



COUNTRY PROFILE, LITHUANIA

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Introduction and Country Background

Lithuania is the most populous Baltic state

Key Facts

Capital - Major Cities	Vilnius - Kaunas, Klaipeda
Area	65,200 km ²
Population	3.575million (07-2007 estimate)
Languages	Lithuanian (minority Russian and Polish)
Currency	LTL (Lithuanian Litas)
Telephone Code	+370
National/ Bank Holidays	2009 – 1 Jan; 16 Feb; 11 Mar; 10-13 Apr; 1, 3 May; 24 Jun; 6 Jul; 15 Aug; 1 Nov; 25-26 Dec
Bank Hours	9:00 - 17:00 Mon-Fri
Business Hours	9:00 - 18:00 Mon-Fri
Stock Exchange	Vilnius Stock Exchange (Part of the OMX Group)
Overall Share Index	OMXV (replaced VILSE Oct 2005)

Lithuania is expected to join the euro in 2009

Economic Performance

	2004	2005	2006	2007
Exchange Rate - LTL/EUR ¹	3.45	3.45	3.45	3.4528
Exchange Rate - LTL/USD ¹	2.781	2.775	2.752	2.5230
Money Market Rate (%) ¹	1.88	2.13	2.76	4.89
Consumer Inflation (%) ²	1.20	2.7	3.6	3.3
Unemployment Rate (%) ³	11.4	8.3	5.9	4.3
GDP (LTL billions)	61.8	71.1	79.4	88.3
GDP (USD billions) ⁴	22.2	25.6	28.9	32.7
GDP Volume Growth (%) ²	7.0	7.5	6.8	6.5
GDP Per Capita (USD)	6,478	7,527	8,419	9,620
Current Account (% of GDP)	-7.77	-6.77	-7.5	-7.4

Sources: IMF, European Central Bank, Statistics Lithuania, Bank of Lithuania

¹ Period average

² Year on year

³ Per annum (seasons adjusted)

⁴ Per average exchange rate

Lithuania was the first Baltic state to declare its independence from the USSR

Government

As the first of the Baltic states, Lithuania declared its independence from the USSR in 1991. The country is a parliamentary democratic republic, divided in 10 counties, with a unicameral parliament - the "Seimas".

Legislature Regime

The parliament - Lietuvos Respublikos Seimas (Diet) - has 141 members, elected for a four-year term, 71 members elected in single-seat constituencies and 70 members elected by proportional representation.

Head of State

Valdas Adamkus, President since July 2004. The former President, Rolandas Paksas, elected in 2003, was removed by Parliament in April of 2004, as he was found guilty of revealing State secrets, illegal actions when privatising State property and of (illegally) giving a Russian business associate citizenship.

Political Leader

Andrius_Kubilius, Prime Minister since 9 December 2008. Leader of the conservative political party Homeland Union- Lithuanian Christian Democrats since 2003.

European Union

Lithuania has been a member of the EU since May 2004. A referendum was held in May 2003, with a majority of more than 91% in favour of membership. The decision to join the EU also requires Lithuania to join the euro area. According to the Bank of Lithuania, the Lithuania aimed to join the euro area in 2010 although this has since been delayed and is now 2013 appears likely.

Banking Environment

In recent years, banks have seen a large increase in profitability

The Central Bank's principal objective is to maintain price stability

Overview

Introduction

The commercial banks are evolving rapidly, continuing to offer more sophisticated banking services. In general, the economy as well as the banking sector is changing dramatically, partly due to the influence from foreign (primarily Nordic) banks entering the market.

Sector Figures

At year-end 2007, the banking scene in Lithuania includes 9 commercial banks, 7 foreign bank branches and 5 representative offices of foreign banks in Lithuania. Another 191 EU banks currently provide cross-border financial services in Lithuania without having established a branch. An additional 64 credit unions co-operative banks (including the Central Credit Union of Lithuania) offer limited services compared to the commercial banks.

Sector Wide Agreements

In 2005, the EU reached political agreement on the proposed directive for new capital-adequacy rules, known as Basel II.

Central Bank

Background

The Bank of Lithuania is the central bank of Lithuania and is independent from the Government of the Republic of Lithuania or other institutions of the state. Its principal objective is to maintain price stability.

Responsibilities

In implementing its objective, the bank performs the following functions:

- Issues the currency of Lithuania
- Formulates and implements the monetary policy
- Determines the LTL exchange rate regulation system and announces the official exchange rates of the LTL
- Manages, uses and disposes of foreign reserves
- Acts as State Treasury agent
- Issues and revokes licenses of credit institutions and permissions for the establishment and operations of branches and representative offices of credit institutions of foreign states, supervises their activities and establishes the principles and procedures for financial accounting and reporting
- Develops and manages the interbank funds transfer system
- Establishes requirements for the interbank funds transfer system participants
- Collects statistics (monetary, banking, balance of payments etc.)
- Encourages a stable and efficient operation of payment and securities settlement systems.

Financial Authorities

The LSC supervises the securities market

Securities Commission of the Republic of Lithuania (LSC)

The LSC is the supervisory authority of the securities market established under the Government decree of September 3, 1992, with additional laws passed in 1996, 2001, and 2002.

The main objectives of the LSC are:

- To monitor how principles of fair trading and competition are observed in public trading of securities.
- To provide necessary measures that guarantee effective functioning of the securities market and protection of investors' interests.
- To put forth proposals concerning shaping of the national economic policy that fosters development of the securities market.
- To disseminate information about the principles of the securities market functioning.
- To take up other measures necessary for the implementation of the Law on Securities Market and other relative regulations.

The Insurance Supervisory Commission oversees the insurance system

Insurance Supervisory Commission

The purpose of the Supervisory Commission is to ensure reliability, efficiency, safety, and stability of the insurance system and protection of interests and rights of the policyholders, insured, beneficiaries, and injured third parties.

The Association of Lithuanian Banks represents a total of 11 entities

Association of Lithuanian Banks

The Association of Lithuanian Banks was founded in 1991 as a public organisation representing its members domestically and internationally. The members currently include 11 commercial banks. It plays an active part in improving the Lithuanian banking legislation. The Association of Lithuanian Banks is a member of the European Banking Federation.

