



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	Institution	LEI code	Basis
	Swedbank AS	549300PHQZ4HL15HH975	subconsolidated and individual
	AS SEB Pank	549300ND1MQ8SNNYMJ22	subconsolidated and individual
	Luminor Bank AS	213800JD2L89GGG7LF07	consolidated and individual
	AS LHV Pank	529900GJOSVHI055QR67	consolidated and individual
2.2 Level of the buffer applied	Institution	O-SII buffer rate	Applicable from
	Swedbank AS	2%	1 August 2016
	AS SEB Pank	2%	1 August 2016
	Luminor Bank AS	2%	1 July 2018
	AS LHV Pank	1%	1 January 2019
Eesti Pank plans to maintain the level of the buffer rates for these banks unchanged.			
2.3 Name of the EU ultimate parent institution	Parent institution	LEI code of parent institution	
	Swedbank AS	Swedbank AB	M312WZV08Y7LYUC71685
	AS SEB Pank	Skandinaviska Enskilda Banken AB	F3JS33DEI6XQ4ZBPTN86

2.4 Names of subsidiaries	N/A																																															
3. Timing of the measure																																																
3.1 Timing of the Decision	19 October 2020																																															
3.2 Timing of the Publication	20 November 2020																																															
3.3 Disclosure	The reviewed list of the O-SIIs identified and their O-SII buffer requirements as well as the methodology and indicators used for designation of the O-SIIs will be published on the Eesti Pank website.																																															
3.4 Timing of Application	The O-SII buffer requirements for Swedbank AS and AS SEB Pank have applied since 1 August 2016. The O-SII buffer for AS Luminor Bank has been applicable since 1 July 2018. The O-SII buffer for AS LHV Pank has been applicable since 1 January 2019.																																															
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 are generally 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)	<table border="1"> <thead> <tr> <th rowspan="2">Institution</th> <th colspan="2">Overall score</th> <th colspan="5">Criterion</th> </tr> <tr> <th>automatic*</th> <th>adjusted**</th> <th>Size</th> <th>Importance (including substitutability/ financial system infrastructure)</th> <th>Complexity/ cross-border activity</th> <th>Inter-connectedness</th> <th>Importance in Estonian financial system</th> </tr> </thead> <tbody> <tr> <td>Luminor Bank AS</td> <td>4599</td> <td>2867</td> <td>3650</td> <td>2812</td> <td>7457</td> <td>4478</td> <td>1134</td> </tr> <tr> <td>Swedbank AS</td> <td>2150</td> <td>3429</td> <td>2944</td> <td>3498</td> <td>860</td> <td>1297</td> <td>4708</td> </tr> <tr> <td>AS SEB Pank</td> <td>1548</td> <td>2103</td> <td>1823</td> <td>2148</td> <td>845</td> <td>1374</td> <td>2659</td> </tr> <tr> <td>AS LHV Pank</td> <td>733</td> <td>823</td> <td>806</td> <td>904</td> <td>204</td> <td>1018</td> <td>914</td> </tr> </tbody> </table>	Institution	Overall score		Criterion					automatic*	adjusted**	Size	Importance (including substitutability/ financial system infrastructure)	Complexity/ cross-border activity	Inter-connectedness	Importance in Estonian financial system	Luminor Bank AS	4599	2867	3650	2812	7457	4478	1134	Swedbank AS	2150	3429	2944	3498	860	1297	4708	AS SEB Pank	1548	2103	1823	2148	845	1374	2659	AS LHV Pank	733	823	806	904	204	1018	914
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<p>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</p>	<p>In 2020, Eesti Pank has adjusted the methodology used for designation of the O-SIIs. The change in the methodology was driven by substantial structural changes in the Estonian banking sector. Most importantly, at the start of 2019 Luminor completed the merger of the Baltic units into a cross-border banking group with its head office in Estonia and branches in Latvia and Lithuania. This led to considerable increase in the ratio of banking sector assets to GDP (103% in 2018 to 134% in 2019). With that exclusion, the Estonian banking sector is relatively small and concentrated, mainly dominated by a few systemically important institutions, which are strongly interlinked to the domestic economy. Furthermore, in recent years, the role of smaller domestic banks has increased in the domestic market. In upcoming years those smaller domestic banks could be expected to further increase their market share in providing bank services domestically, and potentially grow systemically important for the Estonian financial system.</p> <p>Taking into consideration the structural changes described above and accommodating the specificities of the Estonian banking sector, Eesti Pank has decided to complement the standard EBA methodology by adding a 5th category with two additional indicators (listed as optional indicators in the Annex 2 of EBA guidelines) – private sector domestic deposits and private sector domestic loans. The added category is weighted 50% of the total score. Otherwise, the calculation of the adjusted score follows the methodology of the EBA: each category has equal weighting, and each indicator within each category has an equal weighting relative to the other indicators within the category. The base and adjusted methodologies are summarised in the following table:</p> <table border="1" data-bbox="427 842 1485 1406"> <thead> <tr> <th>Criterion</th> <th>Indicators</th> <th>Weight - EBA methodology</th> <th>Weight - adjusted methodology</th> </tr> </thead> <tbody> <tr> <td>Size</td> <td>Total assets</td> <td>20%</td> <td>12.5%</td> </tr> <tr> <td rowspan="3">Importance (including substitutability/ financial system infrastructure)</td> <td>Value of domestic payment transactions</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Private sector deposits from depositors in the EU</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Private sector loans to recipients in the EU</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td rowspan="3">Complexity/cross-border activity</td> <td>Value of OTC derivatives (notional)</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Cross-jurisdictional liabilities</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Cross-jurisdictional claims</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td rowspan="3">Interconnectedness</td> <td>Intra-financial system liabilities</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Intra-financial system assets</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td>Debt securities outstanding</td> <td>8.33%</td> <td>4.17%</td> </tr> <tr> <td rowspan="2">Importance in Estonian financial system</td> <td>Private sector domestic deposits</td> <td></td> <td>25%</td> </tr> <tr> <td>Private sector domestic loans</td> <td></td> <td>25%</td> </tr> </tbody> </table> <p>The indicators and the weights are chosen with consideration to better capture the importance of all banks in Estonia for the domestic financial system and non-financial economy.</p> <p>Eesti Pank has kept the threshold of systemic importance as 350 basis points.</p> <p>Only banks were included in the calculations. The assessment covered the whole banking sector and Eesti Pank did not exclude any bank from the identification process. The data used for calculating the scores was obtained from FINREP and the database of Eesti Pank.</p>	Criterion	Indicators	Weight - EBA methodology	Weight - adjusted methodology	Size	Total assets	20%	12.5%	Importance (including substitutability/ financial system infrastructure)	Value of domestic payment transactions	8.33%	4.17%	Private sector deposits from depositors in the EU	8.33%	4.17%	Private sector loans to recipients in the EU	8.33%	4.17%	Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%	4.17%	Cross-jurisdictional liabilities	8.33%	4.17%	Cross-jurisdictional claims	8.33%	4.17%	Interconnectedness	Intra-financial system liabilities	8.33%	4.17%	Intra-financial system assets	8.33%	4.17%	Debt securities outstanding	8.33%	4.17%	Importance in Estonian financial system	Private sector domestic deposits		25%	Private sector domestic loans		25%
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<p>4.3 Supervisory judgement</p>	<p>Eesti Pank did not identify any additional institution as an O-SII through supervisory judgement.</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>																																													

