



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

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| 1. Notifying national authority  |                    |                                  |                                |
|--|--------------------|----------------------------------|--------------------------------|
| <b>1.1 Name of the notifying authority</b>   | Eesti Pank         |                                  |                                |
| 2. Description of the measure  |                    |                                  |                                |
| <b>2.1 Concerned institution or group of institutions</b>                              | Institution        | LEI code                         | Basis                          |
|  | Swedbank AS        | 549300PHQZ4HL15HH975             | subconsolidated and individual |
|  | AS SEB Pank        | 549300ND1MQ8SNNYMJ22             | subconsolidated and individual |
|  | AS Luminor Bank    | 213800JD2L89GGG7LF07             | consolidated and individual    |
|  | AS LHV Pank        | 529900GJOSVHI055QR67             | consolidated and individual    |
| <b>2.2 Level of the buffer applied</b>   | Institution        | O-SII buffer rate                | Applicable from                |
|  | Swedbank AS        | 2%                               | 1 August 2016                  |
|  | AS SEB Pank        | 2%                               | 1 August 2016                  |
|  | AS Luminor Bank    | 2%                               | 1 July 2018                    |
|  | AS LHV Pank        | 1%                               | 1 January 2019                 |
| Eesti Pank plans to maintain the level of the buffer for all the four banks unchanged. |                    |                                  |                                |
| <b>2.3 Name of the EU ultimate parent institution</b>                                  | Parent institution |                                  | LEI code of parent institution |
|  | Swedbank AS        | Swedbank AB                      | M312WZV08Y7LYUC71685           |
|  | AS SEB Pank        | Skandinaviska Enskilda Banken AB | F3JS33DEI6XQ4ZBPTN86           |

| <b>2.4 Names of subsidiaries</b>   | N/A   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
|--|---|---------------|----------|--|-----------------------------------|--------------------|-------------|---------------|----------|--|--|--|------|--|-----------------------------------|--------------------|-------------|-------|-------|------|------|------|-------------|-------|-------|------|------|------|-----------------|-------|-------|------|------|------|-------------|-----|-----|-----|-----|-----|
| <b>3. Timing of the measure</b>  |   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.1 Timing of the Decision</b>  | 21 October 2019   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.2 Timing of the Publication</b>   | 21 November 2019.   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.3 Disclosure</b>  | The list of the O-SIIs and applicable buffer rates are published on the Eesti Pank website.   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.4 Timing of Application</b>   | N/A, since the list of O-SIIs and their buffer rates remain at the previous level.  |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.5 Phasing in</b>  | No phase-in. All identified O-SIIs are already subject to the O-SII buffer requirement.   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>3.6 Review of the measure</b>   | The list of the O-SIIs identified and the O-SII buffer rates are generally reviewed on an annual basis.   |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <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> | <table border="1"> <thead> <tr> <th rowspan="2">Institution</th> <th rowspan="2">Overall score</th> <th colspan="4">Criteria</th> </tr> <tr> <th>Size</th> <th>Importance (including substitutability/ financial system infrastructure)</th> <th>Complexity/ cross-border activity</th> <th>Interconnectedness</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>3 154</td> <td>3 998</td> <td>4386</td> <td>2797</td> <td>1436</td> </tr> <tr> <td>AS SEB Pank</td> <td>2 070</td> <td>2 460</td> <td>2531</td> <td>2068</td> <td>1221</td> </tr> <tr> <td>Luminor Bank AS</td> <td>2 165</td> <td>1 523</td> <td>1212</td> <td>1877</td> <td>4047</td> </tr> <tr> <td>AS LHV Pank</td> <td>667</td> <td>629</td> <td>809</td> <td>293</td> <td>938</td> </tr> </tbody> </table>   |               |          |  |                                   |                    | Institution | Overall score | Criteria |  |  |  | Size | Importance (including substitutability/ financial system infrastructure) | Complexity/ cross-border activity | Interconnectedness | Swedbank AS | 3 154 | 3 998 | 4386 | 2797 | 1436 | AS SEB Pank | 2 070 | 2 460 | 2531 | 2068 | 1221 | Luminor Bank AS | 2 165 | 1 523 | 1212 | 1877 | 4047 | AS LHV Pank | 667 | 629 | 809 | 293 | 938 |
|  | Institution   | Overall score | Criteria |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
|  |   |               | Size     | Importance (including substitutability/ financial system infrastructure) | Complexity/ cross-border activity | Interconnectedness |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
|  | Swedbank AS   | 3 154         | 3 998    | 4386   | 2797                              | 1436               |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
|  | AS SEB Pank   | 2 070         | 2 460    | 2531   | 2068                              | 1221               |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| Luminor Bank AS  | 2 165   | 1 523         | 1212     | 1877   | 4047                              |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| AS LHV Pank  | 667   | 629           | 809      | 293  | 938                               |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b>  | <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 add any additional indicators to the list. The threshold of systemic importance is set at 350 basis points. Only banks were included in the calculations. No banks have been excluded from the sample.</p> <p>Eesti Pank decided to complement the framework with a condition that if the overall score of a credit institution exceeds the 350 basis points threshold only temporarily, Eesti Pank may decide not to designate the institution as an O-SII.</p>  |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |
| <b>4.3 Supervisory judgement</b>   | <p>Four banks – Swedbank AS, AS SEB Pank, AS Luminor Bank and AS LHV Pank – have been identified as O-SIIs based on their overall scores. However, based on the data from the end of 2018, also Bigbank AS received a score slightly higher than 350 basis points. This was due to higher points received under criterion of complexity/cross-border activity, which was mostly driven by other banks' liquidity management at the end of the year. The "denominator effect" caused an increased score of Bigbank AS only based on 31.12.2018 data, while the use of data both for 30.09.2018 and 31.03.2019 resulted in a score far below 350 basis points. Hence, Eesti Pank decided to not designate Bigbank AS as an O-SII. To avoid undesirable volatility in O-SII designation also in the future, Eesti Pank has amended the framework, to allow flexibility in cases where a bank exceeds the threshold</p> |               |          |  |                                   |                    |             |               |          |  |  |  |      |  |                                   |                    |             |       |       |      |      |      |             |       |       |      |      |      |                 |       |       |      |      |      |             |     |     |     |     |     |

