LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Banking Activity Review

2022

Banking Activity Review
Activities of financial market participants
2022

ISSN 2335-8327 (online)

Publication prepared by
Banking and Insurance Supervision Department

Contact persons:
info@lb.lt
+370 800 50 500

Gedimino pr. 6, LT-01103 Vilnius, Lithuania
www.lb.lt

Banking sector / 2022

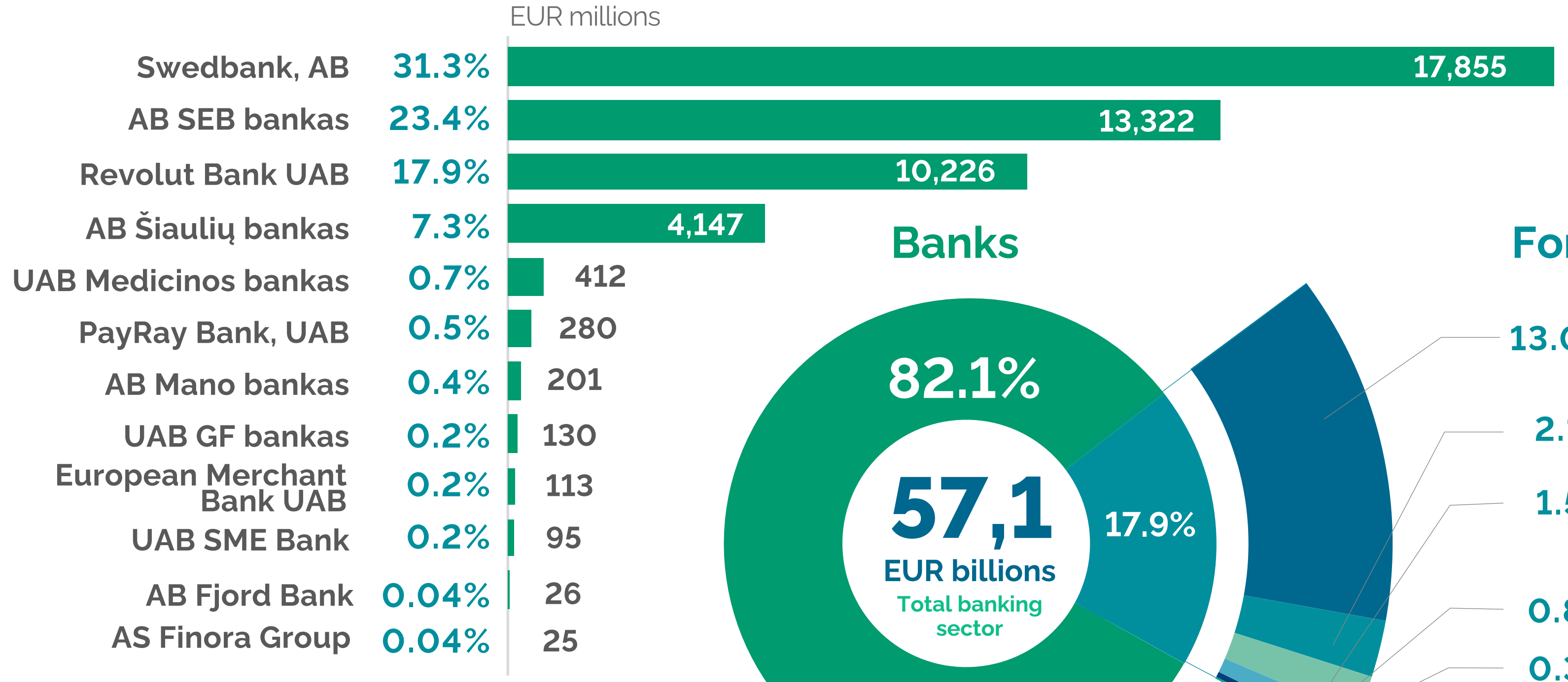
Market participants

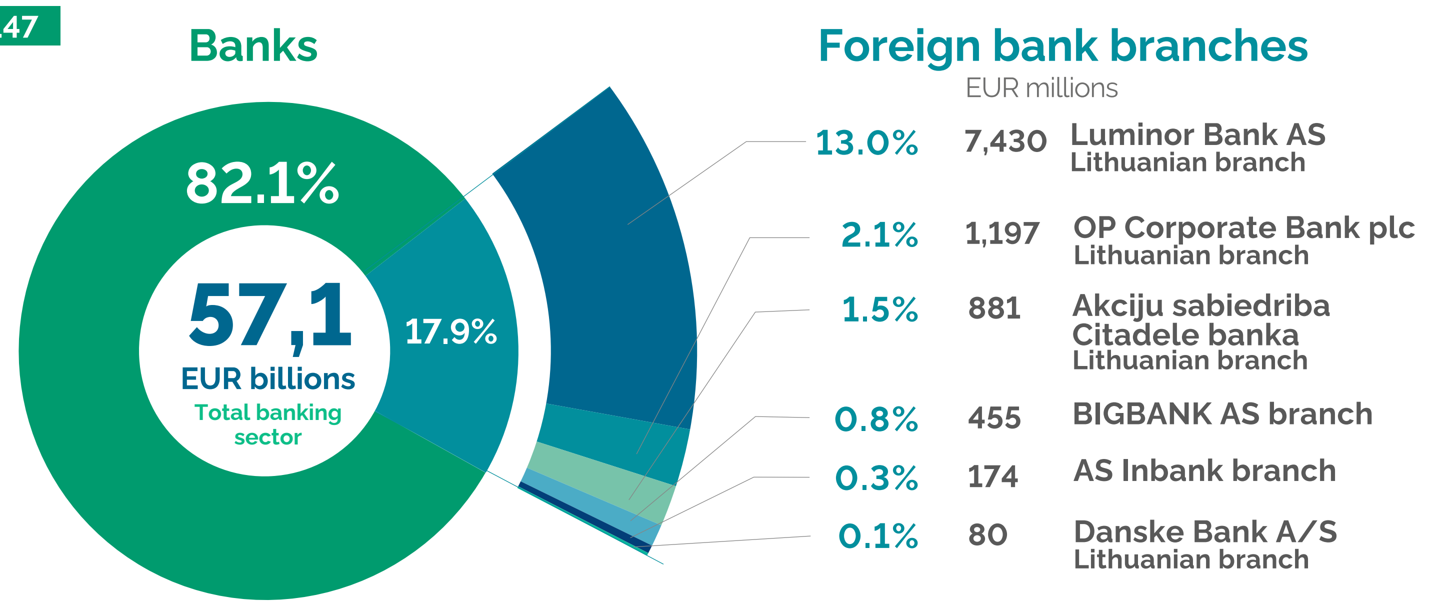
13 banks

6 foreign bank branches

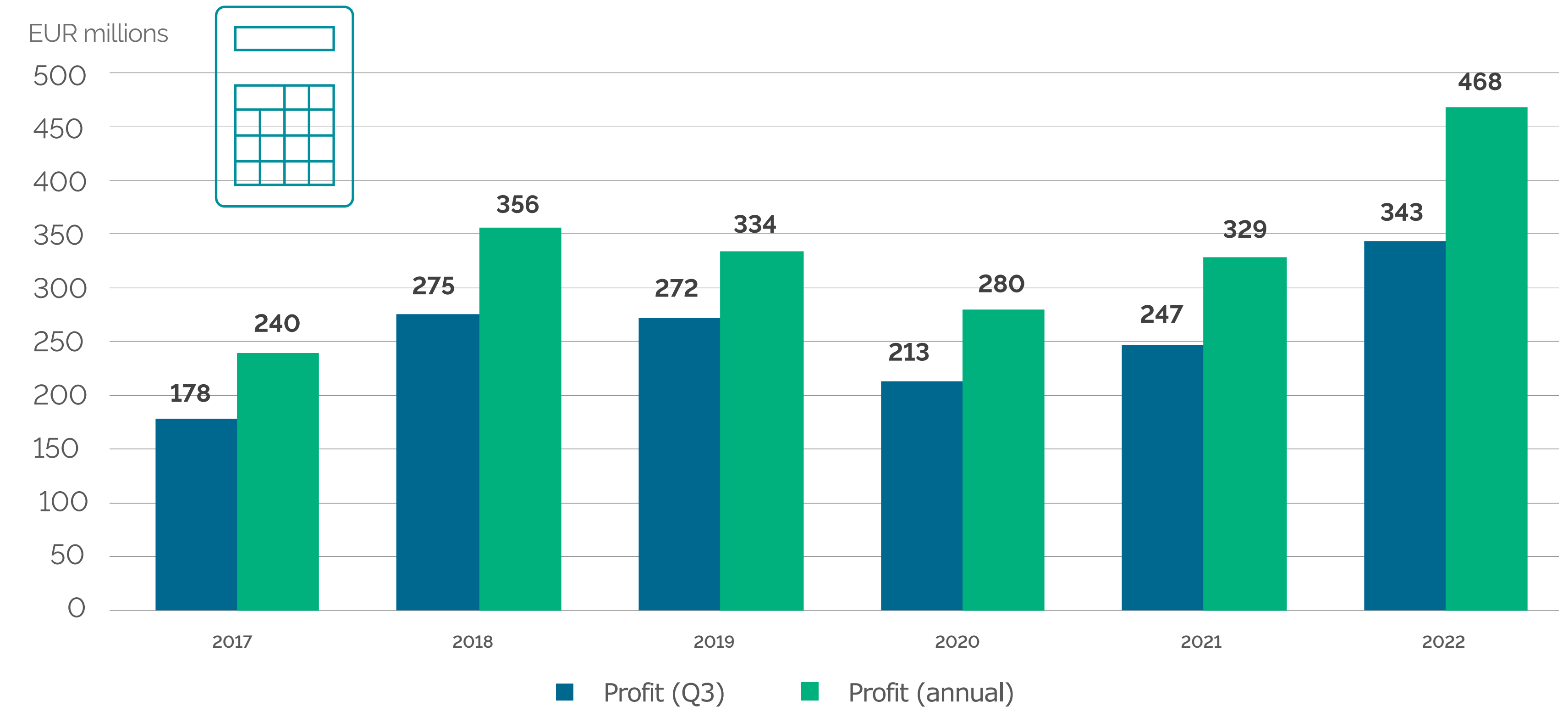
Assets

Market share by assets



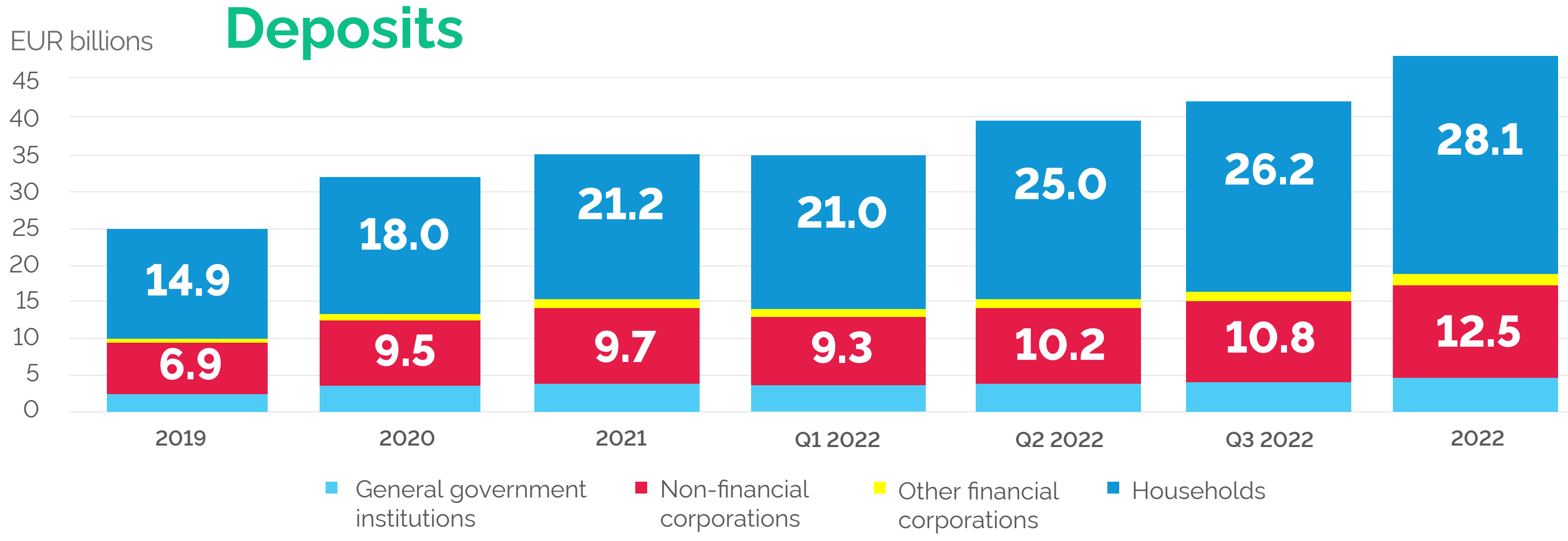


Profit



The banking sector was profitable mainly due to a rapid increase in net interest income

