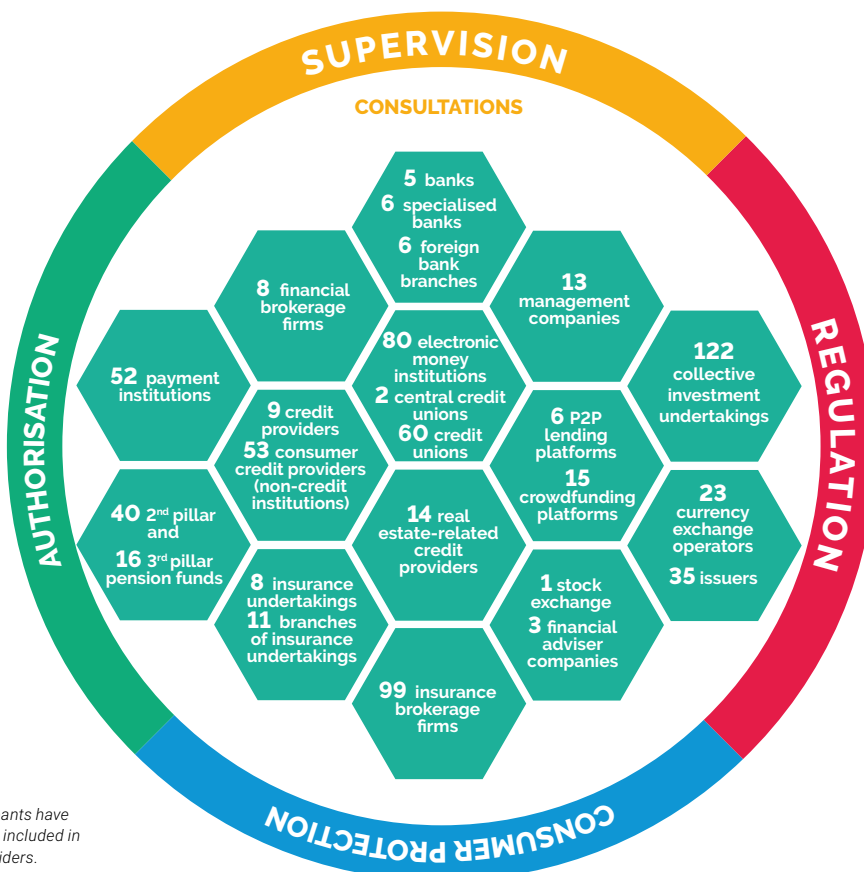
At the end of 2020, eleven banks held a banking or a specialised bank licence in Lithuania, while six banks operated as a foreign bank branch. In November 2020, the ECB granted a banking licence to Crius LT, UAB. Throughout the course of the year, Svenska Handelsbanken AB Lithuania branch, established by a Swedish bank, and AS Industra Bank Lithuania branch, established by a Latvian bank, terminated their operations in the country.

**In the period under review, the Bank of Lithuania held 108 meetings with potential financial market participants**

**interested in acquiring authorisation in Lithuania.** These were mainly companies from the UK, EU countries (including Lithuania), the US and China. As previously, companies were most interested in electronic money and payment institution licences (87). The Bank of Lithuania expects to receive around 100 applications for authorisation in 2021, primarily for electronic money and payment institution licences.

**The Lithuanian financial market has recently undergone significant changes: rapid technological progress prompts increasingly more financial services to move to the digital environment, thus inciting respective changes in consumer expectations and habits.** The Bank of Lithuania, together with other institutions, has been actively promoting pro-competitive financial innovations, as a result of which a number of new market participants entered the country's financial market. As a general rule, they operate exclusively in cyberspace not only in Lithuania, but across the entire EU. This alters the profile of financial market risks. Cybersecurity and money laundering risks have acquired greater significance, making it necessary to adapt and change certain supervisory priorities. Both the market and the supervisory authority will see greater need for digitalisation in the future, therefore, in response to new challenges, more consideration should be given to advanced analysis and supervision methods.

## Financial market supervised by the Bank of Lithuania



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

# Supervision

## Consultations



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



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



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

**Positioning itself as a partner of the financial sector**, the Bank of Lithuania [publishes](#) on an annual basis the schedule and scope of its routine inspections, visits, and investigations to be carried out in areas with most potential risk, thus allowing financial market participants to make necessary preparations.

Since 2017, the Bank of Lithuania has been giving annual [announcements](#) regarding the intended legislative changes so that market participants could prepare for public consultations in advance. The legislative changes planned in 2020 aimed at increasing the resilience and stability of the financial system, concurrently establishing proportionate requirements with respect to the complexity of financial participants' activities and risk profile, without affecting market growth and innovation development.

**For the purposes of fostering an open and attractive space for financial activities, the Bank of Lithuania holds annual meetings** with the supervised financial market participants to discuss annual results and present plans for the next year, including intended regulatory changes. In cooperation with associations of financial market participants, the Bank of Lithuania had inquired about the need for such consultations, and the most relevant topics still included money laundering risk management, compliance with the legislative requirements for banks, insurance and payment companies, as well as issues related to the requirements applicable to electronic money and payment institutions. In light of the information received, in 2020, the Bank of Lithuania started to organise regular anti-money laundering (AML) meetings for compliance specialists to discuss new developments in legislation, the national risk evaluation, and market analyses for individual sectors. Given the rapid expansion of the sector of electronic money and payment institutions, in October 2020 the Bank of Lithuania organised a cycle of four events to overview relevant trends in the sector so as to ensure that new market entrants are well informed about the requirements applicable to their activities and expectations of the supervisory authority. The Bank of Lithuania also shared advice on proper preparation for operation upon obtaining a licence, presented the principal supervisory requirements applicable to electronic money and payment institutions, as well as regulatory changes with regard to the delegation of operational functions to third parties. Primarily directed at prevention of violations, each training event was attended by approximately 120 participants.



**Particular attention was devoted to AML measures.** The Bank of Lithuania cooperates with the private sector by using their proposed innovative data processing solutions that help to strengthen supervisory actions, enhance the quality of the supervisory data obtained from market participants, and identify areas exposed to highest risk more rapidly. In 2020, the Bank of Lithuania implemented the money laundering and terrorist financing risk evaluation model and will improve it further in 2021. In view of the risks arising in the financial sector, the Bank of Lithuania exchanged data on the number of non-resident accounts in the country with other state authorities and foreign supervisory authorities (in particular the Baltic and Scandinavian supervisory authorities) as well as the State Tax Inspectorate. It also cooperated with the Financial Crime Investigation Service to plan and align supervisory actions as well as exchange supervisory information, and with the Gaming Control Authority to identify risks pertaining to the sector of game providers.

**Seeking to bolster cooperation between the public and private sectors, the Bank of Lithuania contributed to the establishment of the Centre of Excellence in Anti-Money Laundering.** In the fourth quarter of 2020, Lithuania's government gave the green light to the establishment of the Centre of Excellence in Anti-Money Laundering, which will bring together the efforts of the public and private sectors in the fight against money laundering and terrorist financing, thus strengthening the overall prevention system.

**Having performed a progress evaluation in 2020, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism**

(MONEYVAL), which periodically assesses the progress that countries make in terms of AML actions and their compliance with international standards as well as makes recommendations to national authorities in respect of more efficient risk management and AML, has assigned Lithuania an even higher rate of compliance with international standards, which shows that Lithuania has a clear awareness of potential risks and threats.

**The European Commission carried out an evaluation of the effectiveness of the implementation of the 4th Anti-Money Laundering and Counter Terrorist Financing Directive in Lithuania** by assessing the legal basis for the prevention of money laundering and terrorist financing. In October 2020, a meeting between Lithuanian representatives and experts from the Council of Europe (authorised agents of the European Commission) was held for that purpose.

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

**In the period under review, the Bank of Lithuania imposed 35 enforcement measures on market participants for violations of legislative acts.** Most of the violations were made by electronic money institutions (17) and payment institutions (6), with the majority relating to breaches of the provisions of the Republic of Lithuania Law on the Prevention of Money Laundering and Terrorist Financing. Market participants tend to breach new legislation that they find unclear. In certain cases, questions arise over the application of requirements not only on the national, but also the EU level as competent EU authorities had not yet prepared sufficient explanations or guidelines regarding the matter.



# Supervision

## Supervision



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



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



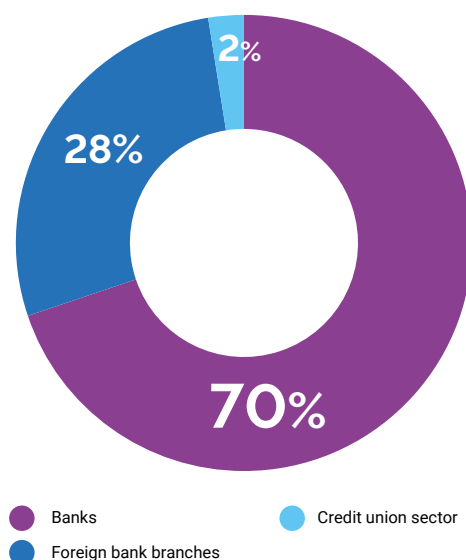
Under the Solvency II Directive, the Bank of Lithuania conducted an annual comprehensive risk assessment of insurance undertakings.

**In 2020, Lithuania's banking sector remained stable** despite the worldwide outbreak of the coronavirus pandemic and the ensuing lockdown restrictions. Over the year, banks managed to ensure business continuity and provision of critical services to the country's economy without greater complications. In addition, banks reached an agreement (moratorium) relevant to bank clients, thereby making a commitment to allow all eligible debtors to apply for the deferral of their loan payments without changing the terms and interest rates established in their contract. As a result of this and other state aid measures for business, the deterioration of the quality of bank loans was relatively small. In the period under review, a record surge in deposits with banks was observed, while credit levels rose only in the portfolio of housing loans. Due to the pandemic and respective containment measures, in 2020, compared to 2019, bank profits sank by approximately 20%; bank's income plummeted, while expenditure increased as a result of the poorer quality of loans. All banks complied with the established minimum capital adequacy and liquidity coverage requirements over the period under review.

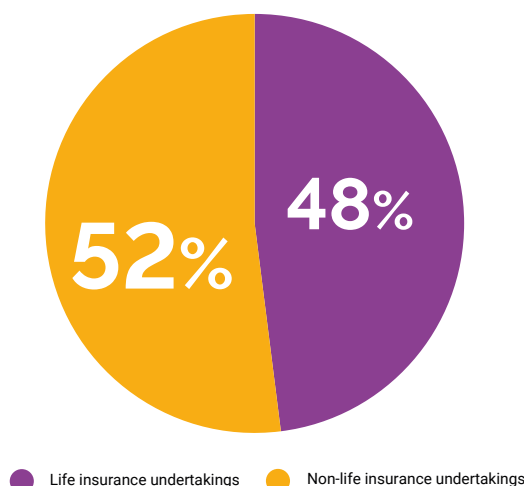
**In the period under review, the insurance market grew moderately, while total insurance premiums reached nearly €0.96 billion.** As a result of the pandemic, the volume of non-life insurance premiums dropped by 17% at the end of 2020, while life insurance premiums rose by 7.5% due to contracts concluded in previous years. Given the scale down in the non-life insurance market, the growth rates of the overall insurance market were as low as 1%. In terms of premiums, non-life insurance accounts for nearly 70% of the entire insurance market. Compulsory motor third party liability (MTPL) insurance, which covers more than a third of the market, suffered the hardest blow by the pandemic, with its portfolio dropping by 8.4% in 2020, while the portfolio of property insurance increased by 8.3%. Unit-linked life insurance holds the largest share of the life insurance market (nearly 65%) and its share in the life insurance portfolio continues to increase. All insurance undertakings complied with their compulsory solvency capital requirements over the period under review.

**In 2020, the assets of the credit union sector grew significantly**, mainly underpinned by strong growth in deposits. Although lending rates were somewhat slower compared to 2019, the increase in the loan portfolio and the subsequent rise in net interest income had a positive impact on operating results. In the period under review, the credit union sector earned €6.6 million in unaudited profits. Currently, there are 60 credit unions operating in Lithuania, including four credit unions that are in the process of restructuring into specialised banks (the process will be completed by 1 January 2023). In 2020, one credit union under restructuring applied to the Bank of Lithuania for a banking licence. A corresponding decision on the matter is expected to be made in 2021.

## Banking and credit union sector by assets



## Insurance market by assets





# Supervision

## Licensing



The Bank of Lithuania issued 29 licences.



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



4 licences were revoked, 6 licences were changed, and 13 companies were removed from public lists.



The Bank of Lithuania had no objections to nominations for managerial positions in 159 evaluation procedures and carried out 24 evaluations of the acquisition of a qualified holding in the financial market participant's authorised capital.

In 2020, the Bank of Lithuania received 7 applications for a specialised bank licence and carried out preliminary assessments of 7 more applications for the same type of licence. It is important to note that licences for specialised banks are issued by the ECB.

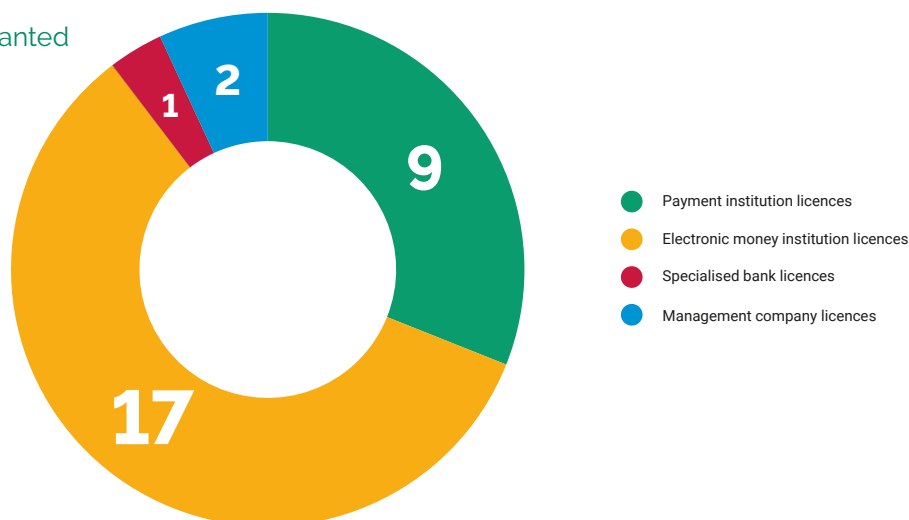
**35 fintech companies were authorised or included in public lists throughout the course of 2020**; compared to 2019, the number of issued licences increased. The said fintech companies included a specialised bank, electronic money and payment institutions as well as crowdfunding platform and P2P lending platform operators. Having met with more than 108 potential market participants to discuss the possibilities of setting up in Lithuania, currently the Bank of Lithuania is assessing more than 42 applications.

**With a view to making Lithuania the fintech hub in the Nordic-Baltic region**, the Bank of Lithuania created a fintech-conducive environment that attracts new market players and encourages product development in the country. The Bank of Lithuania has already launched a one-stop shop, allowed foreign citizens to submit documents necessary for obtaining authorisation in English, published a Licensing Guide in both Lithuanian and English, provided practical advice on how to prepare for authorisation, and prepared a "roadmap" presenting the key stages of the licensing process. The Bank of Lithuania's website has a section dubbed the Newcomer Programme, which presents key information for new market entrants in a concise and clear manner.

**In 2020, the Bank of Lithuania's regulatory sandbox had its first graduate.** UAB Workpower was testing its P2P insurance platform, which is based on the principles of the sharing economy, where its members form groups of peers in order to protect themselves against losses, make their own decisions on loss compensation using pooled funds and get back the unused ones.

**The Bank of Lithuania has been successfully providing e-licensing services:** its e-licensing tool allows firms to take care of the necessary paperwork and procedures electronically.

## Authorisations granted



# Supervision

## Supervision of financial services



The Bank of Lithuania paid particular attention to informing the general public about the potential fallout from the COVID-19 pandemic and helping those who had fallen into difficulties with meeting financial obligations.



The Bank of Lithuania provided guidelines and issued recommendations to financial market participants.

Given that the users of financial services had many concerns about the consequences of the COVID-19 pandemic for their existing financial services contracts and other relevant questions, the Bank of Lithuania created a dedicated [section on its website where it published guidance and information for households with mortgages or consumer loans, insurance contracts or savings in pension funds](#). In a bid to mitigate the potential fallout from the COVID-19 pandemic and the lockdown introduced in Lithuania on households with consumer loans and mortgages and their ability to meet their financial obligations, the national legislature adopted amendments to the Republic of Lithuania Law on Consumer Credit, entitling consumers to make use of the loan repayment holiday (the right to defer loan repayments), and the amendments to the Republic of Lithuania Law on Real Estate-Related Credit pertaining to the loan repayment holiday. Experts from the Bank of Lithuania actively contributed to the drafting of those changes in legislation.

