LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Banking Activity Review

Q2 2023

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ISSN 2335-8327 (online)

Publication prepared by
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Banking sector at the end of Q2 2023

Market participants

13 banks

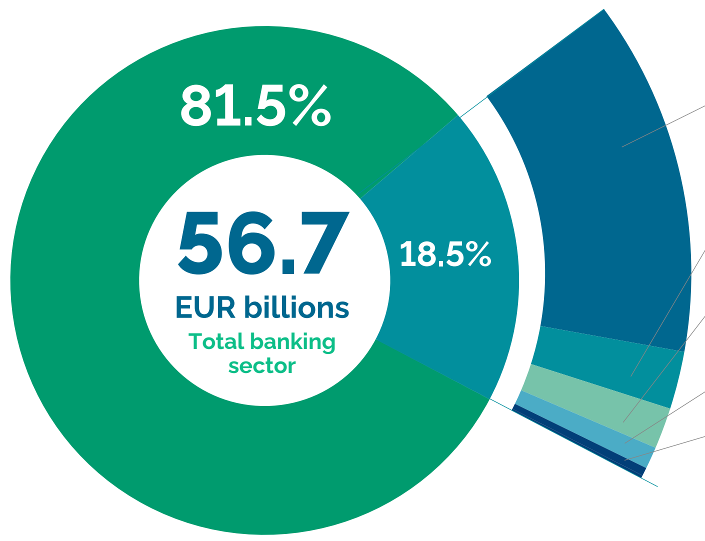
5 foreign bank branches

Assets

Market share by assets

EUR millions

Bank	Share	EUR millions
Swedbank, AB	31.4%	17,842
AB SEB bankas	22.0%	12,508
Revolut Bank UAB	18.3%	10,390
AB Šiaulių bankas	7.4%	4,173
UAB Medicinos bankas	0.8%	451
PayRay Bank, UAB	0.4%	234
AB Mano bankas	0.4%	217
UAB GF bankas	0.3%	149
European Merchant Bank UAB	0.2%	131
UAB SME Bank	0.1%	85
AB Fjord Bank	0.1%	38
AS Finora Group	0.05%	26
Saldo Bank UAB	0.04%	21

