Template for notifying the intended use of a systemic risk buffer (SRB)

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1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Eesti Pank
1.2 Type of measure intended (also for reviews of existing measures)	Review of an existing SRB
2. Description of the notified measure	
2.1 Institutions covered by the intended SRB	The SRB applies for all credit institutions authorised in Estonia.
2.2 Buffer rate **(Article 133(11)(f) of the CRD)**	The SRB rate remains at 1%.
2.3 Exposures covered by the SRB	The SRB applies only to domestic exposures.
3. Timing of the measure	
3.1 Timing of the Decision	16 April 2018.
3.2 Timing of the Publication	
3.3 Disclosure	The analysis of the review of the SRB will be published on the Eesti Pank website in May 2018.
3.4 Timing of Application	The current buffer requirement will continue to apply.

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3.5 Phasing in	Fully-loaded implementation
3.6 Review/deactivation of the measure	The SRB requirement will be reviewed at least once every two years.
4. Reasons for the intended SRB	
4.1 Description of the long-term non-cyclical systemic risk in your Member State **(Article 133(11)a of the CRD)**	The long-term non-cyclical systemic risks stem from the structural vulnerabilities of the Estonian economy. The Estonian economy is small and open, making it vulnerable to external developments. The openness is characterised by the high share and concentration of exports and the high interconnectedness of the main export markets. The risks are amplified by additional structural factors, notably, concentration of the banks' loan portfolios and the comparatively modest level of household financial buffers. These factors can result in a rapid deterioration of debt servicing capacity of both companies and households due to unforeseen negative shocks.
4.2 Reasons why the dimension of the long-term non-cyclical systemic risk threatens the stability of the financial system in your Member State **(Article 133(11)(b) of the CRD)**	An unexpected worsening of the economic environment can lead to rapid deterioration in the ability of companies and households to service their debts, meaning that banks need to find additional capital to cover possible loan losses at short notice. Adequate capitalisation of banks can help them to cope with unexpected and rapid financial difficulties stemming from the structural vulnerabilities of the Estonian economy. Given the very bank-centred financial sector in Estonia, the sufficient capital buffers of banks help to ensure stable funding for the economy.
4.3 Indicators used for the activation of the measure	The indicators used for justification of the measure are: • The size and openness of the economy • The volatility of GDP growth • The concentration of exports • The structure of banks' loan portfolio • Household financial assets to GDP
4.4 Effectiveness and proportionality of the measure **(Article 133(11)(c) of the CRD)**	The SRB requirement is expected to ensure an additional capital buffer to mitigate the structural vulnerabilities of the Estonian economy. Currently the capitalisation of the banking sector is strong, as banks' capital levels are well above the regulatory capital and buffer requirements. The 1% SRB requirement was introduced in 2016. As the current buffer requirement will continue to apply, the impact is expected to be neutral. The buffer is set against unexpected economic shocks, which may vary in size and in their impact on banks' capital. The sensitivity of the banking sector to vulnerabilities in the economy is assessed using stress-testing techniques.
4.5 Justification of inadequacy of existing measures in the CRD or in the CRR, excluding Articles 458 and 459 of the CRR, to address the identified risks **(Article 133(11)(e) of the CRD)**	(see table below)

Measure	**Limitations**
Other systemically important institutions buffer (Art 131 of the CRD)	O-SII buffer is in effect from the third quarter of 2016. Addresses structural systemic risk

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<tr><td></td><td>that stems from the systemic institutions.</td></tr>
<tr><td>Countercyclical capital buffer (Art 130 of the CRD)</td><td>0% effective from 1 January 2016.
Addresses cyclical systemic risk.</td></tr>
<tr><td>Capital conservation buffer (Art 129 of the CRD)</td><td>2.5% effective from 19 May 2014</td></tr>
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<tr><td colspan="2">5. Cross-border and cross-sector impact of the measure</td></tr>
<tr><td>5.1 Assessment of cross-border effects and the likely impact on the internal market
(Article 133(11)(d) of the CRD and Recommendation ESRB/2015/2)</td><td>As the cross-border activities of the banks authorised in Estonia are modest in scope and their exposure abroad is negligible, the buffer requirement will not have a significant impact on the other Member States of the European Union or on the European Union as a whole.
Share of cross-border exposure of Estonian banks to total banking sector assets in other Member States was used as a main indicator for assessing the potential cross-border effects. In most Member States it remains below 0.1%.</td></tr>
<tr><td>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</td><td>The Estonian banking sector is very bank-centred. Therefore the risk of leakages and regulatory arbitrage to other parts of the financial sector is small in the medium term.
However, the share of foreign bank branches and the direct cross-border financing of the real sector is relatively high, which necessitates reciprocation of the SRB by other Member States.</td></tr>
<tr><td>5.3 Reciprocation by other Member States
(Article 134(4) of the CRD and Recommendation ESRB/2015/2)</td><td>In applying a 1% systemic risk buffer requirement to all the credit institutions authorised in Estonia, Eesti Pank is intending to request other EU Member States from which banks provide credit in Estonia through branches or through direct cross-border lending to apply an equal or equivalent requirement to exposures in Estonia.
The need for recognition stems from the structure of the Estonian banking sector, where the share of foreign bank branches is some 10% of the assets. In addition, a share of direct cross-border credit to the real sector is relatively high.
The main reasons for requesting the recognition of the SRB are the need to ensure the effectiveness of the measure, safeguard equal conditions for all banks competing in the Estonian market and avoid regulatory arbitrage.</td></tr>
<tr><td colspan="2">6. Combination of the SRB with other buffers</td></tr>
<tr><td>6.1 Combination with G-SII and/or O-SII buffers (Article 133(4) and (5) of the CRD)</td><td>Eesti Pank will impose an O-SII buffer on the four largest banks operating in Estonia: 2% for Swedbank AS, AS SEB Pank and Luminor Bank AS and increase the buffer requirement of AS LHV Pank from 0.5% to 1%. The O-SII buffer for these institutions is applied on an individual and consolidated basis. As the systemic risk buffer is applied only to domestic exposures, the SRB and O-SII buffer are cumulative.</td></tr>
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6.2 Other relevant information	N/A
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