

## 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](#) 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			
1.1 Name of the notifying authority	The Financial and Capital Market Commission (FCMC)		
1.2 Country of the notifying authority	Latvia		
2. Description of the measure			
2.1a Institution or group of institutions concerned	Name of institution	LEI	Consolidation level
	"Swedbank" AS	549300FXBIWWGK7T0Y98	Sub-consolidated
	Akciju sabiedrība "Citadele banka"	2138009Y59EAR7H1UO97	Highest level of consolidation
	AS "SEB banka"	549300YW95G1VBBGGV07	Sub-consolidated
	Akciju sabiedrība "Rietumu Banka"	2138007F5HA5FFJROB80	Highest level of consolidation
	AS BlueOrange Bank	54930080G2M7EJ097A27	Highest level of consolidation

<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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

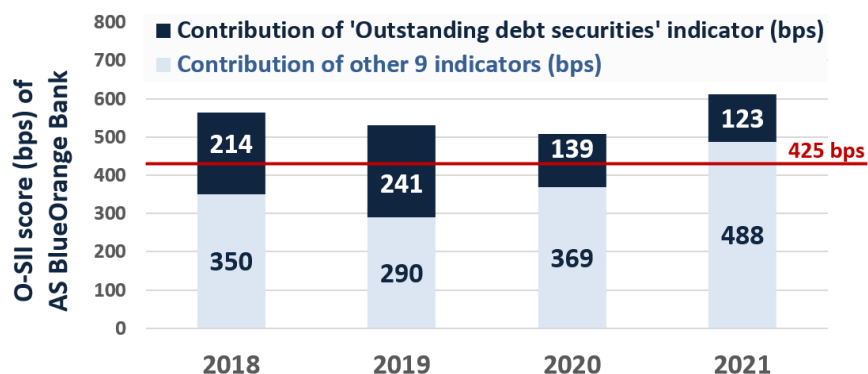
<b>2.1b Changes to the list of institutions concerned</b>	AS BlueOrange Bank is set to join the list of four currently identified O-SIIs this year.		
<b>2.2 Level of the buffer applied</b>	Compared to the currently applicable requirements the buffer rates of AS "SEB banka" and Akciju sabiedrība "Rietumu Banka" are set to decrease by 0.25%, while for Akciju sabiedrība "Citadele banka" - to increase by 0.25%. AS BlueOrange Bank will be identified as an O-SII for the first time with the accompanying O-SII buffer requirement of 0.25%.		
	<b>Name of institution</b>	<b>New O-SII buffer</b>	<b>Previous O-SII buffer</b>
	"Swedbank" AS	2%	2%
	Akciju sabiedrība "Citadele banka"	1.75%	1.5%
	AS "SEB banka"	1.5%	1.75%
	Akciju sabiedrība "Rietumu Banka"	1%	1.25%
	AS BlueOrange Bank	0.25%	-
<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 banka"	Skandinaviska Enskilda Banken AB	F3JS33DEI6XQ4ZBPTN86
<b>2.4 Names of subsidiaries</b>	<b>Name of parent O-SII identified</b>	<b>Name of O-SII subsidiary</b>	<b>LEI of O-SII subsidiary</b>
	Akciju sabiedrība "Citadele banka"	Kaleido Privatbank AG	2549009YPMR9VYICC362
<b>3. Timing for the measure</b>			
<b>3.1 Timing for the decision</b>	21/12/2021		
<b>3.2 Timing for publication</b>	22/12/2021		