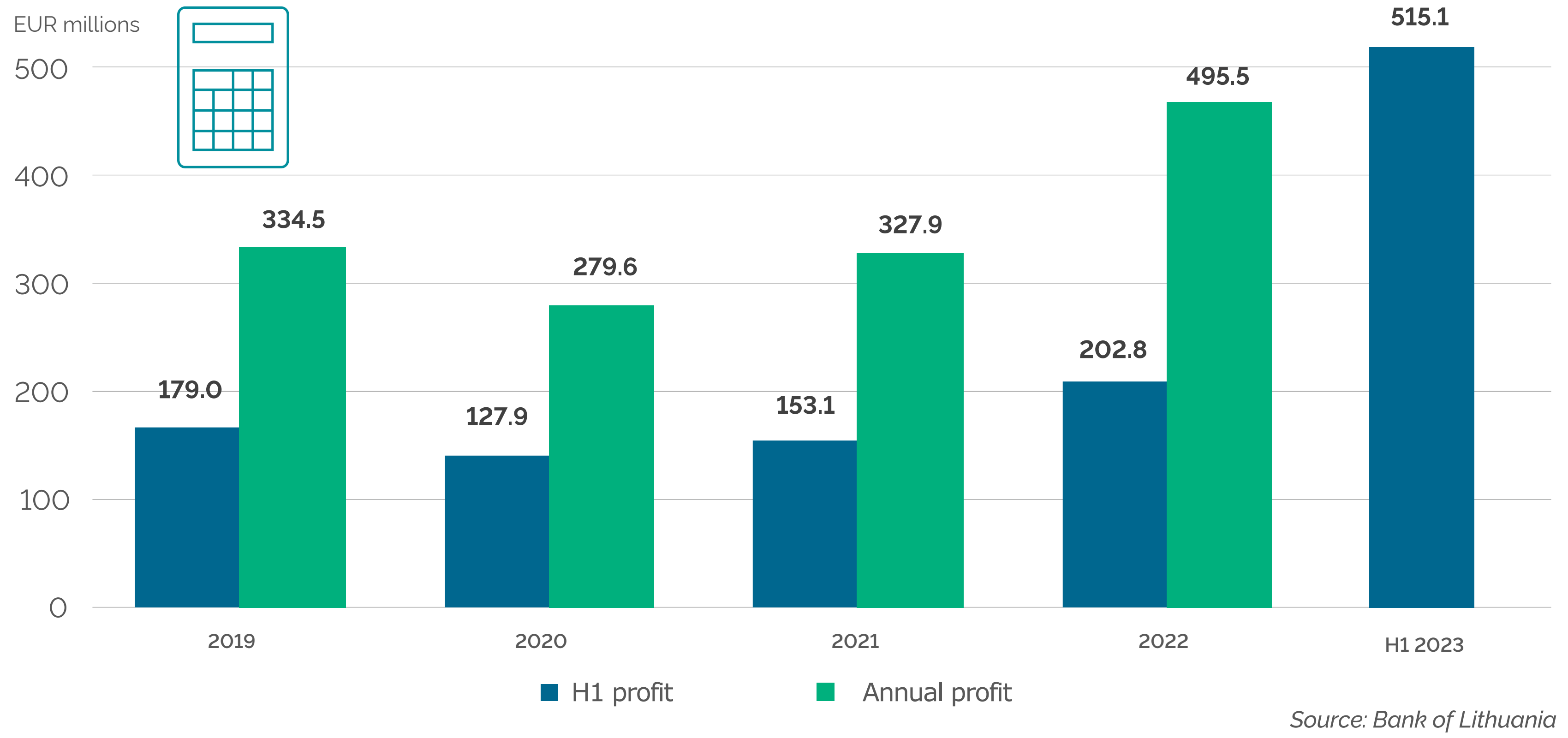


Foreign bank branches

EUR millions

Share	EUR millions	Branch
13.7%	7,753	Luminor Bank AS Lithuanian branch
2.2%	1,242	OP Corporate Bank plc Lithuanian branch
1.4%	778	Akciju sabiedriba Citadele banka Lithuanian branch
0.9%	521	BIGBANK AS branch
0.3%	191	AS Inbank branch

