



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

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1. Notifying national authority										
1.1 Name of the notifying authority	Eesti Pank									
2. Description of the measure										
2.1 Concerned institution or group of institutions	<p>The O-SII buffer applies to Swedbank AS and AS SEB Pank on an individual and subconsolidated basis.</p> <table border="1"> <thead> <tr> <th>Institution</th> <th>LEI code</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>549300PHQZ4HL15HH975</td> </tr> <tr> <td>AS SEB Pank</td> <td>549300ND1MQ8SNNYMJ22</td> </tr> </tbody> </table>	Institution	LEI code	Swedbank AS	549300PHQZ4HL15HH975	AS SEB Pank	549300ND1MQ8SNNYMJ22			
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2.2 Level of the buffer applied	From 1 August 2016 the O-SII buffer of 2% is applied to both of the institutions. Eesti Pank decided to keep the level of the buffer unchanged.									
2.3 Name of the EU ultimate parent institution	<table border="1"> <thead> <tr> <th></th> <th>Parent institution</th> <th>LEI code of parent institution</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>Swedbank AB</td> <td>M312WZV08Y7LYUC71685</td> </tr> <tr> <td>AS SEB Pank</td> <td>Skandinaviska Enskilda Banken AB</td> <td>F3JS33DEI6XQ4ZBPTN86</td> </tr> </tbody> </table>		Parent institution	LEI code of parent institution	Swedbank AS	Swedbank AB	M312WZV08Y7LYUC71685	AS SEB Pank	Skandinaviska Enskilda Banken AB	F3JS33DEI6XQ4ZBPTN86
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2.4 Names of subsidiaries	N/A									
3. Timing of the measure										
3.1 Timing of the Decision	The decision was taken on 24 October 2016									
3.2 Timing of the	As the level of the O-SII buffer for the designated O-SIIs remains unchanged, the decree of									

Publication	the Governor of Eesti Pank published on 1 June 2016 will continue to apply.
3.3 Disclosure	The reviewed list of the O-SIIs identified and their individual O-SII buffer requirements will be published on the Eesti Pank website and communicated to the institutions designated as O-SIIs.
3.4 Timing of Application	The O-SII buffer requirements have applied since 1 August 2016.
3.5 Phasing in	Fully-loaded implementation
3.6 Review of the measure	The list of the O-SIIs identified and the O-SII buffer rates will generally be reviewed on an annual basis.

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)	Criterion					
	Institution	Overall score	Size	Importance (including substitutability/financial system infrastructure)	Complexity/cross-border activity	Inter-connectedness
	Swedbank AS	3 040	3 966	4 209	2 946	1 039
AS SEB Pank	1 906	2 242	2 312	1 955	1 116	
	<p>More detailed information on the calculations will be published in a separate note on Eesti Pank website on 26 October 2016.</p> <p>For additional information on the methodology and data sources please see the framework document that describes the process for identifying the systemically important credit institutions in Estonia: http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/esokm_2015_eng.pdf</p>					
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>In defining institutions as O-SIIs, Eesti Pank used only the indicators listed as mandatory in the EBA guidelines and did not consider it necessary to use any additional indicators to add to the list. Eesti Pank decided to maintain 350 basis points as the threshold of systemic importance. Only banks were included in the calculations.</p>					
4.3 Supervisory judgement	<p>When the criteria and the mandatory indicators given in the EBA guidelines were applied to the banks operating in Estonia, Swedbank AS, AS SEB Pank, AS LHV Pank and Versobank AS had a score above the threshold suggested by the EBA guidelines. However, Eesti Pank decided not to designate AS LHV Pank and Versobank AS as O-SIIs. This is because of a specific feature of the Estonian banking sector that the EBA methodology does not fully take into account.</p> <p>The Estonian banking sector is dominated by subsidiaries and branches of foreign credit institutions. The availability of domestic deposits and intra-group financing has reduced the need for direct market financing for these institutions and this is reflected in the quite limited amount of debt securities issued by the Estonian banking sector (41 million euros; 0.17% of total assets).</p> <p>The total scores for AS LHV Pank and Versobank AS were relatively high because they are</p>					

