

IDENTIFYING THE SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS IN ESTONIA AND THE BUFFER RATES FOR 2023

European Union member states assess the importance of credit institutions for the financial system each year, and update the list of systemically important credit institutions and the buffer rates that apply to them. In Estonia the credit institutions that are systemically important for the financial system here are defined by Eesti Pank as O-SIIs, or other systemically important institutions. Eesti Pank also decides on the rate for the additional capital buffer for O-SIIs. The additional buffer is intended to make the operation of systemically important market participants and the system as a whole more secure, and to reduce the costs that accompany problems at systemically important banks.

The results of the assessment in 2023 make four banks in Estonia systemically important, and these are Swedbank AS, AS SEB Pank, Luminor Bank AS and AS LHV Pank. The assessment was run on data from the end of 2022. The result of the assessment was that the list of banks defined as O-SIIs was the same as last year and so were the O-SII buffer rates set for them. This means that the buffer rate of 2% continues to apply for Swedbank AS, AS SEB Pank, Luminor Bank AS and AS LHV Pank.

Table 1. Score of the banks operating in Estonia in basis points as at 31.12.2022

| Institution | Overall score | | | Criteria | | | |
|-----------------|---------------|----------|------|--|-----------------------------------|--------------------|---|
| | Step 1* | Step 2** | Size | Importance (including substitutability/ financial system infrastructure) | Complexity/ cross-border activity | Interconnectedness | Importance in the Estonian financial system |
| Luminor Bank AS | 3750 | 2233 | 3014 | 2065 | 6437 | 3482 | 716 |
| Swedbank AS | 2326 | 3350 | 2840 | 3252 | 1024 | 2189 | 4374 |
| AS SEB Pank | 1461 | 2000 | 1690 | 2065 | 1086 | 1003 | 2538 |
| AS LHV Pank | 1460 | 1419 | 1253 | 1647 | 443 | 2497 | 1378 |
| Bigbank AS | 292 | 211 | 334 | 287 | 484 | 62 | 129 |
| AS Coop Pank | 215 | 332 | 350 | 284 | 63 | 162 | 449 |
| AS Inbank | 180 | 119 | 208 | 163 | 296 | 50 | 59 |
| AS TBB pank | 23 | 30 | 36 | 33 | 3 | 21 | 37 |
| Holm Bank AS | 32 | 27 | 27 | 18 | 24 | 60 | 21 |

* Scores are calculated using the mandatory scoring methodology of the EBA guidelines

** For supervisory assessment the EBA mandatory indicators are complemented with two optional indicators for private sector domestic deposits and private sector domestic loans

IDENTIFYING THE SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS IN ESTONIA

The starting point for identifying systemically important credit institutions in Estonia is the two-step methodology¹ in the guidelines of the European Banking Authority (EBA)². The assessment is carried out at the highest level of consolidation. In the first step, other systemically important institutions, or O-SIIs, are identified automatically using the criteria and the mandatory indicators in the EBA guidelines. The overall score for systemic importance is calculated from ten mandatory indicators, which are divided into four categories for size; importance, which includes substitutability / financial system infrastructure; complexity / cross-border activity; and interconnectedness. The values for each credit institution are related to the total score for the indicators for all the credit institutions in the country³, meaning that different types of market participant can be reflected. In this way they reflect the market share of the banks for different indicators. The final points score for each credit institution is the weighted average value of the points scores of the indicators. All banks that exceed the threshold value

1 [Principles for identifying the systemically important credit institutions in Estonia and calibrating the buffer rates](#)

2 Guidelines issued on 16 December 2014 by the EBA on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs).

3 The O-SII assessment process at Eesti Pank covers the whole of the banking sector. Investment firms are not covered by the assessment.

of 350 basis points are automatically classed as O-SIIs. The second step is a supervisory assessment in which any other credit institutions that scored below the O-SII threshold in the first step but are still systemically important for the domestic financial system can be classed as O-SIIs. The optional indicators in the EBA guidelines can also be used for this if needed.