**The Bank of Lithuania adopted guidelines for the management of collective investment undertakings in a bid to assist financial market participants.** These guidelines, which provide the stance (opinion) of the Bank of Lithuania on the adequate interpretation and implementation of the provisions laid down in the laws regulating the activities of collective investment undertakings (CIU) and their managers as well as in related delegated acts, were developed in late 2020. The purpose of the guidelines is to bring together information pertaining to the management of CIUs, which was previously published in different positions, interpretations or replies, and provide a "one-stop shop" source of information that would enable management companies, law firms and other stakeholders to find quick answers to their concerns.

**In addition, the Bank of Lithuania adopted guidelines for the provision of payment services** seeking to develop best practices that would be based on a common understanding and harmonised application of the provisions of the Republic of Lithuania Law on Payments and other legislation governing the provision of payment services.

## Goals regarding the supervision of financial services



**The Bank of Lithuania updated and recast its guidelines on the provision of consumer credit** in view of the latest amendments to the Republic of Lithuania Law on Consumer Credit, the case law of the Lithuanian and international courts and the concerns of financial market participants. The purpose of the guidelines is to clarify the application of legislative requirements pertaining to the provision of consumer credit and to help consumer credit providers and operators of P2P lending platforms to adequately comply with these requirements.

**The Bank of Lithuania carried out and published an [overview of compliance with the Corporate Governance Code](#)**, which was aimed at assessing how listed companies disclose information on compliance with the Corporate Governance Code of Nasdaq Vilnius in their annual reports. The overview also provided relevant recommendations to companies. In addition, the Bank of Lithuania contacted Nasdaq Vilnius, AB about the need to revise the Corporate Governance Code and the Ministry of the Economy and Innovation about legislative amendments, submitting proposals pertaining to, among other things, the approval of transactions of exclusive importance/significance (transfer of assets) and the process of organising the general meetings of shareholders by electronic means.

# Supervision

## Supervision of financial services



As the fintech market grows, so does the number of complaints and inquiries from consumers of financial services (to approximately 1,900 in 2020, from 1,770 in 2019).



The analyses of practices applied by financial market participants carried out by the Bank of Lithuania help them improve their operations.



The Bank of Lithuania took active steps and measures against persons providing financial services illegally.

The Bank of Lithuania carried out an [analysis](#) assessing whether investment of unit-linked life insurance assets is managed in such a way as to achieve the best outcome for the policyholder, the insured or a beneficiary. Its findings showed that the processes of monitoring and managing the selection of investment directions and the performance of investment funds have shortcomings, while the organisational and administrative measures implemented to prevent conflicts of interest do not cover all activities. In view of the problems identified, the Bank of Lithuania made appropriate recommendations to insurers with regard to improvements to the said processes.

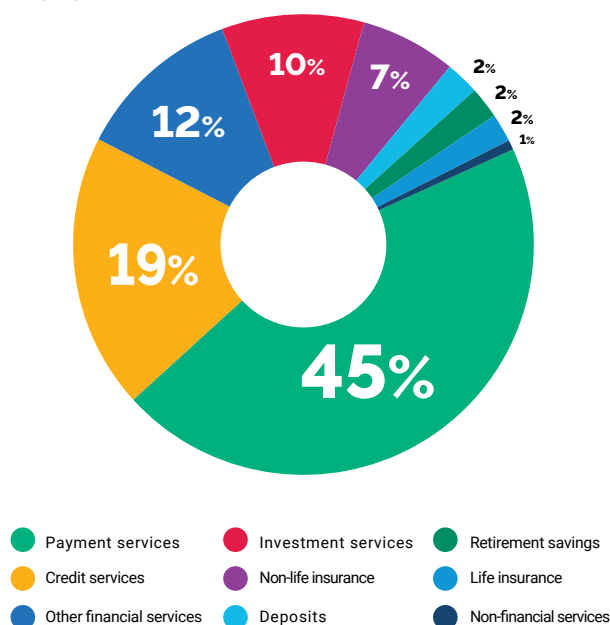
The Bank of Lithuania conducted a mystery shopping exercise, which involved the assessment of activities of certain companies and persons offering training and consultations on saving and investing. The mystery shopping exercise, which was conducted in two different periods, revealed that investment services provided by specific financial brokerage firms were allegedly offered and promoted during consultations and training. Given that the hosts of those events were not included in the Public List of Tied Intermediaries of Financial Brokerage Firms, these persons were not authorised to offer and promote the services of represented undertakings, and their activities might have infringed the Republic of Lithuania Law on Markets in Financial Instruments. The Bank of Lithuania contacted these persons directly to stave off potential infringements of the legislation regulating the financial market and to investigate the factual circumstances in more detail.

The Bank of Lithuania carried out two studies to find out whether payment service providers adequately inform consumers (their customers) on the commissions charged for payment services. The Bank of Lithuania checked the compliance of payment service providers with the requirements to produce information about commissions and to provide a commissions report to payment service users. Some payment service providers were obliged to remedy the identified shortcomings.

### The Bank of Lithuania applied extensive measures in respect of persons operating illegally in the financial services market.

In 2020, it added 25 companies to the list of companies offering and allegedly providing financial (mostly investment) services without the required licence and blocked access to websites of 21 companies due to unauthorised provision of financial services in Lithuania. The Bank of Lithuania investigated 14 cases of alleged illegal credit granting activities; of these, 3 entities responded to the calls of the Bank of Lithuania immediately (either terminated their activities or registered in the required list). Moreover, the Bank of Lithuania disclosed information on alleged illegal activities of 11 companies or alleged fraud, which it obtained on the basis of complaints or through monitoring, to law enforcement authorities. It also provided expertise and consultations to police officers in relation to respective investigations.

### Distribution of complaints and inquiries received in 2020



# Settlement of disputes between consumers and financial market participants



The Bank of Lithuania settled 492 disputes.



The Bank of Lithuania took 164 decisions on the substance of disputes.

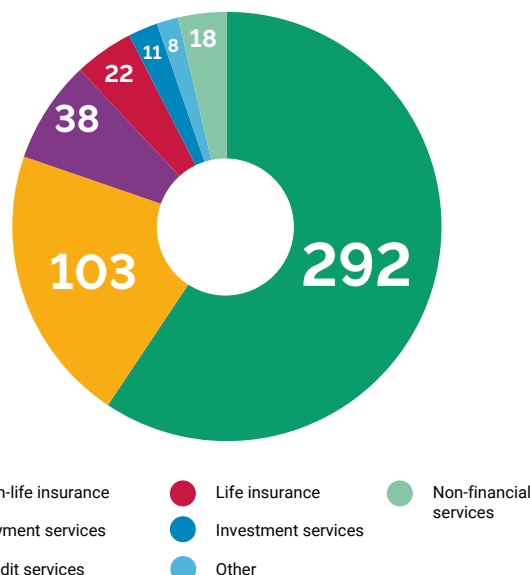


98 disputes between consumers and financial market participants ended in amicable settlement (the highest number since 2012).



The average duration of dispute settlement was 63 calendar days (62 in 2019).

Disputes by type of financial service



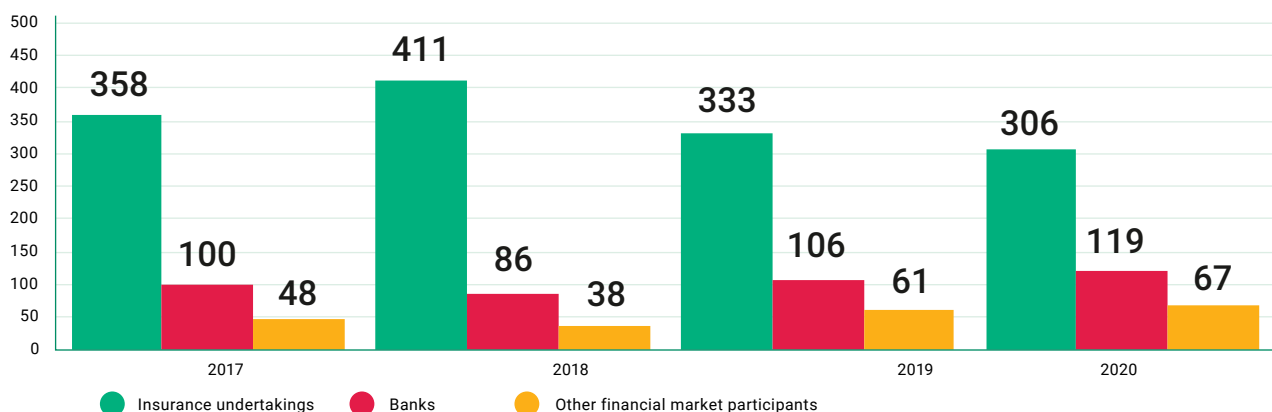
**In 2020, 62% of all disputes settled at the Bank of Lithuania involved insurance undertakings, disputes with banks accounted for 24%, while the remaining 14% involved other financial market participants.** The majority of disputes (292) concerned the execution of non-life insurance contracts, of these 87 disputes were over compulsory MTPL insurance, 85 disputes – property insurance. 103 consumer disputes arose over the provision of payment services, which is the highest number of disputes concerning payment services in one year since 2012 when the Bank of Lithuania was mandated to settle disputes between consumers and financial market participants. 38 disputes concerned credit services, 22 disputes – life insurance contracts, and 11 – provision of investment services.

**20% of all disputes ended in parties reaching amicable settlement or financial market participants satisfying consumer claims.** As many as 98 amicable settlements

were reached in 2020, a 9% increase compared to 2019. This has been the highest number of peaceful resolutions since 2012. The Bank of Lithuania is continuously working to ensure that consumers and financial market participants reach an amicable settlement, which not only allows for responding to consumer needs more quickly but also fosters mutual trust between financial service providers and consumers.

**During the reporting period, a total of 11% of the Bank of Lithuania decisions were made in favour of consumers, while financial market participants implemented 83% of recommendations given by the Bank of Lithuania.** Two recommendations were not implemented, both of them by insurance undertakings. Depersonalised decisions of the Bank of Lithuania regarding the [substance of disputes](#) and the list of [financial market participants that have not implemented the recommendations specified therein](#) are published on the website of the Bank of Lithuania.

Disputes by type of financial market participant



# Bank resolution



The Bank of Lithuania drafted and approved resolution plans covering around 99% of Lithuania's credit institution market.



Binding MREL requirements and individual transition periods for reaching MREL targets were set for six credit institutions operating in Lithuania.

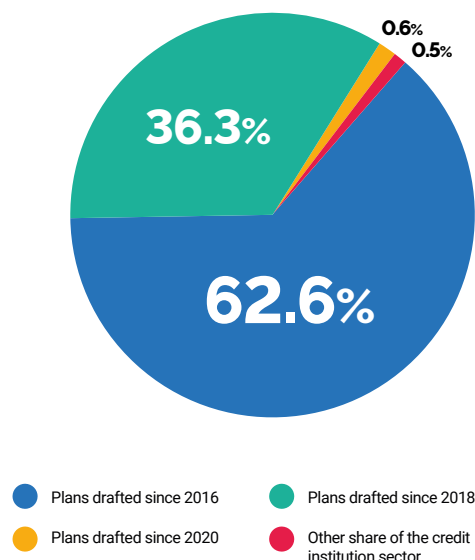


The Bank of Lithuania continued analysing regulatory changes for further improvement of the resolution framework.



The Single Resolution Fund accumulated €42 billion in contributions paid by euro area banks.

Drafting of credit institution resolution plans for 2020  
(market share by assets, %)



**In carrying out its mandate as a resolution authority, the Bank of Lithuania helps to ensure efficient resolution and continuous operation of failing banks without the government's assistance.** To this end, the Bank of Lithuania continued making early preparations for unforeseen events. It also revised and further developed bank resolution plans: in 2020, the resolution plans of two domestically-owned banks were updated and the resolution plans of another two credit institutions were drafted for the first time (to be approved in 2021). In cooperation with the Single Resolution Board, which is the central resolution authority of the banking union, as well as with the national resolution authorities of Sweden, Denmark, Latvia, and Estonia, the resolution plans covering banks owned by international groups and operating in Lithuania were also updated. The crisis management manual was consistently improved to strengthen adequate preparations for resolution processes.

**In the 2020 resolution planning cycle, binding minimum requirements for own funds and eligible liabilities (MREL) and individual transition periods for reaching MREL targets will be set for six credit institutions operating in Lithuania.** The MREL was set within the EU's new legislative framework, which came into force at the end of 2020. All three major banks (AB SEB bankas, Swedbank, AB, and AB Šiaulių bankas) will have to comply with binding MREL targets starting from 1 January 2024, another three credit institutions – as of 1 January 2022. The MREL is an additional financial measure ensuring that banks encountering operational difficulties have sufficient resources to absorb losses and recapitalise. This financial backstop tool must ensure their efficient resolution.

**In 2020, the Bank of Lithuania continued to analyse regulatory changes related to the resolution of financial sector entities.**

The Bank of Lithuania carried out the preparatory work linked with the implementation of the amended EU Bank Recovery and Resolution Directive (BRRD2), which came into force at the end of 2020, and analysed two new Pan-European proposals for further enhancement of the resolution framework. The first proposal is the initiative of the EU on the review of the bank crisis management and deposit insurance system, which was announced in November 2020. The main purpose of the review is to enhance the efficiency of the system, its flexibility, improve consistency in the approach towards common solution of the bankruptcy issues of EU banks, ensure equal treatment of depositors, and enhance the level of depositor protection. The second proposal is the initiative of the European Insurance and Occupational Pensions Authority (EIOPA), which was announced in December 2020. The initiative aims at expanding the recovery and resolution framework by including insurance and reinsurance undertakings in the context of the review of the Solvency II Directive. Discussions on both proposals were held at the European Commission. The Bank of Lithuania experts assisted the Ministry of Finance in representing the position of Lithuania.

**In the period under review, the Single Resolution Fund accumulated around €42 billion in contributions paid by euro area banks and certain investment companies.** In 2020, banks operating in Lithuania paid €5.9 million in ex-ante contributions (all 19 euro area banks – €9.2 billion), which were transferred to the Single Resolution Fund. The Single Resolution Fund will be built up over eight years (2016-2023). Its target level to be reached by 2024 is at least 1% of the amount of covered deposits of all credit institutions within the banking union, i.e. around €70 billion.

# Cash



The value of euro banknotes and coins issued into circulation by the Bank of Lithuania has been growing faster than usual.



The Bank of Lithuania exchanged into euro LTL 7.6 million, bringing the total value of litas in circulation to LTL 419.2 million as at 31 December 2020.



The Bank of Lithuania issued LBCOIN – the world's first digital collector coin.



Apart from LBCOIN, the Bank of Lithuania also issued 6 collector and 2 commemorative euro coins as well as a numismatic set of euro circulation coins.



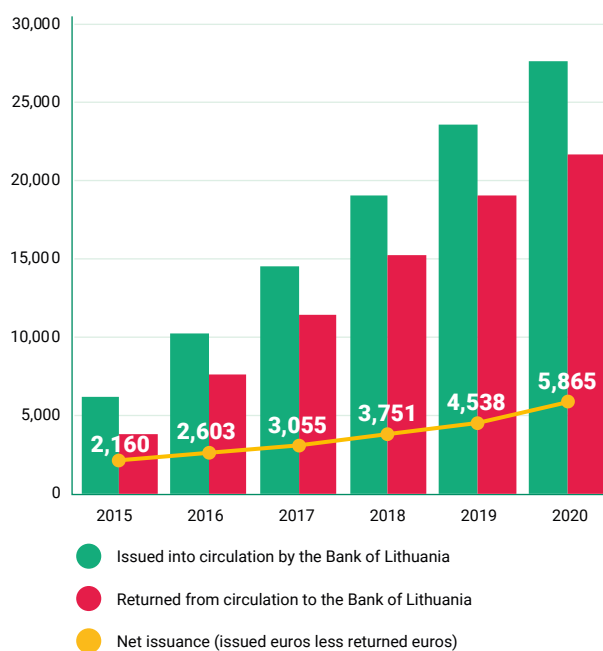
1,341 euro counterfeits were withdrawn from circulation.

**The value of euro banknotes and coins issued into circulation by the Bank of Lithuania has been growing faster than usual.** In 2020, the total value of euro banknotes and coins in circulation increased by 29%, to stand at €5,865 million. The amount of cash issued into circulation by the Bank of Lithuania decreased by an annual 12%. Cash returned to the Bank of Lithuania declined by 29% compared to 2019, leading to faster growth in net issuance in the period under review.