<b>3.3 Disclosure</b>	<a href="https://www.fktk.lv/en/media-room/macprudential-supervision/other-systemically-significant-institutions/">https://www.fktk.lv/en/media-room/macprudential-supervision/other-systemically-significant-institutions/</a>																																																						
<b>3.4 Timing for application</b>	Two institutions facing increased buffer rate will be required to apply it from 01.01.2023 after the phase-in periods concludes; two institutions for which the buffer rate is set to decrease, on the other hand, will be able to apply it immediately after the forthcoming FCMC decision comes into force. 21/12/2021																																																						
<b>3.5 Phasing in</b>	<table border="1" data-bbox="571 521 1449 913"> <thead> <tr> <th>Name of institution</th> <th>Date1</th> <th>Date2</th> <th>Date3</th> <th>Date4</th> <th>Date5</th> </tr> </thead> <tbody> <tr> <td></td> <td>21/12/2021</td> <td>01/01/2023</td> <td>%</td> <td>%</td> <td>%</td> </tr> <tr> <td>"Swedbank" AS</td> <td>2%</td> <td>2%</td> <td>%</td> <td>%</td> <td>%</td> </tr> <tr> <td>Akciju sabiedrība "Citadele banka"</td> <td>1.50%</td> <td>1.75%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>AS "SEB banka"</td> <td>1.50%</td> <td>1.50%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Akciju sabiedrība "Rietumu Banka"</td> <td>1%</td> <td>1%</td> <td></td> <td></td> <td></td> </tr> <tr> <td>AS BlueOrange Bank</td> <td>0%</td> <td>0.25%</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Name of institution	Date1	Date2	Date3	Date4	Date5		21/12/2021	01/01/2023	%	%	%	"Swedbank" AS	2%	2%	%	%	%	Akciju sabiedrība "Citadele banka"	1.50%	1.75%				AS "SEB banka"	1.50%	1.50%				Akciju sabiedrība "Rietumu Banka"	1%	1%				AS BlueOrange Bank	0%	0.25%															
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<b>3.6 Review of the measure</b>	The list of the identified O-SIIs and the O-SII buffer rates will be 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 (Article 131.3 CRD)</b>	<table border="1" data-bbox="571 1131 1449 1630"> <thead> <tr> <th>Name of institution</th> <th>Size</th> <th>Substitutability</th> <th>Complexity</th> <th>Interconnectedness</th> <th>Overall Score</th> </tr> </thead> <tbody> <tr> <td>"Swedbank" AS</td> <td>816</td> <td>702</td> <td>375</td> <td>502</td> <td>2395</td> </tr> <tr> <td>Akciju sabiedrība "Citadele banka"</td> <td>468</td> <td>497</td> <td>360</td> <td>924</td> <td>2250</td> </tr> <tr> <td>AS "SEB banka"</td> <td>426</td> <td>359</td> <td>392</td> <td>152</td> <td>1329</td> </tr> <tr> <td>Akciju sabiedrība "Rietumu Banka"</td> <td>155</td> <td>112</td> <td>487</td> <td>244</td> <td>998</td> </tr> <tr> <td>AS BlueOrange Bank</td> <td>75</td> <td>69</td> <td>244</td> <td>223</td> <td>611</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p data-bbox="571 1675 1449 1803">The O-SII scores for all institutions included in the identification exercise and respective contributions of each indicator are available in the Excel file attached below the table. These scores are calculated strictly according to the definitions provided in the EBA guidelines EBA/GL/2014/10 (EBA Guidelines).</p> <p data-bbox="571 1818 1449 2011"><b>N.B.</b> The information in the table below and the attached file can be shared with other authorities but should not be made publicly available. In light of specificities of the Latvian financial sector the harmonised indicator weights as per the EBA Guidelines do not correspond to their actual contribution to systemic risk, resulting in scores that do not appropriately reflect the relative systemic importance of financial sector participants.</p>	Name of institution	Size	Substitutability	Complexity	Interconnectedness	Overall Score	"Swedbank" AS	816	702	375	502	2395	Akciju sabiedrība "Citadele banka"	468	497	360	924	2250	AS "SEB banka"	426	359	392	152	1329	Akciju sabiedrība "Rietumu Banka"	155	112	487	244	998	AS BlueOrange Bank	75	69	244	223	611																		
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	 O-SII_data.xlsx
<b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b>	<p><i>Please provide information on:</i></p> <p>a. <i>whether you followed the EBA guidelines on the assessment of O-SIIs;</i></p> <p>The O-SII identification was performed according to the mandatory criteria and indicators, data definitions and calculation procedures specified in the EBA Guidelines.</p> <p>b. <i>which threshold score has been set to identify O-SIIs;</i></p> <p>The threshold score has been set at 425 bps since 2015 due to the size and specificities of the financial sector.</p> <p>c. <i>whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process;</i></p> <p>Entities with total assets not in excess of 0.02% of the whole sample have not been excluded</p> <p>d. <i>the names and scores of all relevant entities not excluded from the identification process (could be sent in a separate Excel file, see 4.1);</i></p> <p>Please see the Excel file attached in Section 4.1.</p> <p>e. <i>whether non-bank institutions have been included in the calculations.</i></p> <p>Non-bank institutions have not been included in the calculations as they are relatively small and are not material in terms of systemic importance in the Latvian financial system.</p>
<b>4.3 Supervisory judgement</b>	<p><i>Have any of the institutions listed in 2.1 been identified by applying supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions and provide information on:</i></p> <p>a. <i>which of the optional indicators have been used to justify the supervisory assessment decisions, if any, and what the scores were;</i></p> <p>b. <i>why these optional indicators are relevant for the Member State;</i></p> <p>c. <i>why the bank is systemically important in terms of those particular optional indicators.</i></p> <p>No.</p> <p>Previously, in years 2018-2020, the FCMC had been applying supervisory judgement in order not to identify as O-SII certain institutions that exceeded the 425bps threshold for mandatory identification entirely due to a significant contribution from the <i>Outstanding debt securities</i> indicator. While reliance of Latvian banks on the issued debt securities financing channel has historically been non-significant, as banking sector has been dominated by subsidiaries and branches of other EU institutions (66% in terms of total assets as of 2021Q2), the exit of two institutions that issued these instruments (ABLV Bank in 2018 and JSC "PNB Banka" in 2020) from the market resulted in a further decrease of outstanding</p>

