ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

Template for notifying the European Central Bank (ECB)and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD

Please send/upload this template to

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation[1]);
- notifications@esrb.europa.eu when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Lietuvos bankas (Bank of Lithuania)
1.2 Country of the notifying authority	Republic of Lithuania
1.3 Type of measure (also for reviews of existing measures)	Which SyRB measure do you intend to implement? ☐ Activate a new SyRB ☐ Change the level of an existing SyRB ☐ Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures) ☐ De-activate an existing SyRB ☒ Reset an existing SyRB (review)

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

Date of template version: 06-08-2021

2. Description of the measure

2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

☒ All institutions authorised in the Member State

The SyRB applies to all banks and central credit union groups authorised in Lithuania at the highest level of consolidation in Lithuania.

Adhering to the principle of proportionality and for level playing field reasons, a materiality threshold of EUR 50 million is set, i.e. institutions are not subject to the SyRB requirement as long as their relevant sectoral exposure does not exceed EUR 50 million.

Note: for the purposes of this notification, "relevant sectoral exposure", "mortgage loan portfolio" and "mortgage exposures" are used interchangeably.

☒ One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

The subset of the credit institutions authorised in Lithuania that are above the materiality threshold in Q1 2024 is indicated below. One of them – UAB Urbo bankas – was not in the scope of the measure due to the portfolio threshold at the time of setting the measure, but became subject to the requirement later as it grew its mortgage portfolio.

Name of institution	LEI code	Consolidation level
AB SEB bankas	549300SBPFE9JX7N8J82	sub-consolidated (highest level of consolidation in Lithuania)
„Swedbank", AB	549300GH3DFCXVNBHE59	sub-consolidated (highest level of consolidation in Lithuania)
AB Šiaulių bankas	549300TK038P6EV4YU51	highest level of consolidation
UAB Urbo bankas	529900F2SC8ANS0A2T76	highest level of consolidation
Lithuanian Central Credit Union group	Not applicable	highest level of consolidation
United Central Credit Union group	Not applicable	highest level of consolidation

☒ A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

Name of subsidiary	Name of the parent	LEI code of the subsidiary
AB SEB bankas	Skandinaviska Enskilda Banken AB	549300SBPFE9JX7N8J82
„Swedbank", AB	Swedbank AB	549300GH3DFCXVNBHE59

If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.

Reasoning for the materiality threshold:

• *Proportionality: The increase in resilience for those institutions which have very small mortgage portfolios in Lithuania is non-essential, as they are not the main contributors to the risk, and the impact of the materialisation of risks would be less important to them. Based on the data for Q1 2024, four banks*

	authorised in Lithuania will be excluded from the requirement because of having exposures below the materiality threshold. The combined exposure of those four banks is less than EUR 11 million, i.e. less than 0.1% of the respective banking sector portfolio. 4 smaller banks and 1 significant bank established in Lithuania are not subject to the requirement because they have not issued mortgage loans so far. *• Level playing field considerations: application of such a materiality threshold helps to ensure a level playing field in a sense that institutions with relevant exposures of similar size are not subject to the requirement. The threshold fosters a level playing field among small banks and foreign bank branches (for which the de minimis threshold can be applicable due to reciprocation).* *We regularly review the list of institutions that are subject to the SyRB and publish it on Lietuvos bankas' website.*
2.2 Exposures covered by the SyRB **(Article 133(5) CRD)**	Please indicate the exposures to which the SyRB applies: ☐ (a) all exposures located in the Member State that is setting the buffer; ☒ (b) the following sectoral exposures located in the Member State that is setting the buffer: (i) ☒ all retail exposures to natural persons that are secured by residential property; (ii) ☐ all exposures to legal persons that are secured by mortgages on commercial immovable property; (iii) ☐ all exposures to legal persons excluding those specified in point (ii); (iv) ☐ all exposures to natural persons excluding those specified in point (i); ☐ (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3; ☐ (d) all exposures located in other Member States; ☐ (e) exposures located in third countries.
2.3 Subsets of sectoral exposures	Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify: - The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB: **Dimensions/subdimensions** | **Elements** 1. Type of debtor or counterparty sector | *1.a Economic activity* | 2. Type of exposure | *2.a Risk profile* | 3. Type of collateral | *3.a Geographical area* | - Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account: (i) size (ii) riskiness (iii) interconnectedness.

- Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?
- *Not applicable, as the SyRB is set at the level of a sector in Lithuania as indicated in point 2.2 (b)(i).*

2.4 Exposures located in other Member States and in third countries

If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries.

