Decision by the FIN-FSA Board on a capital buffer requirement based on the structural characteristics of the financial system and a capital buffer requirement for other systemically important institutions

The FIN-FSA Board has in accordance with:

- chapter 10, sections 4 a and 4 b of the Credit Institutions Act (610/2014), taken a decision to set a capital requirement of 1.0% to be met with Common Equity Tier 1 (CET1) capital, based on the structural characteristics of the financial system (systemic risk buffer (SyRB) requirement), for credit institutions (Aktia Bank Abp, Alisa Bank Plc, Danske Mortgage Bank Plc, Nordea Bank Plc, Oma Savings Bank Plc, OP Cooperative, POP Bank Centre Co-Op, S Bank Plc, the Mortgage Society of Finland, Savings Banks' Union Co-Op and Ålandsbanken Plc). The requirement shall apply at credit institutions' highest level of consolidation. The decision regarding the systemic risk buffer requirement shall enter into force on 1 July 2026.
- chapter 10, section 8 of the Credit Institutions Act, taken a decision on other systemically important credit institutions (O-SIIs) and their capital buffer requirements to be met with consolidated CET1 capital so that the O-SIIs and their O-SII buffer rates remain unchanged as follows:
    - Nordea Bank Abp 2.5%
    - OP Financial Group 1.5%
    - Municipality Finance Plc 0.5%

Attached to this decision are the following: 1. Appendix to the 26 June 2025 decision by the FIN-FSA Board: Basis for imposing the systemic risk buffer, values of related indicators and information to be provided on the decision, and 2. Principles for identifying other systemically important credit institutions (O-SIIs) and for setting their capital buffer requirements.

This was decided by the FIN-FSA's Board on 22 May 2025, whereafter the European Systemic Risk Board (ESRB) was notified of the decision one month before its publication, as provided in Article 131 and 133 of the Capital Requirements Directive.

Capital buffer requirement based on the structural characteristics of the financial system (systemic risk buffer requirement)

Basis of application in regulation - In accordance with Article 133 of the EU Capital Requirements Directive (CRD), each member state may introduce a systemic risk buffer of Common Equity Tier 1 (CET1) capital for the financial sector or one or more subsets of that sector, in order to prevent and mitigate systemic or macroprudential risks not covered by the Capital Requirements Regulation (CRR) and Articles 130 and 131 of the CRD, in the meaning of a risk of disruption in the financial system with the potential to have serious

negative consequences to the financial system and the real economy in a specific member state.

In accordance with chapter 10, section 4 b, subsection 2 of the Finnish Credit Institutions Act (8.8.2014/610), said requirement may be applied if (i) there is a risk arising from long-term non-cyclical factors that threatens the financial system or the macroeconomy and calls for higher capital buffers, and (ii) this risk threatens or has the potential of threatening the smooth operation and stability of the financial system at the national level. A further requirement is that (iii) the imposition of the requirement may only have a minimal negative impact on the operation of the other countries' financial systems, and (iv) the risks in question are not already covered by other capital buffer requirements.

In imposing the capital buffer requirement, the FIN-FSA shall take into account at least:

- the credit institution sector's risk concentrations in lending, funding and other key banking activities;
- interconnectedness of domestic credit institutions in lending, payment transfers and other banking functions important to financial stability;
- interconnectedness of the credit institution sector with foreign banking and financial systems, central counterparties and other financial market participants;
- interconnectedness of the credit institution sector with risks to the financial systems of EU member states and of other countries;
- size and concentration of the credit institution sector as measured by the total assets of credit institutions, and concentration in lending and in acceptance of retail deposits;
- importance of the credit institution sector in the intermediation of finance to the domestic private sector;
- indebtedness of credit institutions' largest customer groups;
- measures and other considerations mitigating the probability of severe disruptions in the financial system.

The indicators on the grounds of which the capital buffer requirement, based on the structural characteristics of the financial system, shall be imposed, as well as information to be provided on the decision concerning this capital buffer requirement, are specified in the Ministry of Finance Decree (19.5.2021/409) on the Systemic Risk Buffer Requirement for the Credit Institutions Sector and Investment Firms.