Profit

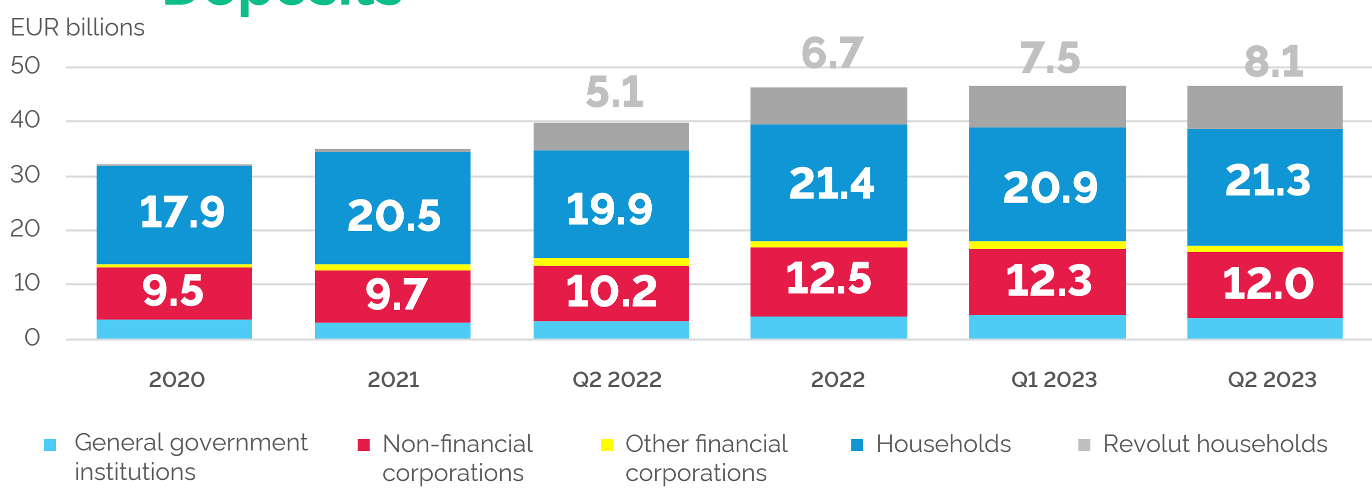


Source: Bank of Lithuania

The banking sector continued to record exceptionally high profits

Deposit and loan dynamics in Lithuania

Deposits



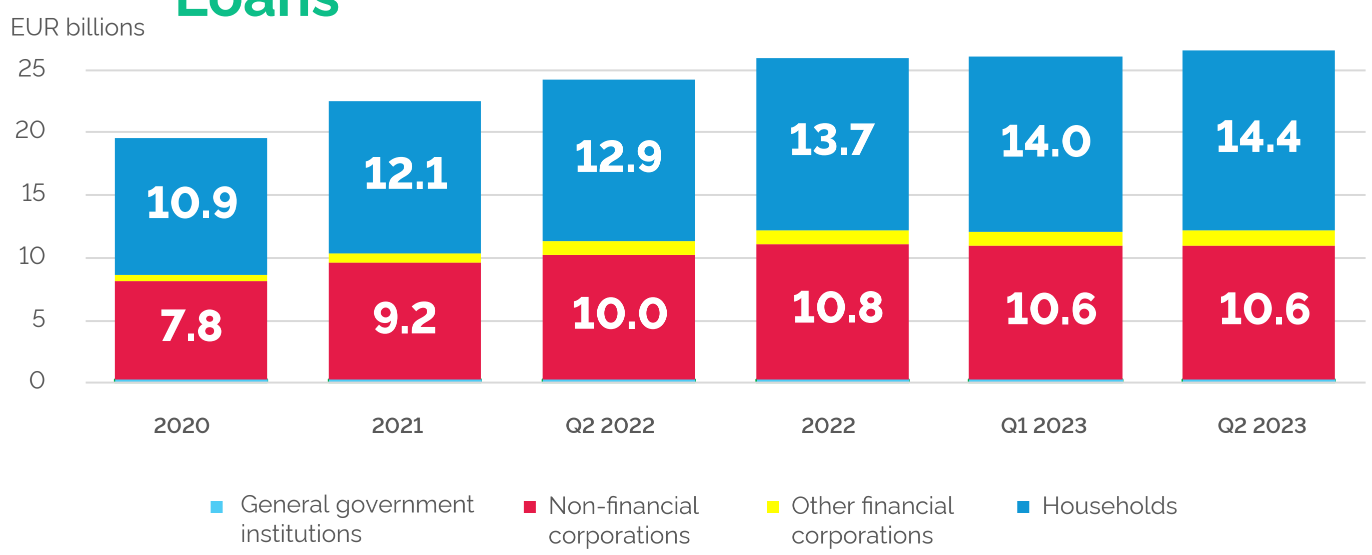
+1.9%*

Households (Q2 2023)

In Q2 2023, resident deposits increased by €0.4 billion, or 1.9%*

*Non-resident deposits of Revolut Bank UAB are eliminated.

Loans



+1.8%

Housing loans (Q2 2023)

Housing loans recorded the biggest growth in Q2

Compliance with prudential requirements

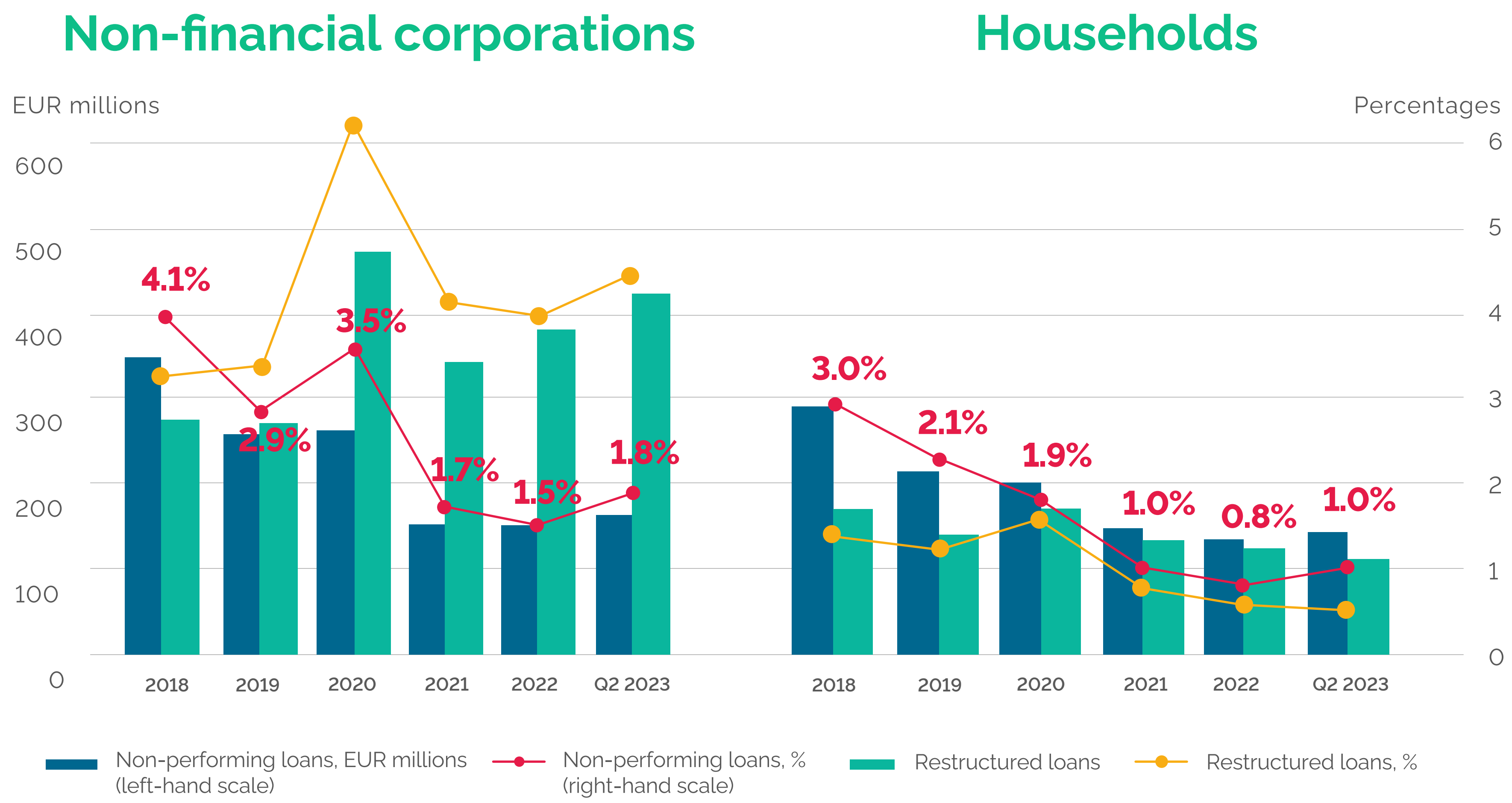
Capital adequacy ratio (CAR)	Liquidity coverage ratio (LCR)
19.9% ✓	379% ✓
Net stable funding ratio (NSFR)	**Leverage ratio**
197% ✓	6.1% ✓

