BANK LICENSE IN EUROPEAN UNION
LITHUANIAN SPECIALISED BANK
From the 1st of January, 2017 EU member state Lithuania introduced a new type of banking institution – Specialised Bank. This unique banking institution has been devised to establish a favorable environment for startups seeking to provide financial services in single European financial market. Lithuanian Specialised Bank allows to provide almost all traditional banking services in EU and opens up single European financial market at significantly lower incorporation and operational costs. **Main features:**

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<th>Initial capital 1 mln. EUR</th>
<th>License is valid in all EU/EEA area</th>
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**Specialised Bank can provide all traditional banking services:**
- Lending (including credit agreements relating to immovable property);
- Payment services;
- Issuing and administering travellers‘ cheques, abankers‘ drafts and other means of payment;
- Receipt of deposits and other repayable funds;
- Currency exchange;
- Issuing of e-money;
- Issuing guarantees and commitments;
- Fund administration;
- Financial leasing;
- Financial intermediation;
- Creditworthiness assessment services;
- Safe-deposit box rental.

**Specialised Bank is restricted:**
- to provide investment services;
- manage investment and pension funds;
- provide other services related to securities issue.

This disadvantage can be dissolved by registering separate Brokerage and Investment Management company or getting full service Bank license. [1]
The reasons why Lithuania is one of the top banking jurisdictions in EU/EEA:

- Collaborative and forward thinking regulator – enhanced focus on FinTech.
- Fast licensing process. Issue of the license within period of 6 months.
- Licensing documentation can be submitted in English and amended “on the go”.
- No regulatory sanctions for the first year of operations for minor infringements - „Sand box“ regime.
- 4th lowest corporate income tax in EU.
- Direct access to Single Euro Payments Area (SEPA) and EU/EEA financial markets.
- Client deposits up to the amount of EUR 100 000 ensured according to EU regulations.
- Regulatory technologies – RegTech - from the Bank of Lithuania.
Process of licensing and incorporation

**Preparation** of the package of the documents for submission for the Specialised Bank license. The process can take 1-4 months or more depending on the cooperation of the shareholders and related parties.

Selection of the management board, general manager, supervisory board, internal auditor, compliance manager, managers of the branches, other key personnel to inform the Central Bank on selected candidates.

Submitting prepared documents of activities, business, strategic plans and other related to submission documents together with the information about the managers and shareholders of the specialized bank to the Central Bank. **License is to be granted within 6 months** after the submission of all required documents, extensions are possible. European Central Bank reviews documents and gives approval to issue a license.

Strategic Commission formed within the Lithuanian Government needs to approve the incorporators as being compliant with the national security interests. Process takes up to 1 month and may be handled in parallel with the licensing.

After getting a license, the Specialised Bank is incorporated, the Bank is registered within the Register of Legal Entities. The management shall be appointed after the Central Bank approves their candidacies during the licensing process. Registration of the company and getting a number of license should normally take 1-2 weeks after the decision of the board of the Central bank.
Organizational structure of the Specialised Bank

- General meeting of the shareholders
- Supervisory Board (minimum 3 persons)
  - Internal audit
  - Audit Committee
- Management Board (minimum 3 persons)
  - Risk Committee
  - Credit Committee
- General Manager
- Deputy General Manager
- AML Officer
- Compliance officer
Requirements for the management bodies and key function holders

1. Members of the Management board and Supervisory board must have higher education, be of good repute.
2. At least two members of the Management board (including a chairman) must satisfy the following requirements:
   a) Graduate or post – graduate degree in law, management, business administration or economics.
   b) Continuously 3 years held managerial positions or overall 3 years in past 5 years period held managerial positions (CEO or deputy) in financial institution or its’ subdivision (department, division, branch, etc.) and for one of these 3 years in Lithuania.
3. CEO and at least one deputy must satisfy above mentioned requirements (items a and b), other deputies must have higher education.
4. Internal Audit Officer must have higher legal, management and business administration or economic education.
5. Additional requirements are also applied for heads of a branch and representative office and other employees of the bank, who have a mandate to make a decisions related to financial services and in a name of the bank conclude an agreements that have risk elements.
Documents submitted for application for the Specialised Bank license (application)