Deposit and loan dynamics in Lithuania

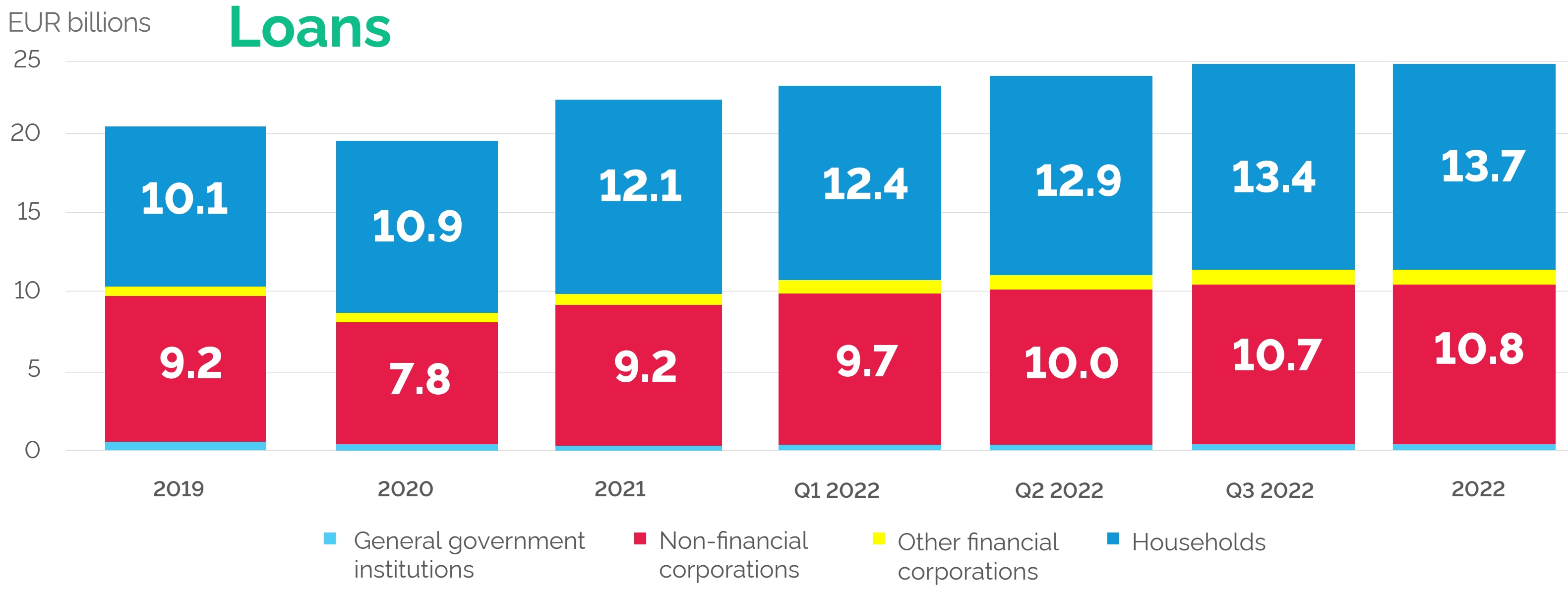


+6%*

Households (2022)

Household deposits increased by €1.2 billion, or 6%, in Q4 2022*.

*Impact of the consolidation of Revolut Bank UAB eliminated.



+2.5%

Housing loans (2022)

Bank lending remained fairly active

Compliance with prudential requirements

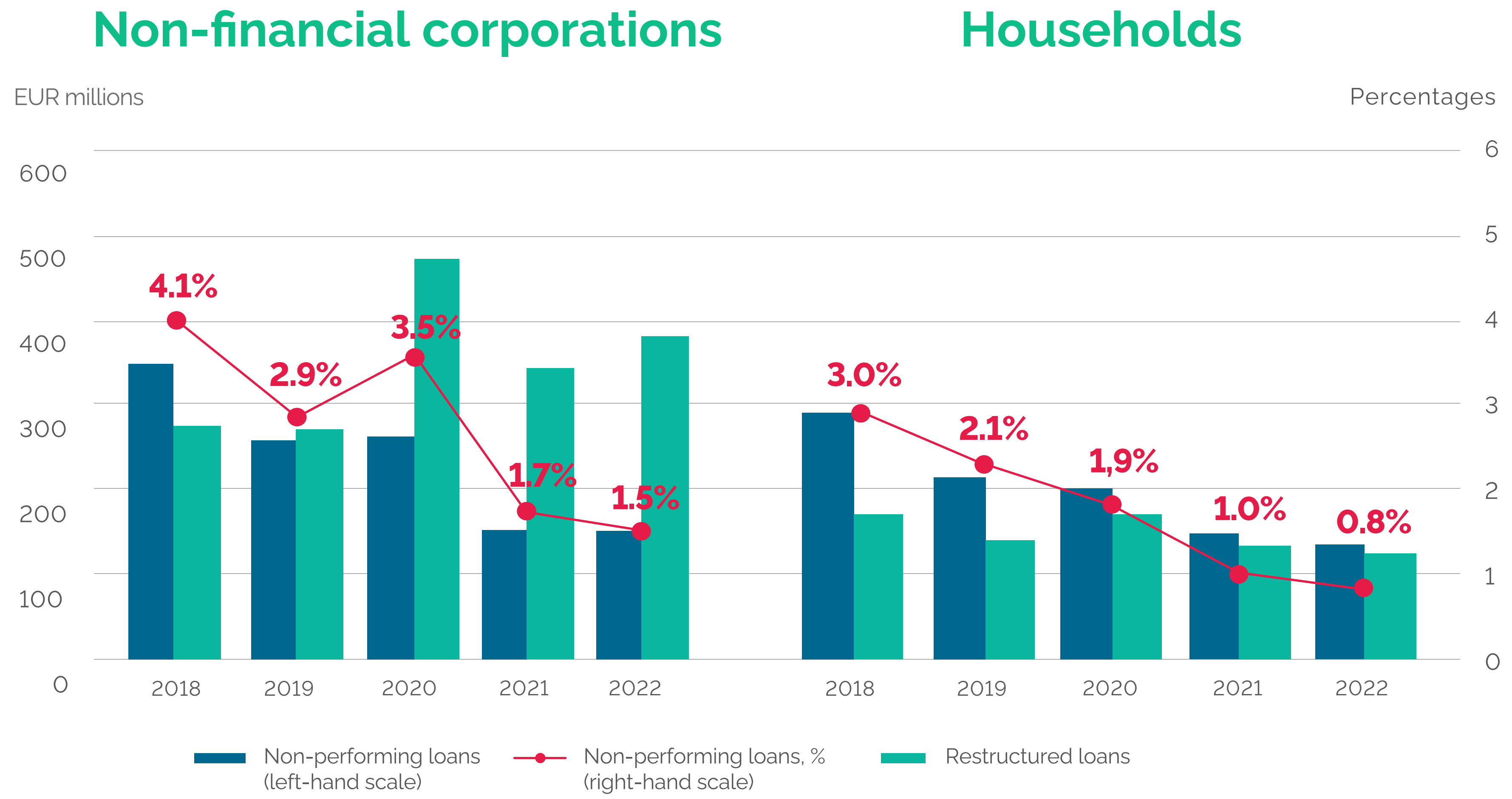
Capital adequacy ratio	Liquidity coverage ratio (LCR)
19.1%	390%
Net stable funding ratio (NSFR)	**Leverage ratio**
190%	5.5%

Bank capital adequacy level remained high

Bank liquidity remains robust

Leverage ratio greatly exceeded the minimum

Loan quality 2018–2022



Source: Bank of Lithuania

The quality of the loan portfolio remained stable despite an unfavourable macroeconomic situation

Contents

The COVID-19 pandemic challenges weathered by the banking sector were replaced by the indirect challenges posed by russia's war against Ukraine in early 2022, in particular the impact of the war on the performance of economic sectors, implementation of international sanctions, cyber attacks, and the excess liquidity of the major banks.