**In 2020, the Bank of Lithuania issued the world's first digital collector coin – LBCOIN.** It is a set of six digital tokens and a physical collector coin celebrating the 1918 Act of Independence of Lithuania and its signatories. Tokens are available for purchase on the Bank of Lithuania's e-shop [lbcoin.lb.lt](http://lbcoin.lb.lt).

## Euro banknotes and coins

EUR millions



**Apart from LBCOIN, in 2020 the Bank of Lithuania issued 6 collector and 2 commemorative euro coins as well as a numismatic set of euro circulation coins.** Numismatic items commemorate prominent figures and important historical events. They can be purchased on the Bank of Lithuania's e-shop at [www.coins.lb.lt](http://www.coins.lb.lt).

**1,341 euro counterfeits were withdrawn from circulation in 2020 (3,078 in 2019).** In total, the Bank of Lithuania detected 1,172 counterfeit euro banknotes, 161 counterfeit euro coins and 8 counterfeit foreign currency banknotes. The majority of counterfeit notes (46%) were €50 banknotes. In the period under review, the Bank of Lithuania examined 45,000 notes and coins upon receiving applications from natural and legal persons to exchange worn or damaged currency.

# Statistics



The COVID-19 pandemic has not disrupted the process of producing and disseminating statistics.



A new statistical tool was introduced to the Bank of Lithuania's website.



The takeover of the production of annual financial accounts statistics was smooth.



The Bank of Lithuania continued to develop comprehensive data for users.

**The COVID-19 pandemic did not disrupt the process of producing and publishing statistics:** the Bank of Lithuania maintained the quality and scope of the data available to users in a timely manner. It continued the smooth production, development and dissemination of statistics on MFI balance sheets and interest rates, assets and liabilities of financial corporations engaged in lending, insurance corporations, pension funds and investment funds, interbank lending and foreign exchange markets, payment instruments, official reserve assets, balance of payments and international investment position, external debt, foreign direct investment, exports and imports of services, securities holdings and financial accounts, including the publication of statistical information on the Bank of Lithuania's website as well as its provision to the ECB and other international organisations.

**In order to make the data more accessible to users,** in October 2020 the Bank of Lithuania introduced a new tool to its website that allowed having the data of different statistical areas in a single data set updated automatically with the release of new data, as well as calculating a new (derived) indicator from several selected indicators, and sharing such data sets with

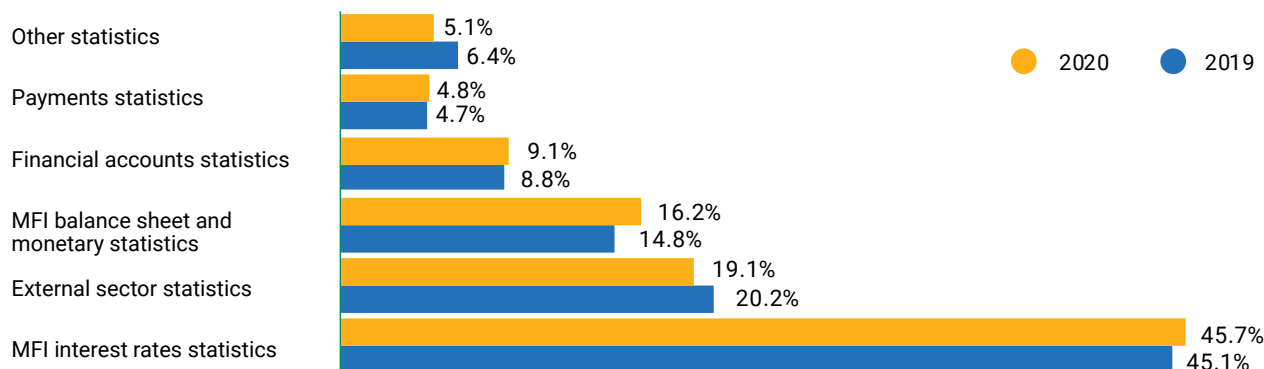
other users. In the fourth quarter of 2020, 82 website visitors were registered for this tool.

**The Bank of Lithuania took over the function of compiling the annual financial accounts statistics from Statistics Lithuania in order to improve the efficiency of statistical compilation processes and the quality of data.** Preparation of financial accounts in a single institution will ensure consistency between the data of different frequency.

**Under its statistics programme for 2020,** the Bank of Lithuania compiled monetary and financial, external, quarterly financial account and other statistical information, which was made available to users within the prescribed deadlines and published according to the data release calendar. Moreover, under this programme, the Bank of Lithuania continued to develop the following financial statistics:

- » granular data of credit institutions and other credit providers (which is stored in the Loan Risk Database administered by the Bank of Lithuania) were used in economic analysis and for the compilation of aggregated data that were published on the Bank of Lithuania's website. Comprehensive credit data were used by Lithuanian credit providers to assess the solvency of existing and potential borrowers;
- » the Bank of Lithuania started collecting additional data on loans under moratoria due to the COVID-19 pandemic and releasing monthly data of pension funds within 15 working days after the end of the reference period. Moreover, the deadlines for compiling MFI balance sheet and interest rate data have been shortened;
- » the Bank of Lithuania started compiling a macroprudential data set from the Loan Risk Database (instead of collecting from reporting agents) in order to improve the quality of statistics produced and to decrease the reporting burden for reporting agents;
- » annual data on direct investment broken down according to the ultimate investing country were compiled for publication while implementing the commitments to international organisations in the area of direct investment statistics and, at the same time, enhancing the provision of statistical data to users.

## Bank of Lithuania statistics pageviews by domain





# Fiscal agent

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



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



The Bank of Lithuania executed 424 thousand credit transfers, amounting to €35.7 billion.



After the Ministry of Finance signed the SURE loan agreement, the Bank of Lithuania, acting as the state fiscal agent, opened special accounts at the Bank of Lithuania and with the ECB for the management of the financial assistance received.

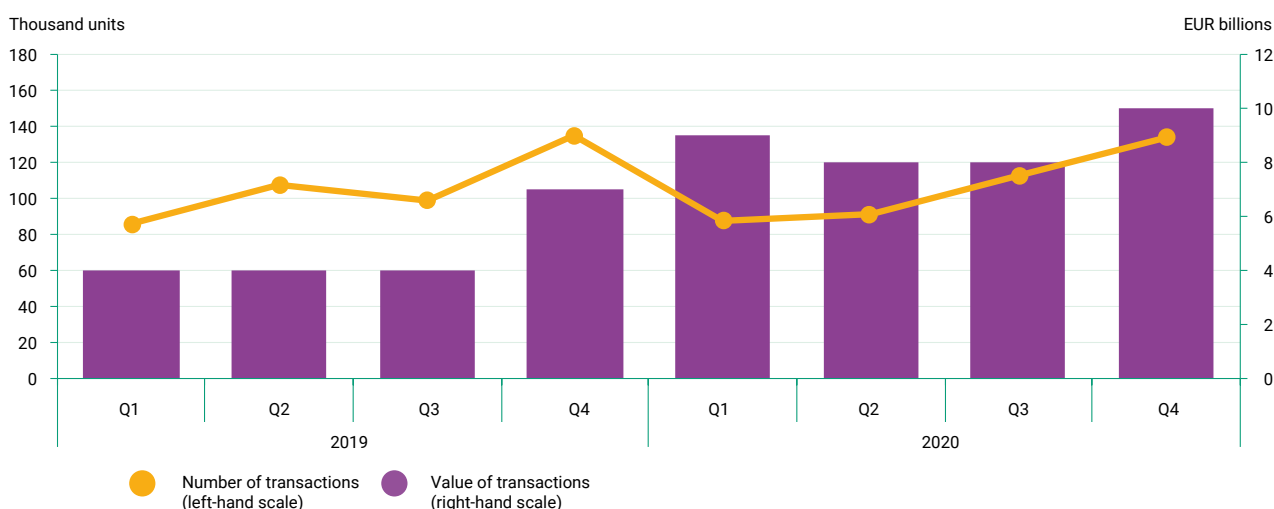
Acting as the state fiscal agent under the Republic of Lithuania Law on the Bank of Lithuania, **in 2020 the Bank of Lithuania administered euro and foreign currency accounts of the State Treasury.** The monetary resources held in these accounts are managed by the Ministry of Finance. They are accumulated and used in accordance with the procedure set forth in the Republic of Lithuania State Treasury Law and other legal acts. The Bank of Lithuania also managed the euro accounts of EU institutions, international organisations and non-euro area national central banks (hereinafter – other institutions). Monetary resources in the State Treasury accounts managed by the Ministry of Finance made up the largest share of funds held in all accounts.

**As at 31 December 2020, the Bank of Lithuania administered 67 accounts of the State Treasury and other institutions** (71 accounts as at 31 December 2019). These accounts have been opened and administered at the Bank of Lithuania in accordance with the legal acts of the Republic of Lithuania, the Bank of Lithuania and the ECB.

**The following banking services are offered to the Ministry of Finance and other institutions: payment services, foreign exchange transactions, account statements and other reporting services.** In the course of 2020, the Bank of Lithuania executed 424 thousand credit transfers made by the Ministry of Finance and other institutions; their total value amounted to €35.7 billion.

After the Ministry of Finance signed the loan agreement under the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) following the COVID-19 outbreak, the Bank of Lithuania, acting as the state fiscal agent, opened special accounts at the Bank of Lithuania and with the ECB for the management of the financial assistance received.

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



# Organisation of activities

## Staff and the working environment



The employees of the Bank of Lithuania are specialists that have high-level professional and academic qualifications and excellent analytical skills.



On 31 December 2020, the number of actual staff positions at the Bank of Lithuania stood at 629.<sup>6</sup>



The overall staff turnover rate was 7%.



In 2020, the Financial Market Supervision Service underwent structural changes.

**The Bank of Lithuania employees improved their competences in the field of central banking and shared best practices with ECB experts.** In 2020, eleven employees were granted a unique opportunity to work at the ECB, international and EU institutions under fixed-term contracts, while two employees were enrolled in expert exchange programmes.

**The Bank of Lithuania continued to strengthen its employees' managerial and leadership skills, further developed practical tools to increase performance efficiency, and shifted to remote work.** The COVID-19 pandemic has altered the ordinary workplace routines at the Bank of Lithuania – the majority of the employees (70%) transitioned to remote work. The Bank of Lithuania launched a remote rolling programme for the development and promotion of managerial and leadership competences, designed for the newly appointed staff members in management positions. It also organised the annual Management Day to increase staff engagement



(particularly when teleworking). In order to increase operational efficiency, the Bank of Lithuania continued to implement one of the key LEAN methods, i.e. the Asaichi system, and began implementing the Kaizen method, which encourages staff to be proactive in implementing operational improvements and use their time at work in a rational manner. Much attention was paid to remote work: Bank of Lithuania employees were given special training to adapt to the changed working conditions and to use new communication tools. The #LBshares sessions served as an internal knowledge-sharing platform, where staff members exchanged their expertise, thus fulfilling the Bank of Lithuania's strategic direction to become the centre of excellence. A total of 31 sessions were organised remotely in 2020.

**In 2020, the Staff Regulations of the Bank of Lithuania were updated.** The regulations now define the main principles of service (work) at the Bank of Lithuania and the status of an employee, including recruitment and dismissal, position categories and salary bands, rights and duties, restrictions and requirements, career, training, performance evaluation, guarantees and compensations, suspension, responsibilities, employee benefits and compensation policy.

**The Financial Market Supervision Service of the Bank of Lithuania was reorganised.** As of November 2020, the Financial Market Supervision Service consists of three units: the Banking and Insurance Supervision Department, the Financial Services and Market Supervision Department, and the Legal and Licensing Department. In line with agreed priorities, the Anti-

Resolutions of the Board of the Bank of Lithuania and decisions of the Financial Market Supervision Service were made publicly available

Internal communication and events moved online  
The Bank of Lithuania Values Awareness Weeks were organised remotely



The Staff Regulations of the Bank of Lithuania were updated

Challenges posed by the COVID-19 pandemic were successfully managed by reorganising the activities of the organisation

Relevant information was published on the Bank of Lithuania's website and social media accounts, conferences were broadcast online

<sup>6</sup> The number does not include 19 staff members who were on maternity/paternity leave and 11 employees who were on unpaid leave during their work at other institutions.

Money Laundering Division became directly accountable to the director of the Financial Market Supervision Service. The newly founded Digitalisation and Advanced Analysis Division, which is also directly accountable to the director of the Financial Market Supervision Service, will ensure sustainable development and introduction of digital technologies and innovations in supervisory processes. Moreover, the Operational and Information Technology Risk Department established within the Banking and Insurance Supervision Department is expected to strengthen the supervision and proper management of operational, information technology, and payment security risks.

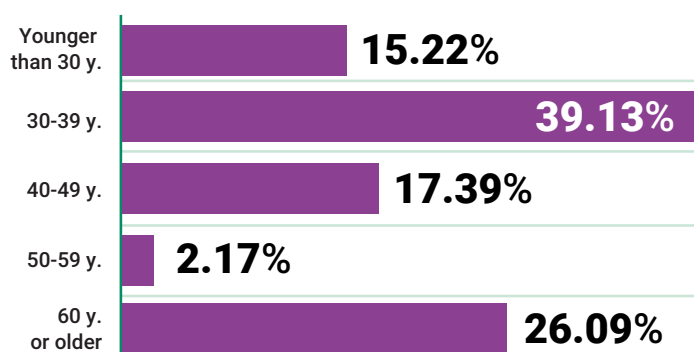
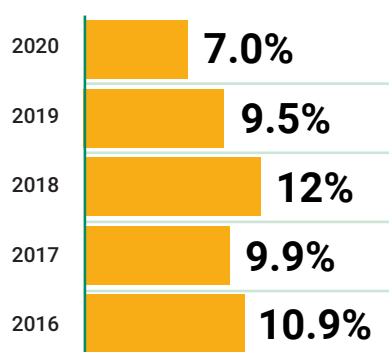
**The year 2020 was marked by the challenges of managing the COVID-19 pandemic.** The Bank of Lithuania supplied its staff with essential protective equipment. Additional provision of IT and other equipment for remote work was treated as a priority

to ensure the stable functioning of the organisation. In response to the challenges posed by the pandemic, the Bank of Lithuania effectively reviewed and amended the organisation's operating plans as well as revised and reduced the organisation's budget by 2.8% (from €62.09 million to €60.37 million).

**In 2020, the Bank of Lithuania contributed to reducing climate change.** Having implemented the envisaged climate change mitigation measures, the Bank of Lithuania's carbon footprint decreased by 70% (from 2,200 t CO<sub>2</sub> in 2019 to 700 t CO<sub>2</sub> in 2020).

**With the four-year strategic plan ending in 2020,** the Bank of Lithuania formulated new strategic directions which will be announced once the Board of the Bank of Lithuania approves the institution's operational guidelines and strategic plan for the new strategic period.

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



# Research activities



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



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



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



Main fields of expertise:

- » Macroeconomic and econometric modelling
- » International economics and macrofinance
- » Impact of debt on the economy and households; household consumption and income inequality
- » Labour economics and reform assessment

**Top-tier international publications.** The scientific publications published by CEFER and TMTS in 2020 include 19 working, occasional and discussion papers as well as 9 articles in top-tier international journals, such as *European Economic Review*, *American Economic Journal: Economic Policy*, *Economic Modelling*, *Economic Policy*, *Review of International Economics*, and *International Journal of Finance and Economics*. Research carried out by the Bank of Lithuania has been also featured on CEPR's VoxEU portal on a number of occasions.

**High-level conferences, training, workshops and research clusters in the Baltic region.** The third international conference "Adjustments in and to an Uncertain World" was held on 24-25 September 2020. The conference was organised in cooperation with CEPR, CEBRA and Poland's central bank. Eminent scholars from North America, Europe and Asia presented their work in four separate sessions. Plenary sessions were held by distinguished professors from Oxford, New York, and London. In December,



Lithuanian economists from across the globe were invited to the **Annual Lithuanian Conference on Economic Research**. The conference had four sessions on macroeconomics, finance, econometrics, and public economics.

## Promotion of quality research in economics and finance.

The Bank of Lithuania has been hosting the Visiting Researcher Programme as well as organising invited speaker seminar series and research seminars open to the Bank of Lithuania staff members, external researchers and experts. To encourage high-quality research, the Bank of Lithuania also grants two awards for research activities: the Vladas Jurgutis Award (€10,000) and the Bank of Lithuania Award for Dissertation in the Field of Economics (€5,000). The first award was granted for a research paper titled "Political Contributions and Public Procurement: Evidence from Lithuania", which utilised the amendments enacted in Lithuania that prohibit businesses from supporting political parties. The paper found that the success of winning public procurement had depended on the financing of political campaigns and political parties. The second award was granted for a dissertation "Essays in Financial Intermediation", which investigated the impact of the closure of banks on business clients. The dissertation used Lithuanian data and found that the closure of bad banks could significantly reduce the cost of borrowing for businesses forced to look for a new bank.