Not applicable, as the SyRB is set at the level of a sector as indicated in point 2.2 (b)(i) and does not apply to exposures located in other Member States or third countries.

2.5 Buffer rate

(Article 133(9)(e) CRD)

Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.

Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.

Exposures	**New SyRB rate**		**Previous SyRB rate**	
	All institutions (SyRB rate)	**Set of institutions** (range of SyRB rates)	**All institutions** (SyRB rate)	**Set of institutions** (range of SyRB rates)
(a) All exposures located in the Member State that is setting the buffer	N/A	N/A	N/A	N/A
(b) *The following sectoral exposures located in the Member State that is setting the buffer:*				
(i) All retail exposures to natural persons that are secured by residential property	2%	N/A	2%	N/A
(ii) All exposures to legal persons that are secured by mortgages on commercial immovable property	N/A	N/A	N/A	N/A
(iii) All exposures to legal persons excluding those specified in point (ii)	N/A	N/A	N/A	N/A
(iv) All exposures to natural persons excluding those specified in point (i)	N/A	N/A	N/A	N/A
(c) All exposures located in other Member States	N/A	N/A	N/A	N/A
(e) Exposures located in third countries	N/A	N/A	N/A	N/A
(f) *Subsets of any of the sectoral exposures identified in point (b):*				
(i) Please specify the subset [Dimension/subdimensions]	N/A	N/A	N/A	N/A

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

Not applicable, as the same SyRB rate applies to all institutions subject to the SyRB.

Set of institutions

	Exposures	Name of institution	LEI code	New SyRB rate	Previous SyRB rate
				%	
				%	
				%	

3. Timing for the measure	
3.1 Timing for the decision	What is the date of the official decision? For SSM countries when notifying the ECB: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken. 09/10/2024
3.2 Timing for publication	What is the proposed date of publication of the notified measure? 20/12/2024
3.3 Disclosure	Information about the strategy for communicating the notified measure to the market. Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system? *The decision will be published on Lietuvos bankas' website in a press release. The relevant information about the measure is published in a dedicated section for SyRB which is available at https://www.lb.lt/en/financial-stability-instruments-1#ex-1-4.*
3.4 Timing for application	What is the intended date of application of the measure? *The measure is already in effect since 01/07/2022 and will continue to apply.* 01/07/2022
3.5 Phasing in	What is the intended timeline for phase-in of the measure (if applicable)? *The Measure is already in force since 01/07/2022.*
3.6 Review/deactivation of the measure	Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD. *The duration or the review of the measure will depend on the developments of the RRE risk to the banking sector, the significance of banks' exposure to this risk and on potential overlaps with the CCyB.* *The SyRB rate would be reduced to a lower level, if the economy experienced a shock with the potential to induce a correction in the housing market or due to a significantly worsening ability of housholds to service their mortgage loans, or if the housing market and mortgage market imbalances significantly decreased as a clear longterm trend. The SyRB rate could also be increased if the RRE risk to the banking sector significantly increased further* *The measure is to be reviewed in detail at least every two years. However, we also assess the appropriateness of the SyRB broadly together with the quarterly assessment of the appropriateness of the CCyB rate in Lithuania*

	(which is currently equal to 1%), and the SyRB rate might be reviewed before the maximum period of two years, if necessary.
4. Reasons for the notified SyRB	
4.1 Description of the macroprudential or systemic risk in your Member State **(Article 133(9)(a) of the CRD)**	Where applicable, please classify the risks targeted by the notified SyRB under the following categories: (i) risks stemming from the structural characteristics of the banking sector - Size and concentration of banks - Ownership structure - Other structural risks (ii) risks stemming from the propagation and amplification of shocks within the financial system - Exposure concentration/asset commonality *The measure addresses macroprudential risk stemming from the increased concentration of the banking sector's exposure to mortgage loans.* - Commonality in bank business models - Financial interconnections and contagion (iii) risks to the banking system stemming from either the real economy or specific sectors - Economic openness - Sectoral risks from the private non-financial sector, households and the public sector *The measure addresses macroprudential risk stemming from the household sector, namely the banking sector's exposure to the RRE sector risk via mortgage loans to households.* (iv) Other risks Please specify: - Whether these risks are widespread across the whole financial sector? - Or whether they are concentrated only in one or more subsets of the sector? *Description of risks:* *At the time of introduction the measure addressed macroprudential risk stemming from the household sector, namely the banking sector's exposure to the RRE sector risk via mortgage loans to households, in the light of continued rapid growth of housing loan portfolio, accelerated growth of housing prices and their potential overvaluation, as well as the risk due to the concentration of the banking sector's exposures to mortgage loans as the share of mortgage loans in banks' loan portfolios has increased significantly.* *The annual growth of the mortgage portfolio increased further after the announcement of the measure reaching its peak of 12.7% in Oct 2022. While after that growth rate started slowing down, during the last few months a slight but so far consistent pick-up of pace is observed again – from 5.9% in March 2024 to 6.2% in June 2024 (by 0.1 percentage point each month),* *The annual housing price growth continued to accelerate for some time after announcement of the measure and reached 22.1% in 2022Q2. Later slow-down followed, but latest data of 2024Q1 shows an increase by 1.6 percentage points to 9.9%. The same trend is observed in the signs of overvaluation of housing prices. A set of 6 relative and model-based indicators used by*

