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Siauliu Bankas, AB

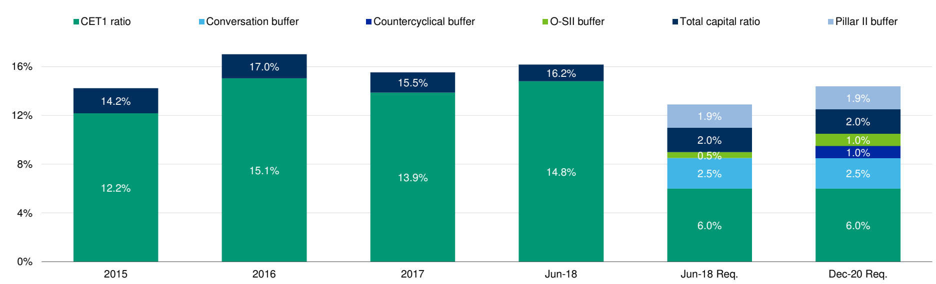
Lithuania raises Siauliu Bankas' capital requirements, a credit positive

On 27 November, the Bank of Lithuania, the central bank, announced that it was raising its other systemically important institution (O-SII) capital requirement for Siauliu Bankas, AB (Baa3 positive, ba2[1]) by 0.5 percentage points to 1% of the bank's risk-weighted assets, effective 31 December 2020. The increase is credit positive, because the bank's loss-absorption capacity will increase. Additionally, the move will support the overall financial stability of Lithuania's highly concentrated banking system.

Siauliu Bankas was initially designated a systemically important institution in 2015 on the basis of its size, interconnectedness, substitutability, cross-border activity and complexity, and was subject to an initial O-SII capital requirement of 0.5% of risk-weighted assets. As part of the Bank of Lithuania's annual review of banks' capital buffer requirements, the central bank raised the capital requirement because of the increasing size of Siauliu Bankas' market share.

Combined with the introduction of a countercyclical buffer of 1.0%, the bank's capital adequacy ratio requirement will rise to 14.4% at the end of 2020 from 12.9% currently, given that all other buffers remain constant (see Exhibit 1).

Exhibit 1
Siauliu Bankas' capital levels against regulatory requirements

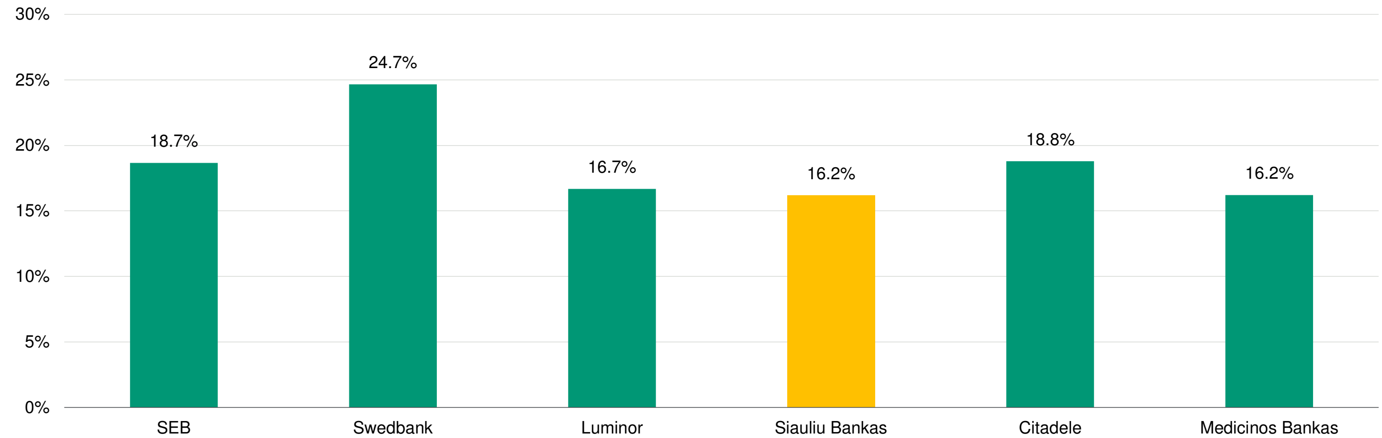


The last two columns show the regulatory capital requirements, given no further buffer changes until December 2020.
Sources: Siauliu Bankas and Bank of Lithuania

