BANK OPERATIONS

According to the audited financial statements of banks for 1 January 2007, the assets of the operating domestic commercial banks and foreign bank branches equalled to LTL 58.9 billion and increased over the year by LTL 14.1 billion or 31.4 per cent. The loans granted to customers made up LTL 38.6 billion and grew by LTL 12.7 billion or 48.9 per cent year–on–year. On 1 January 2007, deposits held with domestic banks amounted to LTL 30.3 billion and increased by LTL 5.2 billion or 20.5 per cent over the year; of these, deposits of individuals made up LTL 17.9 billion going up by LTL 4.1 billion or 30 per cent over the year (40.2 per cent in 2005).

Dynamics of some asset and liability items in the banking system

Item No.	Balance sheet item	Amount (LTL million) 01 01 2006	Amount (LTL million) 01 01 2007	Change year-on-year (%)
1	Assets	44,848.7	58,913.6	31.4
2	GS	3,549.3	4,966	39.9
3	Other debt securities	1,540.7	1,773.5	15.1
4	Loans to financial institutions	4,226.9	3,120.7	–26.2
5	Loans to customers	25,957.2	38,641.1	48.9
5.1	Of which, loans to private companies	15,621.4	2,2307	42.8
5.2	Of which, loans to individuals	8,539.2	14,712.9	72.3
5.2.1	Of which, housing loans	6,413.5	10,317.9	60.9
6	Loan impairment	269.8	374.3	38.7
6.1	Loan impairment/granted loans, %	1.04	0.97	–
7	Deposits and letters of credit	25,133.4	30,297.9	20.5
7.1	Of which, by private companies	9,610.9	10,509.3	9.3
7.2	Of which, by individuals	13,757.5	17,879.1	30
8	Shareholders' equity	3,206.2	4,141.6	29.2
9	Profit (loss) for current year	354	667	–

The downward trend of concentration in the bank–controlled asset and loan market, which was observed for several years, reversed in 2006. In the course of the year, the asset market share controlled by the three largest banks (AB SEB Vilniaus bankas, AB bankas Hansabankas, and AB DnB NORD bankas) went up from 67.1 to 69 per cent. Over the year, the largest decrease was recorded in the asset market share of AB bankas Hansabankas (2.1 percentage points) and both foreign bank branches. AB SEB Vilniaus bankas and AB DnB NORD bankas stood out among banks that boosted their market share: their share increased by 2.7 per cent and 1.3 per cent, respectively.

Banks continue giving preference to investment in the domestic market: bank assets in Lithuania grew by LTL 11.6 billion, while foreign assets went up by LTL 2.5 billion over the year. The share of bank assets of non–residents remained broadly unchanged at 16.5 per cent.

Meanwhile, the share of non–residents in bank liabilities went up from 36.6 per cent to 40.2 per cent over the year. In the course of the year, the debt to non–resident banks and other credit and financial institutions grew by LTL 5.4 billion (of which, the increase in the debt to the EU–registered parent banks made up LTL 2.2 billion), accounting for the largest share (94.3 per cent) of the debt to banks and financial institutions. The share of non–residents in the composition of deposits of non–financial institutions is considerably lower. In 2006, the growth rate of deposits of non–residents (non–financial institutions) was even lower than that of residents. Over the year, deposits of non–residents (mainly private companies) grew by 15 per cent to LTL 2.6 billion. However, their share within the deposits declined somewhat (from 8.9 to 8.4 per cent).

BANK LOAN PORTFOLIO

Due to the base effect, the growth rate of the portfolio of loans to businesses and households decelerated slightly, compared to previous years, however, the crediting volumes increased marginally in absolute terms. As already mentioned, bank loans granted to customers soared by LTL 12.7 billion or 48.9 per cent in 2006, while the annual growth rate of loans in 2005 was 53.6 per cent. Moreover, bank loans to financial institutions (mostly subsidiary leasing companies) declined by LTL 1.1 billion or 26.2 per cent in 2006.

