LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

# Banking Activity Review

2021

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# Banking sector at the end of 2021

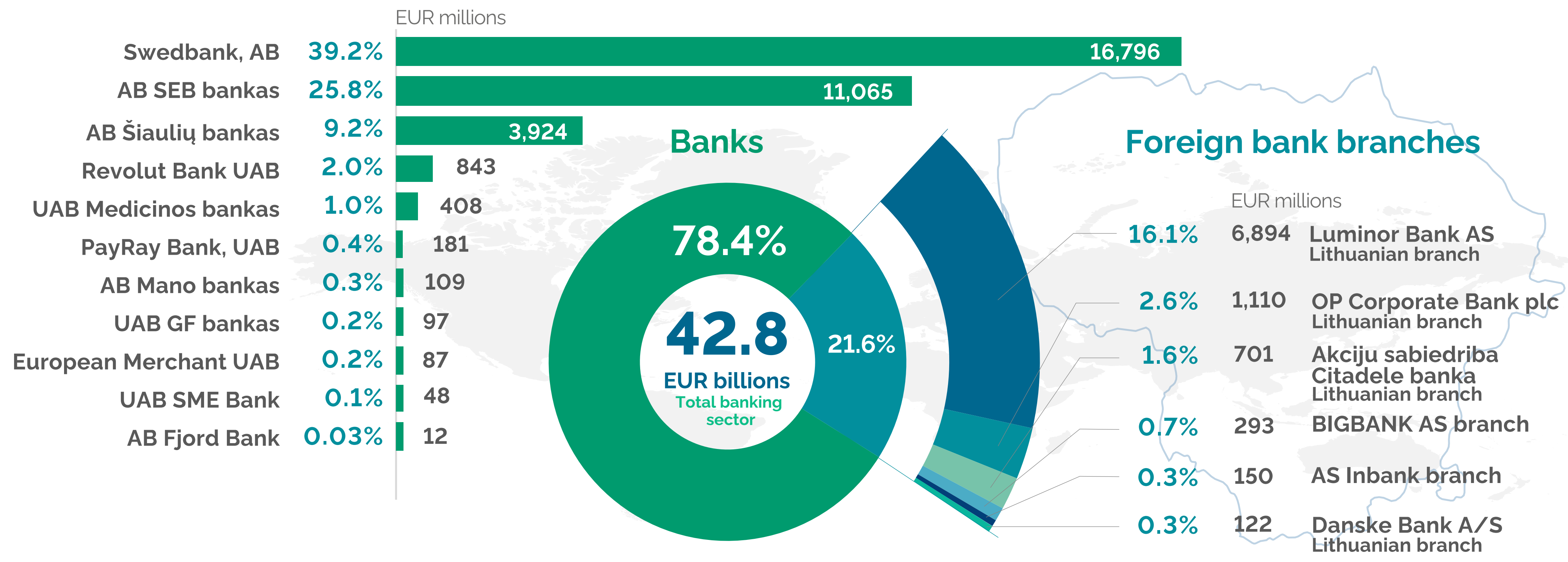
## Market participants

**12** banks

**6** foreign bank branches

## Assets

### Rinkos dalys pagal turtą




## Compliance with prudential requirements

| | | | |
|---|---|---|---|
| Capital adequacy ratio | 23.1% ✓ | Liquidity coverage ratio (LCR) | 392% ✓ |
| Net stable funding ratio (NSFR) | 207% ✓ | Leverage ratio | 6.5% ✓ |

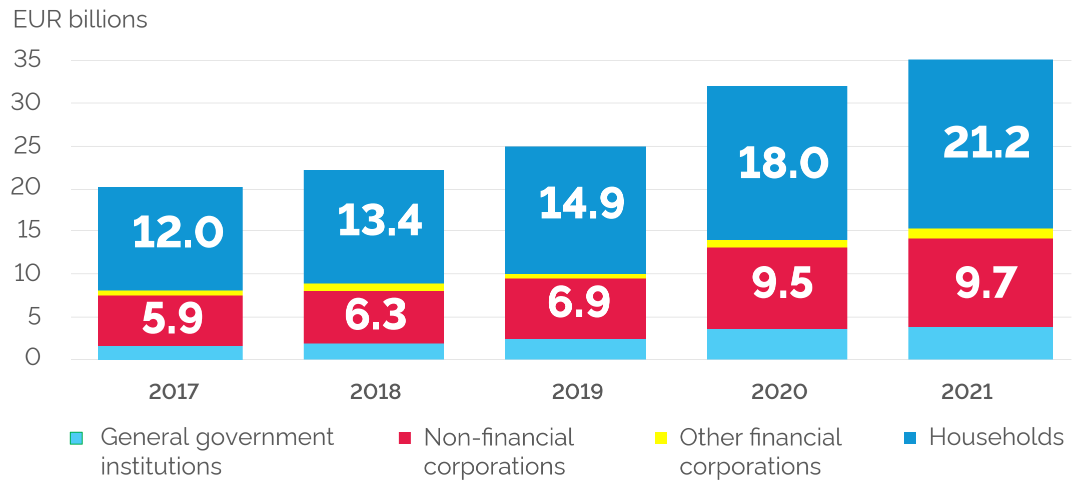
» Bank capital adequacy level remains high

» The liquidity situation remains very good, and the majority of banks even have excess liquidity

» The leverage ratio is more than twice higher than the minimum

## Deposit and loan dynamics in Lithuania

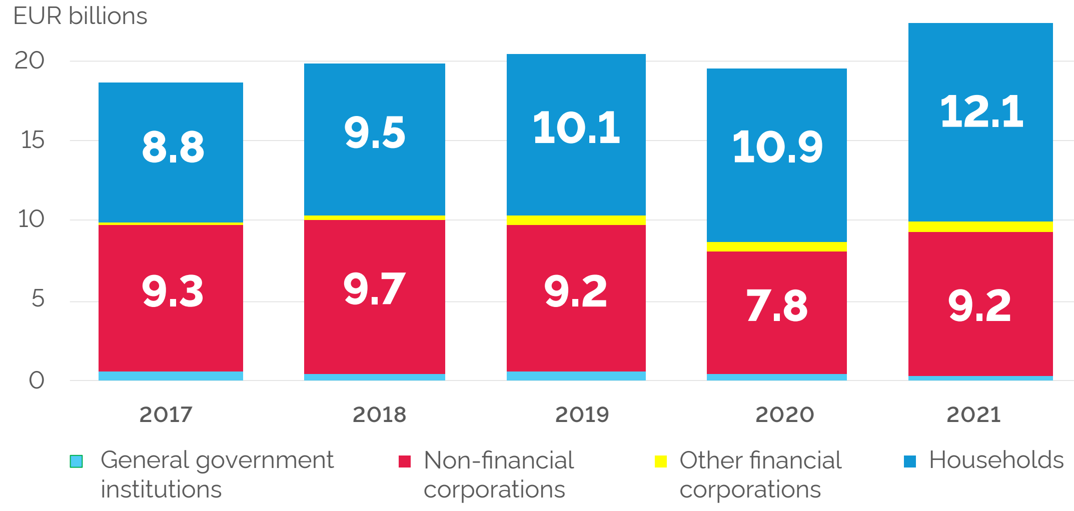
### Deposits




**+18% Households**

» Household deposits soared for the second consecutive year, while non-financial corporation deposit growth was moderate

