

## Notification template for Article 131 of the Capital Requirements Directive (CRD) – Other Systemically Important Institutions (O-SIIs)

**Template for notifying the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) of the setting or resetting of an O-SII buffer under Article 131(7) CRD and of the identity of O-SIIs under Article 131(12) CRD**

Please send/upload this template to:

- [macropru.notifications@ecb.europa.eu](mailto:macropru.notifications@ecb.europa.eu) when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation<sup>1</sup>);
- [DARWIN/ASTRA link] when notifying the ESRB.

The ESRB will forward this notification to the European Commission, to the European Banking Authority (EBA) and to the competent and designated authorities of the Member States concerned without delay and will publicly disclose the names of the O-SIIs on its website. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure<sup>2</sup>.

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority			
<b>1.1 Name of the notifying authority</b>	Eesti Pank		
<b>1.2 Country of the notifying authority</b>	Estonia		
2. Description of the measure			
<b>2.1a Institution or group of institutions concerned</b>	<b>Name of institution</b>	<b>LEI</b>	<b>Consolidation level</b>
	Swedbank AS	549300PHQZ4HL15HH975	subconsolidated and individual
	AS SEB Pank	549300ND1MQ8SNNYMJ22	subconsolidated and individual
	Luminor Bank AS	213800JD2L89GGG7LF07	subconsolidated and individual
	AS LHV Pank	529900GJOSVHI055QR67	subconsolidated and individual

<sup>1</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>2</sup> On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

<b>2.1b Changes to the list of institutions concerned</b>								
<b>2.2 Level of the buffer applied</b>	<b>Name of institution</b>		<b>New O-SII buffer</b>			<b>Previous O-SII buffer</b>		
	Swedbank AS		2%			2%		
	AS SEB Pank		2%			2%		
	Luminor Bank AS		2%			2%		
AS LHV Pank		1.5%			1%			
<b>2.3 Name of the ultimate EU parent institution</b>	<b>Name of identified O-SII</b>		<b>Ultimate EU parent institution</b>			<b>LEI of ultimate parent institution</b>		
	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 for the measure</b>								
<b>3.1 Timing for the decision</b>	25/10/2021							
<b>3.2 Timing for publication</b>	26/11/2021							
<b>3.3 Disclosure</b>	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.							
<b>3.4 Timing for application</b>	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 new O-SII buffer rate for AS LHV Pank will be applicable from 1 January 2022.							
<b>3.5 Phasing in</b>	The new O-SII buffer rate for AS LHV Pank will be applicable from 1 January 2022.							
<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 institutions or group of institutions concerned, as per EBA guidelines on the assessment of O-SIIs</b>	<b>Name of institution</b>	<b>Criterion</b>					<b>Overall Score</b>	
		Size	Substitutability	Complexity	Interconnectedness	Importance in Estonian financial system	Step 1*	Step 2**
	Luminor Bank AS	3 325	2 487	6 860	3 036	950	3 927	2 438
	Swedbank AS	3 150	3 510	1 219	2 223	4 659	2 526	3 592