Currently, the liquidity situation of banks remains very good and their liquidity buffers are more than sufficient, therefore, the banks are safe in the face of the recent global financial turmoil. Lithuanian banks had no direct links with the two banks that failed in the United States and Credit Suisse, the Swiss bank in difficulty, therefore, the liquidity of Lithuanian banks was not affected by these events.

All banks are in compliance with their capital adequacy requirements, and their capital adequacy levels remain high.

The banking sector remains concentrated, however, the new market participants are consistently increasing their available assets. As a result of reorganisation of group companies in Lithuania, the market share of Revolut Bank UAB grew significantly in the second quarter of 2022, making the bank the third largest participant in the market in terms of assets.

The challenges that arose in 2022 did not slow down lending activity, with a significant increase in the loan portfolio of €3.5 billion (15.5%) – to almost €26 billion. Weakening economic activity and rising interest rates have so far not had a major downward impact on the quality of the banking sector's loan portfolio of 2022. The elevated economic uncertainty was reflected in the provision costs of many banks in the last quarter of the year, but provisioning levels are still below the average of euro area banks.

In 2022, deposits continued to grow at a rate similar to that of 2021. Excluding the impact of the Revolut Group, the growth in deposits was nearly €3.8 million (10.9%). At the end of 2022, deposits with Revolut Bank UAB amounted to almost €8.3 billion, and deposits of this bank's non-resident customers in various EU countries represent 98% of the bank deposits.

Against the backdrop of weaker growth and rising inflation, following the ECB's decisions to raise interest rates, the banking sector saw exceptionally high profitability ratios. The banking sector's unaudited profit was €468 million, or 42.7% higher than in 2021. The banking sector's profitability was mainly driven by strong growth in net interest income, which was particularly strong in the last quarter of the year.

In 2022, the fraud attacks targeting bank customers continued to grow, with the most common type of fraud being phishing through social engineering techniques. The Bank of Lithuania considers fraud prevention to be one of the key tasks of financial service supervision and took active steps in 2022. Furthermore, there was an increase in the number of cyber incidents affecting banking operations last year. Most of the incidents were caused through distributed denial of service (DDOS) attacks.

BANKING SECTOR DEVELOPMENTS

Currently, there are 19 participants in the banking sector in Lithuania: six banks hold banking licences, seven banks are specialised bank licence holders, and six more banks operate as branches of foreign banks.

In April 2022, one specialised bank licence was issued to Finora Bank UAB, which started active banking activities in the third quarter of 2022. Saldo Bank UAB also launched banking activities in mid-February 2023 (it was granted a specialised bank licence as early as in October 2021).

Table 1. Banking sector participants and their status

Bank (6 participants)	**Specialised bank** (7 participants)	**Foreign bank branch** (6 participants)
Swedbank, AB	AB Mano bankas	BIGBANK AS Branch
AB SEB bankas	UAB GF bankas	Danske Bank A/S Lithuanian branch
Revolut Bank UAB	European Merchant Bank UAB	OP Corporate Bank plc Lithuanian branch
AB Šiaulių bankas	UAB SME Bank	Luminor Bank AS Lithuanian branch
UAB Medicinos bankas	Finora Bank UAB	AS Citadele banka Lithuanian branch
PayRay Bank, UAB	AB Fjord Bank	AS Inbank branch
	Saldo Bank UAB	

Source: Bank of Lithuania.

The banking sector remains concentrated, but new market participants are consistently increasing their assets, thereby creating more competition for banks that have been operating for a longer period.

The two largest banks operating in Lithuania, Swedbank AB and AB SEB Bankas, account for more than half of the market in terms of assets, i.e. 54.7%, while Revolut Bank UAB became the third largest bank in terms of assets (at the highest level of consolidation) due to the reorganisation of the group's companies in Lithuania in the second half of 2022 (with a market share of 17.9% at the end of 2022). it's the business activity of Revolut Bank UAB focuses on the provision of payment services, as well as on the provision of deposit collection activities in different EU countries.

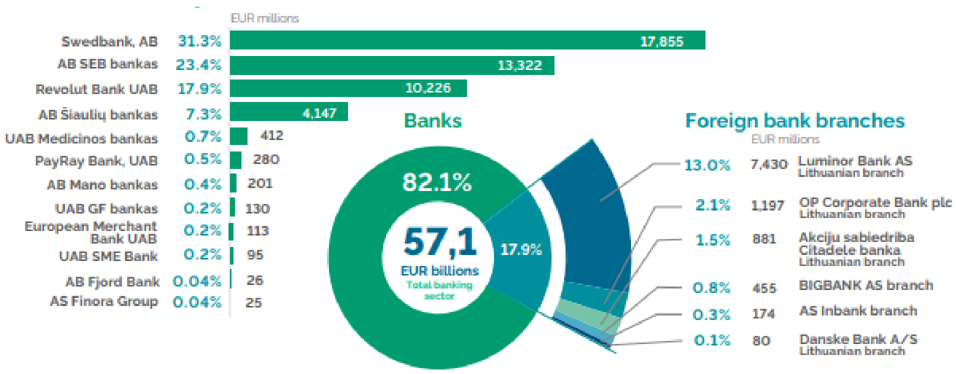
The volume of assets and liabilities of Revolut Bank UAB (especially non-resident deposits in EU countries) has a material impact on the performance indicators of the Lithuanian banking sector. At the end of December 2022, the Board of the Bank of Lithuania recognised Revolut Bank UAB as a systemically important institution and it will be subjected to an additional capital buffer requirement of 1% of its risk-weighted assets as of 1 July 2023.[1]

[1] The Bank of Lithuania conducts a review of the systemic importance of credit institutions every year. A financial institution may be declared to be of systemic importance, i.e. likely to affect the stability of the financial system of the country as a whole, taking into account its size, economic importance, complexity and cross-border activities, and interconnectedness with other financial institutions. Systemically important banks are subject to an additional capital buffer requirement, in order to increase their resilience to adverse shocks.

Like any bank operating in the euro area, Revolut Bank UAB may also be recognised by the ECB as an important bank if it meets the criteria set by the ECB.

AB Šiaulių bankas, which is also directly supervised by the ECB, held a market share of 7.3%, in terms of assets, at the end of 2022.

Chart 1. Banks and foreign bank branches that operated in Lithuania on 01 January 2023 by assets



The other seven banks (excluding Revolut Bank UAB) that started their operations in recent years continued to increase the volume of their activities in the fourth quarter of 2022, with their assets growing by almost 63% in 2022, up to €871 million (€535 million a year ago), and their market share of 1.5%. The new market participants are more active in the payments and consumer credit segments, which has intensified competition in these areas. However, in the Lithuanian banking sector, the divide between the larger banks operating for a longer time and the specialised banks that have started operating only recently remains significant, despite the rapid growth in activity of the latter over the recent years.

The assets of foreign bank branches, dominated by the Lithuanian branch of Luminor Bank AS, accounted for 17.9% of the market.