Legal & Regulatory Issues

The market for financial services is deregulated

Introduction

As such the market for financial transactions is deregulated. However, due to Central Bank reporting requirements still remaining for transactions between residents and non-residents, Lithuania is not the ideal place for maintaining cash concentration pooling solutions involving non-resident companies.

Residency is determined by registration

Resident and Non-Resident Status

Includes all companies registered in the company registry of Lithuania (any commercial enterprise registered under Lithuanian law is regarded as a Lithuanian entity for tax purposes).

Account ownership is independent of residency

Account Ownership

A resident as well as a non-resident company can own any type of account.

Banks are not allowed to offset own balances in a notional cash pooling solution

Cash Pooling Regulations

Cash concentration and notional pooling are allowed domestically as well as cross-border. Banks are not allowed to offset own balances in a notional cash pooling solution. Cash pooling across legal entities within the same group is allowed. Resident and non-resident companies can participate in the same cash pool in Lithuania, but Central Bank reporting requirements must be adhered to, and withholding tax regulations must be observed. The Lithuanian legislation allows for multicurrency cash pooling. It is not widely offered by the banks, though

A wide variety of account types are available with cross-border payment fees regulated at the EU level

Account Types and Charges

Accounts can be established both for residents and non-residents and will normally accrue credit interest above a pre-agreed level of deposit. The most common forms are:

- Cumulative accounts for the formation of authorized capital
- Current accounts in local currency and foreign currencies
- Term deposit accounts in LTL, USD or EUR.
- Current accounts can be held in all exchangeable currencies and are offered with or without overdraft limits
- LTL accounts are convertible into foreign currency
- Interest rates can be either fixed using a basic rate of the bank or based on a market rate (e.g. VILIBID / VILIBOR or LIBOR in EUR/USD or EURIBOR) less a spread
- Account maintenance fees normally apply but are small and negotiable

Payment Fees

A flat fee is typically charged for domestic and international payments

- Following the EU regulations on cross-border transfers in EUR, from 1 July 2003 the charge for a cross-border transfer of up to 12,500 EUR must be equivalent to the charge for a domestic payment in EUR. The increase to a maximum of €50,000 took effect on 1 January 2006.
- The payer must provide the receivers International Bank Account number (IBAN) and the receiving bank's Bank Identifier Code (BIC, the SWIFT code). If such information is not provided – or the information is wrong – an additional charge will be levied.

Currency accounts are used for cross-border transactions only, as the law on foreign currency in Lithuania states, that “Foreign currency can only be used for the settlement of transactions with foreign legal entities and natural persons located outside Lithuania”.

The litas is indirectly pegged to the euro

FX Controls

Foreign exchange controls are close to fully liberalised, with the exception of minor restrictions on the holding of accounts. The litas was pegged to the euro on 2 February 2002 at a fixed exchange rate (3,4528 litas per 1 Euro). The litas subsequently joined the Exchange Rate Mechanism 2, an agreement between a number of EU countries and the European Central Bank (ECB) to keep the rate of the national currency within a fluctuation span of + / - 15% vis-à-vis an agreed central rate.

Reporting is required for statistical purposes

Central Bank Reporting Requirements

Central Bank reporting is still mandatory in Lithuania in order for the Bank of Lithuania to compile balance and payment statistics. Companies with large numbers of resident to non-resident transactions report all transactions on a monthly basis. Companies with less payments report quarterly. Banks send forms to their customers and undertake the reporting for them

The third EU directive on money laundering has been implemented

Money Laundering

The Lithuanian Law on Prevention of Money Laundering was adopted on 19 June 1997. Subsequently, amendments were made which came into effect on January 2004. The EC Money Laundering Directive (Council Directive 91/308/EEC of 10 June 1991 as amended by directive 2001/97/EC of 4 December 2001) has been implemented in Lithuania, as they committed themselves to do, when signing the agreement with the European Central Bank on September 10, 2003.

Following the vote by the European Parliament on 26 May 2005, the Council reached an agreement on a text for a third directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the “Third Directive”). It builds on existing EU legislation and incorporates into

EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing. The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of 15.000 EUR.

The Third Directive was implemented in part in Lithuania by the new Law on the Prevention of Money Laundering and Terrorist Financing, which entered into force on 24 January 2008. The new law enhances the procedures for client identification and verification and increases the list of institutions that are responsible for the prevention of money laundering and terrorist financing, extending the competence of those institutions.

Electronic signatures are covered in Lithuanian legislation

Regulations Applicable for Electronic Transactions

Lithuania has implemented Directive 1999/93/EC of the European Parliament and of the Council on a Community framework for electronic signatures (Republic of Lithuania, Law on Electronic Signature, July 11, 2000; amended as of June 6, 2002).

Market Dominant Banks

The top 3 banks collectively hold nearly 3/4s of banking assets

Introduction

Measured by total assets at July 2007, the top four banks collectively hold 75% market share: AB SEB Vilniaus bankas (28.5%), Swedbank (formerly Hansabankas) (22.1%), DnB NORD Bankas (14.8%) and Nordea (9.9). Swedbank is the dominant market leader in Estonia and also the largest in Latvia measured by total assets. Other large banks in Lithuania, measured by market share, include: Danske Bankas (formerly Sampo Bankas) 6.7%, Snoras (6.7%) which has the largest branch network at 250 (bigger than the combined total of the two next largest branch networks, Swedbank with 123 and DnB NORD Bankas with 83), and AB Ūkio bankas (4.9%).

In November of 2006, Sampo Bankas Finnish parent, Sampo Bank Group, was acquired by Denmark's Danske Bank Group for approximately EUR 4 bn. In June 2008 its name changed to Danske Bankas.

Market Dominant Banks per 31 Dec. 2007

Bank	Assets (USDm)
SEBVilniaus Bankas ¹	346,778
Swedbank	237,843
DnB NORD Bankas ²	*7,066
Nordea	533,243
Danske Bankas ³	615,159

¹ Part of the SEB Group

² A joint venture between DnB NOR and NORD/LB Norddeutsche Landesbank

³ Part of the Danske Bank Group

* 31 Dec. 2006

Note: Figures are total group consolidated assets in millions USD.

