LIETUVOS BANKAS
EUROSISTEMA

Banking Activity Review

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In 2016, Lithuania's banking sector faced consolidation, but new market participants also took an interest in the licence of a specialised bank. The amendments to the Republic of Lithuania Law on Banks as of 2017 encourage niche market participants. Changes in bank assets and liabilities were driven by robust growth in their loan portfolio and customer deposits. According to the data provided, the banking sector capital and liquidity were sustainable. The state of individual economic sectors does not provide preconditions for lending to weaken in the short-term. The activity of the lending market itself has been intensifying and its growth outpaces economic development. The amount of customer deposits with banks kept increasing – this banking product is still chosen by numerous residents, despite low interest rates. Bank profits were the largest in five years, with the highest contribution to their growth largely stemming from net interest income. In Lithuania, banks are more profitable and effective compared to the European Union (EU) average. The basic services basket requirement came into force as of 1 February of this year; however, banks started revising their price formation already at the end of last year. The Republic of Lithuania Law on Credit Relating to Real Property, to come into force this year, will regulate housing credit-related aspects. The advantages of this Law include clearer informing of customers prior to taking a decision regarding a loan, also additional flexibility opportunities for people with housing loans. The updated Payment Services Directive will soon offer more opportunities for new and existing payments market participants.

1. BANKING SECTOR DEVELOPMENTS

The largest banking sector participants have been in the process of consolidation; however, new market participants have been showing a greater interest in the licence of a specialised bank. 2016 was a year of consolidation within Lithuania's banking sector: the transaction of the sale of *Danske Bank A/S* Lithuania branch's portfolio of retail customers to *Swedbank, AB* was accomplished, while in the autumn, the news of the intention of *DNB ASA* and *Nordea Bank AB* to combine forces and establish a universal bank of the Baltic States reached the market. On the other hand, the interest of smaller-sized – both new and existing – financial sector participants in the licence of a specialised bank was present. That was also related to credit union reform, due to which, by 31 December 2017, credit unions will either have to merge into groups and form central credit unions or become individual specialised banks. The outcome of this reform is the amendments to the Law on Banks that came into force as of 1 January 2017, providing for the possibility to establish a specialised bank under more simple conditions. Such a bank will differ from present banks in a lower initial capital requirement (EUR 1 million instead of EUR 5 million); however, it will not be authorised to provide investment services. In any other aspect, such authorised institution, would not be different from already existing banks and would be subject to the same supervisory requirements. The latter would be applicable sticking to the principle of proportionality, taking into account the complexity of the institution.

Potential new niche banking market participants would be providing payment or consumer finance loans services. To summarise the recent years' developments, existing participants of Lithuania's banking sector have been looking for ways to make their activity more effective. On the other hand, possibilities for the establishment of niche banks also occur; these banks would be able to devote greater attention to customers that are not the target audience of major banks – e.g. they would provide payment services or consumer credits. If the latter is a success, this would not only increase penetration of the financial sector, but also ensure higher competition. In 2017, the Bank of Lithuania plans to assess the attractiveness of the legal environment of Lithuania's financial sector and improve national regulation to make it favourable for the application of innovations and new financial market participants entering the market.

As of 31 December 2016, 6 banks and 8 foreign bank branches[2] operated in Lithuania; their number remained unchanged over the year.

[1] The Review has been prepared based on unaudited data. Should system participants adjust their statements for this or other important reasons, the data of the Review after this date may be revised.
[2] Reports from 7 branches are received for supervisory purposes, as the branch of *Telia Finance AB* in Lithuania, *Telia Finance Lietuva*, is not engaged in operations so far.

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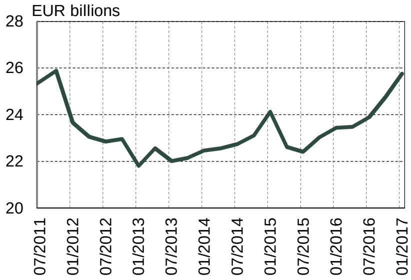
Chart 1. Assets of the banking sector

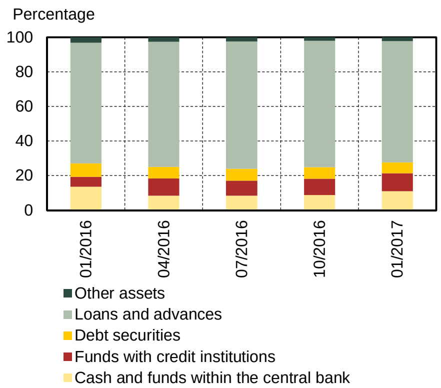
(1 July 2011–1 January 2017)



Source: Bank of Lithuania.

Chart 2. Asset composition

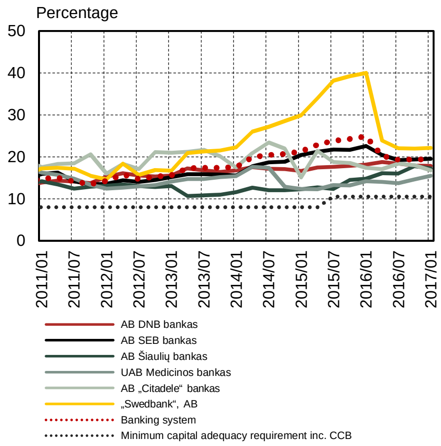
(1 October 2015–1 January 2017)



Source: Bank of Lithuania.

Chart 3. Capital adequacy ratios of banks

(1 January 2011–1 January 2017)



Source: Bank of Lithuania.