Rationale for setting a SyRB – On 29 March 2023, the FIN-FSA Board decided to set a systemic risk buffer requirement at 1.0% for credit institutions. The decision on the systemic risk buffer requirement entered into force after a 12-month transition period on 1 April 2024. In accordance with chapter 10, section 4 a, subsection 2 of the Credit Institutions Act, the FIN-FSA shall, in cooperation with the Ministry of Finance and the Bank of Finland, at least

every other year, assess whether there is a need to impose a capital buffer requirement on the basis of the structural characteristics of the financial system, to change an existing requirement or to keep it unchanged. A decision on the matter shall be made within six calendar months from the end of each year.

The Finnish credit institution sector exhibits several significant structural vulnerabilities, as a result of which, distress and crises in the sector may become unusually severe and thereby threaten the stability of the entire financial system. Risks arising from these threats require sufficient capitalisation of the credit institution sector, which constitutes the key justification for setting an above-zero systemic risk buffer requirement.

The updated values of the risk indicators provided in the Ministry of Finance Decree to be used in the quantitative assessment of risk factors under the Credit Institutions Act show that the Finnish credit institution sector continues to be structurally more vulnerable than EU member states' credit institution sectors on average. The credit institution sector is structurally vulnerable, in particular, due to:
(i) its large size,
(ii) its interconnectedness across national borders (tight interconnectedness of the Finnish credit institution sector, as measured by the funding gap of the credit institution sector, with foreign banking and financial systems),
(iii) its large risk exposures linked to mortgage and real estate lending (credit institution sector's risk concentrations in mortgage lending and claims on construction and real estate investment companies), and
(iv) high indebtedness of its key customer groups, households in particular (high levels of household sector debt relative to households' disposable income).

Moreover, (v) the importance of the credit institution sector in lending to the private sector is high both in Finland and the peer countries. Seven out of the ten risk indicators show a higher value for Finland than the median of the EU peer country group (Table 1). At present, five indicators are above their historic average.

The risk factors and changes in their indicators show that systemic risks related to the structural vulnerability of the Finnish credit institution sector have not changed significantly compared to 2023, when the previous decision about the application of the systemic risk buffer requirement was made. Time series of the risk indicators are presented in a memorandum appended to this decision.

Structural vulnerability is increased, in particular, by the following risk factors:

- The large size of the credit institution sector increases the costs of banking crises or other severe disruptions in the financial system on the real economy and public economy, thereby amplifying systemic risk and the need to have protection against distress situations with capital buffers.
- The interconnectedness of the credit institution sector with foreign financial systems is partly related to the fact that credit institutions mainly cover their large funding gap by raising debt funding from the international financial markets. In crisis conditions and severe distress situations, market-based funding typically depletes sooner than deposits, which increases systemic risk. The strong capital adequacy of the credit institution sector reduces the risk posed by the evaporation of market-based funding.
- The credit institution sector's large risk concentrations related to mortgage and real estate lending expose credit institutions to the risk of credit loss arising from loans granted to mortgage lending as well as construction and real estate investment companies, thereby amplifying systemic risk. Sharp fluctuations in the housing markets and mortgage lending have been the underlying cause of several financial crises. Steep downswings of the housing markets have caused large credit losses to banks in many crisis situations from loans granted to construction and real estate investment companies. Large exposures to these companies may therefore significantly impair credit institutions' capital adequacy and lending capacity in distress situations.
- The high level of household indebtedness exposes credit institutions to major risks of credit losses, both directly and indirectly through other borrower sectors in crisis conditions and other serious distress situations, thereby increasing systemic risk via higher likelihood and impact of banking crises.

Table 1.

