

## Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

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| 1. Notifying national authority  |  |                               |                                |
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| 1.1 Name of the notifying authority  | Bank of Lithuania (BoL)  |                               |                                |
| 2. Description of the measure  |  |                               |                                |
| 2.1 Concerned institution or group of institutions   | <b>O-SII institution</b>   | <b>LEI Code</b>               |                                |
|  | AB SEB bankas  | 549300SBPFE9JX7N8J82          |                                |
|  | „Swedbank“, AB   | 549300GH3DFCXVNBHE59          |                                |
|  | AB Šiaulių bankas  | 549300TK038P6EV4YU51          |                                |
| The O-SII buffer requirement applied to the identified O-SIIs listed above is to be met with CET1 capital instruments and shall be maintained at the highest consolidation level in Lithuania. |  |                               |                                |
| 2.2 Level of the buffer applied  | <b>O-SII institution</b>   | <b>O-SII buffer</b>           |                                |
|  | AB SEB bankas  | 2%                            |                                |
|  | „Swedbank“, AB   | 2%                            |                                |
|  | AB Šiaulių bankas  | 1%                            |                                |
| On 2 January 2019, Luminor Bank AB became the Lithuanian branch of Luminor Bank AS, which is headquartered in Estonia, hence its previously-set O-SII capital buffer is no longer valid.       |  |                               |                                |
| 2.3 Name of the EU ultimate parent institution   | <b>Bank name</b>   | <b>Parent company name</b>    | <b>Parent company LEI code</b> |
|  | AB SEB bankas  | Skandinaviska Enskilda Banken | F3JS33DEI6XQ4ZBPTN86           |
|  | „Swedbank“, AB   | Swedbank AB                   | M312WZV08Y7LYUC71685           |
| 2.4 Names of subsidiaries  | N/A  |                               |                                |
| 3. Timing of the measure   |  |                               |                                |
| 3.1 Timing of the Decision   | The Board of the Bank of Lithuania is expected to take its final decision on 26 November 2019. |                               |                                |

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| <b>3.2 Timing of the Publication</b>   | The list of designated O-SIIs and applicable buffer rates will be disclosed to the public on the BoL's website after the final decision of the Board of the Bank of Lithuania.   |      |
| <b>3.3 Disclosure</b>  | The decision will be published on the BoL's website.   |      |
| <b>3.4 Timing of Application</b>   | <p>O-SII buffers for AB SEB bankas and „Swedbank“, AB remain unchanged and are already in force, which is why there is no reason to set a particular timing of application.</p> <p>The O-SII buffer of 1% for AB Šiaulių bankas will be applicable as of 31 December 2020 (until the said date, the buffer applied to AB Šiaulių bankas is 0.5%).</p>  |      |
| <b>3.5 Phasing in</b>  | A phase-in period for AB Šiaulių bankas to meet the higher requirement ends on 31 December 2020.   |      |
| <b>3.6 Review of the measure</b>   | The list of the identified O-SIIs and the O-SII buffer rates are reviewed annually before 1 December.  |      |
| <b>4. Reason for O-SII identification and activation of the O-SII buffer</b>   |  |      |
| <b>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</b> | <b>O-SII institution</b>   |      |
|  | <b>O-SII score*</b>  |      |
|  | AB SEB bankas  | 3217 |
|  | „Swedbank“, AB   | 2278 |
|  | AB Šiaulių bankas  | 989  |
|  | *Calculated using adjusted methodology that eliminates the indicator of debt securities outstanding. For rationale, see question a. in section 4.2.  |      |
| <b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b>  | <p>Please provide information on:</p> <ol style="list-style-type: none"> <li>whether you followed the EBA guidelines on the assessment of O-SIIs<br/> <b>In most part, we followed the EBA guidelines on the assessment of O-SIIs. The only divergence in our adjusted methodology comes from leaving out the indicator of debt securities outstanding. The rationale for such an adjustment is based on the fact that debt securities outstanding constitute only a negligible share of the banking sector's liabilities (0.09%), thus taking this indicator into account distorts the overall results to a great degree. To illustrate, automatic adherence to EBA guidelines in calculating O-SII scores (i.e. incorporating debt securities outstanding in the equation) would result in the following O-SII scores: AB SEB bankas – 2909, „Swedbank“, AB – 2130, AB Šiaulių bankas – 1685. By eliminating the indicator of debt securities outstanding, we allocate greater weights to the two remaining indicators in the category of interconnectedness, i.e. intra-financial system liabilities and intra-financial system assets each receive weights of 12.5%.</b> </li> <li>which threshold score has been set to identify O-SIIs<br/> <b>350 basis points</b> </li> <li>which overall score is attributed to the O-SIIs<br/> <b>See section 4.1</b> </li> <li>which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores<br/> <b>No optional indicators have been used.</b> </li> <li>why these optional indicators are relevant for the Member State<br/> <b>Not applicable</b> </li> <li>why the bank is systemically important in terms of those particular optional indicators<br/> <b>Not applicable</b> </li> <li>whether relevant entities with relative total assets not in excess of 0.02%</li> </ol> |      |