Source: Banks' annual reports.

SEB Vilniaus Bankas is the largest commercial bank in Lithuania

SEB Vilniaus Bankas

Vilniaus Bankas was one of the first private commercial banks in Lithuania, established on 2 March 1990. In 1991, Vilniaus Bankas became member of Visa International, an international payment cards association, and issued the first Visa Classic payment card in Lithuania in 1993. In 1994, the Bank joined worldwide interbank system S.W.I.F.T. In 2000, SEB acquired 98 per cent of Vilniaus Bankas' equity and became its major shareholder.

SEB Vilniaus Bankas is the largest commercial bank of Lithuania offering a full range of financial services to private individuals and corporate customers and also to financial institutions. It is the leader in major local banking service markets providing services to 844 thousand customers all over Lithuania. SEB Vilniaus

Bankas has a network of 67 branches and also six subsidiary companies. The Swedish SEB Group is the majority shareholder, reflected in a name change in 2005.

Hansabank is the dominant bank in the Baltic

Hansabankas

Hansabank (the Hansa Group known as Hansabank internationally) was established in 1991 in Estonia. In 1996 it expanded to Latvia and then in 1999 to Lithuania. The group is the largest financial institution in the Baltic, holding nearly one-third of the region's banking market, with a total of 300 branches. The bank also expanded to Russia in 2005, with the acquired bank later being renamed Swedbank.

The Hansa Group entered Lithuania via the privatisation of the Lithuanian Savings Bank, which was the oldest bank in the country and was majority owned by the State until May 2001. Sweden's Swedbank also acquired 50% of the Hansa Group itself in 1998. Steadily over time Swedbank increased its ownership stake, eventually owning 100% of the bank in 2005.

Hansabankas focuses primarily on medium-sized companies and private individuals with above average purchasing power. The home market is the Baltics, but also niche segments are served in Russia. Hansabank has 5 million private customers, of which more than 2.5 million are Internet banking customers. On the corporate side, the bank serves 219,000 customers. There are nearly 300 branches and 1,185 ATMs in the three Baltic countries. In Lithuania the bank's scope of activities cover retail and corporate banking, asset management, and leasing.

The vision is to be the leading financial institution in the Nordic and Baltic region:

- Highest customer satisfaction
- Most profitable in each market
- Most attractive employer in each geographic market

The Swedbank Group, not counting Hansabank, serves 4.1 million retail customers and 275,000 corporate customers through 459 branches and 865 ATMs in its home market of Sweden. Swedbank also operates in Denmark, Finland, Norway, and Russia.

Through its joint venture DnB NORD is an international banking group spanning from Germany to the Baltic

DnB NORD Bankas

Lietuvos Žemės Ūkio Bankas was privatised in March 2002 with the German bank NORD/LB owning 76% initially, and subsequently increased to slightly more than 93% in October of the same year. The company was renamed to NORD/LB Lietuva in May of 2003. In March of 2006 the bank changed its name to AB DnB NORD Bankas. This reflects the bank's newest shareholder: Norwegian largest financial group DnB NOR, which together with North Germany's largest bank NORD/LB established a joint venture, Bank DnB NORD, registered in Denmark. The newest name change will also emphasise that NORD/LB has joined an international banking group providing services to customers in Denmark, Finland, Estonia, Latvia and

Poland.

The bank currently has three strategic directions in Lithuania: 1) retail banking, 2) corporate customers, and 3) and investment banking, asset management and leasing. Within these areas, the bank has 500,000 individual and business customers and is ranked third largest in Lithuania by assets. It serves its customers via 82 branches, and has 145 ATM locations via its cooperation with SEB Vilniaus Bankas.

DnB NORD Bankas' goal is to be the most dynamic and reliable financial institution in Lithuania. Further it aims to be among the top three banks in the Baltic region (as part of DnB NORD group).

The Nordic's leading bank, with a smaller presence in the Baltic states

Nordea

Nordea entered the Lithuanian market in 2000. Nordea Bank Lietuva is now one of the most rapidly growing banks in Lithuania. It provides all the main banking services to individual and corporate customers. In 2007 the capital of the Lithuanian branch advanced 73.3 percent to 5.629 billion litas. In 2007 its loan portfolio increased 77 percent and amounted to 4.338 billion litas. Corporate loans amounted to 2.842 billion litas (compared to 2006 this figure increased 73.4 percent). The bank's portfolio of individual loans rose 85 percent and reached 1.495 billion litas. The amount of deposits held at the bank grew 26.2 percent to 1.088 billion litas.

Today Nordea in Lithuania is a branch of Nordea Bank Finland, which is a part of Nordea Bank AB (the parent bank of the Nordea Group). Nordea Bank Latvia Branch has been in operation since 1998, and a Lithuania branch was opened in 2000.

Nordea Bank AB also includes banks in Denmark, Norway and Sweden, plus insurance companies and subsidiaries that deal with leasing, real estate, and securities services. The group operates three business areas: Nordic Banking, Banking & Capital Market Products, and Savings & Life Products (asset management, insurance and pension products).

The bank's largest shareholder, the Swedish state, is expected to sell its 20% stake in 2008 putting the bank in play for either a Nordic or European acquisition. Furthermore, the Sampo Group owns 10% of the bank following its sale of its banking operations to Danske Bank.

Sampo Bank was recently acquired by Danske Bank, Denmark's leading bank group

Danske Bankas

At the end of 2000, Sampo Insurance Company plc. acquired 99.999% of shares in the Lithuanian Development Bank. At that time this bank was a bank of narrow specialisation giving long-term investment credits to major enterprises. New shareholders changed the bank's name and strategy: Sampo Bankas AB became a universal bank providing all banking services to both natural and legal persons. On 2 January 2004, Sampo Bank plc. became a 100% owner of the shares in Sampo

Bankas AB. Then In November 2006, the Danske Bank Group acquired Sampo Bankas' parent, the Sampo Banka Group, for approximately USD 5 billion in cash.