Bank capital adequacy level remained high

Bank liquidity also remained high, all banks had a rather high liquidity buffer

The leverage ratio was twice the minimum level

Loan quality 2018–Q2 2023



So far, no significant negative impact on the quality of the loan portfolio has been observed

Source: Bank of Lithuania

The increase in the loan portfolio of banks continued in the second quarter of 2023, driven by loans to households. In addition, high-risk loans grew at a faster pace during the period under review, but loan quality indicators remained strong. Although household deposits increased during the quarter, overall total deposits (excluding the Revolut Group) decreased. The transformation of demand deposits into term deposits accelerated for the second consecutive quarter.

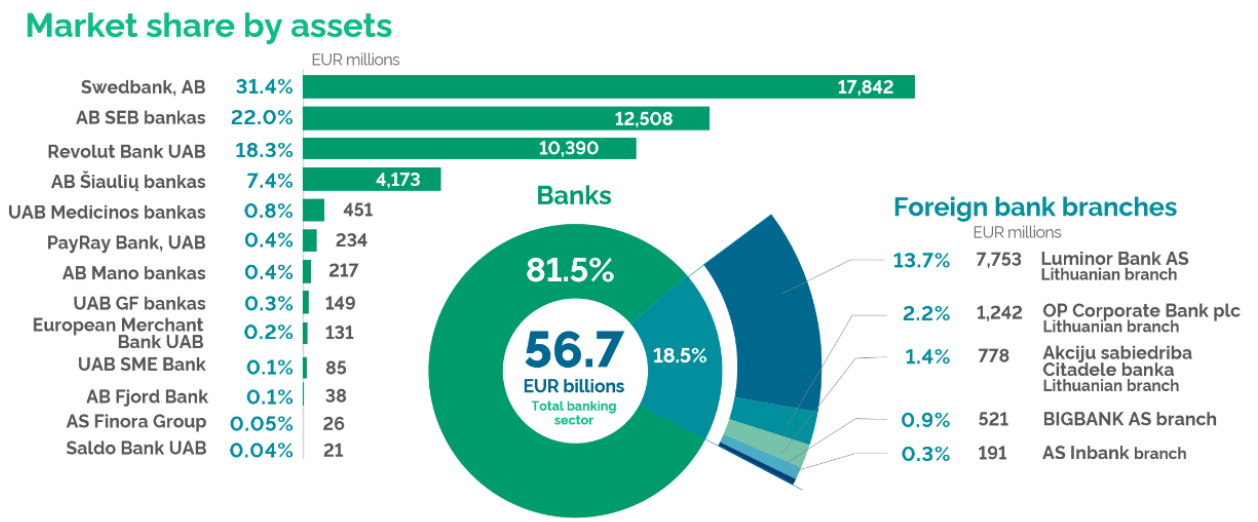
The profitability of the Lithuanian banking sector continued to be unusually high, driven by strong growth in interest income, with banks operating in Lithuania, branches of foreign banks and other credit institutions having already paid the first quarterly advance instalment of the temporary solidarity levy.