debt securities issued by the banking sector - from 2.6% of Latvian GDP in 2017Q2 to 0.2% of GDP in 2021Q2. At the same time this indicator is assigned a weight of 8.33% according to the EBA methodology, which is a substantial mismatch compared to the systemic importance of the actual issuance of outstanding debt securities in Latvian financial sector.

On these grounds supervisory judgement was applied not to identify AS BlueOrange Bank as O-SII during 2018-2020. As seen in the chart below, this year the bank's O-SII score exceeds the 425bps threshold even without taking the contribution of the *Outstanding debt securities* indicator into the account, therefore the abovementioned rationale for application of the supervisory judgement no longer holds and AS BlueOrange Bank is identified as O-SII.



As the table in Section 4.1. shows, while AS BlueOrange Bank is not large in terms of assets (below EUR 1bn), relative to the rest of the Latvian financial sector it scores high in terms of cross-jurisdictional and intra-financial assets and liabilities, as the bank attracts a proportion of its financing (incl. retail deposits) from other European countries and also a material share of its issued loans and held debt securities are of a cross-jurisdictional nature.

#### 4.4 Calibrating the O-SII buffer

The calibration is based on the *equal expected impact* method wherein the size of the O-SII buffers is set with aim to equalize the expected impact of an O-SIIs' financial distress with the expected impact of a non-O-SII reference institution's financial distress.

In line with the chosen threshold used for O-SII identification, systemic importance score of 425 basis points is used to define a non-O-SII reference institution. For purposes of calibrating the O-SII buffer, the systemic importance scores have since 2016 been calculated by employing an adjusted EBA Guidelines' methodology which takes into account the specificities of national financial sector. In 2018 the weighting of adjusted indicators used for the O-SII buffer calibration was changed (see the table below) due to the decrease in the outstanding stock of debt securities issued by the banking sector (see Section 4.3) and significant structural changes in the Latvian financial sector.

For this year's calculation there have been no further changes to the adjusted indicators used for the O-SII buffer calibration.

Criterion	Indicators	EBA guidelines weights	Adjusted methodology for buffer calibration weights (2016-2017)	Adjusted methodology for buffer calibration weights (2018-)
Size	Total assets	25%	25%	25%
	Risk weighted assets		15%	15%
Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	8.33%	5%	5%
	Private sector deposits from depositors in the EU	8.33%	5%	5%

	Private sector loans to recipients in the EU	8.33%	5%	5%
	<b>Private sector deposits from Latvian residents</b>		5%	<b>7.5%</b>
	<b>Private sector loans to Latvian residents</b>		5%	<b>7.5%</b>
	<b>Credit risk stress test – additional provisions (% of total provisions needed in banking sector)</b>		5%	5%
Complexity/cross-border activity	Value of OTC derivatives (notional)	8.33%	5%	5%
	Cross-jurisdictional liabilities	8.33%	5%	5%
	Cross-jurisdictional claims	8.33%	5%	5%
Interconnectedness	Intra-financial system liabilities	8.33%	5%	<b>4.5%</b>
	Intra-financial system assets	8.33%	5%	<b>4.5%</b>
	Debt securities outstanding	8.33%	5%	<b>1%</b>

In order to achieve an equal expected impact of financial distress, the probability of default (PD) of financial distress of O-SII must be lower than that of non-O-SII, as financial distress of O-SIIs leads to higher associated economic costs. These costs are decreased by applying O-SII buffers that lower PDs of O-SIIs.

Quarterly data for period of 2004-2020 on return on risk weighted assets (RORWA) of banks operating in Latvia was used to determine the PD of a reference non-O-SII.

The table below compares the identified institutions' O-SII scores (i) according to the EBA Guidelines methodology and (ii) according to the adjusted indicators used for the O-SII buffer calibration.