Table 1. Capital adequacy ratios of banks

(as of 31 December 2016)

	Capital adequacy ratio	Change over the quarter
	per cent	p.p.
AB DNB bankas	17.9	0.0
AB SEB bankas	19.5	0.1
AB Šiaulių bankas	17.2	–0.6
UAB Medicinos bankas	15.5	0.8
AB Citadele bankas	16.8	–1.2
Swedbank, AB	22.1	0.1
Banking system	19.4	0.0

Source: Bank of Lithuania.

2. ASSETS AND LIABILITIES

In 2016, changes in bank assets were mainly driven by loan portfolio growth and liquidity management decisions. Bank assets amounted to EUR 25.8 billion in 2016, a year on year increase of EUR 2.3 billion (9.9%). Last year, lending intensified; as a result, the net value of banks' loan portfolio increased markedly. This factor determined the largest share of the change – the net value of the loan portfolio increased by EUR 1.7 billion (10.6%) over the year. The other share of the change mainly reflected tactical decisions of some major banks in the fields of liquidity buffer and funds management. For this reason, bank asset positions with credit institutions (mainly parent banks) expanded by EUR 1.4 billion, a slightly more than twofold increase. Changes in other asset items were less pronounced in 2016 and did not have a significant influence on banks' total assets.

Out of bank liabilities, customer deposits grew the most. Bank liabilities grew by EUR 2.7 billion (12.9%) in 2016, to EUR 23.5 billion. The growth was basically distributed between customer deposits and credit institution deposits. The amount of customer deposits boosted by EUR 1.7 billion (10.0%), credit institution deposits – by EUR 1.3 billion (48.7%) over the year. This change was also related to bank asset changes due to the above-named bank liquidity management decisions. Other items of bank liabilities did not affect the changes significantly.

3. COMPLIANCE WITH REQUIREMENTS

The banking sector capitalisation remained stable in 2016. The overall capital adequacy ratio of the banking sector was 19.4 per cent as of 31 December 2016, remaining unchanged over the quarter. The overall capital adequacy ratio of the banking sector decreased by 5.5 p.p. from 2015; however, this was not due to the deteriorating situation of banks' capitalisation in general, but the dividends paid out by *Swedbank, AB* at the beginning of the year. In late 2015, the Bank's capital adequacy ratio was particularly large – 40.0, while as of 31 December 2016 – 22.1 per cent, remaining the largest among the banks in operation in Lithuania. The state of the capital of major banks was stable in 2016; some smaller-sized market participants, whose capital adequacy ratios were lower, were encouraged to strengthen their capital. *AB Šiaulių bankas* strengthened its capital base with EUR 27 million in the third quarter of 2016, by including its profits for the half-year. The capital adequacy ratio of *UAB Medicinos bankas* is the lowest in the banking sector and, given the regulatory requirements, strengthening of capital continues to be relevant. Capital buffer requirement for other systemically important institutions (O-SII buffer) came into effect as of 31 December 2016. For the three major banks, this requirement is 2.0 per cent, for *AB Šiaulių bankas* – 0.5 per cent of risk weighted assets.

According to the reports submitted by banks, they complied with established capital requirements. All banks operating in Lithuania, based on supervisory reports submitted, complied with both the minimum capital adequacy requirement (8.0%) and combined capital buffer requirement, which includes capital conservation buffer of 2.5 per cent (a total of 10.5%). Banks also complied with individual Pillar II capital requirements set during their supervisory review and evaluation process (SREP) in 2016. In December 2016, capital requirements were revised for *AB Šiaulių bankas*, establishing the requirement of 12.9 per cent of the total capital adequacy ratio. In January 2017, the previous capital adequacy ratio of 14.5 per cent was left unchanged for *AB Citadele bankas.* In the third

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quarter, the requirement of 13.9 per cent of the capital adequacy ratio came into effect for *UAB Medicinos bankas*, which replaced the previous requirement of 12.4 per cent. These capital requirements for banks will be effective in 2017 until a new SREP is carried out. By the decision of the ECB, individual capital ratios of the three major banks in Lithuania are not published; however, they are set according to the same principles and these banks comply with them with a sufficient margin.

In 2016, the liquidity level of banks continued to be high, while the liquid asset reserves – sufficient. The quality of bank liquid assets was very high, as the liquid assets were comprised of particularly high quality and liquidity financial instruments: cash, funds with the Bank of Lithuania, and securities of the governments of EU countries. Banks attracted financial resources from their main channels – client and parent bank deposits. The banking system's dependence on public sector financing was still insubstantial. In monitoring the banks' liquidity situation and to be sure that banks ensure compliance with liquidity coverage requirements, the Bank of Lithuania assesses on a permanent basis the values of the liquidity coverage ratio (LCR) – the key indicator of liquidity, set in Capital Requirements Directive IV and in the Capital Requirements Regulation. In October 2016, banks for the first time submitted official reports on their liquidity coverage, updated in line with the delegated act, which already presented the calculated LCR. According to the data submitted by banks, LCR is large across all banks present in the country and was met with a sufficient margin – as of 31 December 2016, the banking sector's ratio was 266.3 per cent (the requirement is 100%). The LCR values of all banks have improved over the last quarter. *UAB Medicinos bankas* stood out somewhat; however, the sharp increase in its LCR was driven by one-off factors, due to which the value of the ratio in question had fallen more than usual in the third quarter; the Bank's liquidity situation in general has been good though.