Structural indicators – comparison of Finnish findings with the median for EU coutries and the average of Finnish findings

Indicator	Median of EU countries	Finnish historical averages
1. Housing loans granted to domestic households as a share of total loans granted by the credit institutions sector to the private sector	Higher	Not higher
2. Credit institution's claims on construction and real estate companies as a share of credit institutions' total assets	Higher	Higher
3. Credit institutions' domestic government bond assets relative to credit institutions' total assets	Not higher	Not higher
4. Domestic MFIs' share of ownwership of bonds issued by domestic credit institutions	Not higher	Not higher
5. Credit institutions sector funding gap	Higher	Not higher
6. Aggregate balance sheet of subsidiaries and branches of foreign banks relative to GDP	Not higher	Not higher
7. Balance sheet of the credit institutions sector relative to nominal GDP	Higher	Higher
8. Loans granted by domestic credit institutions to households and non-financial corporation as a share of households' and non-financial corporations' total liabilities	Higher	Higher
9. Household sector liabilities relative to household disposable income	Higher	Higher
10. Non-financial corporations' intebtedness relative to GDP	Higher	Higher

Based on data available on 21 February 2025.

Source: European Central Bank.

In the FIN-FSA's view, the SyRB requirement has only a minimal negative impact on the operation of whole or parts of the financial system of other countries or of the Union as a whole forming or creating an obstacle to the proper functioning of the internal market. The Finnish credit institution sector is a significant part of the Nordic financial system. Nordic economies and financial systems are interlinked in many ways, and investors often assess these countries as one geographical area. The Nordic financial systems are also subject to similar structural vulnerabilities. The requirements imposed in Finland and their effects should therefore be compared and assessed above all in relation to the other Nordic countries.

As part of the preparation of the decision, the FIN-FSA has compared the capital requirements of European countries and of their largest banks. This has also included the examination of differences in risk weights between banks and banking sectors as well as their impacts on the requirements in euro terms. In the FIN-FSA's view, there are some regional differences in the level of macroprudential capital buffer requirements in Europe that can be explained by differences in the risk assessments of the various Member States' supervisory authorities and in the structural characteristics and vulnerabilities inherent in financial systems. No significant differences were

found between the requirements for the Finnish banking sector and those for the major peer countries. Finnish banks' macroprudential buffer requirements are higher than in Europe on average, justified by higher-than-average assessed systemic risks.

Overall, according to the FIN-FSA's assessment, the proposed SyRB requirement would have a minimal impact on the functioning of the internal market from the perspective of a level playing field and credit institutions' (relative) lending capacity. This assessment also takes into account the cross-border effects on Finland's national financial system (inward spillovers) and the cross-border effects on other Member States (outward spillovers).

Of the current macroprudential tools, borrower-based macroprudential tools (maximum LTC ratio) primarily affect new agreements (new loans) and do not therefore prevent or limit structural risks. Of the capital buffer requirements, the O-SII buffer for other systemically important credit institutions primarily covers risks to the financial system arising from the systemic importance of individual credit institution and specified in more detail in regulation. The SyRB primarily covers risks to individual credit institutions arising from vulnerabilities in the financial system.

The countercyclical capital buffer (CCyB) is intended for mitigating cyclical systemic risks stemming from excessive growth in credit to the private sector and its consequences. Therefore, the CCyB is not appropriate for mitigating systemic risks arising from structural vulnerabilities in the banking system, which are typically long-term in nature.

The maximum LTC ratio, risk-weight floors on housing loans referred to in Article 458 of the Capital Requirements Regulation (CRR) and other measures of the CRR to raise the risk-weight floors on housing loans only address credit institutions' mortgage lending. Hence, they do not sufficiently cover the additional capital requirements related to the Finnish credit institutions sector's large size, cross-border interconnectedness, indebtedness of the key customer groups and the sector's importance.

The supervisory measures available to the FIN-FSA and the ECB enable the imposition of requirements on credit institutions to cover institution-specific risks and remedy shortcomings in their operations, for example (Pillar 2 requirement, P2R). However, the P2R is not intended for limiting financial stability-related systemic risks.