Sampo Bank is Finland's third-largest bank with a market share of 16% and 121 branches; subsidiaries in Estonia, Latvia and Lithuania; and a recently acquired bank in Russia. The transaction also comprised various investment services companies, the most significant of which are Mandatum Asset Management Ltd, Sampo Fund Management Ltd, Mandatum & Co Ltd and Mandatum Stockbrokers Ltd.

Sampo Bankas is now a branch of Danske Bank and its name changed to Danske Bankas in June 2008. The integration of the banking activities onto Danske Bank's IT platform in the Baltic region should be completed by November 2009.

Measured by total assets, the Danske Bank Group is the largest financial enterprise in Denmark and one of the largest in the Nordic region offering services in banking, insurance, mortgage finance, and asset management. The vision of the Group is "One platform - exceptional brands" and its mission is to be "the best local financial partner". In total, the Group serves 5 million retail customers and a large number of public sector and institutional organisations. Some 2 million customers use the Bank's online services in Scandinavia, and the isle of Ireland.

Clearing Systems

There are 3 interbank payment systems in Lithuania plus one for the credit unions

Overview

There are two payment systems operated by the Bank of Lithuania for payments in LTL:

- LITAS-RLS – a real-time gross settlements (RTGS) system, which processes urgent payments in real time; and
- LITAS-MMS – a designated-time net settlement (DNS) system, which processes non-urgent payments.

The Bank of Lithuania launched LITAS-PHA on 19 November 2007 to coincide with Lithuania's migration to TARGET2. The pan-European TARGET2 SSP (Single Shared Platform) RTGS system is used for large-value and urgent payments in EUR. Banks can transfer funds between TARGET2 SSP accounts or domestically between Bank of Lithuania accounts using LITAS-PHA.

In addition, the credit union network has its own central payment system, KUBAS, which is owned and operated by the Central Credit Union of Lithuania (LCKU). KUBAS is designed to process payments between credit unions (cooperative credit institutions) and their customers.

LITAS-RLS is Lithuania's RTGS system with a link to TARGET

High Value Clearing – LITAS-RLS

The payment system LITAS is designed to process payment instructions in real time and at a designated time. The Bank of Lithuania is the owner and the operator of the system, which started its operation on January 19, 2004. Settlements are carried out in LTL. Since the start of its operation on 29 January 2007 LITAS-RLS has settled the positions of the Securities Settlement System (SSS) operated by the Central Securities Depository of Lithuania and the retail payment system LITAS-MMS operated by the Bank of Lithuania.

- Participants: 23 direct including the Bank of Lithuania, 9 commercial banks, 2 foreign bank branches, 9 financial brokerage.
- Transaction types:
 - Participants of the system may initiate credit transfers
 - The Bank of Lithuania may initiate both credit and debit transfers.
 - Debit transfers are mostly used for debiting the fees for the services provided to system participants.
 - Payment agents, which are the Bank of Lithuania and the SSS, may submit special payment orders. Such payment orders are used to initiate transfers of other participants of the system LITAS-RLS.
- Pricing indication: there is no entry or annual fee. Participants pay only for each of their initiated and settled payment orders. The fee for each payment

- order settled is LTL 0.31 (€0.09).
- Operating hours: all days from 7.45 to 16.30, with the exception of holidays set out in the legal acts of the Republic of Lithuania.
 - LITAS starts receiving payment instructions from 7:45 a.m.
 - The submission of ordinary payment instructions ends at 3.00 p.m., while the submission of urgent payment instructions ends at 4.00 p.m.
 - At 4.30 p.m. the end-of-day procedure starts.
 - Clearing cycle details:
 - Information is exchanged between the system LITAS-RLS and its participants by means of electronic messages signed using the digital signature.
 - If the payment order is verified and recognised as correct, an attempt is made to settle it immediately, i.e. the settlement account of the sending participant of LITAS-RLS at the Bank of Lithuania is debited and the settlement account of the receiving participant is credited.
 - LITAS-RLS ensures the processing of payment orders for securities transactions according to the delivery versus payment (DvP) principle.
 - The DvP principle means that securities are transferred only at the time when (and only when) funds have been transferred.

Lithuania acceded to TARGET2 on 19 November 2007

TARGET2

The current pan-European RTGS system, TARGET, migrated to a single shared platform (SSP) called TARGET2 making the 16 decentralised RTGS systems of individual Eurosystem countries and the ECB's payment mechanism (EPM) obsolete. The changeover took place in three migration waves, starting 19 November 2007 and ending 19 May 2008 (15 September 2008 is reserved for contingency needs).

Lithuania will migrate over in the first country window together with Austria, Cyprus, Germany, Latvia, Luxembourg, Malta and Slovenia on 19 November 2007. The Swedish Central Bank and the Bank of England will not migrate to TARGET2.

- Participation: options include direct and indirect participation, "addressable BICs" and "multi-addressee access" to the system, also known as "technical BIC access". Direct participation criteria for TARGET2 is the same as for the current TARGET system. Only supervised credit institutions established within the EEA can become indirect participants.
- Transaction types: focus on large-value payments related to inter-bank operations
- Price indication: between €0.125 and €0.80 depending on type of participation.
- Operating hours: the operational day in TARGET2 will be longer than that of the current TARGET system. TARGET2 will start the new business day on the evening of the previous day. The night-time window will be available from 19:30 to 6:45 the next day, with a technical maintenance period of three

hours between 22:00-01:00. Daytime hours for customer payments 07:00-17:00 CET with the day ending at 18:00 + 30 minutes for the use of standing facilities on the last day of a minimum reserve period.

- Transaction details: Direct participation: For the exchange of payments information, TARGET2 will use the SWIFTNet FIN service, while the SWIFTNet services "InterAct", "Browse" and "FileAct" will be used for information and control services.

LITAS-PHA establishes conditions for financial institutions to make settlements in euro via the Bank of Lithuania as a direct participant of TARGET2-LIETUVOS BANKAS.

LITAS-PHA

The system LITAS-PHA started its operation on 19 November 2007 together with the system TARGET2-LIETUVOS BANKAS. The owner and operator of the system LITAS-PHA is the Bank of Lithuania.