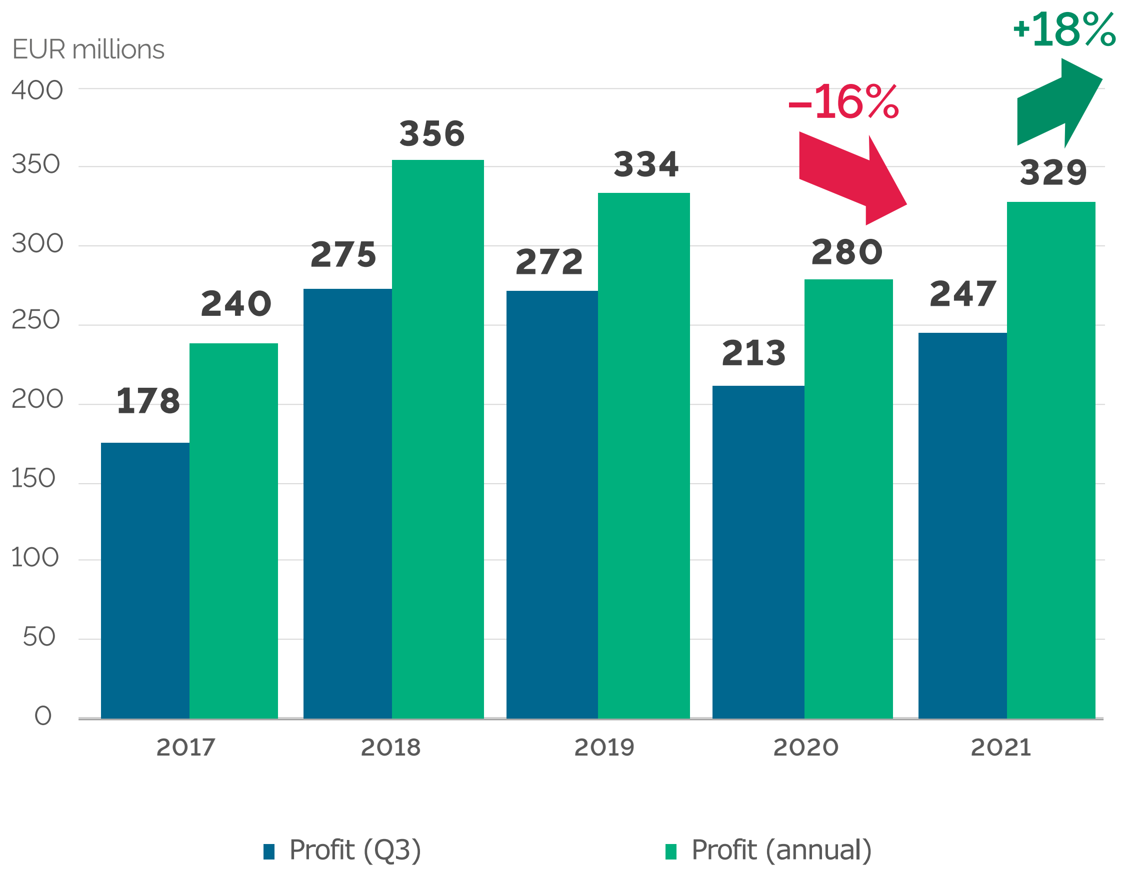
### Loans




**+11,4% Housing loans**

» Significant growth was recorded in the banking sector loan portfolio: most loans to non-financial corporations and households increased due to active provision of housing loans

## Profit




» Banks earned €49 million higher profit mostly due to the recovery of loan impairment costs

## Loan quality 2018-2021


*Source: Bank of Lithuania*

» Quality indicators for business loans, households and thus for the loan portfolio as a whole improved

## Contents

**The banking sector successfully weathered the challenges of the pandemic in 2021, however, the circumstances following Russia's invasion of Ukraine call for continued vigilance, close monitoring of the sector's liquidity situation and other supervisory indicators, as well as timely supervisory action where necessary. Business continuity planning, cyber security and anti-money laundering management issues are now becoming particularly important.**

**While the banking sector remained concentrated, new market participants have been increasing their assets and currently account for 3.2% of the market in terms of assets (0.9% a year ago).**

**Individual performance indicators of banks improved significantly, while timely state support and business adaptability prevented the banking sector from sustaining a marked increase in credit risk. The reduction of uncertainty and restriction of activities related to the COVID-19 pandemic, as well as active housing credit, led to a significant increase in the loan portfolio in 2021 by as much as €2.9 billion (14.9%). The loan portfolio quality indicators went up accordingly.**

**Deposits continued to grow last year, although at a lower rate than in 2020, with deposits increasing by €3.2 billion (10.2%) over the year. The increase in ATM withdrawals and the short-term decline in deposits observed at the end of February 2022 following the Russian invasion of Ukraine did not affect banks' liquidity ratios which continued to be strong. The banking sector also maintained a high level of capital ratio throughout 2021.**

**In 2021, the profit of the banking sector was almost back to pre-pandemic levels, with banks earning €329 million (17.6%) more than in 2020. The main contributor to the growth of bank profits was the recovery of loan impairment expenses.**

**Last year also saw large-scale and well-organised fraud attacks targeting bank customers. During the year, financial fraudsters defrauded Lithuanian residents and businesses of €10.2 million. Banks took additional steps to prevent such offences and close cooperation between authorities coordinated by the new Centre of Excellence in Anti-Money Laundering helped to contain the attacks more quickly. In 2022, the Bank of Lithuania intends to place a greater focus on fraud prevention.**