Compared to 2021, the Bank of Lithuania and the European Central Bank received fewer applications for a banking licence or specialised bank licence in 2022, but there was more activity in the assessment of proposed acquisitions of shareholdings and changes in the management of the banks already licensed. This change in statistics was mainly due to a markedly more conservative investor strategy and the situation of the global economy, as well as to compliance with the maturity standard sought by supervisory bodies in the context of applicable legislation and market practices.

While the applications for a banking licence dealt with in 2022 show an increased focus on early maturity and readiness to provide licensed financial services in a safe and sound manner, significant risks related to the sustainability of the business model, the internal control mechanisms, the appropriateness of the shareholders and the management, etc., are still identified in the applications.

In February 2023, the Bank of Lithuania approved the recast Regulations on the Licensing of Banking Activities. The new regulations serve to implement new banking licensing standards in force at the EU level and, most importantly, to establish a standardised form for the application for a banking licence. The amendments are expected to contribute to the optimisation of the process of licensing of banking activities.

A public consultation on the preparations for a smooth licensing process and projected activities was also held in February 2023, its material is published on the Bank of Lithuania website and is relevant for potential applicants.

At the beginning of 2022, the Bank of Lithuania set up a separate team with the task of implementing the strategic objective of increasing competition in Lithuania's financial sector in a sustainable and balanced way. The dedicated team also promoted competition in the banking sector. Over the course of 2022, meetings were held with 56 different commercial banks and opportunities of expansion into Lithuania were presented to them. These banks included globally well-known names that have a keen interest in Lithuania and some of them are currently exploring the possibility of operating in Lithuania, and at the same time servicing Europe or the region of Northern and Eastern Europe through Lithuania.

ASSETS AND LIABILITIES

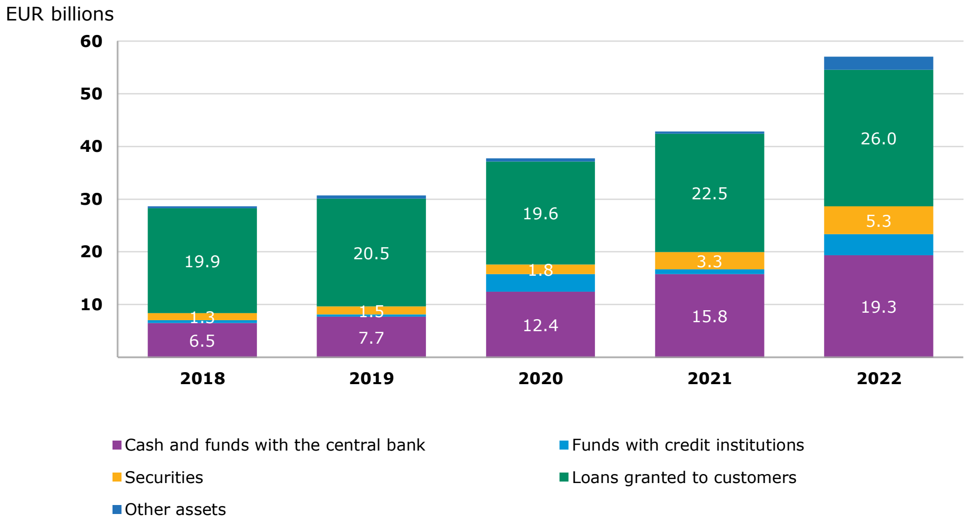
The growth of deposits in the banking sector remained strong in 2022, some of the deposits were directed towards funds at the Bank of Lithuania, as well as towards the increase of the debt securities portfolio. The year-on-year growth in the banks' assets stood at €14.2 billion (33.2%), increased to €57.1.[2] The aforementioned consolidation and reorganisation of the Revolut Group into a bank was the main contributor to this growth. Excluding the Revolut Group factor referred to above, the year-on-year increase in the banks' assets was €4.8 billion (11.5%).

The net value of loans to customers, which continue to be the asset item representing the largest share of banking assets, went up by nearly €3.5 billion (15.5%), to €26 billion (for more on loans, see the chapter "Loan portfolio").

In 2022, banks' funds with the central bank grew by a further €3.6 billion (23.7%), to €18.8 billion. In addition, banks held almost €0.5 billion in cash (similar to the previous year). Funds held with other credit institutions increased from €0.9 billion to €4 billion. Over the year, cash and liquid funds at banks grew substantially, by as much as €6.7 billion (40%), to €23.4 billion. As at the reporting date, cash and liquid funds at banks represented the second largest share of banking assets, with as much as 41% of assets of banks held in the form of cash, funds with the central bank or funds with other credit institutions.

As yields on government securities rose in the second half of the year, banks increased their government securities portfolios – security investments grew by €2.1 billion or 65% (excluding the impact of the Revolut Group – up by more than €0.9 billion or 30%) and amounted to €5.3 billion (9.2% of bank assets).

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



Source: Bank of Lithuania.

[2] 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.

Liabilities increased due to the growth of deposits. All deposits increased by €11.3 billion (32.2%) to €46.4 billion in 2022. Excluding the impact of the Revolut Group, the deposit growth was nearly €3.8 billion (10.9%). Deposits remain the main source of funding for banks, accounting for 88.6% of bank liabilities (for more details on deposits, see the chapter "Deposits with banks").

With two banks participating in the ECB's targeted longer-term refinancing operations, central bank deposits remained at the same level over the year (€1.6 billion or 3.1% of total liabilities). Liabilities to credit institutions (mainly parent institutions) doubled over the year and stood at €2.0 billion (3.8% of total liabilities).

COMPLIANCE WITH REQUIREMENTS

Bank capital adequacy level remained high in 2022. The capital adequacy ratio of the banking sector fell from 23.5% to 19.05% over the year due to the increase in risk exposures. Banks operating in Lithuania continue to predominantly have top-tier capital instruments, with the common equity tier 1 (CET1) capital ratio standing at 18.82%.

The decline in bank capital adequacy ratio was partly due to the fact that bank shareholders, who had allocated most of their profits for strengthening of bank capital in the previous year and had not pay dividends then, allocated part of their profits earned in 2021 for paying of dividends.

The following banks directly supervised by the ECB paid dividends for 2021 last year: Swedbank, AB – €110.4 million (60% of profits for 2020 and 2021), AB SEB bankas – €113 million (100% of profits for 2021) and AB Šiaulių bankas – €20 million (36% of profits for 2021). Dividends were also paid out by UAB GF bankas (€0.9 million).

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.

Table 2. Capital adequacy ratios and current capital requirements laid down
(1 January 2022 – 1 January 2023)

Name	Actual value, %		Requirement, %*
	01/01/2022	01/01/2023	
Swedbank, AB	24.6	18.8	9.8
AB SEB bankas	21.8	18.8	10.1
AB Šiaulių bankas	20.4	16.1	10.05
Revolut Bank UAB	372.8	24.1	11.7
UAB Medicinos bankas	23.1	20.7	9.7
PayRay Bank, UAB	31.1	27.1	8.0*
AB Mano bankas	18.8	16.3	10.1
UAB GF bankas	23.1	18.2	8.0*
European Merchant Bank UAB	18.6	22.3	10.3
UAB SME Bank	13.5	15.1	8.0*
AB Fjord Bank	92.8	24.4	8.0*
AS Finora Group	–	20.5	8.0*
Banking sector	23.5	19.1	–

Source: Bank of Lithuania.