Banks continued to be the target of more frequent cyber-attacks, and the isolated cyber-attacks detected were mostly distributed denial of service (DDoS) attacks. These mainly had a short-term impact on the availability of online banking services in Lithuania, with a slightly more significant impact on bank customers from abroad.

The number of banking sector participants decreased over the quarter – Danske Bank A/S Lithuania branch finally ended the banking business in Lithuania in the second quarter of 2023 (the Danske Bank Technology and Service Centre continues to operate in Vilnius), and currently, in Lithuania, there are **18 bank sector participants: 13 banks hold banking licences (7 of which are specialised banks) and 5 banks operate as foreign bank branches.** Currently, the Bank of Lithuania, together with the European Central Bank (ECB), is examining one more application for a specialised bank licence.

The two largest banks operating in Lithuania (directly supervised by the ECB, namely, Swedbank, AB and AB SEB bankas, hold more than half, i.e. 53.4%, of the market by assets and the third largest bank by assets (the highest level of consolidation) was still Revolut Bank UAB with 18.3%. AB Šiaulių bankas, which is also directly supervised by the ECB, had a market share by assets of 7.4% at the end of the second quarter of 2023.

Chart 1. Banks and foreign bank branches that operated in Lithuania on 1 July 2023 by assets



Source: Bank of Lithuania.

The total assets of the other 8 banks (excluding Revolut Bank UAB) that have started operations in the last year grew by 1.7% in the second quarter of 2023 and amounted to €900 million, or 1.6% of the market. Foreign bank branches account for 18.5% of the market, with the Lithuanian branch of Luminor Bank AS holding the largest share.

The Centre for Financial Market Development, which has been delegated the task of encouraging foreign commercial banks to set up and operate in Lithuania, was launched at the Bank of Lithuania in the second quarter of 2022. Since the beginning of 2023, the Centre for Financial Market Development held 21 individual meetings with different foreign commercial banks. In addition, 18 enquiries from foreign commercial banks were received during the year, expressing their own interest in operating in Lithuania (13 in the corresponding period in 2022).

Bank assets grew by almost €650 million (1.2%), **to 56.7 billion over the quarter,**[1] however, after removing the Revolut Group factor,[2] bank assets fell by almost €150 million (0.3%) over the period under review.

The net value of loans to customers, the largest component of banks' assets, increased by more than €0.5 billion (2.0%), to €26.6 billion.

In the second quarter of 2023, funds held by banks with the central bank fell by €2.9 billion (15.1%), to €16.2 billion, as one bank transferred its funds from the central bank to the deposit within the group, and therefore, funds in other credit institutions grew by €2.8 billion, to €6.7 billion. Furthermore, banks held nearly €0.5 billion in cash. As a result, the amount of cash and liquidity at banks changed little over the quarter, falling by only €83 million (0.4%) to a total of €23.4 billion, i.e. the second largest share of bank assets, at 41.2%.

Banks continued to increase their debt portfolios, with investments in debt securities rising by more than €0.1 billion, or 2.2%, and amounted to €5.8 billion (10.2% of total bank assets).

Bank liabilities continued to increase due to the growth of deposits. In the second quarter of 2023, total bank liabilities increased by €245 million (0.5%) – to €46.7 billion; however, after removing the impact of the Revolut Group, total deposits fell by €0.5 billion (1.4%). As a result of the continued participation of some banks in the ECB's targeted longer-term refinancing operations and the repayment of part of the deposit by one bank, central bank deposits decreased by €136 million to €1.5 billion, and liabilities (mainly parent institutions) increased by €179 million (9.2%) to €2.1 billion during the quarter.

All banks complied with the prudential requirements. Bank capital adequacy level remained high in the second quarter of 2023. The capital adequacy ratio of the banking sector declined by 0.49 percentage points to 19.9% in the period under review, due to the growth of risk exposures more than own funds, while top-tier capital instruments continued to dominate in the banks operating in Lithuania, with the common equity tier 1 (CET1) ratio standing at 18.5%.

Lithuania's banking sector further maintained a high leverage ratio. As at 1 July 2023, the leverage ratio had declined by 0.14 percentage points during the quarter, but at 6.07% it was more than double the minimum threshold (3%).