## BANKING SECTOR DEVELOPMENTS

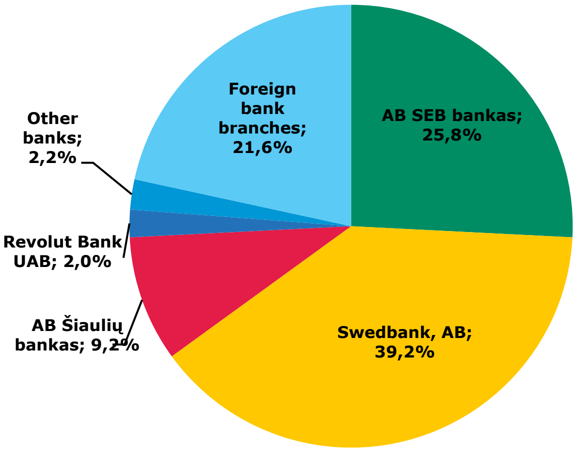
**As of 1 January 2022, 12 banks held a banking or specialised bank licence in Lithuania, while six banks operated as foreign bank branches.**

In 2021, two specialised bank licences were issued: in the beginning of 2021, a specialised bank licence was issued to UAB SME Digital Financing (already operating as SME bank, UAB), and at the end of October 2021, a specialised bank licence was issued to Saldo Finance UAB, the latter being the eighth specialised bank licence issued in Lithuania.

In December 2021, the European Central Bank (ECB), following the proposal of the Bank of Lithuania, changed the specialised bank licence of Revolut Bank UAB to a banking licence, and also took into account the request of Crius LT UAB and revoked the specialised bank licence of this company, therefore, there are currently six banks and six specialised banks operating in Lithuania.

**The banking sector is still concentrated, but new market participants are steadily increasing their assets and creating more competition.** The largest banks, Swedbank, AB and AB SEB bankas, hold 65% of the market. Foreign bank branches account for 21.6% of the market, with the Lithuanian branch of Luminor Bank AS holding the largest share.

Chart 1. Banks and foreign bank branches that operated in Lithuania on 1 January 2022 by assets




Source: Bank of Lithuania.

Table 1. New banking sector participants in the period of 2018 to 2021 and their status

| Name | * | Status |
|---|---|---|
| **Revolut Bank UAB** | **B** | **License issued in 2018, operations started in 2020.** |
| **AB Mano bankas** | **SB** | **License issued in 2018, operations started in 2019.** |
| **UAB GF bankas** | **SB** | **License issued in 2019, operations started in 2020.** |
| **European Merchant Bank UAB** | **SB** | **License issued in 2018, operations started in 2019.** |
| **AB Fjord Bank** | **SB** | **License issued in 2019, operations started in 2020.** |
| **PayRay Bank, UAB** | **B** | **License issued in 2019, operations started in 2020.** |
| **AS Inbank Branch** | **Branch** | **The established branch started operations in 2019.** |
| Crius LT, UAB | – | Licence issued in 2020, revoked in 2021 |
| **UAB SME Digital Financing** | **SB** | **License issued in 2021, operations started in 2021.** |
| Saldo Finance UAB | SB | License issued in 2021, operations not yet started. |

Source: Bank of Lithuania.
*B: bank, *SB: specialised bank.

The two banks and five specialised banks that have started operations in the recent years already account for 3.2% of the market by assets, up from a meagre 0.9% a year ago, and are thus playing an increasingly important role in the market. It is noted that the new market participants are more active in the payments and consumer credit segments, thus, competition is stronger in these areas. After obtaining a banking licence, banks do not start active operations immediately, and experience shows that it can take up to a year to get ready for actual banking activities, for example, the start of operations of some new market participants was delayed due to the impact of the COVID-19 pandemic.

**The Bank of Lithuania and the ECB are currently examining seven applications for a specialised bank licence.**

Since 2017, the licensing process has been undertaken with more than 20 potential market newcomers seeking to obtain a banking licence or a specialised bank licence; of these, nine newcomers have been granted licences. The ECB plays an important role in the licensing process for banks and specialised banks and takes the final decision on whether or not to grant a licence. It should be noted that the purpose of granting a licence is to ensure that there are no undesirable players on the market if this would be contrary to the interests of national security. It is also necessary for new market participants to operate in a secure manner and carry out actual activities in order to operate on the market of the Republic of Lithuania, and it is of utmost importance that the activity is based on plans for sustainable growth.

In 2021, the assessment of the applications was terminated due to capital shortfalls, unsustainable business model and non-compliance of shareholders with the legal requirements.

## ASSETS AND LIABILITIES

**In 2021, bank deposits continued to grow and such resources obtained were used for the surged lending and for increasing the debt securities portfolio, while another part of them was directed**

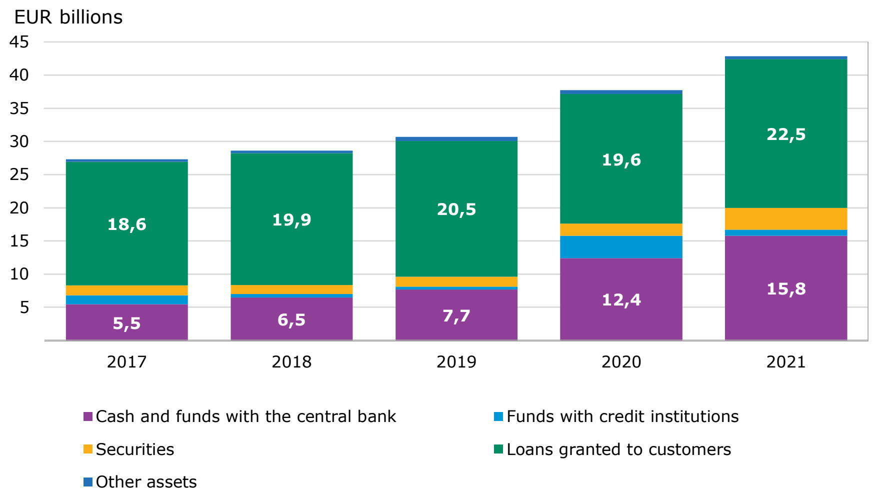
**towards funds with the Bank of Lithuania.** Bank assets grew by €5.1 billion (13.5%), to €42.8 billion over the year.[1]

The net value of loans granted to customers, the asset item that comprises the largest share of bank assets, went up by €2.9 billion (14.9%), to €22.5 billion, whereas the share of the loan portfolio in bank assets increased by a mere 0.6 percentage point over the year, to 52.5% (for more details on loans, see the chapter "Loan Portfolio").