LITAS-PHA establishes conditions for financial institutions to make settlements in euro via the Bank of Lithuania as a direct participant of TARGET2-LIETUVOS BANKAS. Credit institutions may also receive intraday credit in euro, which are granted in the form of a credit line, in settlement accounts opened in the system LITAS-PHA.

- Participants: Bank of Lithuania, 8 commercial banks, 2 foreign bank branches, 1 financial brokerage and the Central Credit union of Lithuania.
- Transaction types
 - All participants of the system LITAS-PHA may initiate credit transfers, and the Bank of Lithuania may initiate credit and debit transfers.
 - Debit transfers are used for debiting the fees for the services provided to system participants.
 - Direct participants of the system TARGET2-LIETUVOS BANKAS may provide liquidity transfers in the system LITAS-PHA, while they may use credit transfers only for the settlement with the Bank of Lithuania for the services provided.
- Pricing indication
 - EUR 0.83 for the settlement of a payment order of a participant of the system LITAS-PHA addressed to another participant of the system LITAS-PHA;
 - for the settlement of the participant's payment order addressed to a participant of the TARGET2 component system – proportionally according to the number of payment orders over one month
- Operating hours
 - Participants may submit payment orders from 7:45. The payment orders submitted are processed from 8:00.
 - Participants may submit customer payment orders to 18:00 and interbank payment orders to 19:00.
 - If customer or interbank payment orders are addressed to other participants of the TARGET2 component systems, their acceptance is terminated at 17:50 and 18:50, respectively.
- Clearing cycle details
 - Information is exchanged between the system LITAS-PHA and its participants by means of electronic messages signed using the

digital signature. A payment order submitted to the system LITAS-PHA is verified to check whether its structure conforms to the message structure requirements described in the technical documentation of the system LITAS-PHA. If the payment order is verified and recognised as correct, an attempt is made to settle it immediately, i.e. the settlement account of the sending participant of LITAS-PHA at the Bank of Lithuania is debited and the settlement account of the receiving participant is credited.

- If the payment order is addressed to a participant of the TARGET2 component system, the Bank of Lithuania forms respective message to the payment system TARGET2-LIETUVOS BANKAS according to the received payment order of a LITAS PHA participant and sends it via the SWIFT network. The system TARGET2-LIETUVOS BANKAS debits the PM account of the Bank of Lithuania and credits the PM account of the receiving participant (irrespective of the TARGET2 component system, in which the account is opened).

Although the system LITAS-MMS is oriented towards the retail payment market, it does not establish any maximum limit on the value of a payment order

Low Value Clearing – LITAS – MMS

- Owned and operated by the Bank of Lithuania, the payment system LITAS-MMS started its operation on 29 January 2007 for the processing of payment orders in litas initiated by its participants at a designated time.
- Although the system LITAS-MMS is oriented towards the retail payment market, it does not establish any maximum limit on the value of a payment order.
- The payment system LITAS-MMS performs the function of a clearing house, i.e. net positions of participants are calculated by using a multilateral netting. Positions reflect net liabilities and net claims of participants obtained by netting payment orders, which the participants of the system had to make for other participants or receive from them.
- 23 participants (the same as LITAS-RLS above)
- Transaction types: credit and debit payment orders
- Pricing indication: There is no entry or annual fee. Participants pay only for each of their initiated and settled payment orders. The fee for each payment order settled is LTL 0.28 (€0.08).
- Operating hours: LITAS-MMS operates on business days of LITAS-RLS.
 - Debit payment orders may be submitted from 7.45 to 15.00 and credit payment orders to 15.30. Instructions for confirming the accepted debit transfers or changing settlement conditions may be submitted by 15.30.
 - Payment orders are processed four times per day: at 9.00, 12.00, 15.00 and 15.30.
- Clearing cycle details:
 - Information is exchanged between the system LITAS-MMS and its participants by means of electronic messages signed using the digital signature.
 - Debit payment orders are placed into the payment queue only if the paying participant submits to the system a confirmation of its consent to allow debiting of funds.
 - The final settlement of the system LITAS-MMS, i.e. the transfer

of net positions between settlement accounts, takes place in the payment system LITAS-RLS through a special account opened in this system.

- First, the funds are accumulated into this account from those participants that have a net liability with respect to other participants of the system according to net positions, i.e. they submitted payment orders for a higher amount than they had to receive from other participants of the system.
- Then, the amount accumulated in this account is distributed to participants that have a net claim with respect to other participants of the system according to net positions.

KUBAS is owned and operated by the Central Credit Union of Lithuania

KUBAS

The operator of the KUBAS system is the Central Credit Union of Lithuania (Central Union). The payment system KUBAS is designed to make payments between credit unions or credit union customers (internal payments) and payments between credit unions and credit institutions or credit institution customers (external payments). The Central Union may also make payments in the system. Internal payments in KUBAS are made through the accounts of system participants with the Central Union. External payments are made through the account of the Central Union with the Bank of Lithuania.

Participation in KUBAS is open to the Central Union and credit unions that are members of the Central Union. At April 2008 there were 60 participants.

KUBAS operates from 8.00 a.m. to 5.00 p.m. Payment instruction information is exchanged electronically between credit unions and the Central Union. Payment instructions submitted KUBAS are entered into the payment queue by payment priority (urgent or ordinary) and the time of submission. Internal payment instructions are settled at a designated time by debiting the account of the paying credit union and crediting the account of the beneficiary credit union. External payment instructions are settled at a designated time.

If the funds are sufficient in the account of the paying credit union, the Central Union submits the payment to the payment system LITAS. If the payment instruction has been processed in the payment system LITAS, the balance in the account of the paying credit union is reduced by the amount of funds indicated in the payment instruction and the payment instruction is treated as settled. A credit union may check its account balance with the Central Union electronically at any time.