	<p>among the few banks that have obtained funds by issuing debt securities. At the same time the amount issued is relatively small at 3% of the total assets of AS LHV Pank and 1% of the total assets of Versobank AS. As AS LHV Pank has issued 77% and Versobank AS 12% of the banking sector's total outstanding amount of debt securities, 638 basis points and 103 basis points were added to the total scores of the banks respectively. Without this addition the scores of AS LHV Pank and Versobank were 278 basis points and 305 basis points, which remains below the 350 basis points threshold suggested by the EBA guidelines.</p>
<p>4.4 Calibrating the O-SII buffer</p>	<p>Eesti Pank applies the maximum rate of 2% to those credit institutions that get an overall score of at least 1200 basis points in the assessment of systemic importance. A buffer rate of at least 0.5% is applied to credit institutions that pass the minimum threshold of 350 basis points. If the overall score for systemic importance is between 350 and 1200 basis points, the benchmark rate is found linearly, and the result rounded to the nearest 0.5 percentage point.</p> <p>The threshold of 1200 basis points results from peer review and an analysis of the systemic importance of the banks operating in Estonia.</p> <p>As some 90% of the assets of the Estonian banking sector are held by large banking groups from the Nordic countries that mainly operate in the same Nordic and Baltic area, Eesti Pank considered the similar buffer rates of the other countries in the Nordic and Baltic region when calibrating its O-SII buffer rates.</p> <p>In addition, the 'expected impact' approach was used to assess the appropriateness of the score of 1200 basis points as the threshold for the maximum buffer rate of 2% for O-SIIs.</p> <p>For further information please see: http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/en/srb-osiib_2016_eng.pdf</p>
<p>4.5 Effectiveness and proportionality of measure</p>	<p>The higher capital requirements help to increase the resilience of the systemically important banks in Estonia. The total assets of the banks identified as systemically important – Swedbank AS and AS SEB Pank – were worth around 70% of Estonian GDP at the end of 2015, the two banks had issued some 65% of the loans to the real sector, and they held 75% of the total deposits of Estonian companies and households. If either of the two largest banks were to cease functioning it would be very difficult to replace its services quickly. The non-functioning of these banks would endanger the stability of the Estonian financial system, incur major costs for the state and have a negative effect on the real economy.</p> <p>In Q2 2016 the two banks fulfilled the total capital and buffer requirements of 13.5% with voluntary excess using CET1 capital. The total capital ratios of these banks were close to 38% of risk-weighted assets at the end of Q2 2016. Thus the impact of the application of this measure is expected to be neutral.</p>
<p>5. Cross-border and cross-sector impact of the measure</p>	
<p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</p>	<p>There is little cross-border activity by the banks, and their foreign exposures are small. Thus the potential impact of the O-SII buffers being applied to the two largest banks in Estonia will be very small on the financial system of the European Union as a whole and on individual member states.</p>

5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	Swedish authorities have set higher capital buffer requirements for systemically important institutions at the consolidated level.									
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)	Eesti Pank applies a systemic risk buffer for all credit institutions authorised in Estonia. The systemic risk buffer stands at 1% and is applied to domestic exposures.									
6.3 O-SII requirement for a subsidiary (Article 131.8)	<table border="1"> <thead> <tr> <th></th> <th>Parent institution</th> <th>O-SII buffer rate of the parent institution</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>Swedbank AB</td> <td>2%</td> </tr> <tr> <td>AS SEB Pank</td> <td>Skandinaviska Enskilda Banken AB</td> <td>2%</td> </tr> </tbody> </table>		Parent institution	O-SII buffer rate of the parent institution	Swedbank AS	Swedbank AB	2%	AS SEB Pank	Skandinaviska Enskilda Banken AB	2%
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6.4 Interaction with other measures	N/A									

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Jaak Tõrs, Head of Financial Stability Department +372 668 0905; jaak.tors@eestipank.ee
7.2 Any other relevant information	N/A