In 2021, funds held by banks with the central bank grew by €3.3 billion (27.6%) to €15.3 billion; furthermore, banks held nearly €0.5 billion in cash. And while funds held with other credit institutions fell by €2.4 billion (71.9%) to €0.9 billion, total liquid funds held by banks increased by a further €0.9 billion, to €16.7 billion over the year. Thus, liquid funds in banks represent the second largest share of bank assets, with 39% held in the form of cash, funds with the central bank or other credit institutions.

Debt securities increased by €1.3 billion (73%) over the year and amounted to €3.2 billion (7.4% of bank assets).

Chart 2. Dynamics of assets of the banking sector
(1 January 2018 – 1 January 2022)




Source: Bank of Lithuania.

**Liabilities increased due to the growth of deposits.** Deposits increased by €3.2 billion (10.2%) to €35.1 billion in 2021. Customer deposits constitute the main source of funding for banks, accounting for 87.6% of bank liabilities (for more details on deposits, see the chapter "Deposits in banks").

The active participation of two banks in the ECB's targeted longer-term refinancing operations led to an increase in central bank deposits from €0.2 billion to €1.6 billion over the year (4% of total liabilities). Liabilities to credit institutions (mainly parent institutions) stood at just €1.0 billion (2.4% of total liabilities).

**The rapid growth of loans led to an increase in the loan-to-deposit ratio.** The increase in loans was not accompanied by a decline in the loan-to-deposit ratio which has been going down over the past few years: as of 1 January 2022, the loan-to-deposit ratio stood at 64%, with an increase of 2.6 percentage points over

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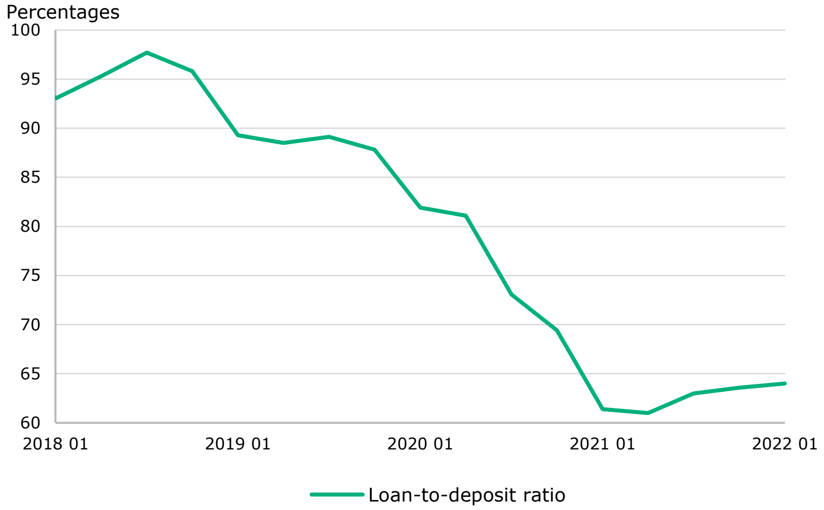
[1] The review is based on unaudited data. Should system participants adjust their statements, the data of the Review after this date may be revised.

the year. However, this rather low value of the indicator shows that banks have ample resources for crediting activities.

Chart 3. Dynamics of the loan-to-deposit ratio
(1 January 2018 – 1 January 2022)




Source: Bank of Lithuania

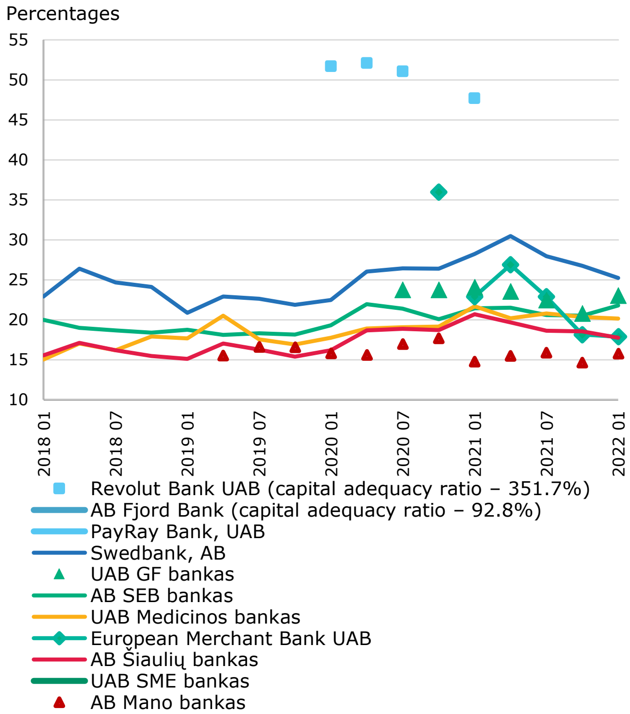
## COMPLIANCE WITH REQUIREMENTS

**Bank capital adequacy level remained high throughout 2021**. The capital adequacy ratio of the banking sector declined only slightly from 23.98% to 23.12% due to a 7.5% increase in risk exposures. Banks operating in Lithuania continue to predominantly have top-tier capital instruments, with the common equity tier 1 (CET1) ratio standing as high as at 22.82%.

**The sustainable bank capital adequacy ratio was ensured due to the fact that bank shareholders allocated most of the profits earned in 2020 for the strengthening of bank capital.** In line with the ECB's recommendation of the end of 2020 (for all banks to consider refraining from dividends and limiting payment of dividends out of the profits cumulated in 2019-2020; that banks intending to pay dividends should be profitable and have a stable capital development, and that the payment of dividends should be agreed with the competent supervisory authority), only two banks directly supervised by the ECB paid dividends for 2020 last year (AB SEB bankas: €47 million (50% of profits for 2020) and AB Šiaulių bankas: €3.3 million (7.7% of profits for 2020)), while all other banks decided to refrain from dividend payments. This strengthened bank capital by almost €182 million, representing around 7.8% of the capital base at the time.

Chart 4. Capital adequacy ratios of banks

(1 January 2018 – 1 January 2022)




Source: Bank of Lithuania.