Table 2. Liquidity coverage ratios of banks

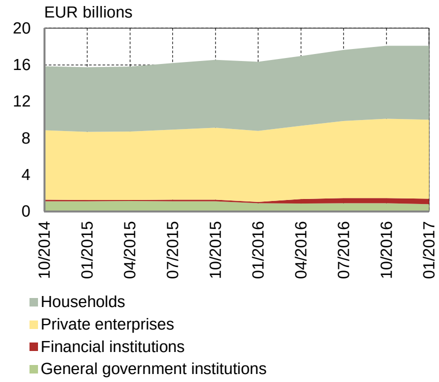
(as of 31 December 2016)

	Liquidity coverage ratio	Change over the quarter
	per cent	p.p.
AB DNB bankas	181.4	16.2
AB SEB bankas	200.1	26.5
AB Šiaulių bankas	338.6	32.1
UAB Medicinos bankas	873.6	538.8
AB Citadele bankas	160.5	25.6
Swedbank, AB	288.5	30.0
Banking system	266.3	34.5

Source: Bank of Lithuania.

Chart 4. Bank loan portfolio value

(1 October 2014–1 January 2017)



Source: Bank of Lithuania.

4. THE LOAN PORTFOLIO[3]

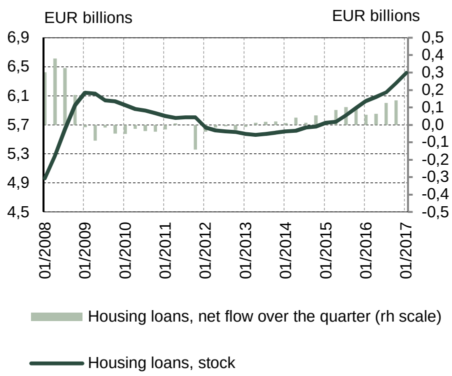
Loan portfolio developments

The value of the loan portfolio rose significantly in 2016, rising to a lesser extent, however, at the end of the year. The net value[4] of loans granted to bank customers grew by EUR 1.7 billion (10.6%), to EUR 18.1 billion over 2016.[5] The largest contribution to the annual change in the net value of the loan portfolio stemmed from private enterprises; however, loans to households, including loans for house purchase, increased as well. The portfolio of loans to enterprises increased by EUR 872 million (11.3%), to households – by EUR 522 million (6.9%) in value over the year. The loan portfolio of other financial corporations grew by EUR 407 million over the year – by 3.5 times, but the amount itself, as compared to the total loan portfolio, has been small and accounts for 3 per cent of the entire portfolio. The net value of the loan portfolio of government loans dropped by EUR 76 million (–8.4%) over the year.

In the fourth quarter, the value of the bank loan portfolio remained almost unchanged, falling by EUR 8 million (0.0%). And yet the dynamics of the loan portfolio value of all economic agents varied: for households, the loan portfolio value rose by EUR 119 million (1.5%), but for enterprises and

Chart 5. Housing loan portfolio

(1 January 2008–1 January 2017)



Note: As of 1 October 2014, housing loans also include loans granted to households for investment in one's house for one's own needs or rent, including construction and repair; therefore, the data are not fully comparable to the line of previous data.

Source: Bank of Lithuania.

[3] Including the leasing portfolio.
[4] The financial statements present loan value, which is calculated by adding up the balances of loans and interest accrued and subtracting provisions formed and charges accrued.
[5] The annual growth of bank and credit union credit to the domestic economy was as follows: for the entire loan portfolio – 9.1 per cent, for loans to households – 8.1, enterprises – 8.3, for housing loans – 7.1 per cent. MFI balance sheet statistical data used herein is adjusted for the elimination of MFIs under bankruptcy from statistics and other technical factors. For more information, see Annex 2 'MFI loan portfolio adjustment for technical factors' of the December 2014 Lithuanian Economic Review (http://www.lb.lt/lithuanian_economic_review_december_2014).

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government institutions it fell by EUR 59 million (–0.7%) and EUR 89 million (–9.7%) respectively. The net value of the loan portfolio of other financial corporations boosted by EUR 21 million (3.8%).
Both the entire 2016 and the fourth quarter were favourable for the housing loan portfolio. The net value of the loan portfolio of banks grew by EUR 387 million (6.4%) over the year, o/w over the last three months – by EUR 140 million (2.2%).

The condition of individual economic sectors so far has not suggested any underlying factors for lending to decline in the short term. Growth in the net value of the portfolio of loans to households continued to be sustainable and quite robust throughout the entire 2016. It was driven mainly by housing loans, whose flow was still large and developed conjointly with the intensified real estate market and the rising income of residents. The growth in lending to enterprises in 2016 was driven by individual large transactions, while the decline recorded in the fourth quarter has been observed for a few years already. The activity of enterprises borrowing from banks weakened towards the end of the year, with the contribution to that having stemmed also from fewer business days during the holiday period; as a result, fewer transactions are concluded. Since enterprise loan portfolio developments are driven by individual large agreements, growth decelerated towards the end of the year for seasonal rather than fundamental reasons. Government leverage developments have been affected quite significantly by loans repaid by State social insurance fund *Sodra*: it has been announced that at the end of the year it repaid to *Swedbank, AB* and *AB DNB bankas* almost EUR 90 million in loans.