In addition to the actual capital requirements, Pillar 2 guidance (P2G) can be set for credit institutions. The P2G is a credit institution-specific recommendation on the level of capital expected to be maintained in addition to binding capital requirements. Its purpose is to cover for losses in stress situations, taking into account the credit institution's risk profile. Unlike the Pillar 2 requirement and macroprudential capital buffers, the Pillar 2 guidance is

not a legally binding capital requirement. The credit institution-specific, non-binding Pillar 2 guidance is not intended for preventing systemic risks. [1]

Hence, there are justifications to set a systemic risk buffer requirement in order to limit risk arising from long-term non-cyclical factors that threatens the financial system or the macroeconomy. This risk has the potential of threatening the smooth operation and stability of the financial system at the national level. The setting of the capital buffer requirement does not have other than minimal negative impact on the operation of the financial systems in other countries because the capital buffer applies to credit institutions operating in Finland, and as regards other countries with a comparable capital buffer requirement in place, only the higher of the requirements applies. These risks have not been covered by other capital requirements, either. Based on stress test calculations and research literature, the overall need for macroprudential capital requirements has been determined, part of which is covered by the systemic risk buffer (for more details, see below).

Targeting of the requirement – In accordance with chapter 10, section 4 c, subsection 1 of the Credit Institutions Act, the FIN-FSA may set a systemic risk buffer based on total risk exposure, or one or several risk concentrations, or a combination thereof (so-called sector-specific systemic risk buffer requirement).

The systemic risk buffer requirement was previously targeted in Finland at credit institutions' all exposures instead of just their domestic balance sheet items. Sector representatives have found it problematic that the requirement covers all balance sheet items. In the sector's view, setting macroprudential requirements at the level of banking groups, instead of the level of the national market, results in overlaps with requirements set in other countries. Furthermore, national authorities are considered to have the best understanding of the macroprudential risks prevailing in each country and of the appropriate tools to cover them.

Some of the risk indicators for the systemic risk buffer requirement assess Finnish credit institutions' operations in Finland or the indebtedness of Finnish economic entities. Therefore, the sector finds that targeting the systemic risk buffer only to domestic exposures would be in line with the targeting of the risk indicators. Furthermore, the sector has noted that, in setting macroprudential requirements for the whole balance sheet, diversification effects from international activities are not considered a ground for reducing the requirement, but solely a factor increasing systemic risk.

[1] Pillar 2 guidance is however taken account of indirectly in the calibration of the SyRB rate by taking into account the impact of Pillar 2 guidance on banks' own funds in excess of capital adequacy requirements and capital targets in assessing the combined amount of macroprudential buffers (the calibration of the SyRB rate is discussed in more detail in the sections see below).

On the other hand, many of the primary grounds for setting a systemic risk buffer requirement, such as the size, interconnectedness and risk exposures of the credit institution sector, are related to credit institutions' cross-border activities and not just banks' activities in Finland. Targeting the systemic risk buffer requirement only to domestic exposures would leave a major share of structural systemic risks uncovered. The introduction of a systemic risk buffer requirement focusing on domestic lending would reduce the capital requirements for the banking sector by approximately 0.5% of risk-weighted assets, and in this case, the requirement would not cover structural systemic risks associated with Finnish credit institutions' foreign lending.

Alternatively, a systemic risk buffer targeting domestic exposures should be set at a high level (over 2%) if the objective is to create macroprudential buffer requirements similar in euro terms to the current total balance sheet-wide systemic risk buffer of 1%. Doubling the systemic risk buffer requirement for domestic lending in order to reach a target aggregate level of macroprudential capital requirements, in the absence of material changes in structural vulnerabilities related to domestic lending, is not appropriate. This measure could also create biased incentives with adverse side effects and have a relatively harder effect on credit institutions that are domestically active and typically small, as opposed to larger institutions operating in several countries.

Based on estimates of financial system vulnerabilities and of historical credit loss trends, it is evident that the most significant effects of household and corporate indebtedness may be channelled indirectly through consumption effects to credit institutions' other exposures and related losses. Hence, a general systemic risk buffer requirement based on total risk exposure, in contrast to a more limited sector-specific one, is warranted also from the perspective of vulnerabilities amplified by household and corporate indebtedness.