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

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

In response to the coronavirus outbreak, as early as March 2020, the ECB and the Bank of Lithuania granted a temporary exemption from compliance with the Pillar II guidance (P2G) and the combined capital buffer requirement to directly supervised institutions, and the exemption was extended until the end of 2022.

The combined capital buffer is comprised of the capital conservation buffer requirement (2.5%), the countercyclical capital buffer requirement (0.0%)[3] and the other systemically important institution buffer requirement (1.0-2.0%)[4].

Lithuania's banking sector is also characterised by a high leverage ratio. According to the data as at 1 January 2023, the leverage ratio stood at 5.47%, well above the minimum threshold (3%). Although this ratio continued to follow a downward trend due to the growth in bank assets (down by 3.15 percentage points over the year), this is not seen as a real increase in leverage risk, as the assets of the risk-free groups (funds with the central bank or parent credit institutions) continued to grow, with an increase of nearly €6.7 billion or 41%.

Liquidity of the banking sector remained strong in 2022, with sufficiently large liquidity buffers in all banks. In 2022, **the liquidity coverage ratio (LCR) of the banking sector declined slightly from 392% to 390% and was almost four times above the minimum**, i.e. the liquidity buffer held by banks was almost four times higher than the one-month loss of cash flow. In the summer of 2022, the largest banks by assets optimised and reduced excess liquidity, therefore, the liquidity ratios of the banking system were affected by one-off liquidity management operations carried out by a few of the largest banks. The reorganisation and consolidation of the Revolut Group companies in Lithuania led to an increase in the size of the Revolut Group and its positive impact on the liquidity ratios of the Lithuanian banking system. Excluding the impact of the Revolut Group, the LCR would have declined slightly more in 2022, from 380% to 270%.

The downward trend in excess liquidity is observed in most European countries and is associated with the maturing of the targeted longer-term refinancing operations (TLTRO) and long-term refinancing operations (LTRO), the rise in the cost of funding on the market, and the decline in deposit growth. By comparison, the LCR for banks directly supervised by the ECB was around 162%, slightly lower than at the end of 2022 (173%).

Table 3. Liquidity coverage ratios of banks

(1 January 2022 – 1 January 2023)

Name	01/01/2022	01/01/2023
Swedbank, AB	431.41	367.85
AB SEB bankas	338.44	165.95
AB Šiaulių bankas	246.78	183.76
Revolut Bank UAB	904.60	1,436.51
UAB Medicinos bankas	570.15	418.61
PayRay Bank, UAB	3,616.69	1,720.73
AB Mano bankas	193.61	229.06
UAB GF bankas	487.74	432.82
European Merchant Bank UAB	174.79	307.08
UAB SME Bank	1,855.50	174.52
AB Fjord Bank	3,346.67	2,218.94
AS Finora Group	–	250.45
Banking sector	392.28	389.59

Source: Bank of Lithuania.

[3] In October 2022, the Board of the Bank of Lithuania set the countercyclical buffer rate of 1%, bringing it back to pre-pandemic level. Banks will have one year to build up a countercyclical capital buffer as the rate will come into effect on 1 October 2023.

[4] At the end of December 2022, the Board of the Bank of Lithuania approved the additional capital ratios of other banks of systemic importance, which do not differ from the rates set for the previous year: 2% for each, Swedbank, AB, and AB SEB bankas, and 1% for AB Šiaulių bankas. Furthermore, the Board of the Bank of Lithuania declared Revolut Bank UAB as a systemically important institution which will be subject to the rate of 1% from 1 July 2023.

Lithuanian banks also met the requirement for the second mandatory liquidity ratio, the net stable funding ratio (NSFR), with sufficient reserves. The banking sector's NSFR dropped from 270% to 190% over 2022 (without the influence of the Revolut Group, the NSFR would have fallen from 202% to 163%) and was well above the required minimum of 100%.

The strong increase in key ECB interest rates, which started in mid-2022, was already partly reflected in banks' pricing of interest rates on time deposits by the end of the year as at the end of November, large banks also started to raise interest rates on time deposits, lagging slightly behind smaller banks. According to the Bank of Lithuania data, the average interest rates applied by Lithuania's monetary financial institutions to non-financial corporations and households in the euro area on new euro-denominated deposits went up from 0.39% to 1.11% in the last quarter of the year alone. However, current deposits accounted for as much as 82.5% of total household deposits by amount at the end of 2022, and no interest is paid on such deposits.

Table 4. Net stable funding ratios of Banks
(1 January 2022 – 1 January 2023)

Name	01/01/2022	01/01/2023
Swedbank, AB	239.15	216.19
AB SEB bankas	186.58	125.97
AB Šiaulių bankas	147.00	135.01
Revolut Bank UAB	3575.15	396.06
UAB Medicinos bankas	189.82	162.34
PayRay Bank, UAB	158.1	158.45
AB Mano bankas	181.94	201.71
UAB GF bankas	128.86	128.69
European Merchant Bank UAB	170.00	230.12
UAB SME Bank	132.53	168.41
AB Fjord Bank	195.82	146.69
AS Finora Group	–	177.62
Banking sector	207.02	190.17

Source: Bank of Lithuania.

LOAN PORTFOLIO[5]

DEVELOPMENTS IN THE LOAN PORTFOLIO

The indirect challenges posed by the war in Ukraine which replaced the weathered challenges of the COVID-19 pandemic did not stop lending activities – the loan portfolio was increased significantly. However, in an environment of elevated economic uncertainty, credit growth, especially to businesses, was already much weaker in the last quarter of the year.

In 2022, the loan and other advance payment portfolio grew by €6.77 billion (29.6%) to €29.62 billion.. **The loan portfolio**, excluding positions with credit institutions (mainly loans to parent banks) and central banks (hereafter – the loan portfolio), grew by **€3.48 billion**. **(15.5%) – up to €25.95 billion**.

[5] Including the leasing portfolio.

Loans to households that comprised the largest share (52.8%) of the bank loan portfolio increased by €1.64 billion per year (13.6%) – up to €13.7 billion. This growth in the household loan portfolio was driven by active granting of housing loans: over the year, housing loans expanded by €1.17 billion (12.0%), to €10.99 billion. Although the three major domestic banks dominate the housing loans segment (their share amounts to 90.8%), other market participants are becoming increasingly involved (their share in housing loans increased by 1.9 percentage points over the year). The consumer loan portfolio grew by 36.6% to €1.46 billion, with banks specialising in this segment being more active.

Loans to non-financial corporations, another sizeable part of the bank loan portfolio (41.5% of the portfolio), increased by €1.54 billion in 2022 (16.7%) – up to €10.78 billion. The main growth was seen in loans for real estate transactions (€0.4 billion), followed by loans to companies in energy, wholesale and retail trade (more than €0.2 billion each) sectors. Loans to small and medium-sized enterprises grew at a slightly higher rate than loans to large enterprises. Strong loan growth was demonstrated by both major market participants and small banks that have recently entered the market The total value of bank loan commitments to non-financial corporations increased by 10.2% and stood at €3.1 billion.