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|  | <p>have been excluded from the identification process</p> <p><b>No institutions were excluded from the computations in the identification process in order to receive an accurate total sum of respective indicators.</b></p> <p>h. names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1)</p> <p><b>The Excel file is attached to the notification letter.</b></p> <p>i. whether non-bank institutions have been included in the calculations</p> <p><b>Yes, institutions such as credit unions, central credit unions and central credit union groups were included in the calculations.</b></p>   |
| <p><b>4.3 Supervisory judgement</b></p>        | <p>Has any of the institutions listed in 2.1 been identified through supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions.</p> <p><b>No</b></p>   |
| <p><b>4.4 Calibrating the O-SII buffer</b></p> | <p>Designation of O-SIIs in Lithuania was carried out in accordance with Guidelines EBA/GL/2014/10 on criteria for the assessment of O-SIIs of 16 December 2014 (hereinafter – the Guidelines). In line with the scoring methodology provided in the Guidelines, the systemic importance of institutions was assessed using 9 mandatory indicators (eliminating the indicator of debt securities outstanding; refer to question 4.2 a.) covering 4 different criteria. The criteria are as follows: size, importance (including substitutability/financial system infrastructure), complexity/cross-border activity, interconnectedness.</p> <p>The BoL did not use any optional indicators based on the fact that participants of Lithuania’s financial system are rather homogeneous in terms of financial services and their importance for the financial system is, in most part, fully characterised by the mandatory indicators. The BoL has decided to maintain the 350 basis points threshold (out of a total of 10,000 basis points) as a limit of systemic importance defined by the Guidelines.</p> <p>As the Guidelines do not specify any buffer calibration methods, the calibration was based on 2 approaches: “expected impact” and “expected losses” (detailed below). The quarterly returns on risk weighted assets (RoRWA) of banks operating in Lithuania were used for both methods. However, the data is available only from 2002, and the sample is contaminated by large negative returns during only one crisis episode (in 2009–2010). Institution specific O-SII capital buffers were calculated as an average of the results from both approaches.</p> <p>1. The goal of the “<b>expected impact</b>” approach is to determine particular O-SII capital buffers so that the expected impact of failure of systemically important banks (SIBs) would equal that of a reference non-SIB (a reference non-SIB is defined as an institution with the systemic importance score of 350 basis points).</p> <p>Since SIBs have higher economic costs of failure than non-SIBs, the probability of default (PD) of SIBs must be lower than the PD of the reference non-SIB in order to achieve an equal expected impact of failure. Additional O-SII capital buffers for SIBs lower their PDs and thus limit their economic costs of failure.</p> <p>The defined O-SII score of each SIB was used as the relative measure of the economic costs of failure, while the threshold of 350 basis points was used as the relative measure of the economic costs of failure of the reference non-SIB. The PD of a reference non-SIB was determined using the empirical distribution of the RoRWA of banks operating in Lithuania.</p> <p>2. The “<b>expected losses</b>” calibration is based on determining the required loss absorbing capacity of SIBs. It was assumed that a larger than 2.5% loss of the capital adequacy ratio would render a SIB insolvent. The 2.5% capital adequacy threshold for losses was chosen to proxy the capital conservation buffer. The amount of additional capital buffer needed for each SIB is determined by its systemic importance score with the intention to increase its ability to withstand a loss that equals the historical average of Lithuanian bank losses in excess of 2.5% of the</p> |