	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.									
4.5 Effectiveness and proportionality of measure	<p>The total assets of the banks identified as systemically important – Swedbank AS, AS SEB Pank, Luminor Bank AS and AS LHV Pank – were worth an ample of 124% of Estonian GDP at the end of 2019. They had issued up to 93% of the loans to the domestic real sector and they held close to 96% of the total deposits of Estonian companies and households. 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>In Q4 2019 the four banks fulfilled the total capital and buffer requirements with voluntary excess using CET1 capital. Thus, the impact of the application of this measure is expected to be neutral.</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 potential impact of the O-SII buffers applied to the four banks in Estonia is small on the financial system of the European Union as a whole. As the O-SII buffers are applied on the highest level of consolidation, the O-SII buffer of the AS Luminor Bank does not incentivize the cross-border reallocation of banking activities from or to other 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.									
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>The measure is institution-specific. Therefore the possibility of any leakages is minimal.</p> <p>As the home authorities of foreign subsidiaries and branches have set the same or higher O-SII buffer requirements, the risk of regulatory arbitrage is expected to be nonmaterial.</p>									
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)	Because of the COVID-19 pandemic, Eesti Pank decided to lower the systemic risk buffer to 0%, starting from 1 May 2020. The previous systemic buffer rate was 1% and applied for all credit institutions authorised in Estonia and to domestic exposures only. The systemic risk buffer applied at the same consolidation level as the O-SII buffer.									
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	From 30.09.2019 a 15% floor for the average risk weight of domestic mortgage loans has been applied to IRB banks established in Estonia. Two O-SIIs (Swedbank AS and AS SEB Pank) are using IRB Approach.
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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