



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

Please send this template to

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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 |
| | AS Luminor Bank | 213800JD2L89GGG7LF07 | consolidated and individual |
| | AS LHV Pank | 529900GJOSVHI055QR67 | consolidated and individual |
| 2.2 Level of the buffer applied | <p>From 1 August 2016 the O-SII buffer of 2% is applied for Swedbank AS and AS SEB Pank. Eesti Pank plans to maintain the level of the buffer for these two banks unchanged.</p> <p>For AS Luminor Bank, Eesti Pank plans to set the O-SII buffer rate at 2%.</p> <p>For AS LHV Pank, Eesti Pank plans to increase the O-SII buffer rate from 0.5% to 1%.</p> | | |
| 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 |
| | AS Luminor Bank | Luminor Group AB | |

| 2.4 Names of subsidiaries | N/A | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|-------------|---------------|------|--|-----------------------------------|--------------------|--|--|------------|------------|------|--|-----------------------------------|--------------------|--|------------|------------|-------------|------|------|------|------|------|-----|------|-------------|------|------|------|------|------|------|------|-----------------|------|------|------|------|------|------|------|-------------|-----|-----|-----|-----|-----|------|-----|
| 3. Timing of the measure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1 Timing of the Decision | 16 April 2018 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.2 Timing of the Publication | The expected date of the publication of the decree of the Governor of Eesti Pank is the middle of May 2018. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.3 Disclosure | The reviewed list of the O-SIIs identified and their 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 for Swedbank AS and AS SEB Pank have applied since 1 August 2016. The O-SII buffer for AS Luminor Bank will be applicable from 1 July 2018. For AS LHV Pank the increased O-SII buffer rate will apply from 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 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) | <table border="1"> <thead> <tr> <th rowspan="3">Institution</th> <th colspan="2">Overall score</th> <th colspan="5">Criterion</th> </tr> <tr> <th rowspan="2">automatic*</th> <th rowspan="2">adjusted**</th> <th rowspan="2">Size</th> <th rowspan="2">Importance (including substitutability/ financial system infrastructure)</th> <th rowspan="2">Complexity/ cross-border activity</th> <th colspan="2">Interconnectedness</th> </tr> <tr> <th>automatic*</th> <th>adjusted**</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>2900</td> <td>3013</td> <td>3919</td> <td>4388</td> <td>2297</td> <td>998</td> <td>1450</td> </tr> <tr> <td>AS SEB Pank</td> <td>2042</td> <td>2208</td> <td>2388</td> <td>2411</td> <td>2044</td> <td>1326</td> <td>1989</td> </tr> <tr> <td>Luminor Bank AS</td> <td>1934</td> <td>1639</td> <td>1404</td> <td>1378</td> <td>1842</td> <td>3114</td> <td>1933</td> </tr> <tr> <td>AS LHV Pank</td> <td>859</td> <td>718</td> <td>691</td> <td>625</td> <td>631</td> <td>1490</td> <td>925</td> </tr> </tbody> </table> <p>* The automatic score is calculated using the EBA methodology. ** The adjusted score takes account of the specific features of the Estonian financial system and excludes one indicator (debt securities outstanding) from the calculation of the score.</p> <p>For additional information on the methodology and data sources please see the framework document that describes the process of identifying the systemically important credit institutions in Estonia: http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/esokm_2015_eng.pdf</p> | Institution | Overall score | | Criterion | | | | | automatic* | adjusted** | Size | Importance (including substitutability/ financial system infrastructure) | Complexity/ cross-border activity | Interconnectedness | | automatic* | adjusted** | Swedbank AS | 2900 | 3013 | 3919 | 4388 | 2297 | 998 | 1450 | AS SEB Pank | 2042 | 2208 | 2388 | 2411 | 2044 | 1326 | 1989 | Luminor Bank AS | 1934 | 1639 | 1404 | 1378 | 1842 | 3114 | 1933 | AS LHV Pank | 859 | 718 | 691 | 625 | 631 | 1490 | 925 |
| Institution | Overall score | | Criterion | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | automatic* | | adjusted** | Size | Importance (including substitutability/ financial system infrastructure) | Complexity/ cross-border activity | Interconnectedness | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | automatic* | | | | | adjusted** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Swedbank AS | 2900 | 3013 | 3919 | 4388 | 2297 | 998 | 1450 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AS SEB Pank | 2042 | 2208 | 2388 | 2411 | 2044 | 1326 | 1989 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Luminor Bank AS | 1934 | 1639 | 1404 | 1378 | 1842 | 3114 | 1933 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| AS LHV Pank | 859 | 718 | 691 | 625 | 631 | 1490 | 925 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4.2 Methodology and indicators used for designation of the O-SII (Article 131.3) | 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. Eesti Pank decided to maintain 350 basis points as the threshold of systemic importance. 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. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| <p>4.3 Supervisory judgement</p> | <p>Eesti Pank did not identify any institution as an O-SII through supervisory judgement.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--------------------------|-------------------------------|--------------------------|-------------------------------|-------------|--------------|-----|-----|---|--|-------|-------|---|-------|-------|--|-------|-------|---|-------------------------------------|-------|-------|----------------------------------|-------|-------|-----------------------------|-------|-------|---------------------------|------------------------------------|-------|-------|-------------------------------|-------|-------|-----------------------------|-------|----|