The liquidity situation in the banking sector was very good in the first half of 2023, with large liquidity buffers across all banks. During the reporting period, the liquidity coverage ratio (LCR) of the banking sector declined slightly from 390% to 379% and was almost 4 times above the minimum threshold, i.e. the liquidity buffer in banks was almost 4 times higher than the one-month loss of cash flow. The decrease was due to liquidity optimisation operations in one of the major banks, with excess liquidity being reallocated to

[1] Should system participants adjust their statements for this or other important reasons, the data of the Review after this date may be revised.
[2] The bank's activities are mainly focused abroad, with deposits from non-resident customers in various European Union (EU) countries accounting for 98% of the bank's deposits, and the assets being removed were attracted from outside Lithuania during the quarter.

the parent group. The liquidity ratios of the Lithuanian banking sector continue to be positively influenced by the highly liquid Revolut Group. However, even after eliminating the impact of Revolut Group, the LCR was still high at the end of the first half of the year at 234%.

Lithuanian banks also complied with the mandatory net stable funding ratio (NSFR) requirement for assessing long-term liquidity with a sufficient buffer. In the first quarter of 2023, the NSFR of the banking sector decreased from 198 to 197% (it would stand at 161% without the impact of the Revolut Group) and was much higher than the required minimum level of 100%.

The LCR of the banks operating in Lithuania is significantly higher than that of banks in other European countries – at the end of the first quarter of 2023, the average LCR of European banks was 164%. Recently, a downward trend in excess liquidity has been observed in most European countries, linked to the rising cost of funding in the market and declining deposit growth. In Lithuania, the observed downward trend in liquidity is so far modest. Liquidity in the Lithuanian banking sector is likely to decrease in the future, especially if more attractive investment alternatives become available.

Banks' funding costs continue to increase. The key ECB interest rate raised in 2023 were reflected in the pricing of bank term deposit rates in the first half of the year. According to the Bank of Lithuania, interest rates on household term deposits with Lithuanian credit institutions (banks and credit unions) rose rapidly in the first six months of 2023, becoming higher (3.26%) than with euro area credit institutions (2.70%).

The transformation of demand deposits into time deposits accelerates for the second consecutive quarter. As interest rates continue to rise, the share of time deposits is increasing rapidly, rising from 13% to 21% in the first half of the year (excluding the Revolut Group, where all deposits are demand deposits). In smaller banks, often without customer service units, the growth of non-revocable household time deposits from other EU countries attracted via deposit platforms is relatively strong. These deposits increased by around 5% over the half-year, while the total amount of household deposits attracted via deposit platforms represented around 2% of household deposits attracted by banks.

The rapid transformation of deposits into time deposits shows that bank customers in Lithuania have decided to continue to seek financial returns by investing in deposits rather than in alternative instruments, which has recently been increasing in countries with well-developed money market instruments markets.

The quarterly growth of the loan portfolio was further maintained by household loans. In the period under review, the portfolio of loans and other advance payments increased by €3.2 billion (10.8%), to €32.8 billion. Excluding exposures to credit institutions and central banks (hereinafter – the loan portfolio), the loan portfolio increased by €519 million (2%) to €26.6 billion during the quarter. The recent decline in the loan portfolio was supported by loans to households, which increased by €395 million (2.8%) to €14.4 billion. The increase was equally driven by growth in both housing and consumer loans: during the quarter, housing loans rose by €203 million (1.8%) to €11.4 billion, the consumer loan portfolio grew by €156 million (9.8%) (significantly due to the one market participant's business expansion abroad), to €1.74 billion. The housing loan segment has historically been dominated by the country's three largest banks (with a market share of 90.2%). The involvement of other market participants is increasing slowly (their share grew by 0.3 percentage points during the quarter), while the consumer loans segment has a much larger number of equal players, with banks specialising in this segment being more active.

Loans to non-financial corporations (32.4% of the total loan portfolio) increased by €25 million (0.2%) over the quarter to €10.6 billion. The main increases were in loans to companies operating in the administrative and service activities (€96 million) and energy (€69 million) sectors. The increase was driven by loans to small and medium-sized businesses, while loans to large businesses declined. The total value of banks' lending commitments to non-financial corporations increased by 6.1% to €3.4 billion.

During the period under review, the increase in high-risk loans accelerated, but loan quality indicators remained strong. The portfolio share of non-performing loans (including loans to credit institutions) grew by 0.03 percentage points to 1.0%. The non-performing loans of non-financial corporations increased by 12.9% to 1.78% (€173 million) of the corporate loan portfolio, while those of households increased by 17.8% and accounted for 1.0% (€146 million) of loans to residents. The volume of forborne loans in the portfolio of non-financial corporations continued to increase (€32.6 million or 7.9%), while the volume of loans to individuals decreased (by €5.7 million or 6.1%). In addition, the volume of corporate loans at banks (whose credit risk has increased significantly since initial recognition) increased during the quarter by 0.9 percentage points to 13.4% of the total corporate loan portfolio. The share of such loans in the household loan portfolio increased by 0.3 percentage point to 7.4%.