Table 1. Capital adequacy ratios and requirements set by the Bank of Lithuania

(1 January 2021 – 1 January 2022)

| Name | Actual value, % | | Requirement, %** |
|---|---|---|---|
| | 01/01/2021* | 01/01/2022 | |
| Swedbank, AB | 28.2 | 25.2 | 9.8 |
| AB SEB Bankas | 21.4 | 21.8 | 10.0 |
| AB Šiaulių bankas | 20.7 | 17.8 | 9.6 |
| Revolut Bank UAB | 47.7 | 351.7 | 11.2 |
| UAB Medicinos bankas | 21.7 | 20.1 | 9.8 |
| PayRay Bank, UAB | 77.6 | 31.5 | 8.0** |
| AB "Mano bankas | 14.8 | 15.8 | 10.1 |
| UAB GF bankas | 24.1 | 23.0 | 8.0** |
| European Merchant Bank UAB | 22.9 | 17.9 | 10.3 |
| UAB SME Bank | – | 16.4 | 8.0** |
| AB Fjord Bank | 134.2 | 92.8 | 8.0** |
| Banking sector | 24.0 | 23.1 | – |

Source: Bank of Lithuania.

Notes: The indicated capital requirements include Pillar 1 and Pillar 2 requirements. The Bank of Lithuania and the ECB, which carry out supervision, assess and define the requirements on an annual basis.

* As during shareholder meetings in 2021 bank shareholders took decisions to refrain from dividend payments from the profit for 2020, bank capital indicators were recalculated as of 1 January 2021.

** Pillar II requirements for banks that started their activities in 2020-2021 will be set for the first time in 2022-2023.

**All banks complied with their capital adequacy requirements** indicated in Table 2. They are currently subject to the Pillar I capital adequacy requirement of 8.0% and the Pillar II capital requirement which is set individually. In response to the coronavirus outbreak, as early as in March 2020, the ECB and the Bank of Lithuania granted a temporary exemption from compliance with the Pillar II guidance and the combined capital buffer requirement to directly supervised institutions, and the exemption has been extended until the end of 2022. The combined capital buffer is comprised of capital conservation buffer requirement (2.5%), the countercyclical capital buffer requirement (0.0%) and the other systemically important institution buffer requirement (1.0%-2.0%).

**Lithuania's banking sector is also characterised by a high leverage ratio.** As of 1 January 2022, the leverage ratio stood at 6.46%, more than double the minimum threshold (3%). Although this ratio continued to follow a downward trend due to the growth in bank assets (down by 0.98 percentage point in 2021), this is not considered as a real increase in leverage risk, as the rise was observed only in non-risky asset types (funds with central banks or parent credit institutions).

**In 2021, the liquidity situation of banks remained very good, with most banks even having excess liquidity.** Liquidity was high across all banks, but small banks have to compete to attract resident deposits, while for large banks, reducing the cost of managing excess liquidity remains a particular concern. In 2021 and over Q4, the liquidity coverage ratio (LCR) of the banking sector declined to 392%, following the year-end liquidity management operations by large banks, which led to a rather significant change in the LCR. The LCR was almost four times above the minimum and remained one of the highest in the euro area. With deposit growth outpacing loan growth, the liquidity buffer in banks continued to grow in Q4 and throughout 2021.

Table 2. Liquidity coverage ratios of banks

(1 January 2021 – 1 January 2022)

| Name | 01/01/2021 | 01/01/2022 |
|---|---|---|
| Swedbank, AB | 1,070.74 | 431.41 |
| AB SEB Bankas | 657.13 | 338.44 |
| AB Šiaulių bankas | 283.06 | 246.78 |
| Revolut Bank UAB | 857.11 | 904.60 |
| UAB Medicinos bankas | 531.68 | 570.14 |
| PayRay Bank, UAB | 1,566.29 | 3,616.69 |
| AB Mano bankas | 150.73 | 193.37 |
| UAB GF bankas | 59,500.00 | 48,800.00 |
| European Merchant Bank UAB | 172.00 | 174.78 |
| UAB SME Bank | – | 1,855.50 |
| AB Fjord Bank | 7,213.00 | 3,361.00 |
| **Banking sector** | **743.25** | **392.28** |

Source: Bank of Lithuania.

In 2021 (starting from 1 July 2021), another mandatory liquidity requirement entered into force: the net stable funding ratio (NSFR) of at least 100%. The NSFR reflects the longer-term liquidity of credit institutions, i.e. banks need to have sufficient stable funding to cover their funding needs for one year, both under normal and adverse conditions. All banks met the NSFR with sufficient buffers, and the banking sector's NSFR, along with the continued growth of stable funding, increased from 194% to 207% in Q4 and was twice the required level. Smaller banks pay higher interest rates of up to 1.2% (for 12-month fixed-term deposits) to attract time deposits of residents, while larger banks manage to attract deposits even with low or no interest payments.

Table 4. Net stable funding ratios of banks

(1 July 2021 – 1 January 2022)

| Name | 01/07/2021 | 01/01/2022 |
|---|---|---|
| Swedbank, AB | 231.64 | 239.53 |
| AB SEB Bankas | 181.36 | 186.58 |
| AB Šiaulių bankas | 143.00 | 145.00 |
| Revolut Bank UAB | 3,943.71 | 3,478.24 |
| UAB Medicinos bankas | 173.32 | 187.51 |
| PayRay Bank, UAB | 116.90 | 164.80 |
| AB Mano bankas | 167.28 | 178.95 |
| UAB GF bankas | 131.00 | 128.90 |
| European Merchant Bank UAB | 203.00 | 170.00 |
| UAB SME Bank | 161.00 | 135.00 |
| AB Fjord Bank | 207.61 | 195.82 |
| **Banking sector** | **199.87** | **207.03** |

Source: Bank of Lithuania.

## THE LOAN PORTFOLIO[2]

### DEVELOPMENTS IN THE LOAN PORTFOLIO

**The growth in lending to businesses, as a result of decreasing uncertainty and operational restrictions related to the containment of the COVID-19 pandemic and the end of state aid measures, combined with still active lending for house purchase, led to a significant growth in the loan portfolio of the banking sector.**

In 2021, the portfolio of loans and other prepayments increased by almost €1.5 billion (6.8%), to €22.9 billion. **Excluding positions with credit institutions and central banks** (hereinafter – loan portfolio), which declined sharply in 2021, **the loan portfolio grew by as much as €2.9 billion (14.9%), to €22.5 billion.**

**Loans to households, which comprised the largest share (53.7%) of the bank loan portfolio, grew by €1.2 billion (10.8%) over the year, to €12.1 billion.** This growth of the household loan portfolio was driven by active granting of housing loans which went up by €1 billion (11.4%) over the year, to €9.8 billion. Although three major market participants dominate the housing loans segment with a share of 92.6%, other players are becoming increasingly involved (their share grew by 1.9 percentage points over the year). After declining in Q1 2021, the consumer loan portfolio reached the growth rate of 15.3% and the portfolio size of €1.1 billion in the following three quarters, with small banks that specialise in this segment being more active.