<b>(Article 131.3 CRD)</b>	<table border="1"> <tr> <td><b>AS SEB Pank</b></td> <td>1 669</td> <td>2 145</td> <td>969</td> <td>1 853</td> <td>2 616</td> <td>1 659</td> <td>2 137</td> </tr> <tr> <td><b>AS LHV Pank</b></td> <td>1 108</td> <td>1 216</td> <td>338</td> <td>1 880</td> <td>1 104</td> <td>1 135</td> <td>1 120</td> </tr> </table>	<b>AS SEB Pank</b>	1 669	2 145	969	1 853	2 616	1 659	2 137	<b>AS LHV Pank</b>	1 108	1 216	338	1 880	1 104	1 135	1 120																													
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	<p>* Scores are calculated according to the mandatory scoring methodology of the EBA guidelines.</p> <p>** For supervisory assessment the EBA mandatory indicators are complemented with two optional indicators – private sector domestic deposits and private sector domestic loans.</p>																																													
<b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b>	<p>For identification of the O-SIIs Eesti Pank fully follows the methodology provided by the EBA guidelines. In the first step, Eesti Pank uses the mandatory scoring methodology. In the second step, Eesti Pank has added two additional indicators to take into account structural features of the Estonian banking sector. The second step on supervisory assessment was lastly adjusted in 2020, driven by substantial structural changes in the Estonian banking sector.</p> <p>Taking into consideration the structural features of the Estonian banking sector, Eesti Pank has complemented the EBA mandatory methodology by adding a 5<sup>th</sup> 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, when exercising the supervisory assessment. The added category is weighted 50% of the total score. Other categories have equal weighting, and each indicator within each category has an equal weighting relative to the other indicators within the category. The list of indicators and their weights for calculating the overall score are summarised in the following table:</p> <table border="1" data-bbox="443 907 1477 1444"> <thead> <tr> <th>Criterion</th> <th>Indicators</th> <th>Weights - Step 1</th> <th>Weights - Step 2</th> </tr> </thead> <tbody> <tr> <td><b>Size</b></td> <td>Total assets</td> <td>25%</td> <td>12.5%</td> </tr> <tr> <td rowspan="3"><b>Importance (including substitutability/ financial system infrastructure)</b></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"><b>Complexity/cross-border activity</b></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"><b>Interconnectedness</b></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"><b>Importance in Estonian financial system</b></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	Weights - Step 1	Weights - Step 2	<b>Size</b>	Total assets	25%	12.5%	<b>Importance (including substitutability/ financial system infrastructure)</b>	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%	<b>Complexity/cross-border activity</b>	Value of OTC derivatives (notional)	8.33%	4.17%	Cross-jurisdictional liabilities	8.33%	4.17%	Cross-jurisdictional claims	8.33%	4.17%	<b>Interconnectedness</b>	Intra-financial system liabilities	8.33%	4.17%	Intra-financial system assets	8.33%	4.17%	Debt securities outstanding	8.33%	4.17%	<b>Importance in Estonian financial system</b>	Private sector domestic deposits		25%	Private sector domestic loans		25%
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<b>4.3 Supervisory judgement</b>	<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>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. 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>
<p><b>4.5 Effectiveness and proportionality of measure</b></p>	<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 154% of Estonian GDP at the end of 2020. They had issued up to 92% of the loans to the domestic real sector and they held close to 95% 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 Q2 2021 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>
<p><b>5. Sufficiency, consistency and non-overlap of the policy response</b></p>	
<p><b>5.1 Sufficiency of the policy response</b></p>	<p>The combination of the number of institutions in scope and the level of applied OSII buffers is assessed as sufficient to significantly mitigate and reduce the contagion effects a systemically important bank could cause. Applying the supervisory assessment step in the O-SII identification methodology is necessary to better capture structural specificities of the Estonian banking sector. When setting the buffer rate, Eesti Pank starts from the principle that the capital buffer rate should be higher the more systemically important a credit institution is. The O-SII buffer decision is based on the scores calculated for the O-SII identification. The O-SII buffer preserves the already built-up capital in the systemically important institutions.</p>
<p><b>5.2 Consistency of application of the policy response</b></p>	<p>The instrument is consistent with the goal of limiting the potential negative impact systemically important banks could have in terms of the higher risk they pose. The measure is applied under Article 131 of the Capital Requirements Directive (CRD). The identification process of systemically important credit institutions is followed by the EBA Guidelines EBA/GL/2014/10.</p>
<p><b>5.3 Non-overlap of the policy response</b></p>	<p>The instrument is calibrated accordingly to the respective systemic importance of each institution identified as OSII. Currently, there are no other measures that target systemic risks in Estonian banking sector in relation to the systemic importance of credit institutions and thus there is no overlap present with other policy instruments.</p>
<p><b>6. Cross-border and cross-sector impact of the measure</b></p>	
<p><b>6.1 Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2<sup>3</sup>)</b></p>	<p>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. In the Member States where Estonian banks have significant market share, the levels of O-SII buffer rates do not differ much. The EU parent institutions of the two local subsidiaries identified as O-SIIs are required to hold higher buffer requirements (SyRB+O-SII buffer rate) on the consolidated level.</p>

<sup>3</sup> Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

<b>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	The measure is institution-specific. Therefore, the possibility of any leakages is minimal.									
<b>7. Combinations and interactions with other measures</b>										
<b>7.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>	N/A									
<b>7.2 Combinations with systemic risk buffers (SyRBs) (Article 131.15 CRD)</b>	N/A. Because of the COVID-19 pandemic, Eesti Pank lowered the SyRB from 1% to 0%, starting from 1 May 2020.									
<b>7.3 O-SII requirement for a subsidiary (Article 131.8 CRD)</b>	<p>As the maximum O-SII buffer rate applied by Eesti Pank currently is 2%, the cap did not prevent applying a higher O-SII buffer rate. In the future, the cap potentially may distort the implementation of the O-SII framework in Estonia.</p> <table border="1" data-bbox="443 987 1318 1205"> <thead> <tr> <th data-bbox="443 987 759 1106">Name of O-SII subsidiary</th> <th data-bbox="764 987 1195 1106">Name of the EU parent of the O-SII subsidiary</th> <th data-bbox="1200 987 1318 1106">Buffer applicable to O-SII EU parent</th> </tr> </thead> <tbody> <tr> <td data-bbox="443 1113 759 1151"><b>Swedbank AS</b></td> <td data-bbox="764 1113 1195 1151">Swedbank AB</td> <td data-bbox="1200 1113 1318 1151">1%</td> </tr> <tr> <td data-bbox="443 1158 759 1196"><b>AS SEB Pank</b></td> <td data-bbox="764 1158 1195 1196">Skandinaviska Enskilda Banken AB</td> <td data-bbox="1200 1158 1318 1196">1%</td> </tr> </tbody> </table>	Name of O-SII subsidiary	Name of the EU parent of the O-SII subsidiary	Buffer applicable to O-SII EU parent	<b>Swedbank AS</b>	Swedbank AB	1%	<b>AS SEB Pank</b>	Skandinaviska Enskilda Banken AB	1%
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<b>Swedbank AS</b>	Swedbank AB	1%								
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<b>8. Miscellaneous</b>										
<b>8.1 Contact person(s)/mailbox at notifying authority</b>	Jaak Tõrs, Head of Financial Stability Department +372 668 0905; jaak.tors@eestipank.ee									
<b>8.2 Any other relevant information</b>	N/A									
<b>8.3 Date of the notification</b>	1 October 2021									