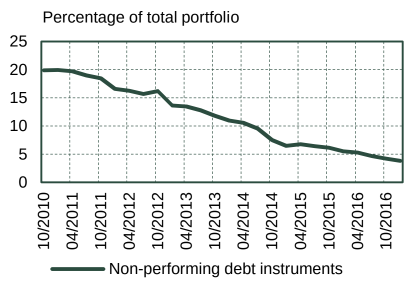
The loan market activity has been intensifying; the rate of lending outpaces economic growth. The development of lending, after intensifying in 2015, was strong in 2016, while the growth rate of lending outpaced Lithuania's nominal economic development and was one of the strongest in Europe. Despite such strong growth, the net value of the loan portfolio of banks has still not returned to pre-crisis levels (in 2008, the value of the loan portfolio of banks was EUR 23.6 billion). Last year, the net value of the loan portfolio was the largest since 2010. It seems that the lending market so far has been developing fast and, therefore, it needs to be monitored further. The Bank of Lithuania has instruments for mitigating the risk and its potential impact in place. One of them is the counter-cyclical capital buffer, the rate of which is currently 0 per cent; it is revised by the Bank of Lithuania on a quarterly basis.

Loan portfolio quality

The bank loan portfolio quality has improved. The share of non-performing loans has contracted by 1.7 p. p. over the year, to 3.8 per cent as of 1 January 2017. The quality indicators improved both for the loans granted to non-financial corporations and households: the share of non-performing loans shrank by 2.2 p. p. and 2.5 p. p. respectively over the year, to account for 6.2 per cent and 4.8 per cent of these portfolios. This change in the indicator was driven by an improvement in the borrower situation, write-down of bad loans, and the accounting aspects of the retail loan portfolio purchased by *Swedbank, AB* from *Danske bank A/S* Lithuania branch.

Chart 6 Loan quality

(1 October 2010–1 January 2017)



Source: Bank of Lithuania.

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5. DEPOSITS WITH BANKS

The amount of deposits held with banks at the end of 2016 continued to increase. As of 1 January 2017, the customers' holdings of deposits with banks amounted to EUR 18.8 billion, a year-on-year increase of 10 per cent (EUR 1.7 billion). As usual at the end of the year, the fourth quarter of 2016 saw a higher leap than in the other quarters of the year. Over the last quarter of 2016 the amount of customer deposits went up by EUR 1.4 billion (8.0%), o/w of households alone – by EUR 0.7 billion, of enterprises – by EUR 0.5 billion. This is likely to be related to the year-end effect, when employers pay to their employees by the beginning of a new year; the same holds true of enterprises paying to customers and suppliers. Towards the end of 2016, the amount of customer deposits with banks reached new record heights.

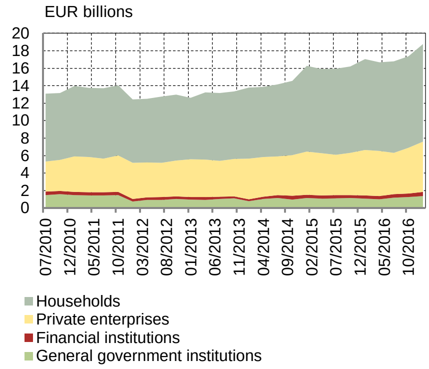
Bank customers choose deposits disregarding low interest rates. As can be seen from the long-term banking sector statistics, deposits continued to be a product in demand from the customer side. Customer deposits account for the largest share of bank liabilities in absolute terms – 80 per cent, of which the share of household deposits accounts for 47 per cent. It has been a long-term habit in Lithuania for residents to choose deposits with banks as a means of saving and investing. The environment of particularly low interest rates prevailing for a prolonged period of time has not changed this practice. According to the data of the Bank of Lithuania, the average interest rate on a new deposit with a maturity of 6–12 months in 2016 was 0.27 per cent, in 2015 – 0.33 per cent. Major banks currently do not feel a lack of financing and, given the market interest rates, offer even more lower interest rates or do not conclude deposit agreements for a period of up to 12 months overall. Judging from the statistics on actual deposit agreements, a conclusion can be derived that customers choose deposit facilities offered by smaller-sized banks in the country, which offer higher rates. As emphasised in previous reviews, the popularity of deposits among residents is due to the fact that they do not choose other investment instruments. Subject to the person's risk appetite, currently an alternative to a bank deposit can be chosen from a quite wide range of financial products, starting from 3rd pillar pension funds and ending with enterprise shares; however, such investment strategy still has not been prevalent among Lithuanian residents.

6. PROFITABILITY AND EFFICIENCY OF OPERATIONS

Banks in Lithuania earned the highest profits in five years. Based on unaudited data, banks and foreign bank branches earned EUR 252.2 million in profits in 2016, a year-on-year increase of 17.1 per cent. This is the highest profit of Lithuania's banking sector in the last five years. Ten banks and foreign bank branches operated at a profit and only 3 market participants incurred losses. 2016 was a particularly successful year for the banking sector; the main items of banks' income and expenses improved: both the net interest income (EUR 34.7 million, or 9.4%) and net income from services and commissions (EUR 6.2 million, or 3.5%) of the banking system posted growth, while a decline in interest expenditure contributed to profit growth the most. However, unlike in 2015, the administrative expenses stopped declining, increasing by EUR 5.4 million (1.9%) over the year. Banks incurred both staff expenditure and other expenditure. Staff expenditure grew by EUR 3.5 million (2.1%) in 2016; it seems that, at least recently, wage growth observed in the market started to outweigh the efficiency of banks' organisational structures, which has to be taken into account. Profits were negatively affected by a decline in the profits held for trading – mainly securities, the fluctuations in the price of which are driven both by financial market developments and investment decisions of asset managers. In 2016, bank profits from assets held for trading dropped by

Chart 7 Amount of deposits

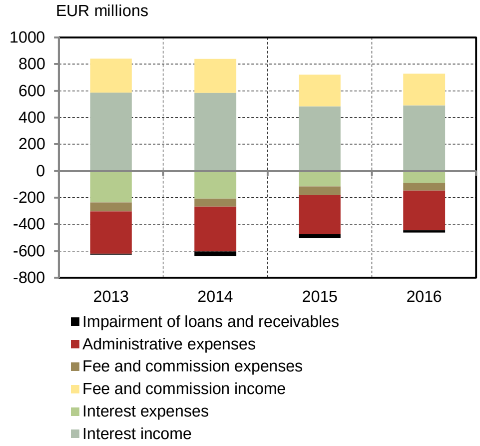
(1 July 2010–1 January 2017)



Source: Bank of Lithuania.