Payments & Collections Methods & Instruments

Electronic payment instruments continue to grow in popularity

Introduction

Recently, owing to technological developments within the banking sector and the growing accessibility of electronic payment methods, an increasing tendency towards the use of electronic payment instruments has become evident. The transfer of salaries, student grants, educational allowances and social allowances to the bank accounts of beneficiaries has resulted in a continual increase in the number of payment cards, ATMs and POS terminals. However, cash still continues to play an important role as a form of payment in Lithuania. Credit transfers account for the vast majority of the payments by both volume and especially value.

Whilst cheques nearly disappeared, statistically speaking, in 2005, they saw a strong reemergence in 2006, particularly in value terms.

Banks in Lithuania have been implementing SEPA (Single Euro Payments Area) standards for EUR-denominated payments. The country's banks now issue SEPA-compliant debit cards (since 1 January 2008) and also offer pan-European SEPA credit transfers (since 28 January 2008). SEPA direct debits however will not be available until 2009 at the earliest.

Volume of Transactions (millions)

	2004	2005	2006	% change
Debit cards	35.58	49.56	64.63	30.4
Credit cards	0.96	1.97	3.92	99.0
E-money	1.12	0.98	0.45	-54.1
Credit transfers	46.34	52.86	82.05	55.2
Direct debits	2.86	3.53	6.07	72.0
Cheques	0.01	0.003	0.31	10233
Total	85.75	107.9	157.42	45.9

Value of Transactions (LTL billions)

	2004	2005	2006	% change
Debit cards	2.71	3.95	6.35	60.8
Credit cards	0.21	0.41	0.95	131.7
E-money	0.13	0.17	0.02	-88.2
Credit transfers	712.96	1,078.11	1,149.40	6.6
Direct debits	3.24	4.96	1.02	-79.4
Cheques	0.012	0.014	3.02	21471
Total	719.13	1,087.44	1,160.76	6.7

Note: Percentage change calculated from 2005-2006

Sources: ECB Blue Book, December 2006 Addendum

Value dates differ by payment methods

Payment (and Collection) Methods

The ordinary domestic electronic transfers are at receiving bank's disposal one day after the payment is made. Same day value payments can be made as domestic express transfers as well.

For payments in LTL within Lithuania between accounts with the same bank, the customers' accounts are credited and debited with the same value date. For payments to another Lithuanian bank the value date is +1. For incoming payments the customer's account is normally credited with the same value date as the bank receives the incoming payment.

Debit cards are the preferred card for payments although credit cards have seen strong growth

Card Payments

The number of cards issued in Lithuania is growing very rapidly after their introduction in late 1993, early 1994. The total number of payment cards at Q2 2008 was just over 4 million, of which 99% were international cards.

Credit cards have seen substantial growth in recent years, numbering more than 240,000 in 2006, an increase of 67% from the previous year. Nonetheless, credit cards only account for some 7% of issued cards. Debit cards accounted for just under 90% of all payment cards in the market (some 3.5 million), of which Visa debit cards outnumber MasterCard debit cards, 2.5 million and 1 million respectively. There are no longer any domestic debit cards. In contrast to the debit card market, MasterCard credit cards predominate in Lithuania. There were nearly half a million credit cards of which some 250,000 were MasterCard.

E-money transactions continue to decline sharply, as does the number of issued payment cards with an e-money function. There were less than 10,000 cards in Q2 2008, which have been loaded at least one time.

At the end of 2007, 1,332 ATMs and 30,408 POS terminals operated in Lithuania, an increase over 2006 of 16% and 46% respectively.

Credit transfers are one of the most commonly used payment instruments for non-cash payments in Lithuania

Credit Transfers

Credit transfers are one of the most commonly used payment instruments for non-cash payments in Lithuania. The volume and value of credit transfers increased strongly between 2002 and 2006. Credit transfers (domestic and cross-border) accounted for 52 per cent of the volume of non-cash payment transactions and made up 99 per cent of the value of these transactions in 2006.

Non-paper based payment instructions increased. Compared with 2004, the volume of credit transfers initiated in non-paper based form increased by 68 per cent and initiated in paper based form went down by 4.8 per cent. In 2005, 40

per cent of credit transfers were initiated in non-paper based form (36% in 2003).

Direct debits can only be executed within the same bank, limiting their applicability

Direct Debits

Direct debits have been available in the market since 1997. It is however not that widespread as it is possible to execute direct debit transfers between two accounts with the same bank only. The creditor and the bank conclude a direct debit agreement, and the paying customer transfers an approval to the bank via electronic banking system.

The creditor can change the direct debit orders to the bank up to two days before due date.

Cheques are not that commonly used in Lithuania

Cheques

Banks settle cheque transactions bilaterally, and no plans to introduce cheque truncation exist. Cheques are not that commonly used in Lithuania and account for a very small percentage of payment transactions.

Electronic Banking

E-banking services are widespread and highly utilised

Introduction

In recent years almost all sorts of banking services suited for electronic processing have been migrated to the Internet. Some banks offer online bill presentation and payment facilities in conjunction with service providers. Mobile (WAP) banking services are also offered by the majority of banks in Lithuania. There are no countrywide standards or any multi-banks offerings on the Lithuanian market.

At year-end 2007, the commercial banks had some 2.17 million registered internet banking and 9,379 PC-banking users.

Web-based platforms provide the majority of services

General Functionality of EBS Offerings

Many banks have shifted the focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include payment transactions, account information, inter-company netting solutions, FX dealings and information etc. (in quasi real-time). Even though the web-based solutions are becoming more and more advanced, still, a number of banks still offer more sophisticated services via PC-based tools.

Host-to-host solutions are offered by the foreign (Nordic owned) banks

EDIFACT / Host-to-Host Solutions

The corporations growing effort of streamlining payment processing is primarily supported by the banks with foreign ownership, as the demand for the most part comes from corporates with headquarters outside Lithuania. Host-to-host solutions are provided for domestic as well as international payments.

E-invoicing and e-payments are emerging though not yet widespread

E-payments and E-invoice / EBPP

Neither e-payments nor e-invoices are widespread in the Lithuanian market, however, e-invoicing and payments are emerging. For example, Itella (a Finnish company) in cooperation with local banks provides e-invoice services in Lithuania. E-pay and eLitoCard are also available for making e-payments.