Bank	O-SII score according to the EBA Guidelines methodology (bps)	O-SII score according to the adjusted indicators (bps)	Difference (bps)
"Swedbank" AS	2 395	2 819	+424
Akciju sabiedrība "Citadele banka"	2 250	1 856	-394
AS "SEB banka"	1 329	1 701	+372
Akciju sabiedrība "Rietumu Banka"	998	970	-28
AS BlueOrange Bank	611	458	-153

#### 4.5 Effectiveness and proportionality of measure

The higher capital requirements resulting from the application of the O-SII buffer are essential to ensure the resilience of the systemically important institutions in Latvia. The total assets of the identified O-SIIs account for 78% of Latvian banking sector assets and 64% of Latvian GDP as of 2021Q2 – financial distress of these institutions would negatively affect financial stability and economy of Latvia.

As of 2021Q2, identified O-SIIs are able to fulfil the buffer requirements with the CET1 capital and no resulting disruptions to the local financial system or economy are expected. Nevertheless, in light of the continued negative influence of the Covid-19 pandemics on the local economy and the persistent macroeconomic uncertainty, **a phase-in period** will be applied for the two institutions facing an O-SII buffer rate increase of 0.25%, **requiring them to apply the new buffer rates from 01.01.2023**. The phase-in period will provide

	these institutions with sufficient time to adjust their capital plans and to thus minimise any potential negative impact on the credit flow.
<b>5. Sufficiency, consistency and non-overlap of the policy response</b>	
<b>5.1 Sufficiency of the policy response</b>	<p>The Latvian economy relies heavily on the financing provided by the local banking sector therefore its resilience is essential for financial stability and economic development.</p> <p>For institutions with O-SII buffer rates under 2% the measure is deemed sufficient considering their relative systemic importance as derived from O-SII scores calculated according to the adjusted indicators and the overall required additional resiliency according to <i>equal expected impact</i> method results. In case of "Swedbank" AS the measure is deemed sufficient in light of the maximum O-SII buffer rate allowed according to the EU legislation (CRD).</p>
<b>5.2 Consistency of application of the policy response</b>	Setting of O-SII buffers to increase the resilience of systemically important institutions is consistent with the aim of limiting the potential risks stemming from a failure of identified O-SIIs for the Latvian financial system. In application of the measure the FCMC has adhered to the principles set out in Article 131 of CRD and EBA Guidelines. The O-SII buffers were calibrated relative to the systemic importance – banks with higher adjusted O-SII score are required to hold higher buffers.
<b>5.3 Non-overlap of the policy response</b>	No other policy instruments are used to address the systemic risk in Latvian banking sector in relation to banks' systemic importance, therefore there is no overlap with other policy instruments.
<b>6. Cross-border and cross-sector impact of the measure</b>	
<b>6.1 Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2<sup>3</sup>)</b>	The cross-border effects and impact on the internal market is expected to be nonmaterial as the cross-border activities within EU of identified O-SIIs are limited. The EU parent institutions of local subsidiaries identified as O-SIIs are required to hold at least as large buffers on the consolidated level as FCMC is planning to set in Latvia if considering the sum of SyRB and O-SII buffers.
<b>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	As the measure is institution-specific possibility of any leakages is minimal.
<b>7. Combinations and interactions with other measures</b>	

<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>7.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b>	Not applicable	<b>O-SII buffer</b>		<b>G-SII buffer</b>
	<b>Name of institution</b>			
		%		%
		%		%
<b>7.2 Combinations with systemic risk buffers (SyRBs) (Article 131.15 CRD)</b>	Not applicable	<b>SyRB rate</b>	<b>SyRB application level</b>	<b>Sum of G-SII/O-SII and SyRB rates</b>
	<b>Name of institution</b>			
		%		%
		%		%
		%		%
		%		%
		%		%
		%		%
		%		%
<b>7.3 O-SII requirement for a subsidiary (Article 131.8 CRD)</b>	Results of the <i>equal expected impact</i> method suggest an O-SII buffer for "Swedbank" AS that is moderately higher than what is allowed by CRD Art 131.8.			
	<b>Name of O-SII subsidiary</b>	<b>Name of the EU parent of the O-SII subsidiary</b>		<b>Buffer applicable to O-SII EU parent</b>
	"Swedbank" AS	Swedbank AB		1%
	AS "SEB banka"	Skandinaviska Enskilda Banken AB		1%
			%	
<b>8. Miscellaneous</b>				
<b>8.1 Contact person(s)/mailbox at notifying authority</b>	Arnis Jankovskis (Chief regulations expert, Regulations and Policy Division, +371 6777 904, <a href="mailto:arnis.jankovskis@fktk.lv">arnis.jankovskis@fktk.lv</a> )			
<b>8.2 Any other relevant information</b>	Not applicable			
<b>8.3 Date of the notification</b>	Please provide the date on which this notification was uploaded/sent. 04/01/2022			