Chart 8. Main items of income and expenses

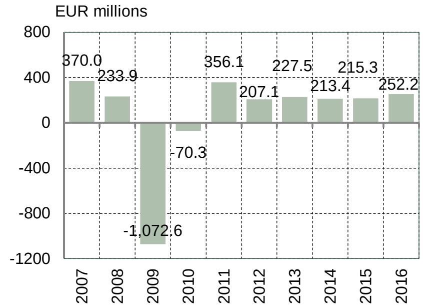
(2013, 2014, 2015 and 2016)



Source: Bank of Lithuania.

Chart 9. Profit of the banking sector

(1 January 2008–1 January 2017)



Source: Bank of Lithuania.

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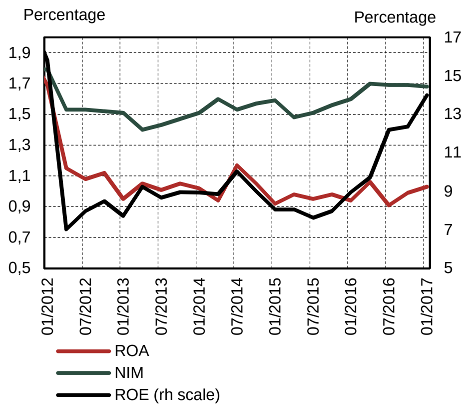
Chart 10. Bank profitability ratios and net interest margin

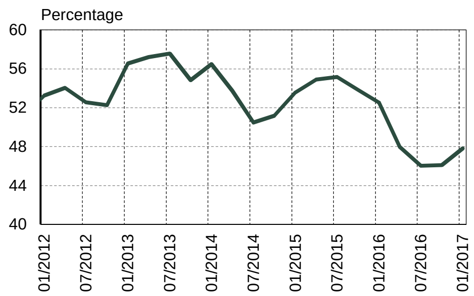
(1 January 2012–1 January 2017)



Source: Bank of Lithuania.

Chart 11. Bank efficiency indicator (cost-to-income ratio)

(1 January 2012–1 January 2017)



Source: Bank of Lithuania.

EUR 14.8 million (–29.5%).

Banking sector assets were also affected in 2016 by several one-off factors – both positive and negative. Their aggregate amount with different banks determined approximately EUR 17 million in losses. Developments were recorded in the middle of this year, the loss from which will be amortised in the next reporting periods, recognising the above-named developments related economic benefits. In addition, in the middle of 2016, a few banks earned profits from the revaluation of their holdings of financial assets, while one bank incurred significant operational risk losses.

The greatest contribution to net income growth stemmed from the decline in expenses. Net interest income of banks increased by EUR 7.8 million (1.6%) in 2016, to EUR 491.5 million. Interest expenses declined substantially, contracting by EUR 26.9 million (–23.1%) over the reporting period, to EUR 89.5 million. Net interest income increased by 34.7 million (9.4 %), to EUR 402.0 million. As lending intensified and banks' loan portfolio started to increase in value, banks began earning more of interest income. Income growth was first recorded in the third quarter of last year following a fall observed for a few years. The largest contribution to the increase in net interest income stemmed from interest expenditure, which declined markedly further. On the one hand, the preconditions for that are provided by the environment of particularly low interest rates and the resulting low cost of bank funding. However, banks also benefited from lower contributions to the Deposit Insurance Fund following a change in the contribution calculation procedure, set under a new Deposit Guarantee Schemes Directive. There still is a lack of preconditions for interest rates to rise, thus further growth in bank income will in the near future also depend on the development of their loan portfolios; moreover, deposit insurance premiums may be revised again in 2017.

Despite the environment of low interest rates, the share of income from loans earned by banks was quite stable, yet below the European average. Comparison of a longer term shows the pattern of the declining share of bank interest income. In 2008, interest income of banks, compared to all sources of bank income[6], accounted for about 80 per cent, while with the settling of a low interest rates environment, this share contracted gradually to 59 per cent. And yet it cannot be claimed that banks have changed their business profile. Taking into account interest expenditure, it can be seen that the share of net interest income was quite stable from 2008 to present, fluctuating at around 60 per cent.[7] A comparison on an EU scale reveals, however, that the share of banks' net income derived from net interest is among the smallest in Europe. Based on the comparisons from the European Banking Authority (EBA) for the third quarter of 2016[8], the net interest income of banks in Lithuania relative to operating income accounted for 54 per cent (the EU average is 58%); however, banks in Lithuania were in the seventh position from the bottom. Given that the business models of banks in Lithuania are those of classical banking, i.e. basically based on credit income, the share of interest income should be larger.