According to the data of 1 January 2007, the loan portfolio of Lithuanian banks (including loans to financial institutions) accounted for 50.9 per cent of Lithuania's GDP in 2006. Lithuania is still behind its neighbouring countries both according to the rate of growth of the loan–to–GDP ratio and according to other comparative loan portfolio indicators.

In 2006, the growth of the loan portfolio was quite balanced: new loans spread almost evenly among businesses (annual growth of LTL 6.7 billion or 42.8 per cent) and households (annual growth of LTL 6.2 billion or 72.3 per cent). Loans to individuals remained one of the most dynamic bank asset items, therefore their share in the loan portfolio went up, while the share of private companies declined. According to the data of 1 January 2007, loans to private companies accounted for 57.7 per cent of bank loans granted to customers, whereas loans to individuals made up 38.1 per cent.

In 2006, housing loans prevailed among loans to individuals, however, their comparative weight within loans to households and annual growth rates declined. Other loans to individuals (mainly consumer loans) retained a rapid growth rate, while their weight grows more and more significant. Over the year, the housing loan portfolio went up by 60.9 per cent, while other loans to individuals increased by LTL 2.3 billion or 2.1 times. As of 1 January 2007, housing loans accounted for 12.6 per cent of the GDP of 2006 in Lithuania.

The volume of bank loans impairment (specific provisions) hiked by LTL 104.4 million or 38.7 per cent in 2006, while specific provisions on off–balance sheet items went up by LTL 5.5 million or 88.3 per cent. Despite significant bank loan impairment, the quality indicators of the bank loan portfolio remained quite good, since the growth rate of the loan portfolio was even higher. The indicator characterising the loan portfolio – the ratio of loan impairment (specific provisions) to loan portfolio – went down from 1.04 per cent to 0.97 per cent in the course of the year.

Meanwhile, the ratio of loans with regular payments delayed for 60 days and more to the loan portfolio went up from 0.61 to 0.97 per cent over the year. The share of overdue loans in the consumer loan portfolio is relatively the largest (1.9 per cent), whereas the share of overdue loans among housing loans is the lowest (0.54 per cent).

COMPLIANCE WITH PRUDENTIAL REQUIREMENTS

Liquidity indicators of the banking system fluctuated only marginally in 2006, while the liquidity ratio did not fall below 40 per cent and was complied with easily. According to the data of 1 January 2007, the liquidity ratio of the banking system made up 41.88 per cent and exceeded the minimum established by the Bank of Lithuania by almost 12 percentage points. Liquid assets of banks made up 24.1 per cent of total assets.

The capital adequacy ratio of the banking system grew by 0.45 percentage points over the year and made up 10.75 per cent on 1 January 2007. The capital base of the banking system amounted to LTL 4.3 billion, and Tier I capital comprised the largest share of it (LTL 3.1 billion). LTL 3.2 billion of capital was allocated for reducing the risk of the banking book, while LTL 102.4 million of capital was allocated to reduce the risk of the trading book.

As on 1 January 2007, domestic banks could assume additional asset risk for the amount of LTL 12.6 billion (i.e. LTL 4.6 billion more than a year ago) or additionally reduce the value of loans by LTL 1.1 billion, i.e. increase the current loan impairment 3.3 times, without violating the capital adequacy ratio.

All banks complied with the prudential requirements set by the Bank of Lithuania.

SHAREHOLDERS' EQUITY

Bank shareholders' equity grew by 29.4 per cent in 2006 and amounted to LTL 4.1 billion on 1 January 2007. The registered authorised (share) capital of banks went up by as much as 71.7 per cent to LTL 2.7 billion.

Seven domestic banks increased their authorised capital in 2006. The largest increase of the authorised capital was registered by AB SEB Vilniaus bankas (LTL 880.2 million) by using the accumulated share premium and a part of reserve capital. The authorised capital was also increased by AB DnB NORD bankas (LTL 77.6 million), AB Sampo bankas (LTL 50 million), AB Ūkio bankas (LTL 50 million), AB Šiaulių bankas (LTL 34.3 million), AB PAREX bankas (LTL 31 million) and AB bankas Snoras (LTL 20 million).