**Lectures and updated study programmes.** In cooperation with VU, the bachelor's programme in **Quantitative Economics** has been further implemented. The share of first-time students from foreign countries, including students from Belarus receiving the Grand Duchy of Lithuania Scholarship, increased to 30%. The programme is taught by Bank of Lithuania researchers with PhDs from leading US and European universities. It combines the CORE project, which helps to develop economic intuition, with a unique blend of mathematics, statistics, economics, and data science. CEFER also initiated a PhD course in the field of econometrics, methodology and macroeconomics, run in cooperation with VU and KTU.

**Household Finance and Consumption Survey.** In 2020, Lithuania's first Household Finance and Consumption Survey was completed. Its results were presented in various publications by the Bank of Lithuania and at open seminars, while the results of all Eurosystem countries participating in the survey were published in a dedicated ECB report. The results of the survey were widely covered in the Lithuanian media. Furthermore, the second wave of the survey was launched in 2020 (due to the pandemic, the survey was temporarily suspended and is expected to resume in 2021). The data from the new wave will enable specialists to assess the time dynamics of Lithuanian household income and wealth, contributors thereto, and the impact of the pandemic on household finances.

## Other important events



A consortium of the national central banks of Lithuania and Poland launched the EU-funded Twinning project for Ukraine.



Anti-money laundering initiatives were discussed at a virtual conference.



The Bank of Lithuania's work in fostering innovations earned worldwide recognition.

On 1 October 2020, a consortium of Lithuanian and Polish national central banks launched the implementation of the EU Twinning project "Strengthening the institutional and regulatory capacity of the National Bank of Ukraine to implement the EU-Ukraine Association Agreement". The project aims to support the central bank of Ukraine in the performance of certain banking supervision functions, develop payment systems, and strengthen strategic planning and cooperation with international institutions. With a total budget of €1 million (entirely funded by the European Commission), the implementation of the project will take 21 months. This is the second EU Twinning project where the Bank of Lithuania assumes the role of a Junior Partner. In 2018-2019, the Bank of Lithuania, together with the national central banks of Poland and Germany, successfully implemented an EU Twinning project for the National Bank of the Republic of Belarus.

Launched in 2019, the EU-funded "Programme for Strengthening the Central Bank Capacities in the Western Balkans with a view to the integration to the European System of Central Banks" continued into the year 2020. The Bank of Lithuania participates in the project jointly with other EU national central banks.

On 1 October 2020, the Bank of Lithuania, together with ACAMS Baltics Chapter, Fintech Hub LT, and the Association of Lithuanian Banks, organised a virtual international conference "Anti-Money Laundering and Counter Terrorist Financing: from Challenges to Possibilities". Supervisors, financial intelligence units as well as representatives of various financial market associations talked about the AML/CTF measures they have been taking, the challenges they are facing and the future possibilities to strengthen the AML/CTF system. Smart regulation solutions were also presented during the conference as they would allow the transition to real-time monitoring for supervision purposes and would help to save resources for both market participants and supervisory authorities.

On 5-11 October 2020, the Bank of Lithuania supported the World Investor Week initiative, aimed at helping new investors, and issued a virtual lecture on various financial instruments and investment. The lecture, entitled "Investment Manual", explains how to start investing and how to properly choose investment instruments.

The Bank of Lithuania was granted the Global Impact Award at Central Banking's FinTech & RegTech Global Awards 2020. The



award recognises central banks or other financial supervisors that show true innovation and development across the entire fintech and/or RegTech sector. The Bank of Lithuania showed excellence in terms of the number of implemented innovation projects and the value added created thereby.

LBChain, the world's first-of-its kind blockchain sandbox developed by a financial market regulator, was named the winner of the digital innovations contest Naujasys Knygnešys ("New Enlightener") in the category "Government & Citizen Engagement". The organisers of the contest, i.e. the Information Society Development Committee and the Communications Regulatory Authority of the Republic of Lithuania, seek to discover original, innovative, progressive, and meaningful digital content solutions developed in the country that well-deserve to be called Lithuania's digital enlighteners. LBChain made it to the finals of the World Summit Awards 2020.

In line with the principle of transparency, the Bank of Lithuania maintains a strong focus on communication and providing timely and easily accessible information to financial market participants and the general public. In 2020, special attention was paid to explaining the economic developments caused by the adverse effect of the COVID-19 pandemic, as well as the measures taken to mitigate it. Targeted information was published on dedicated sections on the Bank of Lithuania's website [www.lb.lt](http://www.lb.lt), which is one of its key communication channels. The Bank of Lithuania was also actively using social media platforms. In light of the lockdown restrictions undertaken to stop the pandemic, the Bank of Lithuania exploited new forms of communication with the media and the general public through holding remote press conferences, online press interviews, and releasing a number of [podcast](#) episodes on topics such as education for tomorrow's economy, the impact of the lockdown on the economy, Lithuania's financial assets and their management, the rise in gold prices and what it means for investors. In 2020, the Bank of Lithuania's Money Museum overhauled its website ([www.pinigumuziejus.lt](http://www.pinigumuziejus.lt)), which is now more user-friendly and better adapted to remote customer service. The museum has been offering online lessons to students as well as virtual lectures on finance-related topics for adults.



# **Annual Financial Statements of the Bank of Lithuania**

**2020**



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## INDEPENDENT AUDITOR'S REPORT

To the Seimas of the Republic of Lithuania

### Opinion

We have audited the accompanying financial statements of the Bank of Lithuania (hereinafter the Bank), which comprise the balance sheet as at 31 December 2020, the profit and loss account for the year then ended and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and its financial performance for the year then ended in accordance with Guideline (EU) 2016/2249 of the European Central Bank (ECB) on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34), and amendments, adopted by the Governing Council of the ECB, the Law on the Bank of Lithuania and the Accounting Policy of the Bank approved by the Board of the Bank of Lithuania.

### Basis for opinion

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

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

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

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

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

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

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



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

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

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

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

Jonas Akelis  
Auditor's licence  
No. 000003

(signed with electronic signature)  
2 April 2021

# Balance Sheet of the Bank of Lithuania

EUR thousands

	Notes	31 December 2020	31 December 2019
<b>ASSETS</b>			
<b>1. Gold and gold receivables</b>	<b>1</b>	<b>289,023</b>	<b>253,498</b>
<b>2. Claims on non-euro area residents denominated in foreign currency</b>		<b>4,399,994</b>	<b>5,010,639</b>
Receivables from the IMF	2	262,471	226,506
Balances with banks and security investments, external loans and other external assets	3	4,137,523	4,784,132
<b>3. Claims on euro area residents denominated in foreign currency</b>	<b>4</b>	<b>867</b>	<b>2,707</b>
<b>4. Claims on non-euro area residents denominated in euro</b>		<b>4</b>	<b>6</b>
<b>5. Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>5</b>	<b>186,000</b>	<b>48,000</b>
Main refinancing operations		–	–
Longer-term refinancing operations		186,000	48,000
Fine-tuning reverse operations		–	–
Structural reverse operations		–	–
Marginal lending facility		–	–
Credits related to margin calls		–	–
<b>6. Other claims on euro area credit institutions denominated in euro</b>	<b>6</b>	<b>6,165</b>	<b>3,325</b>
<b>7. Securities of euro area residents denominated in euro</b>		<b>13,338,742</b>	<b>11,283,026</b>
Securities held for monetary policy purposes	7	12,811,256	10,552,676
Other securities	8	527,486	730,350
<b>8. General government debt denominated in euro</b>		<b>–</b>	<b>–</b>
<b>9. Intra-Eurosystem claims</b>		<b>8,143,075</b>	<b>2,957,053</b>
Participating interest in the ECB	9	206,346	206,393
Claims equivalent to the transfer of foreign reserves	10	233,496	235,223
Net claims related to the allocation of euro banknotes within the Eurosystem	11	1,904,207	2,515,437
Other claims within the Eurosystem (net)	12	5,799,026	–
<b>10. Items in course of settlement</b>		<b>–</b>	<b>–</b>
<b>11. Other assets</b>		<b>687,870</b>	<b>141,832</b>
Tangible and intangible fixed assets	13	34,485	30,007
Other financial assets	14	493,809	11,431
Off-balance-sheet instruments revaluation differences	15	81,991	28,576
Accruals and prepaid expenses	16	76,401	70,449
Sundry	17	1,185	1,369
<b>TOTAL ASSETS</b>		<b>27,051,741</b>	<b>19,700,085</b>

# Balance Sheet of the Bank of Lithuania

EUR thousands

	Notes	31 December 2020	31 December 2019
<b>LIABILITIES</b>			
<b>1. Banknotes in circulation</b>	<b>18</b>	<b>7,638,776</b>	<b>6,935,561</b>
<b>2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>19</b>	<b>12,156,300</b>	<b>7,214,771</b>
Current accounts (covering the minimum reserve system)		12,156,300	7,214,771
Deposit facility		–	–
Fixed-term deposits		–	–
Fine-tuning reverse operations		–	–
Deposits related to margin calls		–	–
<b>3. Other liabilities to euro area credit institutions denominated in euro</b>		<b>1,100</b>	<b>15,675</b>
<b>4. Debt certificates issued</b>		<b>–</b>	<b>–</b>
<b>5. Liabilities to other euro area residents denominated in euro</b>	<b>20</b>	<b>4,264,187</b>	<b>2,452,759</b>
General government		2,727,667	2,019,092
Other liabilities		1,536,520	433,667
<b>6. Liabilities to non-euro area residents denominated in euro</b>	<b>21</b>	<b>1,013,610</b>	<b>348,999</b>
<b>7. Liabilities to euro area residents denominated in foreign currency</b>	<b>22</b>	<b>269,572</b>	<b>215,983</b>
<b>8. Liabilities to non-euro area residents denominated in foreign currency</b>		<b>–</b>	<b>–</b>
<b>9. Counterpart of special drawing rights allocated by the IMF</b>	<b>2</b>	<b>161,750</b>	<b>169,339</b>
<b>10. Intra-Eurosystem liabilities</b>		<b>–</b>	<b>861,406</b>
Net liabilities related to the allocation of euro banknotes within the Eurosystem		–	–
Other liabilities within the Eurosystem (net)	12	–	861,406
<b>11. Items in course of settlement</b>	<b>23</b>	<b>5,800</b>	<b>250</b>
<b>12. Other liabilities</b>		<b>282,863</b>	<b>299,764</b>
Off-balance-sheet instruments revaluation differences	15	23,089	46,742
Accruals and income collected in advance	24	11,825	16,402
Sundry	25	247,948	236,621
<b>13. Provisions</b>	<b>26</b>	<b>351,556</b>	<b>291,239</b>
<b>14. Revaluation accounts</b>	<b>27</b>	<b>383,865</b>	<b>382,843</b>
<b>15. Capital</b>	<b>28</b>	<b>497,726</b>	<b>486,052</b>
Authorised capital		60,000	60,000
Reserve capital		437,726	426,052
<b>16. Profit for the year</b>	<b>39</b>	<b>24,636</b>	<b>25,445</b>
<b>TOTAL LIABILITIES</b>		<b>27,051,741</b>	<b>19,700,085</b>

# Profit and Loss Account of the Bank of Lithuania

EUR thousands

	Notes	2020	2019
Interest income		156,278	143,774
Interest expense		(29,005)	(46,556)
<b>1. Net interest income</b>	<b>29</b>	<b>127,273</b>	<b>97,218</b>
Realised gains (losses) arising from financial operations		126,385	101,167
Write-downs on financial assets and positions		(105,032)	(6,392)
Transfer to provisions for risks		(60,000)	(167,450)
<b>2. Net result of financial operations, write-downs and risk provisions</b>	<b>30</b>	<b>(38,647)</b>	<b>(72,676)</b>
Fees and commissions income		9,365	7,705
Fees and commissions expense		(2,709)	(2,189)
<b>3. Net income from fees and commissions</b>	<b>31</b>	<b>6,656</b>	<b>5,516</b>
<b>4. Income from equity instruments</b>	<b>32</b>	<b>26,597</b>	<b>28,355</b>
<b>5. Net result of pooling of monetary income</b>	<b>33</b>	<b>(56,133)</b>	<b>823</b>
<b>6. Other income</b>	<b>34</b>	<b>3,438</b>	<b>3,252</b>
<b>TOTAL NET INCOME</b>		<b>69,185</b>	<b>62,489</b>
<b>7. Staff costs</b>	<b>35</b>	<b>(20,363)</b>	<b>(18,612)</b>
<b>8. Administrative expenses</b>	<b>36</b>	<b>(13,266)</b>	<b>(11,294)</b>
<b>9. Depreciation of tangible and intangible fixed assets</b>	<b>13</b>	<b>(6,656)</b>	<b>(4,036)</b>
<b>10. Banknote production services</b>	<b>37</b>	<b>(1,807)</b>	<b>(1,596)</b>
<b>11. Other expenses</b>	<b>38</b>	<b>(2,458)</b>	<b>(1,506)</b>
<b>PROFIT FOR THE YEAR</b>	<b>39</b>	<b>24,636</b>	<b>25,445</b>

The Annual Financial Statements for 2020 of the Bank of Lithuania were approved on 1 April 2021 by Resolution No 30-50 of the Board of the Bank of Lithuania.

Chairman of the Board

Vitas Vasiliauskas  
(signed electronically)

Director of the Accounting Department  
Organisation Service

Lina Našlėnienė  
(signed electronically)



# Explanatory Notes

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

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

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

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

## 2. ACCOUNTING POLICY

### 2.1. GENERAL PRINCIPLES

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

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

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

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

For recognition of unrealised revaluation results, the Bank of Lithuania uses the asymmetric approach established in the Accounting Guideline. Pursuant to this approach, unrealised revaluation loss arising at the end of the financial year from revaluation of a separate financial item at market price or market rate and exceeding previous unrealised revaluation gain registered in a corresponding revaluation account is recognised as the expense of the reporting financial year. Unrealised loss taken to the Profit and Loss Account cannot be reversed in subsequent years against new revaluation gain of the same financial item resulting from changes in market price and market rate or offset by the revaluation gain of another type of financial item. Unrealised revaluation gain arising at the end of the financial year from the revaluation of a separate financial item at market price and market rate is presented in revaluation accounts.

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

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

Income and expense are recognised in the accounting period in which they are earned or incurred and not in the period in which they are received or paid. Income and expense in foreign currency are recognised in euro at market rates prevailing on the day of their recognition in accounting; they influence a respective foreign currency position on that date.

## 2.2. FOREIGN CURRENCY

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

Foreign currency per EUR 1

Currency	Code	31 December 2020	31 December 2019	Change (%)
Czech koruna	CZK	26.2420	25.4080	3.3
British pound	GBP	0.89903	0.85080	5.7
US dollar	USD	1.22710	1.12340	9.2
Canadian dollar	CAD	1.56330	1.45980	7.1
Chinese yuan	CNY	8.02250	7.82050	2.6
Special Drawing Rights (SDR)	XDR	0.84846	0.81044	4.7
Swiss franc	CHF	1.08020	1.08540	-0.5

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

The allocation of the Bank of Lithuania's net assets (liabilities) by foreign currency is disclosed in Note 41 "Assets and liabilities of the Bank of Lithuania by foreign currency".

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

## 2.3. GOLD

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

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

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

## 2.4. MARKETABLE SECURITIES

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

Securities held for monetary policy purposes are presented in the Balance Sheet at amortised cost subject to impairment. Other marketable securities are presented in the Balance Sheet either at the mid-market prices (94% of the fair value as at 31 December 2020 and 99% – as at 31 December 2019) or on the basis of the relevant yield curve (6% of the fair value as at 31 December 2020 and 1% – as at 31 December 2019) prevailing on the last day of the financial year. Revaluation results of securities related to changes in the market price of securities and the market rate of the foreign currency are presented in separate revaluation accounts.

The average price of each issue of securities is recalculated at the end of the business day in consideration of all purchases of the same issue of securities made during the day and their average acquisition costs. Realised gain (loss) for the same-day sales of these securities is calculated according to this new average cost. In the case of mortgage-backed securities, realised gains or losses are calculated on the date when information on the change in the factor (indicating the percentage of the value of outstanding loans) was received, in consideration of the nominal value of the part of mortgage-backed securities' issue to be repaid and their average cost calculated on the same day.

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

Dividends, bought together with equity securities, are included in the acquisition cost of the securities. Dividends bought in the period after the dividend receivable is announced are presented in a separate Balance Sheet item as other assets.

A coupon on the debt security is recognized as interest income on a daily basis from the settlement date of the purchase transaction to the maturity date or settlement date of the sale transaction.