Prior to coming into force of the requirement regarding the basket of basic services, banks changed their price formation. Net income from fees and commissions increased by EUR 0.3 million (0.1%) in 2016, to EUR 237.5 million. Expenditure decreased by EUR 5.8 million (–9.2%), to EUR 57.5 million. Net income from fees and commissions rose by EUR 6.2 million (3.5%), to EUR 180.0 million. Net income from fees and com-

[6] For comparison, the amount of interest income, income from fees and commissions, dividend income, profit (loss) from financial assets and other operating income is used.
[7] For comparison, the net amount of operating income is used.
[8] See http://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard, EBA comparisons include information from the three largest banks in Lithuania.

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mission accounted for a fourth of banks' net operating income, while their significance remained substantially unchanged in 2016. The requirement for banks to offer customers a basket of basic services came into effect as of 2017 (for more information, see section 7 of the Review). However, in the second half of 2016 banks revised their price formation offering baskets of financial services to residents in advance. It is still too early to evaluate the actual impact of such a basket on bank income based on 2016 data – a clearer trend should emerge later in the year.

Banks increased their profitability and efficiency over the year. In 2016, banks' return on assets was 1.06 per cent, return on equity – 13.99 per cent. These indicators increased by 0.09 p.p. and 5.03 p.p. over the year respectively. Banks' return on assets remained almost unchanged over the year, while the leap in the return on equity was due to almost EUR 500 million paid out in dividends by *Swedbank, AB* in early 2016. Banks' efficiency ratio, which illustrates their cost-to-income ratio, was 47.8 per cent in 2016. With banks' profits rising, its value decreased by 4.7 p.p. over the year.

The profitability and efficiency of banks in Lithuania is markedly higher as compared to banks operating in the EU. The efficiency ratio of banks in Lithuania, which is also affected by relatively lower labour input in the country, is among the highest across EU banks. According to EBA comparisons for the third quarter of 2016[9], the average value of the efficiency ratio of EU banks was 63 per cent, of banks in Lithuania – 46 per cent; their return on assets – 0.6 per cent and 1.2 per cent respectively, their return on equity – 5.4 per cent and 10.0 per cent respectively.

7. REGULATORY ENVIRONMENT

Legislation

The implementation of the revised Payment Services Directive (PSD2) will provide more possibilities for both new and existing market participants. Payment service providers will have the right to initiate payments from an account opened with another payment service provider upon consent of the account holder. In addition, payment service users will be able to receive information on the account transactions performed by using the services of another payment service provider. A practical example of such new services could be an integrated app on an individual's mobile phone; it would enable to both make various payments and receive an analysis of income and expenses over the month, as well as various additional services. The new regulation can be beneficial to all: banks operating in the market since long ago, which are trusted and have a wide customer base, market newcomers, who implement innovative and consumer-convenient and effective payment solutions, as well as residents and enterprises willing convenient and cheap payments. Constructive cooperation among all market participants and the Bank of Lithuania will significantly contribute to the implementation of the new regulation smoothly, on time, and in satisfaction of the Lithuanian market interests. The Directive is to come into force as of 2018; it will be transposed into Lithuanian law prior to that. The implementation of some of the Directive's provisions is likely to be with some delay, giving market participants some time to adapt to the changes.

Residents are already able to choose a basket of basic payment services. In 2016, the Seimas of the Republic of Lithuania passed the Law on the Amendment of the Republic of Lithuania Law on Payments. The amendment has implemented Directive 2014/92/EU[10], while residents can as of 1 January 2017 use a basket of basic payment services for a limited price. Banks and credit unions were obligated to provide this basket service[11] once their customers have chosen the basic payment account service for a fixed price.

Upon ordering such a basket, residents will be provided the following services at no additional cost: opening of an account and administration service, electronic banking service, unlimited crediting of received funds, payment card and payment card operations, at least ten electronic transfers in euro, unlimited depositing of cash, and withdrawal of at least EUR 550 in cash. The monthly price for this package of services will not exceed EUR 1.5, while for those with low income, half the price will be applied – no more than EUR 0.75. The threshold price for the basket will be revised on an annual basis subject to the dynamics of average consumer spending per capita.

Banks and credit unions providing the payment account service must offer their customers a basket of payment services

[9] See http://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard, EBA comparisons include information from the three largest banks in Lithuania.
[10] Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features .
[11] The list of providers of basic payment account services is available here.

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set by the Bank of Lithuania. However, residents are not required to accept this offer; they are free to choose from the alternatives offered by other banks or credit unions.

The Republic of Lithuania Law on Credit Relating to Real Property, to come into force this year, will regulate relevant housing credit aspects. The above-named Law, passed in 2016, will come into force as of 1 July 2017. It implements Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property. The Law has also regulated other uncertainties in the area of granting household credits, finding a balance between the interests of the two parties to a transaction – creditor and consumer who receives the credit. Prior to signing an agreement, the Law will provide conditions to more easily compare some mortgage credit offers, a list of mandatory terms of conditions of a credit agreement will be drawn up, the structure and change of the interest rate will be revealed in a standardised form, the practice of mandatory selling of other products to the customer will be prohibited, a 30-day period for consideration will be provided before signing an agreement. Upon signing an agreement, a 14-day period for renouncing the agreement, the maximum charge for early repayment of credit – 3 per cent of the amount being repaid have been provided for; the amount of penalty for the default on liabilities will not exceed 0.05 per cent of the amount overdue for each day of delay. The Law also provides a 3-month ‘credit holiday’ for consumers.