The year-on-year growth of the portfolio of loans to financial corporations (excluding credit institutions) grew by €311 million, to €1.14 billion. Most of this portfolio were loans to leasing companies.

The general government portfolio shrank by €13 billion year on year, down to €335 million, and its share of the total loan portfolio decreased to 1.3%.

LOAN PORTFOLIO QUALITY

Weakening economic activity and rising interest rates have so far not had a major downward impact on the quality of the banking sector's loan portfolio of 2022. Most of the loan quality indicators remained strong, with only commercial loans showing a greater negative development.

The share of non-performing debt instruments decreased by 0.16 percentage points to 0.49%, and the carrying amount of such debt instruments was 2.53% lower than at the beginning of the year. The share of non-performing loans (including loans to credit institutions) shrank by 0.31 percentage points to 0.91%. The volume of non-performing loans of non-financial corporations remained virtually unchanged and accounted for 1.48% of the business loan portfolio (€145.8 million), while those of households went down by 5.57% and accounted for 0.84% of loans to residents (€114.8 million).

The share of forborne loans continued to decline consistently in 2022 (decreased by 0.6 percentage points), to 1.7% of the total loan portfolio. However, as a result of the increased restructuring of business loans in the last quarter of the year, the volume of such loans in the portfolio of non-financial corporations expanded by €18.2 million or 5.1% year on year but decreased by €25.7 million or 20.8% in the portfolio of household loans.

In 2022, banks recorded a significant increase in the volume of commercial loans with a significant increase in credit risk since initial recognition: their share in the total business loan portfolio went up by 4.5 percentage points, to 13.5%. The increase in this indicator was driven by exposures identified by banks where credit risk grew significantly due to geopolitical risk. The share of such loans in the household loan portfolio went down by 1 percentage point to 7.3%.

The share of loans overdue by more than 30 days remained almost unchanged over the year: in the non-financial corporations segment, the delays grew by 0.03 percentage points to 0.44%, while in the household segment, they remained unchanged and stood at 0.70%.

The increased economic uncertainty was reflected in the provisioning costs of many banks in the last quarter of the year. Over 2022, banks incurred loan impairment costs of €71.6 million. The loan-to-special provisions ratio grew by 0.15 percentage points and stood at 0.92% at the end of the year, while the ratio of coverage of non-performing loans with special provisions went up by 5.5 percentage points to 35.7% (business –34.2%, households –37.5%). Provisioning levels are still below the average of euro area banks.

DEPOSITS WITH BANKS

Deposits continued to grow in 2022 at a similar rate as in 2021. Last year, total deposits increased by €11.3 billion (32.2%) to €46.4 billion, **however, excluding the impact of the Revolut Group, the deposit growth was nearly €3.8 billion (10.9%).**

Following the reorganisation of the Group's companies in Lithuania and the takeover of deposits by Revolut Bank UAB from the electronic money institution Revolut Payments UAB, the bank's deposits amounted to almost €8.3 billion at the end of 2022. It should be noted that deposits of this bank's non-resident customers in various EU countries represent 98% of the bank deposits. Over the fourth quarter of 2022, the bank's deposits grew by more than €0.9 billion or 12.5% (quarterly deposit growth of the rest of participants in the banking system was 9.3%).

Deposits grew in all segments, which was mainly driven by an increase in deposits in non-financial corporations (€1.7 billion or 15.7%) and rising government deposits (over €1.2 billion or 40.2%). Household deposits, the largest component of deposits, excluding the impact of the Revolut Group, went up by €0.9 billion (4.3%), while deposits of other financial corporations increased by €0.1 billion or 10.5%.

As a rule, the last quarter of the year saw the highest deposit growth rate, with total deposits increasing by €4.2 billion (9.9%) in the fourth quarter of 2022, driven by settlements with suppliers, transfers of wages and wage supplements before the end of the year.

PROFITABILITY AND OPERATING EFFICIENCY

The banking sector was profitable in 2022 and, against the backdrop of high inflation and weaker economic growth, recorded exceptionally high profitability indicators. In 2022, Lithuania's banking sector, according to unaudited data, earned a profit of €468 million, almost €140 million or 42.7% more than in 2021. Last year, 14 banks and branches of foreign banks were profitable, while four banks incurred a loss. All banks that operated at a loss incurred a total loss of €10.7 billion. It should be noted that three market participants that operated at a loss were loss-making in 2021, too, and one market participant that incurred a loss started its operations in the second half of 2022, thus, its costs at the start of the operations have exceeded its revenues so far.

In an environment of excess liquidity, the rapid rise in interest rates from the end of July 2022 as a result of ECB decisions has an unusually strong impact on the growth of banks' interest income. Meanwhile, the increase in interest expenses over the said period was much lower, which considerably boosted banks' profits.

Interest income of banks increased by nearly €284 million, or 46%, and stood at €901 million in 2022. The growth of interest income was particularly sharp in the fourth quarter when interest income grew by almost €126 million, or 60%, quarter on quarter.

Interest expenses contracted, going down by €7.1 million (7.3%) to €89.7 million in 2022. However, interest expenses surged by €12.8 million (79.5%) in the fourth quarter compared to the third quarter.

In 2022, **total net interest income was higher by €291 million (55.9%) than in 2021** and amounted to €811 million.

Last year saw continued growth in economic activity of the society and in the volume of services provided, which resulted in a further increase in net fee and commission income. Net fee and commission income increased by €235 million, or 91%, and amounted to nearly €493 million in 2022. However, **excluding the impact of the Revolut Group, net fee and commission income grew by €19.1 million or 7.4%**. This growth was mainly driven by the realised revenues related to payment services that expanded by €28.7 million, or 13.3%, over the year.

Administrative expenses of banks increased by €106 million (17.1%) to €724.2 million in 2022, and this increase was mainly due to the 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, and to the rise in expenses of the Revolut Group. Excluding this factor and considering the expenses of the Revolut Group, administrative expenses of banks increased by €42.2 million (10.5%) in 2022 compared to 2021, of which €11.2 million (5.4%) constituted staff expenses.

The rising loan impairment expenses which amounted to €71.6 million in 2022 were the main contributing factor to the reduction of banks' profits, while in 2021, banks had received income amounting to €3.3 million from recovery of loan impairment expenses.

In 2022, bank efficiency indicators improved due to rising interest income. The efficiency indicator, which reflects the cost-to-income ratio, comprised 54.4% as of 1 January 2023, declining (improving) by 9.1 percentage points over the year. Return on assets stood at 0.94% and return on equity was 10.62% at the end of 2022.

FRAUDS AND CYBER INCIDENTS

Fraud attacks targeting bank customers continued to grow in 2022. According to the Association of Lithuanian Banks (LBA), fraudsters swindled €12 million last year (€10 million in 2021). The most prevalent type of fraud was phishing by engaging social engineering techniques; the increase in the number of such frauds was threefold, according to the LBA. This includes SMS messages with active links to fake online banking pages, taking over of payment card details by pretending to be a buyer of goods and redirecting the seller to fake courier service websites, taking over of payment card details by adding a payment card to an Apple Pay or Google Pay digital wallet, as well as telephone scams and other methods.