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|   | <p>capital adequacy ratio.</p> <p>The amount of additional capital needed was calculated proportionally to the SIB score in excess of 350 basis points using the average of historical losses exceeding 2.5% of the capital adequacy ratio and the probability of such event.</p>  |                               |  |
| <b>4.5 Effectiveness and proportionality of measure</b>   | <p>Lithuania's banking system is highly concentrated. In terms of assets, in Q2 2019 the market share of the 3 largest banks comprised around 70% of the total assets of Lithuania's banking system. The failure of a systemically important institution could have a severe negative impact on the stability of the Lithuanian financial sector and on the real economy. A higher capital requirement for systemically important institutions will improve overall banking sector resilience against negative shocks and will also help to limit the possibly misaligned incentives of systemically important financial institutions.</p> <p>Lending activities of AB SEB bankas, „Swedbank“, AB and AB Šiaulių bankas should not be affected by this intended O-SII decision because the buffers remain unchanged compared to the previous notification period. However, a phase-in period for AB Šiaulių bankas to meet the higher requirement ends on 31 December 2020. Since the O-SII buffer requirement for AB Šiaulių bankas is intended to increase, a 2-year phase-in period was set in the previous notification period so as to allow AB Šiaulių bankas to accumulate the required buffer gradually (e.g. via retained earnings). This, in turn, should limit the impact of the increased O-SII buffer requirement on the day-to-day business of AB Šiaulių bankas and should allow for a more orderly capital adjustment.</p> |                               |  |
| <b>5. Cross-border and cross-sector impact of the measure</b>   |  |                               |  |
| <b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</b> | <p>The cross-border effects and the impact on the internal market are expected to be non-material as the cross-border activities of the identified O-SIIs within the EU are limited. No spill-over effects are expected because all Member States have introduced O-SII capital buffers in accordance with CRD IV (2013/36/EU).</p>  |                               |  |
| <b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>                            | <p>As the measure is institution-specific, possibility of any leakages is minimal.</p>   |                               |  |
| <b>6. Combinations and interactions with other measures</b>   |  |                               |  |
| <b>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>  | <p>N/A</p>   |                               |  |
| <b>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</b>   | <p>SRB has not been set.</p>   |                               |  |
| <b>6.3 O-SII requirement for a subsidiary (Article 131.8)</b>   | <b>Bank name</b>   | <b>Parent company name</b>    | <b>O-SII buffer rate of parent company</b> |
|   | AB SEB bankas  | Skandinaviska Enskilda Banken | 2%   |
|   | „Swedbank“, AB   | Swedbank AB                   | 2%   |

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| <b>6.4 Interaction with other measures</b> | N/A |
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| <b>7. Miscellaneous</b>                             |  |
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| <b>7.1 Contact person(s) at notifying authority</b> | <p>Nijolė Valinskytė, Head of the Macroprudential Policy Division, +370 5 268 0135 (<a href="mailto:nvalinskyte@lb.lt">nvalinskyte@lb.lt</a>)</p> <p>Algirdas Prapiestis, Principal Economist, Macroprudential Policy Division, +370 5 268 0094 (<a href="mailto:aprapiestis@lb.lt">aprapiestis@lb.lt</a>)</p> |
| <b>7.2 Any other relevant information</b>           | N/A  |