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|   | <p>only temporarily because of one-off factors.</p> <p>Eesti Pank did not identify any additional institution as an O-SII through supervisory judgement.</p>   |
| <b>4.4 Calibrating the O-SII buffer</b>   | <p>According to Eesti Pank framework for O-SII buffer calibration, 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. The O-SII buffer rate is calibrated in steps of 0.5 percentage points.</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. In addition, the 'equal 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>   |
| <b>4.5 Effectiveness and proportionality of measure</b>   | <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, AS SEB Pank, Luminor Bank AS and AS LHV Pank – were worth around 86% of Estonian banking sector total assets and 88% of Estonian GDP at the end of 2018. If these banks were to cease functioning it would be very difficult to replace their 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>At the end of 2018 the four banks fulfilled the total capital and buffer requirements with voluntary excess using CET1 capital. Among these banks the lowest total capital ratio was 19%, while the highest total capital ratio approached 42% of risk weighted assets. Thus the impact of the application of this measure is expected to remain neutral</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 potential impact of the O-SII buffers being applied to the banks in Estonia is assessed to be small on the financial system of the European Union as a whole and on individual member states. Additionally, the EU parent institutions of the two local subsidiaries identified as O-SIIs are required to hold higher capital buffer requirements on the consolidated level.</p>  |
| <b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>                            | <p>The measure is institution-specific. Therefore the possibility of any leakages is minimal.</p> <p>The share of EU branches in the total banking sector assets is around 8%. However, as their home authorities have set the same of higher O-SII buffer requirement, the risk of regulatory arbitrage is expected to be nonmaterial.</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>  | N/A  |

| <b>6.2 Combinations with SRB buffers</b><br><b>(Article 131.14 + Article 133.5)</b> | Eesti Pank applies a systemic risk buffer for all credit institutions authorised in Estonia. The systemic risk buffer amounts to 1% and is applied to domestic exposures. The systemic risk buffer is applied at the same consolidation level as the O-SII buffer   |   |  |                    |   |             |             |    |             |                                  |    |
|---|---|---|--|--------------------|---|-------------|-------------|----|-------------|----------------------------------|----|
| <b>6.3 O-SII requirement for a subsidiary (Article 131.8)</b>                       | <table border="1"> <thead> <tr> <th data-bbox="488 384 638 457"></th> <th data-bbox="638 384 924 457">Parent institution</th> <th data-bbox="924 384 1295 457">O-SII buffer rate of the parent institution</th> </tr> </thead> <tbody> <tr> <td data-bbox="488 457 638 531">Swedbank AS</td> <td data-bbox="638 457 924 531">Swedbank AB</td> <td data-bbox="924 457 1295 531">2%</td> </tr> <tr> <td data-bbox="488 531 638 611">AS SEB Pank</td> <td data-bbox="638 531 924 611">Skandinaviska Enskilda Banken AB</td> <td data-bbox="924 531 1295 611">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% |
|   | Parent institution  | O-SII buffer rate of the parent institution |  |                    |   |             |             |    |             |                                  |    |
| Swedbank AS   | Swedbank AB   | 2%  |  |                    |   |             |             |    |             |                                  |    |
| AS SEB Pank   | Skandinaviska Enskilda Banken AB  | 2%  |  |                    |   |             |             |    |             |                                  |    |
| <b>6.4 Interaction with other measures</b>  | From 30.09.2019 a 15% floor for the average risk weight of domestic mortgage loans will apply to IRB banks established in Estonia. Two O-SIIs (Swedbank AS and AS SEB Pank) are using IRB Approach.   |   |  |                    |   |             |             |    |             |                                  |    |

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