**Loans to non-financial corporations, another important part of the bank loan portfolio (comprising 41.1% of the portfolio) increased by €1.4 billion (18.4%) in 2021, to €9.2 billion.** This change was partially affected (by around €0.45 billion) by the transfer of portfolio of one leasing company to the balance sheet of a foreign bank branch. In previous years, the portfolio of loans to businesses had been declining due to the uncertainty associated with the COVID-19 crisis, but as the situation stabilised and expectations improved, both the need for funds and the ability to assess it more reliably arose, and thus, crediting activities recovered. The end of state aid (related to both direct credits and tax deferrals) also contributed to this. The main growth was observed in loans to enterprises operating in the wholesale and retail trade and real estate sectors (of over €0.3 billion in each), and manufacturing (of over €0.2 billion). The total value of bank loan commitments to non-financial corporations increased marginally (by 1.4%) to nearly €2.8 billion. Loans to both large and small and medium-sized enterprises grew at a similar pace. Strong loan growth was demonstrated by both major market participants and small banks that have recently entered the market. A significant decrease in the business portfolio was recorded with only one market participant that had already announced its exit from the market.

The loan portfolio of financial corporations (excluding credit institutions) grew by €303 million year-on-year, to €829 million. In addition to the usual crediting of leasing companies, crediting of investment funds, which has been unusual in the Lithuanian banking sector so far, had a significant impact on the change in lending to other financial corporations.

The general government portfolio grew by only €6 million year-on-year, to €348 million, and its share of the total loan portfolio decreased to €1.6%.

### LOAN PORTFOLIO QUALITY

**The stabilising situation and the decreasing uncertainty around COVID-19 led to an improvement in the quality indicators of business loans and thus of the loan portfolio as a whole.**

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[2] Including the leasing portfolio.

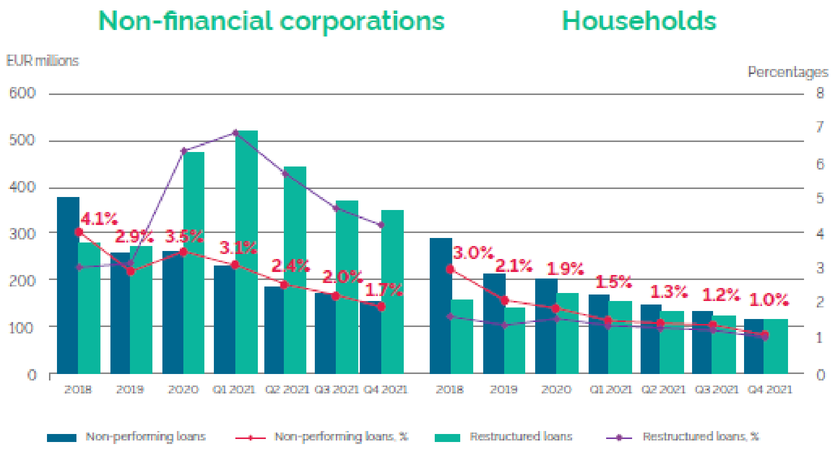
The share of forborne loans, which grew in 2020, mainly due to the COVID-19 pandemic-related loan restructuring (postponement of payments), declined steadily to 2.2% of the total loan portfolio in 2021 (a decrease of 0.9 percentage point). The share of loans overdue for more than 30 days continued to decline: delays in the non-financial corporations segment fell by 0.2 percentage point (to 0.5%), and by 0.3 percentage point (to 0.7%) in the households segment.

In 2021, banks recorded a lower volume of business loans with a significant increase in credit risk since their initial recognition: the share of such loans decreased by 2.6 percentage points to 9.0% of the total business loan portfolio. The decline in this indicator was also influenced by the growth in the calculation base (total business loan portfolio). The share of such loans fell by 0.2 percentage point and comprised 8.3% of the household portfolio.

Trends of changes in loans with a significant increase in credit risk since their initial recognition and in forborne loans also indicate that the direct impact of the coronavirus pandemic on loan quality was short-lived.

**The share of non-performing debt instruments fell by 0.62 percentage point, to 0.66%, while the carrying amount of such debt instruments was 42% lower than at the beginning of the year.** The share of non-performing loans (excluding positions with credit institutions and central banks) decreased by 0.98 percentage point to 1.23%. The volume of non-performing loans to non-financial corporations decreased by 44% to comprise 1.7% of the corporate loan portfolio, while indicators of the household loan portfolio were 40% and 1.0%, respectively. Both the growth in the calculation base (loan portfolio) and loan write-offs contributed to the improved indicators.

Chart 5. Loan portfolio quality
(1 January 2018 – 1 January 2022)




The loan-to-special provision ratio decreased by 0.37 percentage point and comprised 0.77% at the end of the year, whereas the coverage of non-performing loans with special provisions decreased by 1.3 percentage points to comprise 30.2% (35.7% business loans and 23.6% loans to households).

## DEPOSITS WITH BANKS

**Deposits continued to grow in 2021, but at a lower rate than in 2020.** Last year, deposits in banks increased by €3.2 billion or 10.2% and amounted to €35.1 billion at the end of the year.

The growth of deposits was driven by the largest component of deposits, household deposits, which increased by €3.2 billion (18%), to €21.2 billion, and accounted for 60.4% of total deposits as of 1 January 2022. The increase in deposits of non-financial corporations (€0.2 billion or 2.6%) and of other financial corporations (€0.3 billion or 40.4%) was outweighed by a decline in the general government deposits (almost €0.6 billion or 15.4%). Deposits in the two segments tend to have higher volatility.

The continued growth in household deposits can be explained by the prevailing uncertainty among the population about the future and the desire to cumulate funds for emergencies. Traditionally, the last quarter saw the highest deposit growth, with total deposits increasing by €1.7 billion (5.2%) in Q4 2021, due to the settlements with suppliers, salaries and bonuses transferred before the end of the year.