In addition to the authorised capital, the bank capital base was also strengthened by the subordinated loans received. In 2006, the Board of the Bank of Lithuania gave permission for the inclusion of subordinated loans in Tier II capital to seven banks: AB SEB Vilniaus bankas (LTL 438.5 million), AB bankas Hansabankas (LTL 241.7 million), AB DnB NORD bankas (LTL 98 million), AB Sampo bankas (LTL 55.2 million), AB bankas Snoras (LTL 69 million), UAB Medicinos bankas (LTL 34.5 million) and AB PAREX bankas (LTL 8.2 million).

The share of the authorised capital of the Lithuanian banks held by foreign investors increased by 4.2 percentage points to 90 per cent in 2006. Same as earlier, the Scandinavian capital prevailed in the banking system of Lithuania.

Several banks increased their capital base in 2006 by obtaining permissions of the Board of the Bank of Lithuania to include a certain part of the profit for current year into the capital base. Permissions were issued to five banks, which, according to the data of the statements for 1 January 2007, included a certain part of the profit for current year into the capital base (LTL 111.6 million in total).

PROFITABILITY AND BUSINESS EFFICIENCY

According to the data of audited financial statements of banks for 1 January 2007, all domestic banks were profitable in 2006, with the exception of one foreign bank branch.

The total audited profit of the banking system for 2006 was LTL 667 million, 88.4 per cent higher than in 2005, when the banking system of Lithuania earned a profit of LTL 354 million.The profit of the banking system of Lithuania has been growing consistently for the fifth consecutive year.

Profitability of Operating Banks

Item No.	Bank	Profit for current year (LTL million)	
		2006 01 01	2007 01 01
1.	AB DnB NORD bankas	43	56.2
2.	AB Ūkio bankas	19.7	47.4
3.	AB SEB Vilniaus bankas	106.8	285.5
4.	AB Šiaulių bankas	8.1	13.7
5.	AB bankas Snoras	40.7	51.9
6.	UAB Medicinos bankas	2.1	3.5
7.	AB PAREX bankas	7.2	4.9
8.	AB bankas Hansabankas	107.9	179.5
9.	AB SEB VB Mortgage bank	4.8	
10.	AB Sampo bankas	8.2	23.3
	TOTAL banks:	348.5	665.9
11.	Bayerische Hypo– und Vereinsbank AG Vilnius branch	1.7	1.5
12.	Nordea Bank Finland Plc Lithuania branch	3.9	–0.3
	Total foreign bank branches:	5.5	1.2
	TOTAL:	354	667

A rise in bank profits in 2006 was determined by the increased volumes of bank operations and a respectively larger income base and improved operating efficiency:
- as in the previous years, the largest contribution to the growth of bank profitability was made by the increasing income from the loan portfolio, which determined the increase of net interest income by LTL 382.3 million (48.6%), compared to 2005;
- net income on services and commissions earned by banks was LTL 100.3 million (25 per cent) higher than in

2005;
- last year, bank income for equity securities was higher by LTL 70.9 million (the largest contribution was made by dividends received by banks from subsidiary companies and the profit received by selling or liquidating some subsidiary companies);
- the performance of banks was also improved by a LTL 55.9 (48.1 per cent) higher income from foreign exchange operations and operations with financial derivatives.

Several factors which exercised a negative impact on bank performance could also be pointed out:
- the increase of the operating expenses of banks by LTL 157.1 million (25 per cent) over the year (the largest increase was recorded in wage–related expenses, which grew by LTL 107.9 million or 29.6 per cent);
- the growing volume of deposits in banks resulted in higher expenses on deposit insurance contributions (by LTL 27.3 million), while the amount of profit and other taxes paid by banks increased by LTL 99.8 million to LTL 163.2 million;
- as interest rates followed an upward trend, banks suffered a loss from operations in debt securities for the second consecutive year (the loss in 2005 made up LTL 8 million, while in 2006 it reached LTL 14.4 million);

Although the growth of operational expenses was observed, their growth rates were lower than those of the assets held by banks and income, and it allowed improving operational efficiency of banks. The ratio of fixed expenses to the profit from the main operations, which serves as the banking system efficiency indicator, declined (improved) over the year by 9 percentage points to 44.9 per cent on 1 January 2007, representing the proportion of the profit (net income) earned by banks from the main operations used to cover operating and amortisation expenses.