The Bank of Lithuania began providing a new service, ‘STOP: Consumer Credits’. The provision of the service started as of 1 November 2016; the service is designated to help individuals to secure themselves against excessive and irresponsible borrowing, also against illegal use of personal data. Each natural person who does not wish to get consumer credit can put themselves on the special List.[12] The same can be done by a representative of the natural person holding a valid proxy. Moreover, family members who see an uncontrollable borrowing problem may apply to court asking the person to be banned from concluding a consumer credit agreement. The ban will apply when trying to get any consumer credit: payday loan, consumer credit from a bank, credit card, leasing services, consumer credit via peer-to-peer lending platforms. Other loans, e.g. housing loans, will be granted according to the general procedure. All companied granting consumer credit must in turn check whether the person wishing to get consumer loan is not on this List. It is prohibited to grant consumer credit to such a person; the consumer credit agreement concluded would be deemed invalid.

Protection of consumer rights

Most of consumer disputes were addressed to the Bank of Lithuania regarding the terms and conditions of consumer credit agreements. In 2016, the Bank of Lithuania dealt with 133 disputes between consumers and banks/their branches operating in Lithuania. They were mainly disputes arising from consumer credit agreements. Consumers mostly required amending the terms and conditions of housing credit agreements (type of interest rate, size of margin, etc.), not to apply late payment interest, indemnify for losses incurred from the application by the bank of the wrong credit repayment method and other aspects of the fulfilment of the agreement. A total of 56 decisions were taken during the period under review: in 8 cases, consumer requirements were satisfied or satisfied in part, in 13 cases a peaceful agreement was reached; other claims to banks have been recognised as unreasonable. Out of the 8 decisions that have satisfied the claims, 4 recommendatory decisions regarding disputes arising from the application of negative interest rates have not been fulfilled. The Bank of Lithuania announced about the non-fulfilment of the decisions on its website.

In 2016, disputes regarding housing loans in Swiss francs were dealt with. Part of them pertained to the refusal by the bank to apply a negative interest rate, when the base interest rate not only became negative, but also higher than the bank’s margin. In such cases, the bank equated negative interest rates to zero, even though this was not established in the agreements with consumers. Having analysed the contested agreements, the arguments of the parties and other circumstances, the Bank of Lithuania decided that the refusal by the banks to apply negative interest rates was not in line with the terms and conditions of the agreements and was unfair with regard to consumers. Other disputes related to the housing loan conclusion process: the applicants claimed that the bank, when introducing the possibility to get credit in Swiss francs, did not explain foreign exchange risk, thereby misleading the applicants. The applicants requested to obligate the bank to adjust the credit in euro for the euro exchange rate on the payment day according to the original rate of the Swiss franc and the euro as of the credit granting day. The Bank of Lithuania decided that the consumer claims were unreasonable since foreign exchange risk, as the basic information, had been revealed to the applicants before the conclusion of credit agreements, while the information provided by the bank was correct and detailed enough for the applicants to take a this information-based decision to conclude a housing credit agreement and perceive the risk of potential implications.

Part of the applications pertained to the administration of bank accounts and payment cards. In such disputes, it was mainly disagreed with various service fees set and applied, proper disclosure of the terms and conditions of agreements on financial services. Disputes regarding payment transactions via payment cards, when third parties appropriate funds using only the consumer payment card data, reoccur.

[12] More information on how to be entered on the *STOP: Consumer Credits* list is available here.

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Commercial banks applied higher fees than allowed to cross-border payments in the Swedish krona and Romanian leu. The Bank of Lithuania carried out an analysis and identified that eight banks operating in the country (*AB SEB bankas, Swedbank, AB, AB DNB bankas, UAB Medicinos bankas, AB Šiaulių bankas, AB Citadele bankas, Danske Bank A/S* Lithuania branch and *Nordea Bank AB* Lithuania branch) had breached EU legal requirements for cross-border payments. These banks applied to cross-border payments (transfers and/or their offsetting) in the Swedish krona and the Romanian leu higher fees than to respective payments in these currencies inside the country. According to EU legal requirements, banks must apply the same fee for payments in euro among the countries of the European Economic Area (EEA) as for domestic payments. Sweden and Romania have been exercising the right of the EU Member States to apply relevant conditions to payments in their national currencies; therefore, the above-named requirements apply to payments in the Swedish krona and the Romanian leu as well. This means that payments in these currencies among EEA countries cannot be dearer than respective domestic transfers in the Swedish krona or the Romanian leu.

The Bank of Lithuania applied enforcement measures to three banks for identified violations. As regards two banks – *AB SEB bankas* and *Swedbank*, *AB*, the scope of payments in the Swedish krona and the Romanian leu and the totality of other circumstances determined that they had been applied average penalty laid down in the Republic of Lithuania Law on Payments. In the case of *AB DNB bankas*, a less strict enforcement measure – a warning – was imposed, since the bank itself admitted the violation made and removed it quickly. It was decided not to apply enforcement measures to other banks (*UAB Medicinos bankas, AB Šiaulių bankas, AB Citadele bankas, Danske Bank A/S* Lithuania branch and *Nordea Bank AB* Lithuania branch) given the circumstances mitigating their responsibility (the banks admitted the violations made and removed them) and the little scope of their payment transactions.