The entire increase in deposits in 2021 was driven by an increase in demand deposits, which grew by €3.3 billion, while the balance of time deposits in banks fell by €73 million over the year. Current deposits comprised as much as 88.2% of total deposits with banks. Banks do not pay interest on these deposits and in certain cases even apply negative interest rates, but they do pay deposit insurance contributions. Moreover, as banks do not find ways to utilise these funds efficiently, they hold them with the Bank of Lithuania or other credit institutions at a negative interest rate, thus incurring asset holding expenses.

## PROFITABILITY AND OPERATING EFFICIENCY

**Despite the ongoing global coronavirus pandemic and containment measures in the country, the banking sector was profitable in 2021 and almost reached pre-pandemic profitability, with recovered loan impairment expenses as the main contributor to the growth of bank profits.** According to unaudited data, the profit earned by the Lithuanian banking sector amounted to €329 million in 2021, which constituted an increase of 17.6% compared to 2020, and was close to the pre-pandemic levels (in 2019, the profit of the banking sector was equal to €334 million).

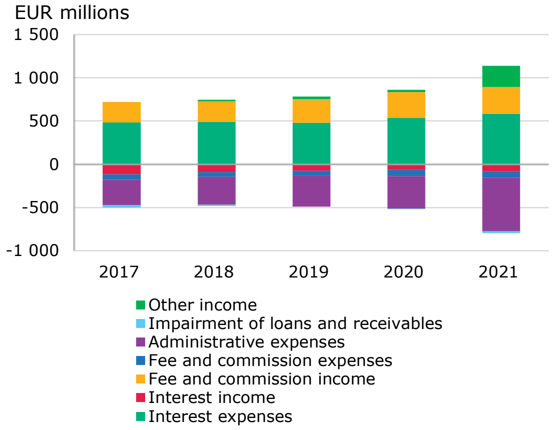
12 banks and foreign bank branches were profitable, while five banks incurred a loss last year. The total loss incurred by all banks that operated at a loss amounted to €8.3 million, while banks operating for long time were profitable, with many of them gaining larger profits, compared to 2020. It should be noted that all market participants that incurred a loss were also operating at a loss in 2020 and all of them started their banking activities relatively recently, within the last few years, therefore, their costs still exceed their income.

**Banks earned lower net interest income, mainly due to rising interest expenses related to the cost of managing excess liquidity for growing deposits.** In 2021, net interest income was lower by €4.8 million (0.9%), compared to 2020, and amounted to €521.2 million. Although interest income of banks increased slightly (by €9.7 million or 1.6%) and amounted to €618 million, net interest income was still negatively affected by the continuous rise in interest expenses. In 2021, they went up by a further €14.5 million (17.6%) to €96.8 million. The increase in interest expenses was considerably influenced by the persistent trend of rapidly rising interest expenses on excess liquidity (negative interest on liquid funds held with the Bank of Lithuania and funds held with other credit institutions), which has been observed for several years. In 2021, banks' expenses related to assets held totalled €66.7 million and increased by as much as €24.2 million or 56.8%, compared to 2020.

**The lifting of restrictions imposed on the domestic economy led to an increase in economic activity in the society and growth of the volume of services provided in 2021, which resulted in a steady increase in net fee and commission income that already surpassed the pre-pandemic level.** Net fee and commission income increased by €25.4 million or 10.9% and amounted to €258 million in 2021. This growth was mainly due to the €21.3 million or 11% year-on-year rise in income generated from payment services as this type of income had significantly declined in Q2 2020 due to the introduced lockdown and significant restrictions on activities in the country. Furthermore, due to economic growth, the volume of net fee and commission income expanded further in the second half of 2021.

Chart 6. Annual change in the main items of income

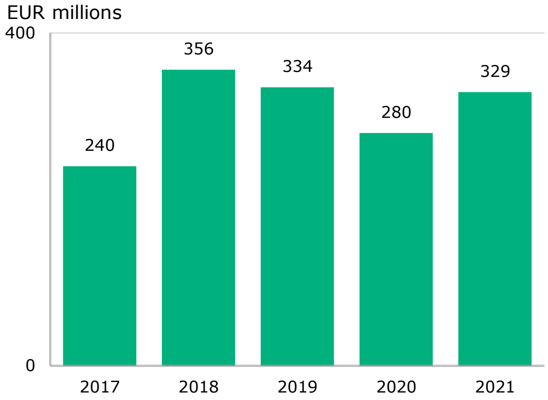
(2017–2021)




Source: Bank of Lithuania.

Chart 7. Profit of the banking sector

(2017–2021)




Source: Bank of Lithuania.

**Administrative expenses of banks increased by €241.6 million (64.3%) in 2021, to €617.3 million, and this increase was mainly determined by a significant rise in administrative expenses (along with growth of other income) of one market participant which previously used to be included in the balance sheet of the parent bank.** Excluding this factor and considering the expenses of banks that started their operations, administrative expenses of banks increased by €33.8 million (9.2%) in 2021, compared to 2020, of which €6.2 million (3.1%) constituted staff expenses.

**The recovery of loan impairment expenses was the main contributing factor to the increase in bank profits,** which gave rise to income amounting to €2.3 million in 2021, while in 2020 banks incurred impairment expenses in the amount of €56.9 million due to this. The recovery of loan impairment expenses was driven by improving economic prospects over the past year and a reduction in the risk that borrowers will not repay their loans.

**In 2021, bank efficiency indicators deteriorated slightly, however, compared to those of EU countries, they remained high.** Regardless of the increase in profits, the profitability and efficiency indicators of banks declined slightly in 2021, mainly due to the rise in both administrative expenses and interest costs. The efficiency indicator, which reflects the cost-to-income ratio, comprised 63.4% as of 1 January 2022, declining (worsening) by 12.1 percentage points over the year. The reason behind this was a change in the practice of one of the banks to include expenses in the balance sheet of the local bank rather than that of the parent bank. Banks that started their operations not long ago, the operating expenses of which, as mentioned above, are higher than income, also contribute to the lower performance efficiency. However, the efficiency of the Lithuanian banking sector remained quite high, compared to that of other EU countries. The comparative data of European Banking Authority (EBA) for Q3 2021[3] show that Lithuanian banks in the EBA's sample continued to be among the most efficient banks in the entire EU banking system.

Return on assets remained stable over the year and stood at 0.82%, while the return on equity went down by 0.35 percentage point to 10.36%.

[3] EBA data: https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard

## FRAUDS

**In 2021, there were large-scale and well-organised fraud attacks targeting bank customers.** According to the Association of Lithuanian Banks, financial fraudsters defrauded Lithuanian residents and businesses of €10.2 million in 2021. The most common types of fraud were phone calls where the caller posed as a bank employee, SMS messages with active links to fake online banking pages, account take-over when activating a new Smart-ID account, taking payment card details by pretending to be a buyer of goods and redirecting the seller to fake courier service websites, and other methods.

