

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

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Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority			
1.1 Name of the notifying authority	Bank of Lithuania (BoL)		
2. Description of the measure			
2.1 Concerned institution or group of institutions	O-SII institution	LEI Code	
	<i>AB SEB bankas</i>	549300SBPFE9JX7N8J82	
	<i>Luminor Bank AB</i>	213800ZY8OD37RGI4E67	
	<i>„Swedbank“, AB</i>	549300GH3DFCXVNBHE59	
	<i>AB Šiaulių bankas</i>	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. Nordea Bank AB Lithuania branch business in Lithuania was transferred on 1 October 2017 to the systemically important AB DNB bankas and both banks have merged to make a new entity, Luminor Bank AB, which is designated as an O-SII in Lithuania. The scores for the individual indicators of <i>AB DNB bank</i> and <i>Nordea Bank AB Lithuania branch</i> were added up and reflect the hypothetical score of Luminor Bank AB based on the past data of the two separate banks.		
2.2 Level of the buffer applied	O-SII institution	O-SII buffer	
	<i>AB SEB bankas</i>	2%	
	<i>Luminor Bank AB</i>	2%	
	<i>„Swedbank“, AB</i>	2%	
	<i>AB Šiaulių bankas</i>	0.5%	
2.3 Name of the EU ultimate parent institution	Bank name	Parent company name	Parent company LEI code
	<i>AB SEB bankas</i>	<i>Skandinaviska Enskilda Banken</i>	F3JS33DEI6XQ4ZBPTN86
	<i>„Swedbank“, AB</i>	<i>Swedbank AB</i>	M312WZV08Y7LYUC71685
	<i>Luminor Bank AB</i>	<i>Luminor Group AB</i>	Not applicable

2.4 Names of subsidiaries	N/A	
3. Timing of the measure		
3.1 Timing of the Decision	The BoL is expected to take its final decision on 21 November 2017.	
3.2 Timing of the Publication	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 BoL.	
3.3 Disclosure	The decision will be published on the BoL's website.	
3.4 Timing of Application	30.11.2017	
3.5 Phasing in	No phase-in is required as the designated banks are already required to hold the buffer effective from 31 December 2016.	
3.6 Review of the measure	The list of the identified O-SIIs and the O-SII buffer rates will be reviewed annually before the 1st of December.	
4. Reason for O-SII identification and activation of the O-SII buffer		
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	O-SII institution	O-SII score
	<i>AB SEB bankas</i>	4283
	<i>Luminor Bank AB</i>	2051
	<i>„Swedbank“, AB</i>	1894
	<i>AB Šiauliy bankas</i>	638
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	The final O-SII scores of AB DNB bank and Nordea Bank AB Lithuania branch were added up and reflect the hypothetical score of Luminor Bank AB based on the past data of the two separate banks.	
	Please provide information on: <ol style="list-style-type: none"> a. whether you followed the EBA guidelines on the assessment of O-SIIs Yes, we followed the EBA guidelines on the assessment of O-SIIs. b. which threshold score has been set to identify O-SIIs 350 basis points. c. which overall score is attributed to the O-SIIs See section 4.1 d. which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores No optional indicators have been used. e. why these optional indicators are relevant for the Member State N/A f. why the bank is systemically important in terms of those particular optional indicators N/A g. whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process No institutions were excluded from calculation of the identification process. 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>The Excel file is attached to the notification letter.</p> <p>i. whether non-bank institutions have been included in the calculations Yes, institutions such as credit unions and payment institutions were included in the calculations.</p>
<p>4.3 Supervisory judgement</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>No</p>
<p>4.4 Calibrating the O-SII buffer</p>	<p>Designation of O-SIIs in Lithuania was carried out according to the relevant European Banking Authority guidelines (EBA/GL/2014/10, the Guidelines).</p> <p>In line with the scoring methodology provided in the Guidelines, the systemic importance of institutions was assessed using 10 mandatory indicators 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 the Lithuanian financial system are rather homogeneous in terms of financial services and their importance for the financial system is fully characterised by the mandatory indicators. The BoL has decided to maintain the 350 basis points threshold as a limit of systemic importance (out of a total of 10,000 basis points) 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 “expected impact” 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 “expected losses” calibration is based on determining the required loss absorbing capacity of SIBs. It was assumed that a larger than 2.5% loss of 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 intention to increase its ability to withstand a loss that equals the historical average of Lithuanian bank losses in excess of 2.5% of capital adequacy ratio.</p> <p>The amount of additional capital needed was calculated proportionally to the SIB</p>

	score in excess of 350 using the average of historical losses exceeding 2.5% of capital adequacy ratio and the probability of such event.											
4.5 Effectiveness and proportionality of measure	<p>The Lithuanian banking system is highly concentrated. In terms of assets, in Q2 2017 the market share of the 4 largest banks (including the share of Nordea Bank AB Lithuania branch that merged with AB DNB bank on 1st October 2017) comprised 87% of the total assets of the Lithuanian banking system. The failure of a systemic institution could have a severe negative impact on the stability of the Lithuanian financial sector and on the real economy. Higher capital requirement for systemically important institutions will improve the overall banking sector resilience against negative shocks and will also help to limit possibly misaligned incentives of systemically important financial institutions.</p> <p>As of Q2 2017, identified O-SIIs fulfil the total capital and buffer requirements with the CET1 capital that they voluntarily hold above current requirements, therefore the decision to leave the O-SII buffers at the same level should not cause any disruptions to the local financial system or economy.</p>											
5. Cross-border and cross-sector impact of the measure												
5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	The cross-border effects and impact on the internal market is expected to be non-material as the cross-border activities within EU of identified O-SIIs are limited. No spill-over effects are expected because all Member States will introduce O-SII capital buffers in accordance with CRD IV (2013/36/EU).											
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	As the measure is institution-specific, possibility of any leakages is minimal.											
6. Combinations and interactions with other measures												
6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	N/A											
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	SRB has not been set.											
6.3 O-SII requirement for a subsidiary (Article 131.8)	<table border="1"> <thead> <tr> <th>Bank name</th> <th>Parent company name</th> <th>O-SII buffer rate of parent company</th> </tr> </thead> <tbody> <tr> <td>AB SEB bankas</td> <td>Skandinaviska Enskilda Banken</td> <td>2%</td> </tr> <tr> <td>„Swedbank“, AB</td> <td>Swedbank AB</td> <td>2%</td> </tr> </tbody> </table>	Bank name	Parent company name	O-SII buffer rate of parent company	AB SEB bankas	Skandinaviska Enskilda Banken	2%	„Swedbank“, AB	Swedbank AB	2%		
Bank name	Parent company name	O-SII buffer rate of parent company										
AB SEB bankas	Skandinaviska Enskilda Banken	2%										
„Swedbank“, AB	Swedbank AB	2%										
6.4 Interaction with other measures	N/A											

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Darius Kulikauskas, Head of the Macroprudential Policy Division, +3705 2680433 (dkulikauskas@lb.lt) Algirdas Prapiestis, Senior Economist, Macroprudential Policy Division, +3705 2680094 (aprapiestis@lb.lt)
7.2 Any other relevant information	N/A