Cash Pooling Solutions

The cash management market is still maturing

Introduction

It is possible to implement both notional and cash concentration pooling solutions in Lithuania. However, due to the still maturing cash management market, very few companies have done so. Cash concentration arrangements can include different legal entities (resident/non-resident) provided reporting requirements are met. In addition, there are no exchange control regulations preventing cross-border cash concentration.

Notional pooling is in reality not an option, although allowed in the market

Notional Pooling

Due to lack of tradition, the size of the Lithuanian companies and the fact that the banks that primarily offer cash pooling in Lithuania (Nordic owned banks, which are not allowed to offset their balances for capital adequacy ratio purposes), notional pooling is in reality not an option, although allowed in the market.

The banks offer interest optimisation / enhancement solutions as well as cash concentration services as alternatives (see below).

Cash concentration is available

Cash Concentration

Cash concentration is allowed and available as both single legal account pooling - balance netting - and zero and target balancing solutions. It is primarily the banks with Nordic ownership that offer these solutions.

Multicurrency and cross border pooling solutions vary

Multicurrency and Cross Border Pooling

On a cross-border basis, notional as well as cash concentrating pooling schemes are offered. However, the primary tool for pooling continues to be the sweeping and funding of cash across borders.

Cash pooling solutions across currencies are usually not part of the services offered by the major cash management banks. However, some of the more sophisticated banks and the majority of foreign owned banks do offer such solutions, domestically as well as cross-border, like interest compensation / enhancement solutions.

Tax Issues

Tax information is general and individual advice should be sought

Resident companies must pay tax on their worldwide income

The standard corporate tax rate is 15%

Introduction

The following tax information, last updated by PricewaterhouseCoopers in November 2008, should be considered general and individual advice should always be sought.

Tax Liability

Corporate income tax must be paid by Lithuanian entities on their worldwide income as well as by foreign entities on income sourced in Lithuania/ income received from their permanent establishments in Lithuania.

Tax Base

The tax base for a Lithuanian entity comprises all income sourced in and outside Lithuania and earned both in Lithuania and abroad.

The standard corporate income tax rate is 15%. The taxable income of small entities (i.e. in which the average number of employees does not exceed 10 and income within the tax period does not exceed EUR 144,810) is subject to a 13% tax rate with certain exceptions.

The tax period for the purpose of corporate income tax is a calendar year unless otherwise established by the tax authorities at the taxpayer's request and with due regard for the characteristics of the taxpayer's activities, provided the duration of the tax period is 12 months. The first tax period commences upon the registration of the entity in Lithuania. Should the entity fail to register in the due course of law, its tax period begins upon the commencement of its activities.

In the first tax year, newly registered entities are exempt from prepaying corporate income tax. If taxable income of the previous tax period does not exceed EUR 28,962 (EUR 289,620 as from 1 January 2009), the entity is not required to prepay corporate income tax during the next tax period. If, however, the prepayment liability for corporate income tax arises, the taxpayer must calculate the amount of prepayment of corporate income tax based on the performance indicators of the previous year or on the projected amount of corporate income tax for the tax period.

The depreciation of fixed assets is calculated separately for each asset using the straight-line method or double declining balance depreciation method.

As from 1 January 2008 tax losses can be carried forward for an unlimited period of time if the activities which caused the losses are carried on. Tax losses incurred from the disposal of securities or derivative financial instruments can be carried forward for a period of 5 years. Such losses may be only set off

against the income generated from disposals of securities and/or derivative financial instruments.

Group tax consolidation is not available

Tax Consolidation

Lithuanian legislation does not provide for tax consolidation.

Lithuania has signed 45 double taxation treaties with foreign countries, under which reduced rates or relief from withholding tax may apply

Inbound and Outbound Taxation of Dividends

Dividends received by a Lithuanian entity on its shares, capital or other rights held in other Lithuanian/ foreign entities are subject to corporate income tax at a rate of 15%. However, dividends received by a Lithuanian entity from other Lithuanian/ foreign entities, in which the recipient has held over 10% of the voting shares (ownership interests) for a continuous period of at least 12 successive months including the date of distribution of the dividends, are not subject to corporate income tax.

Dividends received by a foreign entity on its shares, capital or other rights held in Lithuanian entities are subject to withholding tax at a rate of 15%. However, dividends received by the foreign entity from Lithuanian entities in which the recipient has held over 10% of the voting shares (ownership interests) for a continuous period of at least 12 successive months including the date of distribution of the dividends, are not subject to corporate income tax.

According to the amendments of the Lithuanian Law on CIT which came into force as from 24 April 2008, the R&D expenses may be deducted three times provided that the expenses are related to the economic activities of the company. The amendments also provide for shorter depreciation periods for the assets used in R&D activities.

Moreover, Lithuania has signed 45 Double Taxation Treaties with foreign countries, under which reduced rates or relief from withholding tax may apply. (A new DTT with Macedonia shall be applicable as from 1 January 2009).

Capital gains are considered as business income and are subject to the standard corporate income tax rate

Taxation of Capital Gains and Losses on Shares, Bonds, Debts, Receivables and Financial Contracts

Capital gains are considered as business income and are subject to the standard corporate income tax rate.

However, from 2007 capital gains derived from the transfer of shares in a company incorporated in the EEA or in a country with which a Double Taxation Treaty is applicable are treated as non-taxable income provided that the Lithuanian holding company holds more than 25% of voting shares of the entity subject to the disposal for a continuous period of at least 24 months, and the company whose shares are sold is a corporate income tax (or equivalent tax) payer.

Lithuania has rules according to which Lithuanian companies are taxed on the positive income of controlled foreign entities

CFC Taxation

Lithuania has rules according to which Lithuanian companies are taxed on the positive income of controlled foreign entities.

Positive income is defined as all or part of the income received by the controlled entity registered in a country which is not included in the special list approved by the Minister of Finance, included in the income of the Lithuanian controlling entity in proportion to the number of the shares (ownership interests), votes or rights held by the Lithuanian entity to the income of the controlled entity.