Level of the systemic risk buffer requirement – The calibration of the general systemic risk buffer requirement set on Finnish credit institutions is based on an estimate of the sufficient aggregate level of macroprudential capital requirements for the Finnish banking sector. Special requirements and recommendations provided in regulation and EU-level guidelines concerning buffers pose certain boundaries for the calibration of the buffer requirements. Within the boundaries of regulation, the overall level of buffer requirements has been assessed primarily based on (i) the Bank of Finland and FIN-FSA's stress test calculations, (ii) research literature and (iii) estimates by international authorities. The estimated aggregate level of the buffer requirements indicates the amount of capital the credit institution sector should have to be able to cover losses resulting from a severe shock to the economy or the financial system while retaining its operating capacity even after covering the losses and being able to continue to provide credit to the real economy.

In setting any buffers, in accordance with the CRD and the national Credit Institutions Act, one must also assess what kind of potential adverse effects the buffers may have on the operation of the EU's internal market. Therefore, the level of macroprudential buffers has been compared to buffer requirements applied in other countries. Comparison has been made in particular to countries whose financial systems exhibit similar systemic risks. In the comparisons, it has not been shown that the systemic risk buffer requirement or other macroprudential tools have adverse effects on the operation of the EU's internal market (for more details, see section 'Rationale for setting a systemic risk buffer requirement').

The starting point of the stress test-based assessment consists of estimates from the FIN-FSA and Bank of Finland's 2022 and 2024 stress test calculations about the deterioration of Finnish credit institutions' capital adequacy in a severe disruption of the economy and financial system. The losses shown in the Bank of Finland and FIN-FSA's stress test calculations of 2022 are caused by shocks occurring outside the Finnish credit institution sector, whose impacts are amplified by the structural vulnerabilities of the credit institution sector.[2] Since the structural vulnerabilities of the Finnish financial system have not changed significantly from 2022, it was still appropriate to apply the results of the test to the estimation of buffer needs. The scenarios underlying the stress test calculations of 2024 did not separately account for the effects of structural vulnerabilities, but the starting point of the stress test was significantly weaker than in the 2022 test, which resulted in a larger estimated loss of capital adequacy for the Finnish credit institution sector.[3] If the 2024 tests had accounted for the structural vulnerabilities of Nordic financial systems that transmit and amplify shocks, the scenario would have been even more severe and the estimated impact on capital adequacy likely greater. Therefore, it is warranted to also consider the 2024 stress test results in estimating a sufficient aggregate level of buffer requirements.

The extent of losses that could be caused by potential distress or disruption events in individual Finnish credit institutions to the system were not estimated in the 2022 or 2024 stress tests. In a severe financial market crisis, the credit institution sector could concurrently face both the adverse effects of an external shock and the distress of individual systemically important credit institutions. Therefore, in assessing the aggregate level of macroprudential buffer requirements, attention must be paid to both stress test-based losses and risks from individual significantly important credit institutions, offset by O-SII buffer requirements. In practice, when assessing the sufficient overall level, the average O-SII buffer requirement for Finnish

[2] For more details, see *Large structural risks require banks to hold buffers for a rainy day –Bank of Finland Bulletin* and *Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments 29 March 2023*

[3] For more details, see *Finland's banking sector could withstand even a harsher recession than forecast – Bank of Finland Bulletin*

credit institutions (2.0%) is added to the estimated impairment of capital adequacy ratios from stress tests.

The determination of the sufficient aggregate level of macroprudential buffers based on stress test calculations also involves several assumptions that both under- and overestimate actual buffer needs. First, the starting point for the determination of buffer needs based on stress tests is that credit institutions should be able to continue lending to the real economy, even after covering the losses indicated by the stress tests. Therefore, credit institutions should retain own funds exceeding capital requirements after covering losses, in order to continue financing the economy without risking a breach of binding minimum capital requirements. Hence, the actual buffer need would be higher than that implied by stress tests. The consideration of non-risk-based capital requirements and MREL requirements[4] also increases buffer needs because these requirements may partly limit the actual availability of macroprudential buffers or capital freed due to a reduction in these buffers.[5]