Siauliu Bankas' capital levels as of June 2018 were well above regulatory requirements, with a Tier 1 ratio of 14.8% and a total capital ratio 16.2%. Assuming that the bank will maintain its capital levels above the higher regulatory requirements, therefore maintaining the current capacity for growth, the bank's loss-absorption capacity will improve. Siauliu Bankas reported a higher-than-average asset growth of around 10% for 2016, 2017 and the first nine months of 2018.

As of the end of June 2018, Siauliu reported one of the lowest capital adequacy ratios among Lithuania's banks (see Exhibit 2), excluding foreign bank branches. We expect that the bank's conversion of a €20 million convertible subordinate loan into shares[2] will increase the bank's capital ratios by around 150 basis points by year-end (based on reported risk-weighted assets as of June 2018). The bank's capital base has grown consistently since 2014 through an average annual 38% increase in earnings' retention and an average annual 18% increase in share issuance to existing shareholders, via dividend distribution.

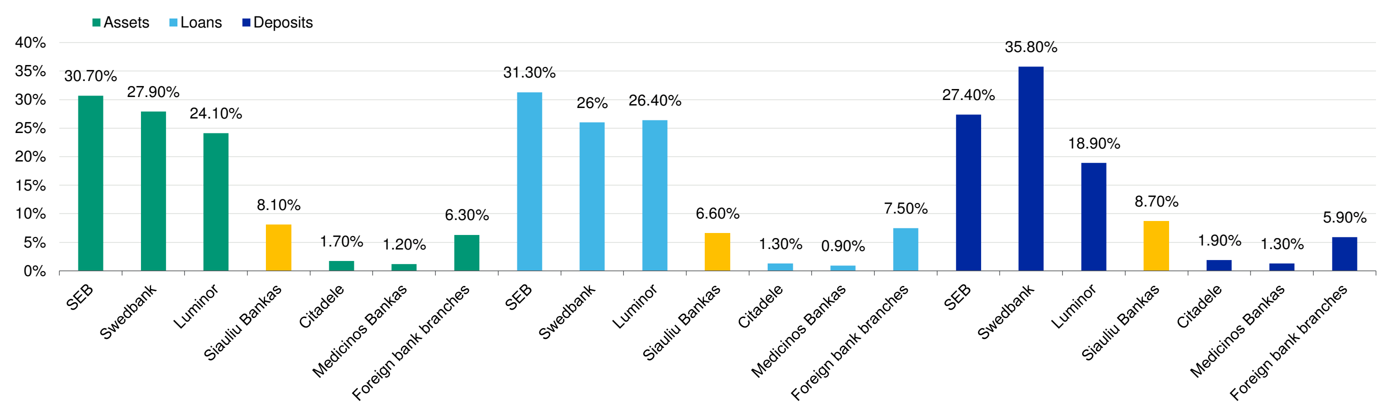
Exhibit 2
Lithuanian banks' capital adequacy ratio as of the end of June 2018



Excluding foreign bank branches.
Source: Bank of Lithuania data

The increase of Siauliu Bankas' capital requirements will also improve the financial stability of the overall banking sector. Lithuania's banking assets are highly concentrated among the country's four largest banks, which had a combined asset market share of 90.8% as of the end of June 2018 (see Exhibit 3). Siauliu Bankas is the largest domestically owned bank in Lithuania, with most its assets held in the country.

Exhibit 3
Lithuanian banks' market shares as of the end of June 2018



Source: Bank of Lithuania

Endnotes

1 The bank ratings shown in this report are Siauliu Bankas' deposit rating and Baseline Credit Assessment.

2 See Siauliu Bankas' capital metrics will strengthen with EBRD'S debt-to-equity conversion, 13 August 2018.

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