	Lietuvos bankas in the assessment of housing price overvaluation showed continued increase of overvaluation after announcement of the measure and after a temporary period of subsequent decrease, the latest data of 2024Q1 shows once again increased overvaluation of 7.6% which is 0.6 percentage points higher than at the time of initial notification of the intended measure. *The share of housing purchases with a mortgage in July 2024 was 38% by the number of transactions and 57% by value (roughly the same as at the time of measure announcement). The exposure of the Lithuanian banking sector to the RRE risks remains significant . The share of mortgage loans in the total loan portfolio remains at about the same level as at the time of introduction of the measure, i.e. above 44%. Thus, formation and materialisation of imbalances in the RRE sector could still have a negative impact on the whole financial system.*
4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State **(Article 133(9)(b) CRD)**	Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate. *Signs of overvaluation of housing prices remain apparent with the median value of key overvaluation indicators higher than at the time of the announcement of the measure introduction. Activity in the housing market has declined, but housing prices continue to rise, albeit at a slower pace than immediately before and for some time after the initial announcement of the measure. As overvaluation remains, the probability of a price correction is higher, especially if the economy faces a shock. A price correction would reduce the value of collateral posed at banks and contribute to a risk weight increase (for IRB exposures). More importantly, given the high importance of housing market and taking into consideration the contagion and second round effects, the financial problems induced by housing price correction could split to other sectors of the economy as well. If these risks materialise, the losses incurred by the banking sector would significantly increase the need for capital. Therefore, it is crucial to ensure that banks are prepared to withstand the shock without violating their capital requirements and at the same time able to maintain the vital credit supply to the real economy.* *At the same time, the exposure of the banking system to mortgage loans remains at historically high level: above44% of the total loan portfolio. Thus, due to the increased exposure concentration, the banking system remains vulnerable to the deterioration of mortgage loan quality.* *In addition, loans to construction and real estate operations corporations made up around 33% of all loans to non-financial corporations in 2024Q2. Therefore, if the housing market overheats and this leads to a significantly reduced housing market activity and price correction, real estate and construction corporations could face substantial financial losses, and due to the contagion effect, risks could spread to financial institutions, thereby impairing financial stability.* *Based on a stress test, in a sufficiently severe adverse scenario (identical as in Financial Stability Review 2024: https://www.lb.lt/en/publications/financial-stability-review-2024?html=1#_Toc170373497), banks' credit losses from mortgage loans over a 3-year period would amount to approximately 7,6% of risk-weighted mortgage exposures and, in our view, capital requirement on mortgage exposures in addition to other buffer requirements should approximately cover these losses. Average combined buffer requirement (which is also applicable to mortgage portfolio) for the credit institutions subject*