- Draft incorporation documents;
- Documents proving formation of the capital;
- A programme of operations (based on the business plan and information from the client);
- A operating plan for next 3 years with financial forecasts;
- Data on financial institutions managers, shareholders, information regarding their experience and impeccable repute;
- Descriptions of management systems, risk management, IT systems and policies; accounting system and accounting polices;
- Organizational structure profile;
- A description of the internal control system, internal audit, AML prevention, compliance, hiring, outsourcing, managing conflicts of interests, rules of accepting deposits, crediting policy and procedures, creditworthiness assessment rules, complaint handling etc.
Banks are subject to the following ratios and prudential requirements:

**Capital or own fund requirements.** Banks must hold sufficient capital for covering unexpected losses and remaining solvent during a crisis period. Banks must satisfy the following own funds requirements:

- a Common Equity Tier 1 capital ratio of 4.5 per cent. This is the ratio between Tier 1 equity capital and risk weighted assets and off-balance sheet liabilities of the bank;
- a Tier 1 capital ratio of 6 per cent. This is the ratio between Tier 1 capital and risk weighted assets and off-balance sheet liabilities of the bank;
- a total capital ratio of 8 per cent. This is the ratio between the own funds and risk weighted assets and off-balance sheet liabilities of the bank.

In addition to the capital requirement, to which the ratio of 8 per cent is further applied, banks must meet **additional capital buffer requirements:**

- capital conservation buffer of 2.5 per cent. The purpose of this requirement is to obligate banks to accumulate additional capital for covering unexpected losses. It is uniform across all EU banks;
- institution’s special countercyclical capital buffer requirement. The supervisory authorities of Member States may, at their own discretion, set the amount of a specific countercyclical capital buffer for a particular institution or a group of institutions, thereby mitigating the risk of unsustainable growth and securing the banking sector and the economy against a credit boom. Currently, a special countercyclical capital buffer requirement of 0 per cent is applied;
- other systemically important institutions buffer requirement. The purpose of this requirement is to obligate banks to accumulate additional capital to cover losses arising from the impact of the bank’s financial difficulties on the EU market or a particular domestic financial market. It is set on an individual basis – up to 2 per cent of risk weighted assets.

**Liquidity requirements.** Banks must hold sufficient liquid assets to be able to cover net cash outflows under gravely stressed conditions within 30 days. The value of the liquidity coverage ratio (LCR) must not be below 100 per cent, i.e. a credit institution’s reserves of liquid assets must not be lower than net cash outflows over 30 calendar days under gravely stressed conditions.

**The large exposure requirement.** Exposure to a client or a group of connected clients, i.e. loans granted, also any asset or off-balance-sheet asset share cannot exceed 25 per cent of the institutions eligible capital, or EUR 150 million, whichever the higher, provided that the sum of exposure values.

It is of note, that the Bank of Lithuania may set other ratios without contradiction to the recommendations of the Basel Committee on Banking Supervision and European Union directives.

## Regulatory costs

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<th>Description</th>
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<td><strong>License fee</strong></td>
<td>Expected to be reduced to EUR 4 157</td>
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<tr>
<td><strong>Supervision fee</strong></td>
<td>Approved every year, 0.0196% from the average annual assets, but not more than EUR 3 000</td>
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<td><strong>Deposit insurance contribution</strong></td>
<td>Currently 0.1 % from the total annual amount of insured deposits. Highest possible annual amount fixed in the law 0.5 per cent from the total amount of insured deposits held.</td>
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<tr>
<td><strong>Contribution to Resolution Fund</strong></td>
<td>Contributions to the Resolution Fund and contributions for administration of the fund.</td>
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FINANCE INSTITUTION TEAM COORDINATORS

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ECOVIS International is a leading global consulting network having over 4500 professionals operating in over 65 countries. ECOVIS ProventusLaw and ECOVIS Proventus are Lithuanian member firms of ECOVIS International. ECOVIS handle all the licensing processes, from the preparation of documentation in client’s home country, until the submission of whole licensing package to the regulator and representation at the regulator. Local knowledge and international expertise of the interdisciplinary network of ECOVIS professionals makes ECOVIS different from other service providers.

**Attorneys-at-law, Members of the Bar Association**

**Tasks:**
- Preparation of the licensing documentation;
- Representation at the Bank of Lithuania (Regulator);
- Shareholders and management clearance;
- Trademarks registration and company incorporation;
- Compliance;
- Internal documentation and policies;
- Organizational structure;
- Coordination of licensing process.

**Certified auditors**

**Tasks:**
- Internal audit and control procedures;
- Financial forecasts and projections;
- Accounting policy and description of accounting organization;
- Financial control procedures;
- Software and IT systems;
- Operating plan.
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