Large profit earned in 2006 significantly improved the banking system indicators of the return on assets (from 1.04 per cent to 1.32 per cent) and the return on equity (from 13.6 to 20.3 per cent).

On 1 January 2007, the real interest margin of the banking system made up 2.66 per cent.

OPERATIONS OF THE CENTRAL CREDIT UNION OF LITHUANIA

The assets of the Central Credit Union of Lithuania increased by 39.6 per cent in 2006 and reached LTL 109.8 million on 1 January 2007, the highest level from the start of its operations. The growth of assets was determined by the increase of deposits of credit union members, which are the main source of financing of the Central Credit Union of Lithuania.

The portfolio of loans granted by the Central Credit Union of Lithuania grew by 23.9 per cent over the year to LTL 31 million, while its quality remained good. According to the data of 1 January 2007, the value of the assets of the Credit Union of Lithuania did not decline (no specific provisions were formed). In 2006, the Central Credit Union of Lithuania helped solving short–term liquidity problems of four credit unions by granting loans from the Liquidity Support Reserve.

3 credit unions entered the Central Credit Union of Lithuania and the number of its members stood at 59 in 2006. Owing to the additional share paid up by credit unions, the share of the Government of the Republic of Lithuania in the share capital of the Central Credit Union of Lithuania declined to LTL 1.4 million in 2006 (it made up LTL 2.4 million on 1 January 2006), while credit unions held LTL 3.9 million of the share capital of the Central Credit Union of Lithuania. As the membership of the Central Credit Union of Lithuania increased and the volume of credit union operations expanded, the Liquidity Maintenance Reserve and the Stabilisation Fund increased further and on 1 January 2007 made up LTL 3.5 million and LTL 1.6 million, respectively.

According to the audited financial statements, the Central Credit Union of Lithuania earned a profit of LTL 393 thousand in 2006, i.e. almost the same as in the previous year.

In 2006 the Central Credit Union complied with all prudential requirements set by the Bank of Lithuania.

OPERATIONS OF CREDIT UNIONS

On 1 January 2007, there were 66 credit unions in Lithuania, with the total of 69,630 members. Only one new credit union was established in 2006.

Development of the main items of the consolidated balance sheet of credit unions

Item No.	Balance sheet item	Amount (LTL thousand)		Change year-on-year (%)
		01 01 2006	01 01 2007	
1.	Assets	300,618.5	461,842.2	53.6
2.	GS	2,877.1	11,228.5	2.9 times
3.	Loans granted	202,709.5	305,111.8	50.5
4.	Specific provisions on loans	731.2	984.5	34.6
5.	Deposits	235,550.9	370,853.1	57.4
	Of which, members and associated members of credit unions	232,547.3	367,408.5	58.0
6.	Share capital	31,297.8	46,589.4	48.9
7.	Profit (loss) for current year	1,692.3	2,272.7	–

The activities of credit unions expanded further last year. In 2006:
- assets increased by 53.6 per cent and on 1 January 2007 made up 0.78 per cent of total assets of operating banks. The assets of the largest Panevėžio credit union made up more than LTL 51.5 million, or 11.2 per cent of total credit union assets;
- granted loans increased by 50.5 per cent and made up almost 66% of total assets. On 1 January 2007, 46 credit unions held specific provisions on loans (LTL 984.5 thousand);
- investment in government securities increased 2.9 times;
- deposits increased by 57.4 per cent, of which the largest share (99 per cent) were deposits of members;
- the share capital of credit unions grew 1.5 times.

58 credit unions earned a profit, while 8 credit unions incurred a loss in 2006.

According to the audited financial statements approved by the general shareholders' meetings, in 2006 credit union profit was LTL 2,272.7 thousand, i.e. 34.3 per cent higher than in 2005.

As in the previous years, the main source of credit union income was interest income, which comprised 89.7 per cent of total income. Interest expenses and operating expenses accounted for the largest share of expenses, 44.7 and 44.1 per cent, respectively.