	to sectoral SyRB is around 7,2%. While the stress test results are subject to some uncertainty, the sectoral SyRB rate of 2% remains appropriate.
4.3 Indicators used for activation of the measure	Provide the indicators triggering activation of the measured. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file). *The combination of indicators triggering the activation of the intended measure are as follows:* • *annual growth in mortgage loan portfolio by MFIs,* • *ratio of mortgage loan portfolio by MFIs and the GDP and its annual change,* • *annual growth of pure new loans for house purchase (12-month sum),* • *ratio of pure new loans for house purchase to the GDP and its annual change,* • *annual growth in housing price index,* • *a measure of the potential overvaluation of housing prices (median of a set of 6 relative and model-based indicators),* • *share of loans for house purchase in MFI loan portfolio,* • *internal forecasts of annual growth in loan to households portfolio and housing prices,* • *projected growth in mortgage loan portfolio by banks (reported in line with the ESRB Recommendation of 20 December 2012 on funding of credit institutions (ESRB/2012/2)).* *The economic situation, profitability of the credit institutions sector and the size of voluntary capital buffers are also taken into account. As the temporarily stagnated economic conditions begin showing signs of recovery, banks' profitability being at historical highs no negative effect was observed on banks' ability to adapt to increased capital requirements. Given these favourable conditions, which do not currently restrict lending to the real economy, it is beneficial to maintain the already accumulated capital reserves and increased resilience to possible unexpected shocks in the future.*
4.4 Effectiveness and proportionality of the measure **(Article 133(9)(c) CRD)**	Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms? *The measure is continued to be applied in a situation when there limited imbalances in the housing market and housing credit and increased exposure concentration to mortgage loans, which poses risk to the financial system and financial stability.* *The objectives of the measure are:* • *to maintain the resilience of the financial system, i.e. to have a sufficient capital buffer to cover potential bank losses and increased capital needs (due to increases in risk weights) in case the RRE risk materialises or in economic downturn events, to be able to better mitigate a possible decline in the supply of credit to the economy;* • *to contribute to the containment of mortgage credit growth and help prevent imbalances in the mortgage market.*

	The intended measure is deemed to be proportionate and effective to mitigate the risk because it strengthens the resilience of the financial system by increasing capital adequacy requirements. The 2% SyRB rate on mortgage exposures is equivalent to a 0.3% of total risk weighted exposure for the credit institutions subject to the sectoral SyRB (0.16–0.5% for individual credit institutions). Such sectoral requirement together with other applicable capital buffers is deemed as proportionate to the observed level of RRE risks and simulated losses in adverse scenario. In addition, the requirement is not applied to those credit institutions which have very small mortgage portfolios in Lithuania. The increase in resilience for those institutions which have very small mortgage portfolios is non-essential, as they are not the main contributors to the risk and the impact of the materialisation of risks would be less important to them. *The measure is also seen as a signal drawing the credit institutions' attention to the risks posed by mortgage exposures amidst increased competition in the market, encouraging careful evaluation of mortgage loans and keeping relatively stringent lending standards intact.*
4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD **(Article 133(9)(f) CRD)**	Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD. *Not applicable, as the SyRB applies to sectoral exposures located in Lithuania.*
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. *Lietuvos bankas considers the intended measure sufficient and appropriate for the observed level of the systemic RRE risk. The intended measure complements the existing borrower-based measures in addressing the RRE sector risks by increasing financial sector's resilience. The measure together with other applicable capital buffers is deemed as proportionate to the observed level of RRE risks and simulated losses in adverse scenario.*
	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1[3] and must be implemented in accordance with the common principles set out in the relevant legal texts.

[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

5.2 Consistency of application of the policy response	Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. *Lietuvos bankas considers the sectoral SyRB as consistent with the intermediate objectives recommended by the ESRB (namely, mitigating and preventing excessive credit growth and leverage, as well as limiting direct and indirect exposure concentration).* *Lietuvos bankas adheres to the common principles set out in relevant legal acts (CRD Art 133), namely that the measure may be introduced 'in order to prevent and mitigate macroprudential or systemic risks not covered by CRR and by Articles 130 and 131 of CRD, in the meaning of a risk of disruption in the financial system with the potential to have serious negative consequences to the financial system and the real economy' in Lithuania:* • *Lietuvos bankas does not apply (and so far has seen no need to apply) any of the CRR measures targeting the RRE risks.* • *The intended sectoral SyRB does not target risks covered by Article 131 of CRD (which defines the use of O-SII and G-SII buffers).* *The sectoral SyRB also does not target broad cyclical risk covered by Article 130 of CRD (which defines the use of the CCyB), even though the cyclical element of the targeted RRE risk is part of the broad cyclical risk. Lietuvos bankas considers that RRE risk is still larger than the broad cyclical risks that are covered by the CCyB (currently 1% in Lithuania) and the additional targeted capital buffer is still appropriate tool to prevent and mitigate the RRE risks which have not only cyclical but also structural element in our case, which pose a risk of disruption in the financial system with the potential to have serious negative consequences to the financial system and the real economy in Lithuania.*
5.3 Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. *The sectoral SyRB complements the existing borrower-based measures (LTV, DSTI, stressed-DSTI and maturity limits) by increasing financial sector's resilience and making mortgage lending more capital-costly for the credit institutions. The borrower-based measures reduce the risk of mortgages, making both mortgage-bearing households and credit institutions more resilient to adverse shock scenarios, limit household indebtedness and promote responsible lending practices. The sectoral SyRB affects the RRE risk though different channels. The remaining of signs of house price overvaluation together with increased exposure concentration to mortgage loans by the financial sector requires measures that increase the resilience of credit*