The share of loans overdue by more than 30 days declined slightly over the quarter: in the non-financial corporations segment, the share of overdue loans fell by 0.05 percentage points to 0.54%, while in the households segment it dropped by –0.04 percentage points to 0.77%.

The loan portfolio coverage ratio increased by 0.05 percentage point (to 1.02%) and the non-performing loans ratio fell by 0.3 percentage point (to 35.5%).

In the second quarter of 2023, deposits in Lithuania were decreasing. After eliminating the impact of the Revolut Group (i.e. deposits attracted outside Lithuania), total deposits decreased by €0.5 billion (1.4%). During the quarter, only household deposits were growing (by €0.4 billion or 1.9%). The overall decline in deposits was mainly due to a decrease in government deposits (€0.45 billion or 10.1%) and non-financial corporations' deposits (€0.44 billion or 4.0%), while deposits of other financial corporations underwent only minor changes (–0.2%).

The decline in government deposits was also influenced by the launch of the Uniform Treasury Account Information System Project (UTIAS), which transferred a small part of the deposits of state budget and public institutions from commercial banks to the Bank of Lithuania by the end of June 2023. The transfer of funds follows a plan approved by the Government: the largest part of the funds of state budget and public institutions will be transferred in 2026 and at the end of 2027.

The Revolut Group's deposits increased by almost €0.8 billion (8.4%), almost to €9.8 billion, in the second quarter of 2023 as a result of its foreign operations, deposits from non-resident customers in various EU countries account for 98.2% of the total deposits it attracts.

In the second quarter of this year, the Lithuanian banking sector continued to show unusually high profitability, generating almost the same level of profits (€256.7 million) as in the first quarter (€258.4 million). **In the first half of 2023, banks and branches of foreign banks made a combined profit of €515.1 million, 2.5 times more than in the same period in 2022** (€203 million). 15 banks and foreign bank branches were profitable, and 3 market participants operated at a loss. All of the loss-making market participants suffered an aggregate loss of €5 million, including the recently launched specialised banks, whose operating costs are still higher than their revenues.

Banks operating in Lithuania, branches of foreign banks and other credit institutions paid over €56 million of the first quarterly advance payment of the temporary solidarity levy. Based on the Bank of Lithuania calculations, the total solidarity levy for 2023 could reach around €250 million.

The rising interest rates due to ECB decisions continued to have a significant impact on banks' interest income growth. Although interest expenses (due to the rise in deposit rates) also increased in the second quarter, the increase in absolute terms was significantly lower than the increase in interest income. For these reasons, profits of banks increased.

In the first half of this year, banks' interest income increased by €698 million (almost 3 times) to €1.057 billion compared to the same period last year, while interest expenses rose by €89 million to almost €134 million. Interest income has increased significantly for the third consecutive quarter: in the second quarter, interest income rose by a further €108 million or almost 23% compared to the first quarter. Interest expense also increased, with a corresponding increase of €84 million (almost 2.7 times). The rise in interest rates was also influenced by the income received by some market participants from overnight deposits held with the central bank, which amounted to €113 million, compared with only €143 thousand a year earlier.

In the first half of 2023, total net interest income increased by €609 million (almost threefold) to almost €923 million compared to the same period last year.

Net income from fees and commissions increased by €210 million (0.1%) or by 3.3 times and amounted to €367 million. However, excluding the significant impact of the Revolut Group, net fee and commission income increased by €10.9 million, or 8.1%.

The banks' staff costs increased by €18.8 million (18%) in the first half of 2023 compared to the same period in 2022.

The impact of loan impairments on banks' profitability was more than 2.5 times higher than a year earlier: impairments amounted to €37.5 million in the first half of 2023 and €14.7 million in the corresponding period of 2022.

The banks' return on assets and return on equity ratios changed little in the second quarter, but the rapid growth in profits led to significant changes in these ratios compared to their values a year ago, as of 1 July 2022. Compared to 1 July 2002, the return on assets on 1 July 2023 increased by as much as 0.96 percentage points to 1.83%, while the return on equity increased by as much as 16.64 percentage points to 26.01%.

Banks continued to be the target of more frequent cyber-attacks. In the first half of 2023, individual cyber DDoS attacks were recorded against various banks, and in July 2023 a coordinated attack was identified against a number of banks operating in Lithuania. These mostly had a short-term impact on the availability of online banking services in Lithuania but had a more significant impact on bank customers who were trying to access banking services from abroad at the time. In cooperation with the National Cyber Security Centre, from mid-2023, credit institutions have been sharing information on various aspects of cyber security: alerts, configuration tools and other technical details of a cyber-attack. This measure is expected to strengthen the resilience of banks to cyber risks.