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Annex. Key indicators of the banking sector

Table 3. Main items of the balance sheet statement

Seq. No	Indicator	01/01/2016	01/10/2016	01/01/2017***	Change in Q4	Change over the year
		amount, EUR millions			per cent	
1	**Assets**	**23,436.8**	**24,754.0**	**25,754.4**	**4.0**	**9.9**
1.1	Debt securities	1,836.1	1,634.2	1,607.4	–1.6	–12.5
1.2	Equity securities	73.1	49.2	54.6	11.0	–25.3
1.3	Financial derivatives	139.0	133.2	164.6	23.6	18.4
1.4	Cash	406.7	418.7	421.5	0.7	3.6
1.5	Funds with central banks	2,800.6	1,753.8	2,393.2	36.5	–14.5
1.6	Funds with credit institutions	1,306.2	2,339.4	2,686.7	14.8	105.7
1.7	Loans to customers (incl. leasing)*	15,879.2	18,080.4	18,072.6	0.0	13.8
	Loans to customers (incl. leasing) (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	16,346.3	*18,080.4*	*18,072.6*	*0.0*	**10.6**
1.7.1 .	to general government institutions (incl. leasing)	904.1	917.1	828.5	–9.7	–8.4
1.7.2 .	to other financial corporations (incl. leasing)	163.6	550.3	571.1	3.8	249.0
1.7.3 .	to non-financial corporations (incl. leasing)	7,739.6	8,671.1	8,612.0	–0.7	11.3
1.7.4 .	to households (incl. leasing)*	7,071.9	7,941.9	8,061.1	1.5	14.0
	to households (incl. leasing) (adjusted for the the loan portfolio share to be sold by *Danske Bank A/S)*	7,539.0	*7,941.9*	*8,061.1*	*1.5*	**6.9**
1.7.4.1	o/w loans for house purchase*	5,569.1	6,274.6	6,414.7	2.2	15.2
	o/w loans for house purchase (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	6,027.9	*6,274.6*	*6,414.7*	*2.2*	**6.4**
1.8	Other asset positions	995.8	345.1	353.7	2.5	–64.5
	Other asset positions (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	528.7	*345.1*	*353.7*	*2.5*	**–33.1**
2	**Liabilities and equity**	**23,436.8**	**24,754.0**	**25,754.4**	**4.0**	**9.9**
2.1	Deposits of central banks	345.9	305.5	303.0	–0.8	–12.4
2.2	Liabilities to credit institutions	2,641.3	4,395.8	3,918.0	–10.9	48.3
2.3	Financial derivatives	125.3	121.8	145.4	19.4	16.0
2.4	Deposits**	16,892.0	17,378.5	18,766.7	8.0	11.1
	Deposits (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	17,055.1	*17,378.5*	*18,766.7*	*8.0*	**10.0**
2.4.1 .	of general government institutions	1,078.2	1,258.0	1,378.2	9.5	27.8
2.4.2 .	of other financial corporations	372.0	416.0	483.4	16.2	29.9
2.4.3 .	of non-financial corporations	5,179.4	5,224.7	5,742.4	9.9	10.9
2.4.4 .	of households**	10,262.4	10,479.8	11,162.6	6.5	8.8
	of households (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	10,425.5	10,479.8	11,162.6	6.5	**7.1**
2.5	Debt securities issued	42.6	18.7	12.3	–34.4	–71.2
2.6	Other positions of liabilities	798.1	384.9	386.7	0.5	–51.6
	Other positions of liabilities (adjusted for the loan portfolio share to be sold by *Danske Bank A/S)*	635.1	384.9	386.7	0.5	**–39.1**
2.7	Equity	2,591.6	2,148.8	2,222.4	3.4	–14.2

Source: Bank of Lithuania.

**Statistics on loans are presented as they are represented in the financial statements of banks, i.e. the share of loans that the* Danske Bank A/S *Lithuania branch intended to sell in the reference period is assigned to assets to be sold. In this case the sum is assigned to '1.8. Other asset positions'.*

***Statistics on deposits are presented as they are represented in the financial statements of banks, i.e. the share of deposits that the* Danske Bank A/S *Lithuania branch intended to sell in the reference period is assigned to liabilities to be sold. In this case the sum is assigned to '2.6. Other asset positions'.*

****Unaudited data.*

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Table 4. Main items of the profit (loss) account

Seq. No	Indicator	01/01/2016	01/10/2016	01/01/2017***	Change in Q4	Change over the year
		amount, EUR millions			per cent	
3	**Profit for current year**	**215.3**	**177.8**	**252.2**	_	**17.1**
3.1	Net interest income	367.3	298.9	402.0	_	9.4
3.2	Net income from fees and commissions	173.8	130.8	180.0	_	3.5
3.3	Administrative expenses	293.5	220.0	298.9	_	1.9
3.4	Impairment costs of loans and receivables	41.6	18.5	23.3	_	–44.1

Source: Bank of Lithuania.

****Unaudited data.*

Table 5. Other performance indicators of banks

Seq. No	Indicator	01/01/2016	01/10/2016	01/01/2017***	Change in Q4	Change over the year
		per cent			p. p.	
4	Capital adequacy ratio	24.8	19.4	19.4	0.0	–5.4
5	CET1 capital adequacy ratio	24.3	19.0	19.1	0.1	–5.2
6	Liquidity coverage ratio	_	231.8	266.3	34.5	_
7	Leverage ratio	10.8	8.5	8.2	–0.3	–2.6
8	Net interest margin	1.60	1.69	1.68	0.0	0.1
9	Return on assets	0.94	0.99	1.03	0.0	0.1
10	Return on equity	8.96	12.37	13.99	1.6	5.0
11	Cost-to-income ratio	52.5	46.1	47.8	1.7	–4.7
12	Non-performing debt instruments****	5.2	4.2	3.8	–0.3	–1.4

Source: Bank of Lithuania.
**** Unaudited data*
******Indicators have been calculated based on actual financial statements presented by banks, i.e. they are not adjusted for the transaction of the* Danske Bank A/S *Lithuania branch.*

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