| <p>4.4 Calibrating the O-SII buffer</p> | <p>The set of mandatory indicators is not fully appropriate for the Estonian banking sector. 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 of 119 million euros or 0.5% of total assets. Consequently, the indicator for the volume of bonds does not reflect the systemic importance of the banks operating in Estonia and the scores for those few banks that have obtained a limited amount of funds by issuing bonds is overestimated.</p> <p>Considering the irrelevance of the indicator of debt securities outstanding for Estonia, Eesti Pank calibrates the level of the O-SII buffer using the adjusted score of systemic importance. The adjusted score does not take into account the effect that comes from the indicator for the volume of bonds. Otherwise the calculation of the adjusted score follows the methodology of the EBA: each category has equal weighting, and each indicator within each category also has 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="427 860 1485 1346"> <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>20%</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>8.33%</td> </tr> <tr> <td>Private sector deposits from depositors in the EU</td> <td>8.33%</td> <td>8.33%</td> </tr> <tr> <td>Private sector loans to recipients in the EU</td> <td>8.33%</td> <td>8.33%</td> </tr> <tr> <td rowspan="3">Complexity/cross-border activity</td> <td>Value of OTC derivatives (notional)</td> <td>8.33%</td> <td>8.33%</td> </tr> <tr> <td>Cross-jurisdictional liabilities</td> <td>8.33%</td> <td>8.33%</td> </tr> <tr> <td>Cross-jurisdictional claims</td> <td>8.33%</td> <td>8.33%</td> </tr> <tr> <td rowspan="3">Interconnectedness</td> <td>Intra-financial system liabilities</td> <td>8.33%</td> <td>12.5%</td> </tr> <tr> <td>Intra-financial system assets</td> <td>8.33%</td> <td>12.5%</td> </tr> <tr> <td>Debt securities outstanding</td> <td>8.33%</td> <td>0%</td> </tr> </tbody> </table> <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 70% 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 equivalent buffer rates of the other countries in the Nordic and Baltic region when calibrating its O-SII buffer rates.</p> <p>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>For further information please see: http://www.eestipank.ee/sites/eestipank.ee/files/files/Finantsstabiilsus/en/srb-osiib_2016_eng.pdf</p> | Criterion | Indicators | Weight - EBA methodology | Weight - adjusted methodology | Size | Total assets | 20% | 20% | Importance (including substitutability/ financial system infrastructure) | Value of domestic payment transactions | 8.33% | 8.33% | Private sector deposits from depositors in the EU | 8.33% | 8.33% | Private sector loans to recipients in the EU | 8.33% | 8.33% | Complexity/cross-border activity | Value of OTC derivatives (notional) | 8.33% | 8.33% | Cross-jurisdictional liabilities | 8.33% | 8.33% | Cross-jurisdictional claims | 8.33% | 8.33% | Interconnectedness | Intra-financial system liabilities | 8.33% | 12.5% | Intra-financial system assets | 8.33% | 12.5% | Debt securities outstanding | 8.33% | 0% |
| Criterion | Indicators | Weight - EBA methodology | Weight - adjusted methodology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Size | Total assets | 20% | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Importance (including substitutability/ financial system infrastructure) | Value of domestic payment transactions | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Private sector deposits from depositors in the EU | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Private sector loans to recipients in the EU | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Complexity/cross-border activity | Value of OTC derivatives (notional) | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Cross-jurisdictional liabilities | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Cross-jurisdictional claims | 8.33% | 8.33% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interconnectedness | Intra-financial system liabilities | 8.33% | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Intra-financial system assets | 8.33% | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Debt securities outstanding | 8.33% | 0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| <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, AS SEB Pank, Luminor Bank AS and AS LHV Pank – were worth around 94% of Estonian GDP at the end of 2017, they had issued some 86% of the loans to the real sector and they held over 90% 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 2017 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 18%, while the highest total capital ratio approached 40% of risk weighted assets. 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 three banks in Estonia will be very 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> | | | | | | | | | |
| <p>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p> | <p>The share of EU branches in the total banking sector assets is around 10%. However, as their home authorities have set the same or higher O-SII buffer requirements, the risk of regulatory arbitrage is expected to be nonmaterial.</p> | | | | | | | | | |
| <p>6. Combinations and interactions with other measures</p> | | | | | | | | | | |
| <p>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</p> | <p>N/A</p> | | | | | | | | | |
| <p>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</p> | <p>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</p> | | | | | | | | | |
| <p>6.3 O-SII requirement for a subsidiary (Article 131.8)</p> | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 40%;">Parent institution</th> <th style="width: 40%;">O-SII buffer rate of the parent institution</th> </tr> </thead> <tbody> <tr> <td>Swedbank AS</td> <td>Swedbank AB</td> <td style="text-align: center;">2%</td> </tr> <tr> <td>AS SEB Pank</td> <td>Skandinaviska Enskilda Banken AB</td> <td style="text-align: center;">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% | | | | | | | | |
| <p>6.4 Interaction with other measures</p> | <p>N/A</p> | | | | | | | | | |

| 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 |