Eesti Pank uses an adjusted framework for assessing O-SIIs. The particular structure of the Estonian financial sector means that the point scores calculated automatically using the EBA methodology do not adequately reflect the systemic importance of all the banks operating in Estonia, as domestic

Table 2. The core set of indicators for scoring systemic importance in the EBA methodology and the adjusted methodology

| Criterion | Indicators | Step 1 | Step 2 |
|--|---|--------|--------|
| Size | Total assets | 25.00% | 12.50% |
| | Value of domestic payment transactions | 8.33% | 4.17% |
| Importance (including substitutability/financial system infrastructure) | 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 the Estonian financial system | Private sector domestic deposits | | 25.00% |
| | Private sector domestic loans | | 25.00% |

Table 3. Points scores for systemic importance of the banks operating in Estonia in basis points as at 31.12.22

| Criteria | Indicators | Luminor Bank AS | Swedbank AS | AS SEB Pank | AS LHV Pank | Bigbank AS | Coop Pank AS | Inbank AS | AS TBB pank | Holm Bank AS | Branches |
|---|---|-----------------|--------------|--------------|--------------|------------|--------------|------------|-------------|--------------|------------|
| | | | | | | | | | | | |
| Size | Total assets | 3 014 | 2 840 | 1 690 | 1 253 | 334 | 350 | 208 | 36 | 27 | 246 |
| Importance (including substitutability/financial system infrastructure) | Value of domestic payment transactions | 332 | 3 676 | 2 598 | 3 029 | 14 | 162 | 0 | 46 | 0 | 143 |
| | Private sector deposits from depositors in the EU | 2 721 | 3 290 | 1 736 | 1 033 | 426 | 382 | 259 | 38 | 32 | 82 |
| | Private sector loans to recipients in the EU | 3 143 | 2 788 | 1 860 | 881 | 421 | 309 | 231 | 14 | 21 | 334 |
| Complexity/cross-border activity | Value of OTC derivatives (notional) | 6 041 | 1 729 | 2 225 | 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Cross-jurisdictional liabilities | 6 184 | 375 | 672 | 824 | 837 | 154 | 485 | 6 | 47 | 416 |
| | Cross-jurisdictional claims | 7 086 | 969 | 362 | 499 | 613 | 36 | 402 | 4 | 25 | 4 |
| Interconnectedness | Intra-financial system liabilities | 932 | 1 713 | 2 506 | 3 413 | 0 | 83 | 1 | 6 | 0 | 1 345 |
| | Intra-financial system assets | 1 847 | 4 854 | 503 | 2 220 | 17 | 240 | 21 | 58 | 164 | 75 |
| | Debt securities outstanding | 7 668 | 1 | 0 | 1 857 | 170 | 161 | 129 | 0 | 15 | 0 |
| Importance in the Estonian financial system | Private sector domestic deposits | 449 | 4 821 | 2 512 | 1 515 | 19 | 463 | 29 | 55 | 14 | 122 |
| | Private sector domestic loans | 983 | 3 928 | 2 564 | 1 240 | 239 | 435 | 88 | 20 | 29 | 473 |
| Step 1* | | 3 750 | 2 326 | 1 461 | 1 460 | 292 | 215 | 180 | 23 | 32 | 261 |
| Step 2** | | 2 233 | 3 350 | 2 000 | 1 419 | 211 | 332 | 119 | 30 | 27 | 279 |

* Scores are calculated using the mandatory scoring methodology of the EBA guidelines

** For supervisory assessment the EBA mandatory indicators are complemented with two optional indicators for private sector domestic deposits and private sector domestic loans

indicators that are systemically important for the supply of financial services to the Estonian economy are underestimated in the points score for systemic importance. The updated framework for calculating the points score introduced by Eesti Pank in 2020 adds the domestic indicators for private sector domestic deposits and private sector domestic loans from the list of optional indicators in Annex 2 of the EBA guidelines. These domestic indicators are presented as a fifth category in the adjusted methodology of Eesti Pank and are given a 50% weighting in the calculation of the aggregate points score. The other four categories are consequently each given a weight of 12.5% (see Table 2).