A controlling entity/individual is defined as an entity/individual that directly or indirectly owns (itself or together with the related parties) more than 50% of the shares of the foreign controlled company on the last day of the tax period and interest of the entity/individual constitutes at least 10% of the shares. When calculating positive income, the controlling entity/individual can decrease it by non-taxable income, allowable deductions and limited allowable deductions.

It should be noted that dividends received from the controlled entity are not taxable, provided income of the controlled entity has already been considered positive and taxed accordingly.

Positive income is non-taxable provided that:

- It constitutes less than 5% of income of the controlling entity, or
- It consists only of the controlling entity's payments that are considered non-deductible under the corporate income tax law.

Withholding taxes of up to 10% can apply

Withholding Tax

Please note that certain amendments with respect to withholding tax, not listed below, shall be applicable as from 1 January 2009.

Withholding tax on income sourced in Lithuania must be calculated and paid to the state budget by both Lithuanian entities and permanent establishments in Lithuania that make payments.

The following income sourced in Lithuania and received by a foreign entity is subject to withholding tax at a rate of 10%:

- interest, except for: interest on Government securities issued on the international financial markets, interest accumulated and paid on deposits and interest on subordinated loans which meet the criteria established by legal acts adopted by the Bank of Lithuania;
- royalties;
- income received from transfer or assignment under the licensing contract of the right to use an object of industrial property or a franchise;
- income received in consideration for information provided about industrial, commercial or scientific know-how;
- proceeds from the sale, transfer (with a title) or lease of immovable property located in Lithuania;

- indemnities received for the infringement of copyrights or neighbouring rights.

All inter-company transaction must be at fair market values

Transfer Pricing and Thin Capitalisation

According to the Lithuanian transfer pricing rules, all inter-company transactions must be concluded at fair market value. Written documentation substantiating that transactions have been performed at fair market value must be prepared and presented to the Lithuanian tax authorities on request.

The Lithuanian thin capitalisation rules apply to Lithuanian entities or Lithuanian permanent establishments controlled by group entities (i.e. more than 50% direct or indirect ownership including shares held by other group companies) with debt to either Lithuanian or foreign group entities (“controlled debt”).

If the debt/equity ratio of a Lithuanian entity exceeds 4:1, the part of interest expenses on the controlled debt is deemed to be non-deductible for tax purposes.

If it is possible to justify that the interest rate and other conditions to the loan arrangement have been concluded on an arm’s length basis, the thin capitalization rules do not apply. These rules also do not apply for financial institutions that supply finance lease services.

Duties exist

Capital or Stamp Duties

When registering a legal entity in Lithuania, both notary and registration fees must be paid. The total amount of fees depends on the type of legal entity being established.

The standard VAT rate is 18%

VAT and Payroll Duty

VAT is levied on the supply of goods and services at a standard rate of 18%. There are also reduced rates of 5%, 9% and 0%. Certain services are VAT exempt, e.g. transfer of real estate, insurance, financial services, etc. VAT exempt activities reduce the right to deduct input VAT relating to the activities.

Registration for VAT purposes is compulsory if the turnover of a Lithuanian company exceeds EUR 28,962 for the period of 12 successive months. The above-mentioned limit is not applied upon the registration of a foreign taxable entity / individual as a VAT payer. An EU taxable entity / individual can register directly or through a subdivision/ fiscal agent in Lithuania. However, a foreign taxable entity / individual is not required to register as a VAT payer if it is engaged only in non-taxable/ zero-rated VAT activity or if the foreign taxable entity / individual supplies services VAT on which is calculated by the customer (e.g. telecommunication, consulting, legal, advertising and other similar services).

The taxable period for VAT purposes is a calendar month. Where the VAT payer’s annual income does not exceed a total of EUR 57,924, the VAT payer is entitled

to file a request with the tax authorities to establish a taxable period as a calendar half-year. VAT returns must be filed before the 25th day of the following month. Where the VAT payers must make VAT corrections due to the fact that they had VAT taxable and non-taxable turnover or if it was necessary to make corrections in the VAT deduction applicable to fixed assets, they are required to file an annual VAT return with the tax authorities by 1 October of the following year.

Any VAT due must be paid no later than by the deadline for submitting the VAT return for the tax period. VAT payers whose average monthly VAT liability for the preceding 3 months exceeds EUR 28,962 are required to pay VAT in advance. The VAT payers, who receive the income only from the building and installation activities are obliged to pay VAT in advance, if their average monthly VAT liability for the preceding 3 months exceeds EUR 57,924.

There are two personal tax rates in Lithuania

Employer Obligations – Tax and Social Security Withholdings

Personal income tax rates are 15% and 24%. All worldwide income received by a Lithuanian resident is subject to personal income tax, except for non-taxable income.

In general, the tax rate of 15% is applied to income from distributed profit, interest, royalties, proceeds from sale of assets, etc. All other income (incl. employment-related income) is subject to the 24% rate.

A resident of Lithuania is deemed to be an individual whose permanent place of residence during the tax period is in Lithuania or the location of whose personal, social or economic interests during the tax period may be considered to be in Lithuania rather than in a foreign country. There are a few other criteria that are applied when deciding the existence of residence.

The current social security tax rates are 30.98%-31.7% for employers and 3% for employees. Social security contributions paid by employees both to local and foreign social security systems are not deductible against personal income tax.

The EU Regulation No. 1408/71/EEB has been implemented in Lithuania as of 1 May 2004. According to the Regulation, foreign entities with employees working in Lithuania or employed in Lithuania are subject to obligatory social security contributions in Lithuania. Therefore, such foreign entities should register for social security purposes in Lithuania.

Source and Contacts

Sources used for this country profile

Sources

Central Bank of Lithuania	www.lbank.lt
Association of Lithuanian Banks	www.lba.lt
Ministry of Finance	www.finmin.lt
Vilnius Stock Exchange	www.nse.lt
Association of Lithuanian Chambers of Commerce, Industry and Crafts	www.chambers.lt
Statistics Lithuania	www.std.lt
Lithuanian Securities Commission	www.lsc.lt

Contact Danske Bank for cash management services

Danske Bank Contacts

See www.danskebank.com/corporate for contact persons.

Tax information provided by PricewaterhouseCoopers

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