ANNEX. KEY INDICATORS OF THE BANKING SECTOR[3]

Table 1. Main items of the balance sheet statement

No.	Indicator	01/07/2022 EUR millions	01/04/2023 EUR millions	01/07/2023 EUR millions	Quarterly change, %	Annual change, %
1.	Assets	50,098.8	56,100.0	56,749.5	1.2	13.3
1.1.	Debt securities	5,994.0	5,672.9	5798.8	2.2	-3.3
1.2.	Equity securities	83.5	62.2	65.6	5.5	-21.5
1.3.	Financial derivatives	117.6	124.1	109.9	-11.4	-6.6
1.4.	Cash	522.8	451.7	470.2	4.1	-10.1
1.5.	Funds with central banks	13,581.6	19,113.8	16,229.8	-15.1	19.5
1.6.	Funds with credit institutions	3,663.3	3,912.3	6,694.8	71.1	82.8
1.7.	Loans to customers (incl. leasing)	24,180.9	26,054.2	26,572.9	2.0	9.9
1.7.1.	to general government institutions	319.3	324.0	325.0	0.3	1.8
1.7.2.	other financial corporations	1,016.6	1,132.4	1,229.6	8.6	21.0
1.7.3	non-financial corporations	9,954.0	10,608.7	10,633.9	0.2	6.8
1.7.4.	households	12,891.0	13,989.0	14,384.4	2.8	11.6
1.7.4.1	o/w loans for house purchase	10,409.9	11,158.8	11,362.1	1.8	9.1
1.8.	Other asset positions	1,955.0	708.9	907.7	13.9	-58.7
2.	Liabilities and equity	50,098.8	56,100.0	56,749.5	1.2	13.3
2.1.	Deposits of central banks	1,612.7	1,626.0	1,489.7	-8.4	-7.6
2.2.	Liabilities to credit institutions	1,708.1	1,956.4	2,135.5	9.2	25.0
2.3.	Financial derivatives	59.2	94.7	76.5	-19.2	29.2
2.4.	Deposits	39,785.4	46,453.3	46,698.0	0.5	17.4
2.4.1.	of general government institutions	3,416.6	4,486.5	4,032.8	-10.1	18.0
2.4.2.	of other financial corporations	1,197.0	1,329.2	1,326.6	-0.2	10.8
2.4.3	of non-financial corporations	10,213.5	12,255.8	11,951.5	-2.5	17.0
2.4.4.	of households	24,958.3	28,381.8	29,387.1	3.5	17.7
2.5.	Debt securities outstanding	102.9	183.2	235.4	28.5	128.7
2.6.	Other liability positions	2,575.9	2,323.8	2,437.0	4.9	-5.4
2.7.	Equity	4,254.5	3,462.6	3,677.6	6.2	-13.6

Source: Bank of Lithuania.

[3] Should banks adjust their statements for important reasons, the data of the Review after this date may be updated.

Table 2. Main items of the profit (loss) account

No.	Indicator	01/07/2022 EUR millions	01/04/2023 EUR millions	01/07/2023 EUR millions	Quarterly change, %	Annual change, %
3.	Current year profit	202.8	258.4	515.1	–	154.0
3.1.	Net interest income	313.4	424.7	922.7	–	194.4
3.2.	Net income from fees and commissions	157.3	177.8	367.5	–	133.5
3.3.	Administrative expenses	328.3	217.4	349.3	–	6.4
3.4	Impairment of loans and non-financial assets	14.7	15.2	37.5	–	155.1

Source: Bank of Lithuania.

Table 3. Other performance indicators of banks

No.	Indicator	01/07/2022 %	01/04/2023 %	01/07/2023 %	Quarterly change, p.p.	Annual change, p.p.
4.	Capital adequacy ratio	21.31	20.39	19.90	-0.49	-1.41
5.	CET1 capital adequacy ratio	21.06	20.15	18.47	-1.68	-2.59
6.	Liquidity coverage ratio	347.56	416.51	379.03	-37.48	31.47
7.	Net Stable Funding Requirements	174.40	196.16	196.78	0.62	22.38
8.	Leverage ratio	6.00	6.21	6.07	-0.14	0.07
9.	Net interest margin	1.41	3.05	3.29	0.24	1.92
10.	Return on assets	0.87	1.85	1.83	-0.02	0.96
11.	Return on equity	9.37	25.84	26.01	0.17	16.64
12.	Cost-to-income ratio (EBA methodology)	57.71	41.33	35.86	-5.47	-21.85
13.	Non-performing debt instruments	0.61	0.52	0.59	0.07	-0.02

Source: Bank of Lithuania.

Note: EBA.