The difference between the debt security acquisition cost and its par value – discount or premium – is recognised as interest income or expense according to the straight-line method on a daily basis from the settlement date of the purchase transaction to the maturity date or settlement date of the sale transaction. The nominal value of inflation-linked securities is indexed to the inflation index on a daily basis from the settlement date of the purchase transaction to the maturity date or settlement date of the sale transaction. The nominal value change is recognised as interest income or expense.

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

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

## 2.5. NON-MARKETABLE EQUITY INSTRUMENTS

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

## 2.6. INCOME AND EXPENSE

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

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

Unrealised revaluation gain of financial items is not recognised as income and is presented in revaluation accounts. Unrealised revaluation loss, exceeding previous revaluation gain related to the corresponding financial item, is recognised as expense at the end of the financial year.

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

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

## 2.7. REVERSE TRANSACTIONS

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

Repurchase agreements are presented as collateralised deposits of the counterparty on the liabilities side of the Balance Sheet, while the financial asset that has been given as collateral (sold and repurchased under these agreements) remains on the asset side of the Balance Sheet for the period of transactions. Collateral provided in the form of cash is presented on the asset side of the Balance Sheet.

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

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

Seeking to support bond and repurchase agreement market liquidity, the Bank of Lithuania, together with the ECB and other Eurosystem national central banks (NCBs), lends securities purchased under the public sector

purchase programme and the pandemic emergency purchase programme. The Bank of Lithuania lends securities via its lending agent, as well as under the fail mitigation programme and the strategic lending programme provided by its securities depository. In the case of security lending transactions, the securities remain on the asset side of the Balance Sheet throughout the duration of transactions.

## 2.8. FOREIGN EXCHANGE TRANSACTIONS

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

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

Non-deliverable foreign exchange forwards are recorded in the off-balance-sheet accounts from the trade date to the maturity date at notional amount based on the forward exchange rate. In the Balance Sheet, the value of these transactions is presented at market prices prevailing on the last day of the financial year. Unrealised loss recognised as expense at the end of the financial year is presented as off-balance-sheet instruments revaluation difference on the Balance Sheet liabilities side. The difference between the forward rate and the spot rate at the settlement date of the transaction, taking into account any accumulated impairment losses, is recognised as realised income or expense.

## 2.9. FORWARD TRANSACTIONS IN SECURITIES

Forward purchases or sales of securities are recognised in off-balance-sheet accounts from the trade date to the settlement date at the forward price of the transaction. The change in the value of these transactions due to the market price is presented in the Balance Sheet at the end of the financial year.

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

## 2.10. TO BE ANNOUNCED (TBA) CONTRACTS

Mortgage-backed securities purchased or sold under TBA contracts are recognised in off-balance-sheet accounts from the trade date to the settlement date at the price of the transaction. The change in the value of these transactions due to the market price is presented in the Balance Sheet at the end of the financial year.

The average price of the issue of TBA contracts 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 the mortgage-backed securities under TBA contracts is calculated according to this new average cost.

On the settlement date of TBA contracts, the purchases or sales of the securities are recorded on the on-balance-sheet accounts at the purchase price specified in the transaction of these securities.

## 2.11. FUTURE CONTRACTS

A future contract is a standardised exchange-traded financial contract (interest rates, stock index, currencies, gold and commodities) that commits to buy or sell an agreed asset at the predetermined price and at the predetermined time. Futures are recorded in off-balance-sheet accounts at the nominal value of contracts from the trade date to the closing or maturity date. Daily changes in the variation margin of these contracts are recognised as realised income or expense. Commissions related to futures are recognized as fees and commissions expense.

## 2.12. INTEREST RATE SWAPS

Interest rate swaps are recorded in off-balance-sheet accounts at contractual amount from the trade date to the closing or maturity date. The change in the value of these transactions due to the market price is presented in the Balance Sheet at the end of the financial year. Unrealised loss recognised as expense at the end of financial year is presented as off-balance-sheet instruments revaluation difference on the Balance Sheet liabilities side and is subject to straight-line amortisation till the maturity date of the transaction. Interest income and interest expense is accrued on a daily basis over the remaining duration of the transaction.

## 2.13. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets include such tangible assets whose useful life is longer than one year and whose acquisition cost (including VAT) is no less than €2,000. Intangible fixed assets include items without physical

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

#### Useful lives of tangible and intangible fixed assets

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

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

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

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

## 2.14. LEASES

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

Right-of-use assets are recorded as fixed assets if they comply with the recognition as tangible fixed assets criteria (see section 2.13 of the Explanatory Notes "Tangible and intangible fixed assets"). Right-of-use assets are valued at cost less depreciation. Depreciation is calculated on a straight-line basis over the lease term of the right-of-use assets. At the end of 2020, useful lives of right-of-use assets are 2–5 years.

The cost of right-of-use assets includes the amount of discounted lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date, less any lease incentives received, and the estimated costs of restoring the asset to its original condition.

The lease liability is initially measured at the present value of the future lease payments, discounted at the interest rate implicit in the lease contract. If this rate is not set in the lease contract, the interest rate on the Eurosystem main refinancing operations is used.

## 2.15. BANKNOTES AND COINS IN CIRCULATION

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

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

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation is presented as

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

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

remunerated intra-Eurosystem balance.<sup>4</sup> The remuneration of this balance is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.<sup>5</sup>

The interest income or expense on this balance is disclosed in the Profit and Loss Account item 1 "Net interest income" (see Note 29 "Net interest income").

Seeking to avoid fluctuations in monetary income after new members join the Eurosystem, the net intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted by the compensatory amount, which is applied for the new entrants from the euro adoption year and gradually reduced over the following five years. For the Bank of Lithuania, the period for which the above-mentioned adjustments are applicable terminated on 31 December 2020. As from 1 January 2021, the interest income is calculated on the whole position of the net claims related to the allocation of euro banknotes.

The nominal value of euro circulation coins issued into circulation by the Bank of Lithuania is presented in the Balance Sheet liability item 12 "Other liabilities" (see Note 25 "Sundry").

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

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

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

## 2.16. PROVISIONS FOR COVERING FINANCIAL RISKS AND LIABILITIES

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

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

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

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

## 2.17. 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 in the data of the Annual Financial Statements for 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. There were no such

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

<sup>5</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2019 and 2020.

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



events in the period from 31 December 2020 until the date on which the Annual Financial Statements are approved by the Board of the Bank of Lithuania.

### 3. RISK MANAGEMENT

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

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

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

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

The Bank of Lithuania ensures that financial institutions registered in Lithuania and participating in monetary policy operations as well as collateral provided under monetary policy operations match the established requirements and controls compliance with the established risk limits.

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

Investments made by the Bank of Lithuania, unrelated to monetary policy operations, are mainly exposed to financial risks, such as market (foreign exchange rate, equity securities and gold price, interest rate), credit (insolvency, credit rating downgrade, counterparty, settlement) and liquidity risks.

Value-at-risk is the basic tool for the evaluation and management of the market risk of the investment portfolio, which is the largest part of financial assets unrelated to monetary policy operations. This indicator, also called the risk budget, is calculated for a one-year period at a 95% confidence level and cannot exceed €200 million (at the end of 2019, the risk budget was €150 million). The application of the risk budget ensures integral management of market risk, more flexible use of various investment strategies as well as one indicator for the overall assessment of both equity and debt securities risk. The model is used for the calculation of value-at-risk and considers past patterns and the forecasted macroeconomic environment. As at 31 December 2020, the risk value of the investment portfolio amounted to €92 million and was €25 million lower than at the end of 2019.

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

For managing foreign exchange rate risk related to financial assets, which do not correspond to liabilities in foreign currencies, limits for open currency positions (except for a separate reserve portfolio denominated in US dollars, with an exchange rate risk that is not hedged) are established. In 2020, the maximum allowable reserve portfolio risk budget of \$40 million was set (in 2019 – \$25 million). At the end of 2020, its value stood at \$20 million (at the end of 2019 – \$16 million).

Exchange rate risk related to financial assets corresponding to liabilities in foreign currencies is eliminated by investing in the currency of liabilities.

For managing foreign exchange rate and interest rate risks, the Bank of Lithuania widely uses financial derivatives.

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

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

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

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

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

### 3.3. MANAGEMENT OF RISK RELATED TO COVID-19

In 2020, the Bank of Lithuania, together with the ECB and other euro area NCBs, implemented measures to enable all sectors of the economy to benefit from favourable financing conditions and withstand the shock of the COVID-19 outbreak and thus manage the high risks to the growth prospects of Lithuania and the euro area as a whole. In 2020, a new pandemic emergency purchase programme was launched, measures that allowed broadening the list of eligible assets in the corporate sector purchase programme and lowering standards for applying for collateral and temporary measures, which help release capital and liquidity requirements for banks, were introduced. More detailed descriptions of the Eurosystem-wide measures are presented in section 4.3 "Lending to euro area credit institutions denominated in euro" and in section 4.4 "Securities held for monetary policy purposes" of the Explanatory Notes and their impact on the Bank of Lithuania's assets is presented in Note 5 "Lending to euro area credit institutions related to monetary policy operations denominated in euro" and Note 7 "Securities held for monetary policy purposes".

Although the uncertainty and volatility related to the COVID-19 pandemic in the financial markets was extremely high at some points, it did not have a significant negative impact on the financial asset return. When managing financial risks in the context of the COVID-19 pandemic, the Bank of Lithuania applies a risk-based approach to strategic investment allocation. In 2020, the Bank of Lithuania increased currency diversification and investments in shares, started investing using quantitative strategies, created an external mandate for the investment of mortgage-backed securities and actively pursued the development of information systems supporting investment activities. These financial risk management solutions should help reduce the negative impact of financial risks on the financial asset return in the context of the COVID-19 pandemic.

COVID-19 had no material impact on the Bank of Lithuania's financial results, except for net interest income related to monetary policy operations (see Note 29 "Net interest income").

Operational risk related to COVID-19 in 2020 was managed in accordance with all the recommendations of the Government of the Republic of Lithuania, creating conditions for remote working for the Bank of Lithuania's employees. At the end of 2020, about 85 percent of the Bank of Lithuania's employees worked remotely. In addition, from December 2020 regular testing for antigens of employees working on the premises was launched. The restrictions applied in Lithuania in order to control the spread of the pandemic did not have a significant impact on the performance of Bank of Lithuania's functions and provision of services.

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

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

### 4.1. PARTICIPATING INTEREST IN ECB CAPITAL

The shares of NCBs in the subscribed capital of the ECB depend on the established key for ECB capital subscription, which is adjusted, in accordance with Article 29 of the Statute of the European System of Central Banks (hereinafter – ESCB) and of the ECB, every five years, on the basis of population and GDP data provided by the European Commission, or whenever there is a change in the composition of the ESCB NCBs.

As a result of the departure of the United Kingdom from the EU on 31 January 2020 and consequent withdrawal of the Bank of England from the ESCB, the weightings assigned to the remaining NCBs in the key for subscription to the ECB's capital were adjusted, coming into effect from 1 February 2020, as follows:

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

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

The ECB's paid-up capital also remained unchanged at €7,659,444 thousand in 2020, as the remaining NCBs were required to cover the withdrawn Bank of England's paid-up capital of €58,201 thousand. As a result of

the adjustment to the capital key, the NCBs paid their first instalment to the ECB on 1 February 2020. Euro area NCBs will then be required to pay up in full their increased subscriptions to the ECB capital in two additional annual instalments<sup>7</sup>.

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

NCB	Capital key as at 31 December 2020, %	Paid-up capital as at 31 December 2020, EUR	Eurosysteem capital key as at 31 December 2020, %
Nationale Bank van België / Banque Nationale de Belgique	2.9630	276,290,917	3.64324
Deutsche Bundesbank	21.4394	1,999,160,135	26.36145
Eesti Pank	0.2291	21,362,892	0.28170
Banc Ceannais na hÉireann / Central Bank of Ireland	1.3772	128,419,794	1.69338
Bank of Greece	2.0117	187,585,028	2.47355
Banco de España	9.6981	904,318,913	11.92459
Banque de France	16.6108	1,548,907,580	20.42430
Banca d'Italia	13.8165	1,288,347,435	16.98849
Central Bank of Cyprus	0.1750	16,318,228	0.21518
Latvijas Banka	0.3169	29,549,980	0.38965
Lietuvos bankas	0.4707	43,891,372	0.57876
Banque centrale du Luxembourg	0.2679	24,980,876	0.32940
Bank Ċentrali ta'Malta / Central Bank of Malta	0.0853	7,953,971	0.10488
De Nederlandsche Bank	4.7662	444,433,941	5.86042
Oesterreichische Nationalbank	2.3804	221,965,204	2.92689
Banco de Portugal	1.9035	177,495,700	2.34051
Banka Slovenije	0.3916	36,515,533	0.48150
Národná banka Slovenska	0.9314	86,850,273	1.14523
Suomen Pankki – Finlands Bank	1.4939	139,301,721	1.83687
<b>Subtotal for euro area NCBs</b>	<b>81.3286</b>	<b>7,583,649,493</b>	<b>100.00000</b>
Българска народна банка (Bulgarian National Bank)	0.9832	3,991,180	–
Česká národní banka	1.8794	7,629,194	–
Danmarks Nationalbank	1.7591	7,140,851	–
Hrvatska narodna banka	0.6595	2,677,160	–
Magyar Nemzeti Bank	1.5488	6,287,164	–
Narodowy Bank Polski	6.0335	24,492,255	–
Banca Națională a României	2.8289	11,483,573	–
Sveriges Riksbank	2.9790	12,092,886	–
<b>Subtotal for non-euro area NCBs</b>	<b>18.6714</b>	<b>75,794,264</b>	<b>–</b>
<b>Total</b>	<b>100.0000</b>	<b>7,659,443,757</b>	<b>100.00000</b>

The changes in the contribution of the Bank of Lithuania to the ECB capital is presented in Note 9 "Participating interest in the ECB".

#### 4.2. FOREIGN RESERVES TRANSFERRED TO THE ECB

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

As at 31 December 2019, foreign reserve assets transferred by the NCBs comprise the amount of €40,344 million. Following the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from the Bank of England's withdrawal from the

<sup>7</sup> This will lead to an increase in the ECB's paid-up capital from €7,659 million in 2020 to €8,270 million in 2021 and €8,880 million in 2022.

ESCB on 31 January 2020 and a decision of the Governing Council of the ECB to reduce the proportion of the euro area NCBs contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs remains at the current level, the claim equivalent to this transfer was marginally adjusted and comprised €40,344 million as at 31 December 2020.

The share of foreign reserve assets transferred to the ECB by the Bank of Lithuania is reported under "Claims equivalent to the transfer of foreign reserves" (see Note 10 "Claims equivalent to the transfer of foreign reserves").

The remuneration of foreign reserves transferred to the ECB (except for the gold component) is calculated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.<sup>8</sup>

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

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

**Longer-term refinancing operations.** These operations aim to provide counterparties with additional longer-term refinancing. In 2020, operations with maturities between 3 and 48 months were conducted. In 2016, the Governing Council of the ECB introduced a series of four targeted longer-term refinancing operations (TLTRO II). These operations have a four-year maturity, with a possibility of full or partial repayment after two years. Additionally, in 2019 the Governing Council of the ECB introduced a new series of seven<sup>9</sup> quarterly targeted longer-term refinancing operations (TLTRO III). These operations have a three-year maturity, with a possibility of full or partial repayment after two years, and from September 2021 the repayment is possible one year after the settlement of each operation. According to the initial decisions taken by the Governing Council of the ECB, the final interest rate applicable to each TLTRO III operation could be as low as the average interest rate on the deposit facility prevailing over the life of the operation. Furthermore, in response to the COVID-19 shock, in 2020<sup>10</sup> the Governing Council of the ECB decided that for the period between 24 June 2020 and 23 June 2022 – referred to as the special interest rate period – the interest rate applicable can be as low as 50 basis points below the average interest rate on the deposit facility prevailing over the same period, but in any case may not become less negative than -1%. Given that the actual interest rates will only be known at the maturity of each operation and that a reliable estimate is not possible until that time, the deposit facility rate minus 50 basis points, with a ceiling of -1%, is used for calculating the TLTRO III interest over the special interest rate period, and the deposit facility rate is used for calculating the TLTRO III interest over the rest of the life of an operation, as this was deemed a prudent approach.

Additionally, on 30 April 2020 the Governing Council of the ECB decided to conduct a new series of seven additional longer-term refinancing operations which mature in the third quarter of 2021, called pandemic emergency longer-term refinancing operations (PELTROs). These operations provide liquidity support to the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective backstop after the expiry of the bridge longer-term refinancing operations that have been conducted since March 2020. The PELTROs are conducted as fixed rate tender procedures with full allotment. The interest rate is 25 basis points below the average rate applied in the Eurosystem's main refinancing operations over the life of the respective PELTRO<sup>11</sup>.