In response to the scale of frauds, banks are taking preventive measures by posting information on their websites about fraud threats and/or notifying their customers in person, by exchanging information on fraud techniques through the Centre of Excellence in Anti-Money Laundering which is working with the market on the development of best practice guidelines on fraud prevention (projected publication in 2023). In addition, the LBA carried out the information campaign "Identify the Fraudster" in 2022, which was supported by the Lithuanian Police Department, the Bank of Lithuania and other partners. The project website www.atpazinksukciu.lt provides an overview of the most common masks worn by criminals and fraud scenarios.

The Bank of Lithuania considers fraud prevention to be a key task in its activities of financial service supervision. In 2022, a survey of payment transaction monitoring mechanisms was carried out and market recommendations were prepared. This was followed by an analysis of the practice of alternative dispute resolution entities abroad and an analysis of good practices in the application of fraud prevention measures in foreign countries. The Bank of Lithuania has drafted a Dear CEO for payment service providers, which, inter alia, contains recommendations for payment service providers on fraud prevention. The Bank of Lithuania also encourages and supports the implementation of initiatives relevant to the prevention of fraud, including legislative initiatives (e.g. on blocking SMS messages with fraudulent links). Furthermore, 2022 was marked by the establishment of the Bank of Lithuania's Centre for Financial Literacy, the objectives of which include proposing and implementing measures intended for strengthening consumer resilience to growing financial fraud.

There was an increase in the number of cyber incidents affecting banking operations in 2022. In total, there were 10 such incidents (2 in 2021). Most of them were caused through distributed denial of service (DDOS) attacks. Such incidents involve attempts to overload banking systems with fake queries to make them inaccessible to legitimate users. However, their negative effects were short-lived. Also, there were recorded ransomware cyber-attacks intended to restrict banks' access to data, and cases of data leakage.

In response to the increased cyber risks, the Bank of Lithuania initiated a discussion on increased activity in information sharing on cyber threats. In cooperation with the National Cyber Security Centre, banks will test dedicated state-of-the-art technical and organisational measures. Sharing of information on cyber threats is an important operational resilience tool, supporting protection capabilities, threat detection methods, response and operational recovery phases. This is actively promoted by the provisions of Regulation (EU) 2022/2554 of the European Parliament and of the Council on digital operational resilience for the financial sector.

ANNEX. KEY INDICATORS OF THE BANKING SECTOR[6]

Table 1. Main items of the balance sheet statement

No	Indicator	01/01/2022, EUR millions	10/01/2022, EUR millions	01/01/2023, EUR millions	Quarterly change, %	Annual change, %
1.	Assets	42,832.7	52,992.0	57,051.5	7.7	33.2
1.1.	Debt securities	3,164.1	4,773.9	5,223.4	9.4	65.1
1.2.	Equity securities	92.6	83.1	63.3	-23.8	-31.7
1.3.	Financial derivatives	57.6	207.6	146.0	-29.7	153.5
1.4.	Cash	468.0	512.3	484.5	-5.4	3.5
1.5.	Funds with central banks	15,286.2	15,404.6	18,902.1	22.7	23.7
1.6.	Funds with credit institutions	942.7	3,925.2	4,005.2	2.0	324.8
1.7.	Loans to customers (incl. leasing)	22,469.9	25,547.2	25,951.5	1.6	15.5
1.7.1.	to general government institutions	348.4	314.0	335.4	6.8	-3.7
1.7.2.	to other financial corporations	828.6	1,143.6	1,141.8	-0.2	37.8
1.7.3.	to non-financial corporations	9,236.3.	10,724.6	10,777.7	0.5	16.7
1.7.4.	to households	12,056.6	13,365.0	13,696.7	2.5	13.6
1.7.4.1	o/w loans for house purchase	9,819.2.	10,726.1	10,993.8	2.5	12.0
1.8.	Other asset positions	351.6	2,538.2	2,275.6	-10.3	547.1
2.	Liabilities and equity	42,832.7	52,992.2	57,051.5	7.7	33.2
2.1.	Deposits of central banks	1,619.9	1,613.5	1,615.5	0.1	-0.3
2.2.	Liabilities to credit institutions	973.0	1,822.5	1,996.0	9.5	105.2
2.3.	Financial derivatives	46.0	118.9	100.9	-15.2	119.3
2.4.	Deposits	35,098.0	42,227.8	46,388.5	9.9	32.2
2.4.1.	of general government institutions	3,062.2	3,893.7	4,292.8	10.2	40.2
2.4.2.	of other financial corporations	098.9 1	1,303.7	1,445.7	10.9	31.6
2.4.3.	of non-financial corporations	9,744.1.	10,841.3	12,535.4	15.6	28.6
2.4.4.	of households	21,192.8	26,189.1	28,107.4	7.3	32.6
2.5.	Debt securities outstanding	101.9	104.8	180.5	72.1	77.1
2.6.	Other liability positions	2,217.9	2,541.3	2,064.7	-18.8	-6.9
2.7.	Equity	2,776.7	4,563.3	4,705.4	3.1	69.5

Source: Bank of Lithuania.

[6] Should banks adjust their statements for important reasons, the data of the Review after this date may be updated. Data as at 01/01/2023 are unaudited.

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

No	Indicator	01/01/2022, EUR millions	01/10/2022, EUR millions	01/01/2023, EUR millions	Quarterly change, %	Annual change, %
3.	Current year profit	327.9	343.4	467.8	–	42.7
3.1.	Net interest income	520.5	505.8	811.3	–	55.9
3.2.	Net income from fees and commissions	258.0	321.2	492.8	–	91.0
3.3.	Administrative expenses	618.3	514.2	724.2	–	17.1
3.4	Loan and non-financial assets impairment	-3.3	25.2	71.6	–	–

Source: Bank of Lithuania.

Table 3. Other performance indicators

No.	Indicator	01/01/2022, %	01/10/2022, %	01/01/2023, %	Quarterly change, percentage points	Annual change, percentage points
4.	Capital adequacy ratio	23.50	19.86	19.05	-0.81	-4.45
5.	CET1 capital adequacy ratio	23.22	19.63	18.82	-0.81	-4.40
6.	Liquidity coverage ratio	392.28	421.54	389.59	-31.95	-2.69
7.	Net stable funding ratio	207.02	179.15	190.17	11.02	-16.85
8.	Leverage ratio	8.62	5.85	5.47	-0.38	-3.15
9.	Net interest margin	1.30	1.46	2.30	0.84	1.00
10.	Return on assets	0.81	0.96	0.94	-0.02	0.13
11.	Return on equity	10.32	10.20	10.62	0.42	0.30
12.	Efficiency indicator (EBA methodology)	63.50	55.49	54.40	-1.09	-9.10
13.	Non-performing debt instruments	0.66	0.58	0.49	-0.09	-0.16

Source: Bank of Lithuania.