Four banks were identified as systemically important in 2023, and these were Swedbank AS, AS SEB Pank, Luminor Bank AS and AS LHV Pank. The points scores of these banks exceeded 350 basis points in the data from the end of 2022 in the methodologies used in both the first and second steps (see Table 3).

BUFFER RATES FOR THE SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS IN ESTONIA

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. As it may be assumed that the costs to the economy arising from financial problems at a bank depend on how important it is in the financial system, the additional capital requirements set for systemically important banks help to reduce the likelihood and the impact of them becoming insolvent. In developing its methodology for calibrating the buffer, Eesti Pank considered various points, including the score given in the assessment of the systemic importance of credit institutions, and the buffer rates applied to other banks in the Nordic and Baltic region. Eesti Pank generally applies a buffer rate of at least 0.5% to the credit institutions that pass the minimum threshold of 350 basis points in the assessment of systemic importance, which is adapted from the methodology of the European Banking Authority. The rate of 2% is applied to those credit institutions that get a points score of at least 1200 basis points. If the points 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 (see Table 4). The buffer requirement applies to the total risk exposure of systemically important credit institutions, and must be met individually and at the consolidated level.

Table 4. O-SII buffer rates

| Score for systemic importance | O-SII buffer rate |
|-------------------------------|-------------------|
| 350-633 | 0.5% |
| 634-917 | 1.0% |
| 918-1199 | 1.5% |
| 1200- ... | 2.0% |

Following the results of the assessment of systemic importance of credit institutions, Eesti Pank decided to leave the Other Systemically Important Institution buffer rate for Luminor Bank AS, Swedbank AS, AS SEB Pank and AS LHV Pank unchanged at 2%. As the rates for the parent banks of Swedbank AS and AS SEB Pank have been set at 1% at the consolidated level and the European Union Capital Requirements Directive allows the maximum rate for subsidiaries to be set at one percentage point more than the rate for parent banks, the O-SII buffer rate for those banks is at 2%⁴.

The calibrated buffer rates for Swedbank AS, AS SEB Pank, Luminor Bank AS and AS LHV Pank are higher than the minimum O-SII buffer requirements found using the methodology of the European Central Bank. Single supervision of banking means that Eesti Pank shares responsibility with the European Central Bank in macroprudential supervision. The macroprudential measures in the Capital Requirements Regulation and Directive, including the O-SII buffer, allow the European Central Bank to set even stricter requirements than those that Eesti Pank has passed if necessary. The

4 The European Union's Capital Requirements Directive 2013/36/EU must be considered when decisions are taken on O-SII buffers, as the rate that can be applied to a credit institution that is part of a banking group where the parent bank is subject at the consolidated level to a buffer requirement as a G-SII or an O-SII may be whichever is lower of a) the G-SII or O-SII buffer rate that applies at the consolidated level to the consolidation group plus 1%; or b) 3% for the rate that the Commission has permitted to be applied to the consolidation group at the consolidated level. The O-SII buffer rate for Swedbank AB and Skandinaviska Enskilda Banken AB is currently 1%.

European Central Bank bases its decisions about O-SII buffer rates on the framework that is used to find the points score for the systemic importance of each bank that is the basis for the minimum level of the O-SII buffer⁵ (see Table 5). All the minimum rates are lower than the required buffer rate calculated using the Eesti Pank calibration framework for O-SII buffer rates.

Table 5. O-SII buffer floors set by the ECB

| Score for systemic importance | O-SII buffer floor |
|-------------------------------|--------------------|
| ... -749 | 0.25% |
| 750-1299 | 0.50% |
| 1300-1949 | 0.75% |
| 1950-2699 | 1.00% |
| 2700- 4449 | 1.25% |
| 4450- ... | 1.50% |

5 [For more, see Governing Council statement on macroprudential policies, 2022.](#)