	institutions should the risks materialise and the quality of existing mortgage portfolios deteriorate. *Since the introduction of the measure, Lietuvos bankas has also implemented a 1% positive-neutral (or more accurately, early introduction of the possitive rate) CCyB (applicable since 01/10/2023). Despite that in the assessment of Lietuvos bankas, there is no need to change the rate of the sectoral SyRB, as RRE related risks remain proportionally higher than the broad cyclical risks: cyclical RRE risks increased even further for some time after the introduction of the SyRB, and it also covers structural risks. Furthermore, as no restrictions to lending to the economy are observed during the favourable financial conditions in the banking sector, it is beneficial to maintain the already accumulated capital reserves and increased resilience to possible unexpected shocks in the future. The need to maintain the same SyRB rate is also illustrated by the latest stress-testing of the adverse scenario where the combined buffer requirement, including currently applicable rates of CCyB and SyRB is not higher than the simulated losses in the mortgage portfolio.*
6. Cross-border and cross-sector impact of the measure	
6.1 Assessment of cross-border effects and the likely impact on the Internal Market **(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2[4])**	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[5] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure. *Based on the available information, Lietuvos bankas does not foresee any significant impact on the internal market.* *Inward effects through cross-border risk adjustment would be likely, if the measure is not applied to foreign bank branches that are active in the Lithuanian mortgage market. Based on the data which is readily available, mortgage portfolio (similar to relevant exposures for the intended SyRB) of foreign bank branches comprises 25.4% of the total mortgage portfolio in Lithuania (as of Q1 2024). However, all relevant jurisdictions, having bank branches with significant mortgage portfolios in Lithuania have reciprocated sectoral SyRB requirement (Latvia and Estonia). It is necessary that reciprocation would be continued.*

[4] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[5] Available on the ESRB's website at www.esrb.europa.eu.

	Outward effects through cross-border risk adjustment are likely to be negligible. Most Lithuanian banks are universal banks focused on domestic lending, do not have foreign branches or subsidiaries and do not engage in cross-border activity. One bank that focuses on cross-border services provision does not issue mortgage loans as of yet. *The banks have significant reserves above the current capital requirement and are profitable, the economic outlook after some stagnation period is again positive. Therefore, the banks should be able to maintain the capital for the SyRB requirement from their current resources, without weighing on the capital needs of the group, containing potential indirect effect on other countries where those banking groups are active.* *The increase in credit institutions' resilience to increased RRE risk in Lithuania would contribute to mitigating systemic risk in Lithuania and the Single market.*
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? *In our assessment, the risk of circumvention of the measure in our own jurisdiction remains minimal, as the measure is applied at the highest consolidation level in Lithuania. Also, fundamentally, only credit institutions issue mortgage loans to households in Lithuania (there are a few other financial institutions that provide mortgage lending, but their exposure size is negligible).* *Mortgage loan exposures of the financial institutions that are below the materiality threshold is monitored and the measure automatically becomes binding if their mortgage portfolios become significant (one more credit institution has already been included in the scope of the measure compared to the time when the measure was introduced). Currently mortgage portfolios of such institutions comprise less than 0.2% of the respective total banking sector portfolio.* *The Bank of Lithuania sees the potential of leakages and regulatory arbitrage in other jurisdictions which could be prevented with reciprocity of the intended measure by other Member States:* • *A significant share of total mortgage positions (25.4% as of Q1 2024) is held by foreign bank branches operating in Lithuania, for which Lietuvos bankas cannot set the intended requirement.* • *The banks that are subsidiaries of foreign banks (namely AB SEB bankas and "Swedbank", AB), hold 64% of the total mortgage portfolio and are the two largest participants in the mortgage market. There could be potential incentives to shift a part of activities or transfer mortgage portfolios to other entities in the same banking group, thus reducing or avoiding the new requirement. However, this is mitigated by the current measure reciprocation by the home country authorities (Sweden).*

