

IDENTIFYING THE SYSTEMICALLY IMPORTANT CREDIT INSTITUTIONS IN ESTONIA AND BUFFER RATES FOR 2022

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 2022 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 2021. The result of the assessment was that the list of banks defined as O-SIIs was the same as last year (see Table 1).

Following the results of the assessment of systemic importance of credit institutions in 2022, Eesti Pank decided to raise the O-SII buffer rate for LHV Pank from 1.5% to 2%. The buffer rate of 2% continued to apply for Swedbank AS, AS SEB Pank and Luminor Bank AS unchanged from last year. The market share of AS LHV Pank has grown since the last assessment a year ago, and the importance for the financial system of the services it provides has increased. In consequence Eesti Pank decided to raise the buffer rate for AS LHV Pank. The new buffer rate will start to apply from 01 January 2023.

Table 1. Score of the banks operating in Estonia in basis points as at 31.12.2021

	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	3584	2170	2763	2148	6276	3150	756
Swedbank AS	2700	3639	3241	3369	1313	2876	4578
AS LHV Pank	1499	1393	1420	1639	552	2386	1287
AS SEB Pank	1418	1964	1647	2049	1061	915	2511
Bigbank AS	219	147	239	203	377	56	76
AS Coop Pank	168	299	258	258	35	122	430
AS Inbank	158	106	163	136	244	89	54
AS TBB pank	23	30	35	29	5	21	38
Holm Bank AS	21	19	18	12	14	39	16

* 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

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).

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 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 found automatically using the EBA methodology do not adequately reflect the systemic importance of all the banks operating in Estonia, as domestic 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).

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%
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 the Estonian financial system	Private sector domestic deposits		25.00%
	Private sector domestic loans		25.00%

Four banks were identified as systemically important in 2022, 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 2021 in the methodologies used in both the first and second steps (see Table 3).

Table 3. Points scores for systemic importance of the banks operating in Estonia in basis points as at 31.12.21

Criteria	Indicators	Luminor Bank AS	Swedbank AS	AS LHV Pank	AS SEB Pank	Bigbank AS	Coop Pank AS	Inbank AS	AS TBB pank	Holm Bank AS	Branches
Size	Total assets	2 763	3 241	1 420	1 647	239	258	163	35	18	215
Importance (including substitutability/financial system infrastructure)	Value of domestic payment transactions	402	3 653	3 098	2 565	7	133	0	32	0	111
	Private sector deposits from depositors in the EU	2 851	3 530	1 001	1 675	291	332	202	39	21	58
	Private sector loans to recipients in the EU	3 191	2 923	819	1 907	311	310	204	15	16	304

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

Criteria	Indicators	Luminor Bank AS	Swedbank AS	AS LHV Pank	AS SEB Pank	Bigbank AS	Coop Pank AS	Inbank AS	AS TBB pank	Holm Bank AS	Branches
Complexity/cross-border activity	Value of OTC derivatives (notional)	5 876	1 992	0	2 132	0	0	0	0	0	0
	Cross-jurisdictional liabilities	6 083	182	1 569	747	579	86	374	8	26	347
	Cross-jurisdictional claims	6 871	1 766	88	305	551	20	359	8	17	16
Interconnectedness	Intra-financial system liabilities	513	1 478	4 614	2 357	11	92	4	7	0	924
	Intra-financial system assets	1 268	7 150	694	387	57	163	19	56	93	113
	Debt securities outstanding	7 669	2	1 850	0	99	112	245	0	23	0
Importance in the Estonian financial system	Private sector domestic deposits	514	5 064	1 429	2 377	12	425	28	56	12	83
	Private sector domestic loans	997	4 091	1 145	2 644	140	434	80	21	21	428
Step 1*		3 584	2 700	1 499	1 418	219	168	158	23	21	210
Step 2**		2 170	3 639	1 393	1 964	147	299	106	30	19	233

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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. Eesti Pank 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 and AS SEB 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.

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%.

Eesti Pank decided to raise the buffer rate for systemic importance for AS LHV Pank from 1.5% to 2%. The results of the 2022 assessment of systemic importance of credit institutions showed that the points score for AS LHV Pank exceeded the threshold at which the O-SII buffer is set at 2%. The market share of AS LHV Pank was larger in the results for this year than it was last year in all of the categories for the O-SII assessment. The new buffer rate will start to apply from 01 January 2023.

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 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
... -1249	0.25%
1250–1949	0.50%
1950–2899	0.75%
2900– ...	1.00%

⁵ For more details see the ECB Macroprudential Bulletin, June 2017.