Banks took additional steps to prevent such acts: published information about attacks, enabled victims to report fraud more quickly, and improved their interactions with each other to track and freeze fraudsters' funds more quickly. Close cooperation between the authorities coordinated by the new Centre of Excellence in Anti-Money Laundering helped to contain the attacks faster. Discussions on the implementation of additional measures are also ongoing. In 2022, the Bank of Lithuania will increase its focus on fraud prevention to ensure that banks and other market participants apply appropriate fraud prevention measures and that consumers of financial services are adequately notified about new emerging threats.

## Annex. KEY INDICATORS OF THE BANKING SECTOR[4]

Table 1. Main items of the balance sheet statement

| No | Indicator | 01/01/2021 EUR millions | 01/10/2021 EUR millions | 01/01/2022 EUR millions | Quarterly change, % | Annual change, % |
|---|---|---|---|---|---|---|
| 1. | Assets | 37,745.4 | 40,599.4 | 42,839.6 | 5.5 | 13.5 |
| 1.1. | Debt securities | 1,829.1 | 2,946.3 | 3,164.1 | 7.4 | 73.0 |
| 1.2. | Equity securities | 110.8 | 92.6 | 92.6 | 0.1 | -16.4 |
| 1.3. | Financial derivatives | 58.7 | 75.4 | 57.6 | -23.7 | -1.9 |
| 1.4. | Cash | 447.5 | 459.8 | 473.5 | 3.0 | 5.8 |
| 1.5. | Funds with central banks | 11,975.2 | 12,709.1 | 15,286.2 | 20.3 | 27.6 |
| 1.6. | Funds with credit institutions | 3,349.7 | 2,747.5 | 942.7 | -65.7 | -71.9 |
| 1.7. | Loans to customers (incl. leasing) | 19,554.2 | 21,206.3 | 22,469.9 | 6.0 | 14.9 |
| 1.7.1. | to general government institutions | 342.4 | 339.2 | 348.4 | 2.7 | 1.7 |
| 1.7.2. | to other financial corporations | 525.2 | 710.0 | 828.6 | 16.7 | 57.8 |
| 1.7.3. | to non-financial corporations | 7,800.7 | 8,424.2 | 9,236.3 | 9.6 | 18.4 |
| 1.7.4. | to households | 10,886.0 | 11,732.9 | 12,056.6 | 2.8 | 10.8 |
| 1.7.4.1. | o/w loans for house purchase | 8,816.7 | 9,535.9 | 9,819.2 | 3.0 | 11.4 |
| 1.8. | Other asset positions | 420.2 | 362.4 | 353.1 | -2.6 | -16.0 |
| 2. | Liabilities and equity | 37,745.4 | 40,599.4 | 42,839.6 | 5.5 | 13.5 |
| 2.1. | Deposits of central banks | 179.6 | 1,626.5 | 1,619.9 | -0.4 | 802.0 |
| 2.2. | Liabilities to credit institutions | 1,748.4 | 1,017.8 | 973.0 | -4.4 | -44.4 |
| 2.3. | Financial derivatives | 74.0 | 63.1 | 46.0 | -27.1 | -37.8 |
| 2.4. | Deposits | 31,861.6 | 33,363.8 | 35,107.4 | 5.2 | 10.2 |
| 2.4.1. | of general government institutions | 3,618.2 | 3,314.2 | 3,062.6 | -7.6 | -15.4 |
| 2.4.2. | of other financial corporations | 782.7 | 997.3 | 1,098.9 | 10.2 | 40.4 |
| 2.4.3. | of non-financial corporations | 9,496.6 | 9,443.7 | 9,744.1 | 3.2 | 2.6 |
| 2.4.4. | of households | 17,964.1 | 19,608.6 | 21,201.8 | 8.1 | 18.0 |
| 2.5. | Debt securities outstanding | 22.2 | 24.6 | 101.9 | 314.1 | 358.5 |
| 2.6. | Other liability positions | 1,420.5 | 1,860.3 | 2,214.8 | 19.1 | 55.9 |
| 2.7. | Equity | 2,439.0 | 2,643.3 | 2,776.7 | 5.0 | 13.8 |

Source: Bank of Lithuania.

[4] 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 | 01/01/2021 EUR millions | 01/10/2021 EUR millions | 01/01/2022 EUR millions | Quarterly change, % | Annual change, % |
|---|---|---|---|---|---|---|
| 3. | Current year profit | 279.7 | 247.2 | 328.9 | – | 17.6 |
| 3.1. | Net interest income | 526.0 | 382.6 | 521.2 | – | -0.9 |
| 3.2. | Net income from fees and commissions | 232.6 | 186.9 | 258.0 | – | 10.9 |
| 3.3. | Administrative expenses | 375.7 | 450.4 | 617.3 | – | 64.3 |
| 3.4 | Loan impairment | 56.1 | -10.6 | -2.6 | – | – |

Source: Bank of Lithuania.

Table 3. Other performance indicators

| No | Indicator | 01/01/2021, % | 01/10/2021, % | 01/01/2022, % | Quarterly change, % | Annual change, % |
|---|---|---|---|---|---|---|
| 4. | Capital adequacy ratio | 23.98 | 22.63 | 23.12 | 0.49 | -0.86 |
| 5. | CET1 capital adequacy ratio | 23.63 | 22.34 | 22.82 | 0.48 | -0.81 |
| 6. | Liquidity coverage ratio | 743.25 | 449.98 | 392.28 | -57.70 | -350.97 |
| 7. | Net stable funding ratio | – | 194.31 | 207.04 | 12.73 | – |
| 8. | Leverage ratio | 7.44 | 6.75 | 6.46 | -0.29 | -0.98 |
| 9. | Net interest margin | 1.58 | 1.31 | 1.31 | 0.00 | -0.27 |
| 10. | Return on assets | 0.82 | 0.84 | 0.82 | 0.02 | -0.00 |
| 11. | Return on equity | 10.71 | 10.83 | 10.36 | -0.47 | -0.35 |
| 12. | Efficiency indicator (EBA methodology) | 51.27 | 63.23 | 63.35 | 0.12 | 12.08 |
| 13. | Non-performing debt instruments | 1.28 | 0.78 | 0.66 | -0.12 | -0.62 |

Source: Bank of Lithuania.