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

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

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

<sup>8</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2019 and 2020.

<sup>9</sup> On 10 December 2020, the Governing Council added three further operations to this series, which will be conducted between June and December 2021.

<sup>10</sup> On 30 April 2020, the Governing Council decided that the special interest rate period will last from 24 June 2020 to 23 June 2021. On 10 December 2020, the Governing Council decided to extend this period by twelve months, to 23 June 2022.

<sup>11</sup> On 10 December 2020, the Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations in 2021.

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

As at 31 December 2020, the total Eurosystem NCB's holding of monetary policy assets amounted to €1,793,194 million (as at 31 December 2019 – €624,233 million). The share of monetary policy assets held by the Bank of Lithuania is presented in Note 5 "Lending to euro area credit institutions related to monetary policy operations denominated in euro".

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

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

As at 31 December 2020, the securities held by the ECB and NCBs amounted to €3,694,642 million (as at 31 December 2019 – €2,632,056 million); they were acquired within the scope of three covered bond purchase programmes, the Securities Markets Programme, the asset-backed securities purchase programme, the public sector purchase programme<sup>12</sup>, the corporate sector purchase programme and the pandemic emergency purchase programme<sup>13</sup>.

	Start date	End date	Decision	Universe of eligible securities*
<b>Completed/terminated programmes</b>				
First covered bond purchase programme	July 2009	June 2010	ECB/2009/16	Covered bonds of euro area residents
Second covered bond purchase programme	November 2011	October 2012	ECB/2011/17	Covered bonds of euro area residents
Securities Markets Programme	May 2010	September 2012	ECB/2010/5	Private and public debt securities issued in the euro area
<b>Asset purchase programme</b>				
Third covered bond purchase programme	October 2014	active	ECB/2020/8 (recast)	Covered bonds of euro area residents
Asset-backed securities purchase programme	November 2014	active	ECB/2014/45, as amended	Senior and guaranteed mezzanine tranches of asset-backed securities of euro area residents
Public sector purchase programme	March 2015	active	ECB/2020/9 (recast)	Bonds issued by euro-area central, regional or local government or recognised agencies as well as issued by international organisations and multilateral development banks located in the euro area
Corporate sector purchase programme	June 2016	active	ECB/2016/16, as amended	Bonds issued by non-bank corporations established in the euro area
<b>Pandemic emergency purchase programme</b>				
Pandemic emergency purchase programme	March 2020	active	ECB/2020/17	All asset categories eligible under the Asset purchase programme**

\* Further eligibility criteria for the specific programmes can be found in the Governing Council's decisions.

\*\* A waiver of the eligibility requirements was granted for securities issued by the Greek Government.

<sup>12</sup> Decision of the ECB of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10), OJ L 121, 14.5.2015, p. 20.

<sup>13</sup> Decision of the ECB of 24 March 2020 on a temporary pandemic emergency purchase programme (ECB/2020/17), OJ L 91, 25.3.2020, p. 1., as amended.



In 2020, the Eurosystem continued its net purchases of securities under the asset purchase programme<sup>14</sup> at a monthly pace of €20 billion on average. In March 2020, a temporary envelope of additional net asset purchases of €120 billion was added until the end of the year. The Governing Council of the ECB expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council of the ECB also intends to continue the reinvestments for an extended period of time past the date when the Governing Council of the ECB starts raising the key ECB interest rates, and in any case, for as long as necessary, maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Additionally, in March 2020 the Eurosystem launched a temporary pandemic emergency purchase programme<sup>15</sup>, with an envelope of €750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the COVID-19 pandemic. Purchases include all the asset categories eligible under the asset purchase programme and were initially foreseen until the end of 2020. In June 2020, the Governing Council of the ECB increased the envelope for the pandemic emergency purchase programme by €600 billion, and in December 2020 by an additional €500 billion, bringing it to a total of €1,850 billion. The horizon for net purchases was also extended to at least the end of March 2022 and in any case, until the Governing Council of the ECB judges that the COVID-19 crisis phase is over. Furthermore, the Governing Council of the ECB intends to reinvest the principal payments from maturing securities purchased under the pandemic emergency purchase programme until at least the end of 2023. The future roll-off of the pandemic emergency purchase programme portfolio will be managed to avoid interference with the appropriate monetary policy stance. Securities purchased under all of these programmes are valued on an amortised cost basis subject to impairment. In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from holdings of securities purchased under the third covered bond purchase programme, the Securities Markets Programme and the corporate sector purchase programme, the public sector purchase programme, except for government securities, and the pandemic emergency purchase programme, except for government securities (totalling €880,540 million as at 31 December 2020 and €695,824 million as at 31 December 2019), if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing Eurosystem capital key. Losses from holdings of securities purchased under the first and second covered bond purchase programmes, as well as government securities purchased under the public sector purchase programme and the pandemic emergency purchase programme are covered by the NCBs concerned.

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

The value of securities holdings of the Bank of Lithuania is presented in Note 7 "Securities held for monetary policy purposes".

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

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

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

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

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

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

<sup>14</sup> The asset purchase programme consists of the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector purchase programme and the corporate sector purchase programme. Further information on the asset purchase programme can be found on the [ECB's website](#).

<sup>15</sup> Further details on the pandemic emergency purchase programme can be found on the [ECB's website](#).

#### 4.6. PARTICIPATION IN TARGET2

Cross-border payments in the EU settled in TARGET2<sup>16</sup> give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position *vis-à-vis* only the ECB. Intra-Eurosystem balances of the Bank of Lithuania *vis-à-vis* the ECB arising from TARGET2 are disclosed under the Balance Sheet items "Other claims within the Eurosystem (net)" or "Other liabilities within the Eurosystem (net)".

#### 4.7. ALLOCATION OF MONETARY INCOME

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

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

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

The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET2 transactions; net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem.

Interest paid on the liability base items and (or) on the earmarkable assets items is deducted from the NCB's monetary income derived from these items. The difference between the NCB's earmarkable asset value and its liability base value shall be offset by applying the difference of the latest available marginal rate for the Eurosystem's main refinancing operations<sup>17</sup>. Furthermore, for monetary income calculation purposes, gold is considered to generate no income, and securities held for monetary policy purposes under both Decision ECB/2009/16 on the implementation of the first covered bond purchase programme and Decision ECB/2011/17 on the implementation of the second covered bond purchase programme, as well as government securities under Decision ECB/2020/9 on the implementation of a secondary markets public sector asset purchase programme or Decision ECB/2020/17 on a temporary pandemic emergency purchase programme, are considered to generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

After pooling of the annual monetary income of the Eurosystem and reallocation to NCBs in proportion to their subscribed capital keys, the differences between the NCBs' pooled monetary income and allocated in proportion to the Eurosystem capital key are settled among the NCBs' via TARGET2. The net result arising from the reallocation of monetary income for the Bank of Lithuania is disclosed in Note 33 "Net result of pooling of monetary income".

#### 4.8. MANAGEMENT OF NET FINANCIAL ASSETS

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

The Bank of Lithuania determines the amount of net financial assets, taking into consideration market conditions as well as investment opportunities and restrictions. The average amount of financial assets cannot be above the maximum amount of net financial assets set in accordance with the Agreement. In 2020, as in 2019, the amount of net financial assets of the Bank of Lithuania met the provisions of the Agreement.

#### 4.9. THE ECB PROFIT DISTRIBUTION

Unless otherwise decided by the Governing Council of the ECB, the ECB distributes seigniorage income, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the

<sup>16</sup> The Trans-European Automated Real-time Gross Settlement Express Transfer system.

<sup>17</sup> The marginal interest rate used by the Eurosystem in its tenders for main refinancing operations was 0% in 2019 and 2020.

securities acquired under securities programmes (the securities markets programme, the third covered bond purchase programme, the asset-backed securities purchase programme, the public sector asset purchase programme and the pandemic emergency purchase programme), by means of an interim distribution of profit in January of the following year.<sup>18</sup> It is distributed in full, unless it exceeds the ECB's net profit for the year, and is subject to any decisions by the Governing Council of the ECB to make transfers to the provisions for financial risks. The result from ECB interim profit distribution is recorded by the euro area NCBs as income of the financial year when this income was accrued, not received.

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

The received distribution of the ECB profit is disclosed in the Profit and Loss Account item 4 "Income from equity instruments" (see Note 32 "Income from equity instruments").

## 5. NOTES ON THE BALANCE SHEET

### NOTE 1. GOLD AND GOLD RECEIVABLES

	31 December 2020	31 December 2019
Gold holdings in		
Troy ounces	187,205	187,207
Kilograms	5,823	5,823
Price per one Troy ounce, EUR	1,543.884	1,354.104
<b>Value of gold, EUR thousands</b>	<b>289,023</b>	<b>253,498</b>

The gold held by the Bank of Lithuania as at 31 December 2020, same as at 31 December 2019, was invested in gold swaps.

Compared to 2019, gold holdings in 2020 slightly decreased due to differences in the weight of gold bars arising from settlements of gold investment transactions.

The overall increase in the value of gold was caused by the rise in the price of gold in the financial markets in 2020.

### NOTE 2. RECEIVABLES FROM THE IMF

EUR thousands

	31 December 2020	31 December 2019
Balance in the SDR account with the IMF	162,249	169,704
Reserve tranche position in the IMF	100,222	56,802
Lithuania's quota in the IMF	522,341	545,673
Balance in the IMF account No 1 with the Bank of Lithuania	(422,119)	(488,872)
<b>Total</b>	<b>262,471</b>	<b>226,506</b>

The major part of the SDR balance in the SDR account with the IMF, managed by the Bank of Lithuania, is comprised of SDR 137,239 thousand, allocated to the Republic of Lithuania by the IMF in 2009, the counterpart (€161,750 thousand) of which is disclosed under the Balance Sheet of the Bank of Lithuania liability item 9 "Counterpart of special drawing rights allocated by the IMF". The Bank of Lithuania receives interest on balance in the SDR account with the IMF and pays interest on SDR allocated to the Republic of Lithuania by the IMF.

The decrease in the euro equivalent value of the SDR balance in the SDR account with the IMF was mainly due to the appreciation of the euro against the SDR in 2020.

On behalf of the Republic of Lithuania, the Bank of Lithuania performs the fiscal agency function of the IMF. Lithuania's quota in the IMF determines its participation and voting power in the IMF. Lithuania's liabilities to the IMF are presented in the IMF account No 1 with the Bank of Lithuania. Since 2018, the Bank of Lithuania

<sup>18</sup> Decision of the ECB of 15 December 2014 on the interim distribution of the income of the European Central Bank (recast) (ECB/2014/57), OJ L 53, 25.2.2015, p. 24, as amended.

has carried out the financial operations of the IMF on behalf of the Republic of Lithuania using the financial assets of the Bank of Lithuania.

The increase in the reserve tranche position in the IMF as at 31 December 2020, compared to 31 December 2019, was due to participation in the Financial Transactions Plan. Under this Plan, the Bank of Lithuania contributed additional financing in the amount of SDR 39 million in 2020 (SDR 18 million in 2019). The Bank of Lithuania receives interest on funds transferred under the Financial Transactions Plan.

In 2020, the Bank of Lithuania concluded the Bilateral Borrowing Agreement with the IMF, whereby the Bank of Lithuania could provide it with loans of up to €297 million. Under the agreement, such borrowing could be used by the IMF if available resources of the IMF would be insufficient to ensure the necessary lending capacity.

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

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

EUR thousands

	USD	CZK	CHF	GBP	CAD	Other	Total
<b>31/12/2020</b>							
Balances in current accounts	1,139	748,899	351,080	52,177	4,510	248,054	1,405,860
Fixed-term deposits	8,883	–	–	–	–	–	8,883
Debt securities	1,853,818	–	–	268,397	314,491	188,048	2,624,753
Marketable equity securities	45,953	–	–	–	–	–	45,953
Reverse repurchase agreements	52,074	–	–	–	–	–	52,074
<b>Total</b>	<b>1,961,867</b>	<b>748,899</b>	<b>351,080</b>	<b>320,574</b>	<b>319,002</b>	<b>436,101</b>	<b>4,137,523</b>
<b>31/12/2019</b>							
Balances in current accounts	576	744,790	273,856	1,482	1,203	1,479,894	2,501,800
Debt securities	1,044,683	–	–	236,862	230,991	91,430	1,603,965
Marketable equity securities	329,871	–	–	–	–	–	329,871
Reverse repurchase agreements	348,496	–	–	–	–	–	348,496
<b>Total</b>	<b>1,723,625</b>	<b>744,790</b>	<b>273,856</b>	<b>238,344</b>	<b>232,194</b>	<b>1,571,324</b>	<b>4,784,132</b>

In 2020, the Bank of Lithuania restored its investments in US dollar-denominated debt securities, which were temporarily reduced in 2019, and started investing in mortgage-backed securities at the end of the year (as at 31 December 2020, the value of these securities was €202,254 thousand).

In 2020, investments in exchange traded fund units decreased as a result of the implementation of active investment management decisions.

In 2020, the decrease in the total value of this Balance Sheet item was determined by the depreciation of the US dollar against the euro.

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

EUR thousands

	31 December 2020	31 December 2019
USA	1,911,622	1,673,936
Non-euro area EU Member States	748,911	744,803
Switzerland	351,080	273,856
Canada	350,323	268,445
Great Britain	286,456	208,923
Japan	277,228	1,505,531
China	188,156	91,626
Other countries	23,747	17,014
<b>Total</b>	<b>4,137,523</b>	<b>4,784,132</b>

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

EUR thousands

	USD	CAD	Other	Total
<b>31/12/2020</b>				
Balances in current accounts	668	150	49	867
<b>Total</b>	<b>668</b>	<b>150</b>	<b>49</b>	<b>867</b>
<b>31/12/2019</b>				
Balances in current accounts	2,008	465	235	2,707
<b>Total</b>	<b>2,008</b>	<b>465</b>	<b>235</b>	<b>2,707</b>

**NOTE 5. LENDING TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO**

EUR thousands

	31 December 2020	31 December 2019
Longer-term refinancing operations	186,000	48,000
<b>Total</b>	<b>186,000</b>	<b>48,000</b>

As at 31 December 2020, the Bank of Lithuania held €180,000 thousand of the TLTRO III and €6,000 thousand of the PELTRO (as at 31 December 2019 – €45,000 thousand of the TLTRO II and €3,000 thousand of other longer-term refinancing operations).

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

In 2020 and 2019, no impairment losses from these monetary policy operations were incurred by the Bank of Lithuania.

**NOTE 6. OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO**

This item consists of the Bank of Lithuania's balances in current accounts with credit institutions which do not relate to monetary policy operations. As at 31 December 2020, the balances in current accounts amounted to €6,165 thousand (as at 31 December 2019 – €3,325 thousand), part of which (€5,900 thousand as at 31 December 2020 and €3,100 thousand as at 31 December 2019) was provided as collateral to the counterparty in the form of cash to ensure the discharge of the Bank of Lithuania obligations under transactions outstanding.

**NOTE 7. SECURITIES HELD FOR MONETARY POLICY PURPOSES**

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

EUR thousands

Public sector purchase programme	31 December 2020		31 December 2019	
	Amortised cost	Market value	Amortised cost	Market value
Public sector purchase programme	10,954,555	12,142,318	10,552,676	11,233,967
Supranational securities	7,873,688	8,890,319	8,194,878	8,792,363
The Republic of Lithuania government securities	3,080,867	3,251,999	2,357,798	2,441,604
Pandemic emergency purchase programme	1,856,701	1,903,501	–	–
The Republic of Lithuania government securities	1,856,701	1,903,501	–	–
<b>Total</b>	<b>12,811,256</b>	<b>14,045,819</b>	<b>10,552,676</b>	<b>11,233,967</b>

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

As a result of an impairment test conducted as at 31 December 2020 on securities purchased under the public sector purchase programme and the pandemic emergency purchase programme, the Governing Council of the

ECB decided that all future cash flows on these securities were expected to be received, therefore no impairment losses from securities held by the Bank of Lithuania were incurred in 2020 (as in 2019).

#### NOTE 8. OTHER SECURITIES

The Bank of Lithuania's investments in marketable equity securities by euro area residents, presented in this item, were marked to market in 2020 and 2019. As at 31 December 2020, they amounted to €527,486 thousand (as at 31 December 2019 – €730,350 thousand).

As at 31 December 2020, holdings of marketable equity securities decreased as a result of the implementation of investment management decisions.