6.3 Request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD? Choose an item. - If yes, please provide in Section 6.4. the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation? *ESRB has already issued a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) of CRD. We would ask to maintain the recommendation.*
6.4 Justification for the request for reciprocation by other Member States **(Article 134(5) CRD and Recommendation ESRB/2015/2)**	To request reciprocation, please provide the following: - a concise description of the measure to be reciprocated; - the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; - the proposed materiality threshold and justification for that level. If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of Recommendation ESRB/2015/2. *The measure on which reciprocity is sought to be continued is:* ***a. The 2% Systemic Risk Buffer rate on all retail exposures to natural persons in Lithuania, which are secured by residential property (in line with Part 5(b)(i) of Article 133 of CRD V).*** *The intended SyRB rate is 2%, equal for all institutions subject to the requirement.* *All banks, central credit unions and central credit union groups authorised in Lithuania are in the scope of the measure, however, a materiality threshold of EUR 50 million is applied, i.e. institutions will not be subject to the SyRB requirement as long as their relevant sectoral exposure does not exceed EUR 50 million.* *The SyRB is effective from 1 July 2022.* *Calculation of the exposure size for reciprocity purposes and the buffer size could be based on:* • *For IRB exposures:* *COREP C 09.02 – Geographical breakdown of exposures by residence of the obligor: IRB exposures (CR GB 2), Lithuania, row 090, columns 010, 105 and 125* • *For SA exposures and institutions which do not report in accordance with C 09.02:* *FINREP F 20.04 – Geographical breakdown of assets by residence of the counterparty, Lithuania, row 230, column 010. If gross carrying amount is equal or higher than the materiality threshold, the institution should check the size of its retail exposure to natural persons in Lithuania, which are secured by residential property, and if it is not lower than the materiality threshold, the institution would be subject to the requirement.* ***b. together with other applicable capital buffers corresponding increase in the general requirement is deemed as proportionate to the observed level of RRE risks and simulated losses in adverse scenario.*** *(25.4% as of Q1 2024) together with other applicable capital buffers corresponding increase in the general*

requirement is deemed as proportionate to the observed level of RRE risks and simulated losses in adverse scenario.

The banks that are subsidiaries of foreign banks (namely AB SEB bankas and "Swedbank", AB), hold 64% of the total mortgage portfolio and are the two largest participants in the mortgage market. Application of the measure at the consolidated group level reduces potential incentives to shift a part of activities or transfer mortgage portfolios to other entities in the same banking group, thus reducing or avoiding the new requirement.

Lietuvos bankas does not have sufficient information on direct cross-border mortgage lending to Lithuania, however, it is likely to be minimal. Financial Account Statistics suggest that household long-term loans vis-à-vis the rest of the world is around EUR 0.13 million.

a. ***We propose that materiality threshold of EUR 50 million** could be maintained. Justification for such a threshold:*

- *It would minimise the potential for regulatory fragmentation, as the same materiality threshold will also apply to credit institutions authorised in Lithuania.*
- *Application of such a materiality threshold would help to ensure a level playing field in a sense that institutions with exposures of similar size are subject to the requirement.*
- *The threshold is relevant for financial stability, as the further development of the RRE risk will mainly depend on the activity in the housing market which also partly depends on the amount of new loans issued for house purchase. Therefore, the measure should apply to those market participants who are active in this market even though their mortgage loan portfolios are not as large as those of the largest loan providers.*

7. Combination of the SyRB with other buffers

7.1 Combination with G-SII and/or O-SII buffers

(Article 131(15) CRD)

Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%?

The sum of the SyRB rate and the O-SII buffer rate for any institution does not exceed 4%.

Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).

Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates
AB SEB bankas	2%	Sub-consolidated (highest level of consolidation in Lithuania)	4%
„Swedbank", AB	2%	Sub-consolidated (highest level of consolidation in Lithuania)	4%
AB Šiaulių bankas	1%	Highest level of consolidation in Lithuania (consolidated)4	3%
Revolut Bank UAB	2% (as of 01/07/2024, 1% before that)		2%

		%		%
		%		%
		%		%

7.2 Combination with other systemic risk buffers **(Article 133(11) and (12) CRD)**	Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below: - above 3% and up to 5% - above 5% Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%. *There is no sets or subsets of exposures that would be subject to a combined SyRB rate of more than 3%. No other SyRB rates are applied by the Bank of Lithuania, except for the SyRB rate as notified in this notification, which is 2%.*
8. Miscellaneous	
8.1 Contact person(s)/mailbox at notifying authority	Nijolė Valinskytė, Head of the Macroprudential Policy Division, +370 650 40 605 (nvalinskyte@lb.lt) Edita Bačkieriūtė, Principal Economist, Macroprudential Policy Division, +370 658 30547 (ebackieriute@lb.lt)
8.2 Any other relevant information	
8.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 07/10/2024