#### NOTE 9. PARTICIPATING INTEREST IN THE ECB

EUR thousands

	31 December 2020	31 December 2019
Contribution of the Bank of Lithuania to the ECB capital	43,891	43,939
Contribution of the Bank of Lithuania to the reserves of the ECB and to provisions, equivalent to reserves	162,454	162,454
<b>Total</b>	<b>206,346</b>	<b>206,393</b>

Pursuant to Article 29 of the Statute of the ESCB and of the ECB, shares of the NCBs in the subscribed capital of the ECB are adjusted every five years on the basis of population and GDP data provided by the European Commission or whenever there is a change in the composition of the ESCB NCBs. As a result of the departure of the United Kingdom from the EU on 31 January 2020 and consequent withdrawal of the Bank of England from the ESCB, the capital key was adjusted, coming into effect from 1 February 2020. The share of the Bank of England in the ECB's subscribed capital was reallocated among both the euro area NCBs and the remaining non-euro area NCBs. As a result, the Bank of Lithuania's share in the subscribed capital of the ECB increased by 0.0648 percentage point and amounts to 0.4707% as of 1 February 2020.

The ECB's paid-up capital remained unchanged in 2020. As a result of the reallocation of the NCB's shares in the ECB's subscribed capital according to the new capital key, €47 thousand from the contribution to the ECB capital was repaid to the Bank of Lithuania in 2020. The share of the Bank of Lithuania in the subscribed and paid-up capital of the ECB comprises €43,891 thousand with effect from 1 February 2020. The Bank of Lithuania will pay up in full its increased subscription to the ECB capital in two additional annual instalments of €3,531 thousand in 2021 and 2022.

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

#### NOTE 10. CLAIMS EQUIVALENT TO THE TRANSFER OF FOREIGN RESERVES

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

Claims equivalent to the transfer of foreign reserves of the Bank of Lithuania, shown in this Balance Sheet item, comprised €235,223 thousand until 31 January 2020. Pursuant to Article 30.2 of the Statute of the ESCB and of the ECB, the contributions of the NCBs to the transfer of foreign reserve assets to the ECB are fixed in proportion to their share in the ECB's subscribed capital.

Following the increase in the weighting of the euro area NCBs (which have transferred foreign reserve assets to the ECB) in the ECB's subscribed capital resulting from the Bank of England's withdrawal from the ESCB on 31 January 2020 and a decision of the Governing Council of the ECB to reduce the proportion of the euro area NCBs contributions, so that the total amount of foreign reserve assets already transferred by the euro area NCBs will remain at the current level, the Bank of Lithuania's claims equivalent to the transfer of foreign reserves decreased by €1,727 thousand and comprised €233,496 thousand as from 1 February 2020.

#### NOTE 11. NET CLAIMS RELATED TO THE ALLOCATION OF EURO BANKNOTES WITHIN THE EUROSISTEM

This item presents the claim of the Bank of Lithuania to the Eurosystem, related to the allocation of euro banknotes within the Eurosystem (see section 2.15 of the Explanatory Notes "Banknotes and coins in circulation" and Note 18 "Banknotes in circulation"). As at 31 December 2020, compared to 31 December 2019, these net claims of the Bank of Lithuania decreased by €611,230 thousand or 24% due to a higher increase in the nominal value of the banknotes put into circulation by the Bank of Lithuania (30%) compared to the rise in the nominal value of banknotes in circulation in the entire Eurosystem (11%).



**NOTE 12. OTHER CLAIMS (LIABILITIES) WITHIN THE EUROSISTEM (NET)**

EUR thousands

	31 December 2020	31 December 2019
Balance in TARGET2 account	5,848,390	(870,152)
Distribution of monetary income	(56,657)	403
Interim distribution of the ECB profit	7,293	8,343
<b>Total other claims (liabilities) within the Eurosystem (net)</b>	<b>5,799,026</b>	<b>(861,406)</b>

Other claims (liabilities) within the Eurosystem (net) include (1) the intra-Eurosystem balance (net) of the Bank of Lithuania *vis-à-vis* the ECB in respect of the transfers through TARGET2 by the ESCB NCBs and the ECB; (2) the position *vis-à-vis* the ECB in respect of monetary income redistribution's amount receivable (see Note 33 "Net result of pooling of monetary income"); (3) the Bank of Lithuania's position *vis-à-vis* the ECB in respect of any amounts receivable or refundable, including the amount due to the Bank of Lithuania in respect of the ECB's interim profit distribution (see Note 32 "Income from equity instruments").

The increase of balance in the TARGET2 account was mainly caused by the increased current account balances of credit institutions (including the minimum reserve system), euro area residents (general government and participants of the payment system CENTROLINK of the Bank of Lithuania) and non-euro area residents (participants of the payment system CENTROLINK of the Bank of Lithuania and central banks) denominated in euro (see Note 19 "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro", Note 20 "Other liabilities to euro area residents denominated in euro" and Note 21 "Liabilities to non-euro area residents denominated in euro").

**NOTE 13. TANGIBLE AND INTANGIBLE FIXED ASSETS**

EUR thousands

	Tangible assets				Intangible assets (including assets under construction)	Right-of-use assets	Total
	Land, buildings and construction in progress	Cash processing equipment (including assets under construction)	Computer equipment (including assets under construction)	Other tangible assets (including assets under construction)			
Acquisition cost as at 31 December 2019	35,899	5,890	12,854	8,082	14,129	1,590	78,444
Additions in 2020	3,475	2,792	731	315	2,349	1,517	11,181
Disposals in 2020	-	(55)	-	(214)	-	-	(270)
Acquisition cost as at 31 December 2020	39,375	8,627	13,585	8,183	16,478	3,108	89,355
Accumulated depreciation as at 31 December 2019	(18,587)	(5,287)	(10,927)	(6,221)	(7,002)	(412)	(48,437)
Depreciation in 2020	(3,400)	(137)	(936)	(147)	(1,405)	(678)	(6,703)
Depreciation of disposed assets in 2020	-	55	-	214	-	-	270
Accumulated depreciation as at 31 December 2020	(21,988)	(5,369)	(11,863)	(6,154)	(8,407)	(1,090)	(54,870)
<b>Net carrying amount as at 31 December 2020</b>	<b>17,387</b>	<b>3,259</b>	<b>1,722</b>	<b>2,029</b>	<b>8,071</b>	<b>2,018</b>	<b>34,485</b>
<b>Net carrying amount as at 31 December 2019</b>	<b>17,312</b>	<b>603</b>	<b>1,927</b>	<b>1,861</b>	<b>7,126</b>	<b>1,178</b>	<b>30,007</b>

The increase of tangible fixed assets in 2020 was caused by the acquisition of three plots of land on which the Bank of Lithuania's buildings stand (€3,174 thousand), the acquisition of the banknote processing systems and investments in their modernization (€2,754 thousand).

A significant impact on the increase (by €1,288 thousand) of intangible fixed assets in 2020 came from the recognition of three intangible asset items internally generated by way of projects. A part of this cost (€47 thousand) was comprised of the depreciation of the assets used for these projects; therefore, depreciation of

tangible and intangible fixed assets presented in the Profit and Loss Account is lower than depreciation accumulated during 2020.

In 2017, the Board of the Bank of Lithuania made a decision to implement the renovation project of the Bank of Lithuania's premises situated in Vilnius, at Žirmūnų g. 151. During the implementation of this project, in fall 2019 part of the premises were recognised as unusable due to functional (technological) depreciation and impediment to the reconstruction of existing buildings and territories and it was planned to depreciate them before dismantling. These premises were fully depreciated during 2020, their depreciation amounted to €1,680 thousand.

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

#### NOTE 14. OTHER FINANCIAL ASSETS

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

EUR thousands

	31 December 2020	31 December 2019
Balances in current accounts	490,374	7,997
Bank for International Settlements shares	3,334	3,334
SWIFT shares	100	100
<b>Total</b>	<b>493,809</b>	<b>11,431</b>

The Bank of Lithuania's balance in current account represents the position of the Bank of Lithuania as an RT1<sup>19</sup> participant, which consists of the funds of the payment system CENTROLINK (operated by The Bank of Lithuania) participants - instant payment service users - intended for making payments in RT1. The increase in the balance of this current account was due to the increase in the number of CENTROLINK participants using instant payment services and the volume of payments made by them.

The Bank of Lithuania is a member of the Bank for International Settlements (BIS), with 1,070 shares, the acquisition cost of which is €3,334 thousand and the nominal value per share is SDR 5,000. No dividend was received by the Bank of Lithuania for these BIS shares in 2020 (€321 thousand in 2019), as the BIS Annual General Meeting approved the proposal of the Board of Directors to retain all BIS profit for the period 2019/2020.

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

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

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

	31 December 2020		31 December 2019	
	Positive differences	Negative differences	Positive differences	Negative differences
Foreign exchange transactions	70,099	15,101	21,324	42,458
Non-deliverable foreign exchange forwards	11,389	7,899	2,217	1,616
Transactions in securities	503	88	1	1
Interest rate swaps	–	–	5,034	2,667
<b>Total</b>	<b>81,991</b>	<b>23,089</b>	<b>28,576</b>	<b>46,742</b>

<sup>19</sup> RT1 is a payment system operated by EBA CLEARING S.A.S à capital variable (EBA Clearing).

**NOTE 16. ACCRUALS AND PREPAID EXPENSES**

EUR thousands

	31 December 2020	31 December 2019
Accrued interest income	72,292	64,998
On securities held for monetary policy purposes	56,277	47,930
On other securities	10,428	5,109
On accounts and deposits	3,260	1,606
On financial derivatives	2,328	10,353
Other accrued income	70	–
Debt securities coupon payment purchased	2,205	3,555
Prepaid expenses	1,834	1,896
<b>Total</b>	<b>76,401</b>	<b>70,449</b>

**NOTE 17. SUNDRY**

EUR thousands

	31 December 2020	31 December 2019
Short-term assets	650	646
Loans to the staff of the Bank of Lithuania	273	318
Advances and other receivables	261	404
<b>Total</b>	<b>1,185</b>	<b>1,369</b>

**NOTE 18. BANKNOTES IN CIRCULATION**

EUR thousands

	31 December 2020	31 December 2019
Euro banknotes issued by the Bank of Lithuania	5,734,570	4,420,124
Adjustment for banknote allocation in the Eurosystem	2,568,401	3,118,415
The ECB's share of euro banknotes in circulation	(664,194)	(602,979)
<b>Total</b>	<b>7,638,776</b>	<b>6,935,561</b>

This item consists of the Bank of Lithuania's share of total euro banknotes in circulation according to the banknote allocation key (see section 2.15 of the Explanatory Notes "Banknotes and coins in circulation"). As at 31 December 2020, the banknote allocation key was 0.5325% (as at 31 December 2019 – 0.5365%). The nominal value of euro banknotes actually issued by the Bank of Lithuania in 2020 increased by 30%. As this was less than the allocated amount, the difference of €1,904,207 thousand (compared to €2,515,437 thousand as at 31 December 2019) is shown under the Balance Sheet asset sub-item "Net claims related to the allocation of euro banknotes within the Eurosystem" (see Note 11).

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

This item presents the current account balances (including the minimum reserve system) of the euro area credit institutions, which amounted to €12,156,300 thousand as at 31 December 2020 (as at 31 December 2019 – €7,214,771 thousand). The increase in current account balances was caused by the increased liquidity in the markets.

The minimum reserve balances have been remunerated at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.<sup>20</sup> The reserves held in excess of the minimum requirements are remunerated at a lower rate of either 0% or the deposit facility rate. Starting on 30 October 2019, the Governing Council of the ECB introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This part is remunerated at the annual rate of 0%. The volume of reserve holdings in excess of minimum reserve requirements that was exempt at year-end from the deposit facility rate was determined as a multiple of 6<sup>21</sup>

<sup>20</sup> The marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations was 0% in 2019 and 2020.

<sup>21</sup> The multiplier may be adjusted by the Governing Council of the ECB over time in line with changing levels of excess liquidity.

on an institution's minimum reserve requirements. The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower rate of either 0% or the deposit facility rate.

Descriptions of liquidity absorbing monetary policy operations are presented in the Explanatory Notes, section 4.5. "Liabilities to euro area credit institutions related to monetary policy operations denominated in euro".

#### NOTE 20. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

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

EUR thousands

	31 December 2020	31 December 2019
Liabilities to the general government	2,727,667	2,019,092
Other liabilities	1,536,520	433,667
<b>Total</b>	<b>4,264,187</b>	<b>2,452,759</b>

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

#### NOTE 21. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

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

EUR thousands

	31 December 2020	31 December 2019
Balances in current accounts	1,006,410	345,299
Other liabilities	7,200	3,700
<b>Total</b>	<b>1,013,610</b>	<b>348,999</b>

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

#### NOTE 22. LIABILITIES TO EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

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

EUR thousands

	USD	Other	Total
<b>31/12/2020</b>			
Liabilities to the financial sector	268,378	–	268,378
Liabilities to the general government	1,193	2	1,194
<b>Total</b>	<b>269,570</b>	<b>2</b>	<b>269,572</b>
<b>31/12/2019</b>			
Liabilities to the financial sector	215,721	–	215,721
Liabilities to the general government	157	105	261
<b>Total</b>	<b>215,878</b>	<b>105</b>	<b>215,983</b>

#### NOTE 23. ITEMS IN COURSE OF SETTLEMENT

As at 31 December 2020, year on year, this item consisted of cash management operations with commercial banks in the course of settlement (respectively €5,800 thousand and €250 thousand).

**NOTE 24. ACCRUALS AND INCOME COLLECTED IN ADVANCE**

EUR thousands

	31 December 2020	31 December 2019
Accrued interest expenses	11,051	14,699
On financial derivatives	10,093	14,205
On monetary policy operations	958	494
Other accrued expenses	736	1,664
Income collected in advance	38	38
<b>Total</b>	<b>11,825</b>	<b>16,402</b>

The largest part of the accrued interest expenses on financial derivatives consisted of the accrued interest expenses on foreign exchange forward and swap transactions (as at 31 December 2020, the balance of these items amounted to €9,375 thousand, as at 31 December 2019 – €8,116 thousand).

**NOTE 25. SUNDRY**

EUR thousands

	31 December 2020	31 December 2019
Euro coins in circulation	130,407	118,336
Litas banknotes in circulation	82,324	84,459
Litas coins in circulation	31,958	32,000
Sundry	3,260	1,826
<b>Total</b>	<b>247,948</b>	<b>236,621</b>

As at 31 December 2020, the sundry item included a lease liability of €2,004 thousand (as at 31 December 2019 – €1,164 thousand) (see section 2.14 of the Explanatory Notes "Leases").

**NOTE 26. PROVISIONS**

EUR thousands

	31 December 2020	31 December 2019
Provisions for risks (see the Explanatory Notes, section 2.16 "Provisions for covering financial risks and liabilities")	345,870	285,870
Provisions for unrealised impairment loss of monetary policy operations established by the ECB	–	525
Provisions for liabilities related to	5,686	4,843
Wages and salaries payable for annual leave	2,654	2,223
Termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania	1,395	2,015
Termination benefits to the members of the Board as provided in the Law on the Bank of Lithuania	251	211
Provisions for exchanging derecognised litas banknotes and coins	332	355
Provisions for other liabilities	1,055	39
<b>Total</b>	<b>351,556</b>	<b>291,239</b>

In 2020, the Board of the Bank of Lithuania, based on a risk assessment performed at the Eurosystem level, made a decision to form additional risk provisions amounting to €60,000 thousand (€167,450 thousand additional provisions for risks were formed in 2019). According to the ESCB's risk assessment performed as of 30 June 2020, the accounting risk of the Bank of Lithuania amounts to €572 million.

With respect to the provisions initially established in 2018 and adjusted in 2019 by all the NCBs of participating Member States with regard to credit risks in monetary policy operations, an amount of €63,604 thousand was used to cover the loss realised after the sale in 2020 of the impaired securities held by one of the Eurosystem NCBs under the corporate sector purchase programme. Out of this amount, €373 thousand were covered by the provision established in 2019 by the Bank of Lithuania. The residual amount of the provisions established by the NCBs of participating Member States after the coverage of the realised loss resulted in a cumulative unused balance of €25,785 thousand which is reflected in the profit and loss accounts of the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2018, i.e. in the year when the initial impairment occurred. The Bank of Lithuania's share of this unused provision was €151 thousand. The share of this unused provision as well as the share of the provision

used to cover the realised loss are presented as part of pooling of monetary income (see Note 33 "Net result of pooling of monetary income").

The decrease in the provisions for termination benefits, payable to staff who will qualify for the state social insurance pension while working at the Bank of Lithuania, was mainly caused by the decrease in the employee change dynamics and the the Republic of Lithuania's long-term lending interest rates, used to calculate provisions.. Provisions for wages and salaries payable for annual leave increased mainly due to the increase in the number of unused annual leave days. The change in these provisions is presented as expenses in Note 35 "Staff costs". Provisions for the exchange of derecognised litas banknotes and coins are the provisions, formed in 2014, for covering the nominal value of derecognised litas banknotes and coins, which may be returned to the Bank of Lithuania for exchange into euro. A share of these provisions, amounting to €22 thousand, was used in 2020, the same amount as in 2019.

As at 31 December 2020, there were six legal proceedings related to financial market supervision, in which the Bank of Lithuania was a defendant or co-defendant, and one situation when under the valid agreement the Bank of Lithuania was obliged to cover legal costs related to the above-mentioned supervision. Pursuant to the specified agreement, the Bank of Lithuania accepted a commitment to reimburse legal costs. As a result, appropriate provision was formed at the end of 2020. The probability of settlement of claims in other legal proceedings brought against the Bank of Lithuania is assessed as unlikely or provisions have already been formed for them in previous years.

## NOTE 27. REVALUATION ACCOUNTS

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

EUR thousands

	31 December 2020	31 December 2019
Revaluation accounts		
Pre-system unrealised gains	164,456	164,456
Gold	106,818	71,291
Equity securities	62,512	68,814
Debt securities	38,183	17,118
Financial derivatives	11,879	7,251
Foreign currency	17	53,913
<b>Total</b>	<b>383,865</b>	<b>382,843</b>

Unrealised revaluation losses, recognised as expenses at the end of 2020 are presented in Note 30 "Net result of financial operations, write-downs and risk provisions".

## NOTE 28. CAPITAL

### Statement of changes in equity for 2020

EUR thousands

	31 December 2020	2019 profit distribution	31 December 2019
Capital			
Authorised capital	60,000	–	60,000
Reserve capital	437,726	11,674	426,052
<b>Total</b>	<b>497,726</b>	<b>11,674</b>	<b>486,052</b>

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

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

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



## 6. NOTES ON THE PROFIT AND LOSS ACCOUNT

### NOTE 29. NET INTEREST INCOME

EUR thousands

	2020		2019	
	Interest income	Interest expense	Interest income	Interest expense
Monetary policy operations	99,007	(1,054)	79,047	(339)
Securities held for monetary policy purposes	62,078	–	57,149	–
Current accounts (covering the minimum reserve system)	36,928	–	21,892	–
Deposits related to margin calls	–	–	5	–
Marginal lending facility	–	–	1	–
Longer-term refinancing operations	–	(1,054)	–	(339)
Debt securities	31,133	–	51,942	–
Balances in current accounts with the Bank of Lithuania	25,353	–	10,736	–
Reverse repurchase agreements	638	–	1,660	–
Interest rate swaps	142	–	389	–
Repurchase agreements	–	(157)	–	(2,336)
The Bank of Lithuania's balances in current accounts	–	(1,096)	–	(553)
Gold swaps	–	(1,272)	–	(5,943)
Foreign exchange transactions	–	(25,425)	–	(37,383)
Other	6	–	–	(1)
<b>Total interest income (expense)</b>	<b>156,278</b>	<b>(29,005)</b>	<b>143,774</b>	<b>(46,556)</b>
<b>Net interest income</b>	<b>127,273</b>		<b>97,218</b>	

In 2020, the net interest income increased by €30,055 thousand, compared to 2019, mainly due to the growth in net interest income from monetary policy operations and balances in current accounts with the Bank of Lithuania as well as the decrease in interest expense on foreign exchange transactions. The growth in interest income from securities held for monetary policy purposes was caused by the purchase of securities under the public sector purchase programme and the pandemic emergency purchase programme in 2020 (see Note 7 "Securities held for monetary policy purposes"). Interest income also increased due to higher balances in current accounts with the Bank of Lithuania (mainly excess reserve holdings and current account balances of the participants in the Bank of Lithuania's payment system CENTROLINK) and a negative deposit facility rate (–0.5%).

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

### NOTE 30. NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

This item includes (a) net income (expense) related to the sale transactions of financial instruments, gold and foreign currency; (b) write-downs of financial items, which consist of unrealised revaluation loss as a result of the decline in market prices and rates on 31 December 2020 as compared to the average prices and rates of these items; and (c) additional provisions for financial risks, formed by a decision of the Board of the Bank of Lithuania based on the assessment of the level of accounting risk assumed.

EUR thousands

	2020	2019
<b>Net realised gains (losses) arising from</b>	<b>126,385</b>	<b>101,167</b>
Transactions in securities	120,149	80,744
Transactions in foreign currency	9,024	35,365
Interest rate derivatives	(2,788)	(14,943)
<b>Write-downs on financial items</b>	<b>(105,032)</b>	<b>(6,392)</b>
Foreign currency	(95,234)	(108)
Financial derivatives	(7,987)	(4,271)
Securities	(1,811)	(2,014)
<b>Transfers to provisions for risks</b>	<b>(60,000)</b>	<b>(167,450)</b>
<b>Net result of financial operations, write-downs and risk provisions</b>	<b>(38,647)</b>	<b>(72,676)</b>

Net realised gains on securities transactions increased, while net realised gains on foreign currency transactions decreased mainly due to realised securities price gains and exchange rate losses generated in the US dollar portfolio.

The write-downs on foreign currency were mainly related to the depreciation of the US dollar against the euro.

### NOTE 31. NET INCOME FROM FEES AND COMMISSIONS

EUR thousands

	2020	2019
Fees and commissions income	9,365	7,705
Contributions of supervised financial market participants	6,455	6,021
Settlement services	2,238	1,131
Security lending	260	235
Other services	411	319
Fees and commissions expense	(2,709)	(2,189)
Financial instruments	(2,301)	(1,950)
Other	(408)	(239)
<b>Net income from fees and commissions</b>	<b>6,656</b>	<b>5,516</b>

Pursuant to the Law on the Bank of Lithuania, the costs of financial market supervision are funded by the contributions of supervised financial market participants and own funds of the Bank of Lithuania. In 2020, the Bank of Lithuania collected contributions amounting to €6,131 thousand to cover the costs of financial market supervision (in 2019 – €5,648 thousand) and contributions of financial market participants amounting to €324 thousand to finance the activity of the financial sector resolution authority (in 2019 – €373 thousand).

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

### NOTE 32. INCOME FROM EQUITY INSTRUMENTS

EUR thousands

	2020	2019
Dividend income from marketable equity securities	13,853	17,436
Income from distribution of the ECB profit	12,744	10,597
Dividend income from non-marketable equity securities (see Note 14)	–	321
<b>Total</b>	<b>26,597</b>	<b>28,355</b>

In 2020, income from equity instruments decreased due to the lower average holdings of marketable equity securities and a decrease in dividend yields.

Following a decision of the Governing Council of the ECB, the amount due to the euro area NCBs in 2020, with respect to the ECB's interim profit distribution, was €1,260,178 thousand. The amount due to the Bank of Lithuania (€7,293 thousand) was recognised as income of 2020. The result from the ECB final profit distribution of 2019 was also recognised as income of 2020 (see section 4.9 of the Explanatory Notes "Distribution of the ECB profit").

### NOTE 33. NET RESULT OF POOLING OF MONETARY INCOME

EUR thousands

	2020	2019
Net monetary income pooled by the Bank of Lithuania	(81,351)	(65,393)
Net monetary income reallocated to the Bank of Lithuania	25,055	65,889
Adjustment for the monetary income of previous years	(361)	(94)
Reversal of income of the Bank of Lithuania's share in the provisions against losses in monetary policy operations of previous years (see Note 26 "Provisions")	525	421
<b>Net result of pooling of monetary income</b>	<b>(56,133)</b>	<b>823</b>

In 2020, the actual net monetary income of the Bank of Lithuania was higher than it should be according to the capital key. This was mainly due to the relatively low volume of longer-term refinancing operations conducted by the Bank of Lithuania, which resulted in lower interest expense for the Bank of Lithuania, compared to the Eurosystem, as well as the relatively high net interest income on supranational securities purchased under the public sector purchase programme. After pooling of the monetary income of the

Eurosystem for 2020 and reallocation to NCBs in proportion to their subscribed capital keys, the net result arising from the reallocation of monetary income for the Bank of Lithuania – expense – was settled via TARGET2 (see section 4.7 of Explanatory Notes “Allocation of monetary income” and Note 12 “Other claims (liabilities) within the Eurosystem (net)”).

### NOTE 34. OTHER INCOME

EUR thousands

	2020	2019
Income from sale of collector coins and other numismatic items	1,423	1,606
Other miscellaneous income	2,015	1,646
<b>Total</b>	<b>3,438</b>	<b>3,252</b>

Most of the other miscellaneous income in 2020 (€1,689 thousand) consisted of the decrease in the relative share of the Bank of Lithuania in the reserves of the ECB and provisions, equivalent to reserves, due to the capital key adjustments as from 1 February 2020, as a result of withdrawal of the Bank of England from the ESCB (see Note 9 “Participating interest in the ECB”).

### NOTE 35. STAFF COSTS

EUR thousands

	2020	2019
Expenses on salaries	19,593	17,287
To the members of the Board	603	610
To the heads of structural divisions	1,503	1,333
To other staff of the Bank of Lithuania	17,486	15,344
Other emoluments	617	425
Contributions to the State Social Insurance Fund	298	262
Expenses on (income from) provisions related to liabilities to the staff	(144)	638
<b>Total</b>	<b>20,363</b>	<b>18,612</b>

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

As at 31 December 2020, four Services, five autonomous Departments and four autonomous Divisions operated in the Bank of Lithuania. As at 31 December 2020, the Bank of Lithuania employed 629 staff members (at the end of 2019 – 617) of which 45 (at the end of 2019 – 42) worked under a fixed-term labour contract. In addition, 30 employees were on parental leave or unpaid leave for the term of their contracts with other institutions (at the end of 2019 – 25). In 2020, the average number of employees, expressed in full-time equivalents, amounted to 650 (in 2019 – 622).

In 2020, an increase in expenses on salaries was caused by the growth in the number of staff and higher salaries.

In 2020, the part of staff costs that amounted to €169 thousand (in 2019 – €241 thousand) was included in the initial costs of the intangible asset items internally generated by the way of projects (see section 2.13 of the Explanatory Notes and Note 13 “Tangible and intangible fixed assets”) and are not presented in this item.

### NOTE 36. ADMINISTRATIVE EXPENSES

EUR thousands

	2020	2019
Administrative expenses		
Information system maintenance and information acquisition	5,883	4,028
Tangible assets maintenance	2,533	1,846
Participation in international organisations fees	1,455	1,370
Mail and telecommunication	602	650
Equipment and office supply	478	580
Communication	251	191
Training of the staff	179	472
Business trips	149	992
Other	1,736	1,165
<b>Total</b>	<b>13,266</b>	<b>11,294</b>

In 2020, information system maintenance and information acquisition expenses increased mainly due to the information systems programming and maintenance works.

### NOTE 37. BANKNOTE PRODUCTION SERVICES

The Bank of Lithuania participates in the production of euro banknotes together with other NCBs of the euro area. The Governing Council of the ECB sets the denominations of euro banknotes and their quantities that must be produced each year from euro area NCBs funds. In 2020, the Bank of Lithuania incurred euro banknote production expenses (amounting to €1,807 thousand) that were necessary to supplement the Eurosystem's strategic reserve (in 2019 – €1,596 thousand).

### NOTE 38. OTHER EXPENSES

EUR thousands

	2020	2019
Euro circulation coin minting expenses	1,508	53
Collector and commemorative coin minting expenses	906	1,328
Cash circulation expenses	42	85
Other miscellaneous expenses	1	40
<b>Total</b>	<b>2,458</b>	<b>1,506</b>

### NOTE 39. PROFIT DISTRIBUTION

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

- 1) net distributable profit (loss), which consists of the profit (loss) for the last financial year and undistributed profit (if any) carried over from the previous financial periods, is distributed (covered) after the end of the financial year;
- 2) net distributable loss shall be covered from the reserve capital of the Bank of Lithuania. When the reserve capital is not sufficient to cover the net distributable loss, the remaining uncovered losses are carried forward to be covered by the distributable profit of the succeeding financial years;
- 3) net distributable profit shall be allocated in the following sequence:
  - to cover the uncovered loss carried forward;
  - for the authorised capital up to the amount specified in the Law on the Bank of Lithuania;
  - for the reserve capital up to the amount independently established by the decision of the Board of the Bank of Lithuania, taking into account the potential impact of risks; however, this capital shall not be less than five amounts of the authorised capital of the Bank of Lithuania;
  - to the State Budget as the profit contribution of the Bank of Lithuania. This contribution shall not exceed the amount corresponding to 70% of the calculated average of the profit (loss) of the Bank of Lithuania of the last three financial years.

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

#### Profit distribution

EUR

	2020	2019	2018
Profit distribution			
Allocation to the reserve capital of the Bank of Lithuania	8,010,382	11,673,823	20,905,554
Transfer to the state budget	16,625,836	13,770,983	12,704,656
<b>Total</b>	<b>24,636,218</b>	<b>25,444,807</b>	<b>33,610,210</b>

## 7. OTHER NOTES

### NOTE 40. DERIVATIVES

As at 31 December 2020, the Bank of Lithuania had outstanding foreign exchange swaps, foreign exchange forwards, non-deliverable foreign exchange forwards, future contracts, forward transactions in securities and TBA contracts. All these transactions were conducted in the context of the management of the Bank of Lithuania's financial assets (excluding monetary policy operations) and are presented in the off-balance sheet accounts.

#### Foreign exchange swaps and foreign exchange forwards

EUR thousands

	31 December 2020	31 December 2019
Claims	5,631,581	7,912,418
Liabilities	5,631,581	7,912,418

#### Non-deliverable foreign exchange forwards

EUR thousands

	31 December 2020	31 December 2019
Notional claims	365,450	286,507
Notional liabilities	363,231	285,476

#### Future contracts

EUR thousands

	31 December 2020	31 December 2019
Notional claims	10,958,488	5,794,133
Notional liabilities	11,720,644	6,327,580

As at 31 December 2020, futures claims and liabilities increased as a result of the implementation of active investment management decisions.

#### Interest rate swaps

As at 31 December 2020, the Bank of Lithuania had no outstanding interest rate swaps (as at 31 December 2019, the contractual amount of these contracts amounted to €324,509 thousand).

#### Forward transactions in securities

EUR thousands

	2020	2019
Receivable securities	2,038	1,278
Payable amounts	2,038	1,278

#### TBA contracts

EUR thousands

	2020	2019
Receivable mortgage-backed securities	53,618	–
Payable amounts	53,618	–

**NOTE 41. ASSETS AND LIABILITIES OF THE BANK OF LITHUANIA BY FOREIGN CURRENCY**

EUR thousands

	USD	GBP	CAD	CNY	XDR	CZK	Other
<b>31/12/2020</b>							
On-balance sheet assets	2,011,449	321,099	319,507	200,558	262,484	748,908	632,217
On-balance sheet liabilities	322,643	2,991	3,609	1,725	161,750	14,148	902
NET ON-BALANCE SHEET ASSETS (LIABILITIES)	1,688,806	318,108	315,898	198,833	100,735	734,760	631,315
Net off-balance sheet assets (liabilities) included into currency position	(494,571)	(90,934)	(89,675)	(89,154)	-	(732,680)	(634,435)
<b>NET ASSETS (LIABILITIES)</b>	<b>1,194,235</b>	<b>227,174</b>	<b>226,222</b>	<b>109,679</b>	<b>100,735</b>	<b>2,080</b>	<b>(3,121)</b>
<b>31/12/2019</b>							
On-balance sheet assets	1,760,635	240,216	233,126	98,523	226,563	744,864	1,755,773
On-balance sheet liabilities	257,536	3,096	1,932	1,185	169,339	3,711	39,320
NET ON-BALANCE SHEET ASSETS (LIABILITIES)	1,503,099	237,120	231,193	97,338	57,224	741,152	1,716,452
Net off-balance sheet assets (liabilities) included into currency position	(285,076)	(239,502)	(230,709)	(212,927)	-	(742,395)	(1,718,797)
<b>NET ASSETS (LIABILITIES)</b>	<b>1,218,023</b>	<b>(2,382)</b>	<b>484</b>	<b>(115,588)</b>	<b>57,224</b>	<b>(1,243)</b>	<b>(2,345)</b>



**Collector and commemorative coins issued in 2020**

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

**Resolutions adopted by the Board of the Bank of Lithuania in 2020**

- » The Bank of Lithuania took active legislative actions and adopted regulatory Bank of Lithuania legal acts.
- » The Board of the Bank of Lithuania adopted 86 resolutions that regulate the activities of banks and other financial market participants; they are made publicly available on the [Register of Legal Acts](#).