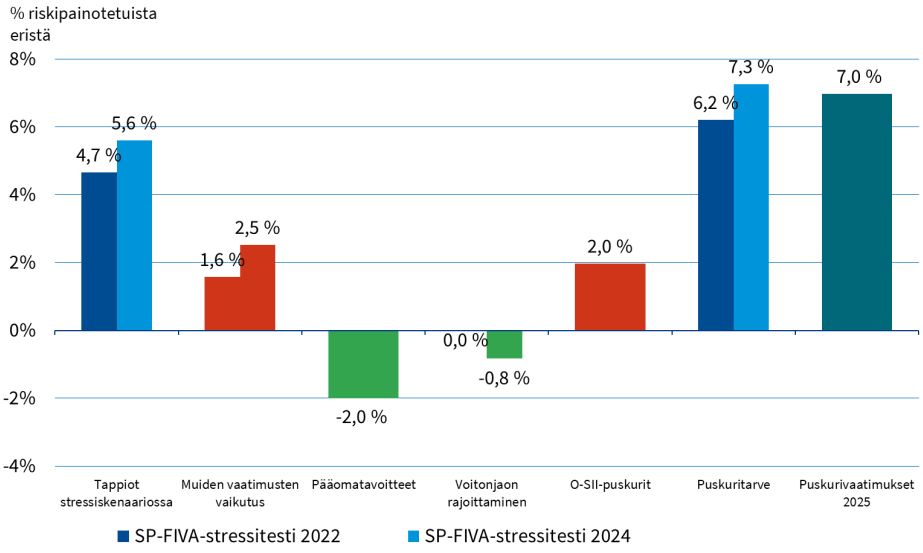
On the other hand, calibration of buffer requirements based on stress test calculations rests on the assumption that credit institutions do not hold any voluntary capital buffers above their minimum capital requirements. However, to avoid the limits on profit distribution and general market stigma from falling below macroprudential buffers, credit institutions also maintain voluntary excess capital buffers on top of those imposed by capital requirements, and these contribute to credit institutions' loss-bearing capacity and reduce the need for macroprudential buffers. In the calculations, this surplus of own funds is estimated at 2% of risk-weighted assets, corresponding to the average Pillar 2 guidance level based on Finnish credit institutions' institution-specific microprudential stress tests plus 1 percentage point.[6] The stress test calculations have also been supplemented by the assumption that credit institutions refrain from profit distribution in years when their result is profitable but own funds after profit distribution would fall below the capital adequacy requirement. This also reduces the stress test-based decrease in capital adequacy and thereby the estimated overall buffer need.

Based on the results of stress test calculations, O-SII buffer requirements, the effects of other requirements limiting the applicability of the buffer requirements, credit institutions' capital targets, and the assumed effects of

[4] The leverage ratio and the minimum requirement for own funds and eligible liabilities (MREL), based on non-risk-weighted assets, as well as subordination requirements that complement them.
[5] This effect stems from the fact that current regulation allows credit institutions to use capital reserved to meet buffer requirements to also fulfil non-risk-based minimum requirements concurrently. For more details, see, for example, ESRB (2021) *Report of the Analytical Task Force on the overlap between capital buffers and minimum requirements* and Leitner, Dvořák, Giammaria & Zsámboki (2023), "*How Usable are Capital Buffers?*" ECB Occasional Paper No. 2023/329.
[6] The assumption can be considered conservative, as the banking sector held a surplus of own funds equal to 4.8% of risk-weighted assets above capital requirements at the end of 2024.

restricting profit distribution, sufficient aggregate macroprudential buffers for the Finnish credit institution sector are estimated at 6.2–7.3% of total risk-weighted assets (Chart 1).

Chart 1. *Estimate based on stress test calculations of the need for macroprudential buffers in the Finnish credit institution sector*



Lähde: Finanssivalvonnan ja Suomen Pankin laskelmat

The aggregate level of macroprudential buffer requirements has also been assessed based on research literature and international authorities' assessments. The estimate presented in an appendix[7] to the 2023 decision imposing the systemic risk buffer of the optimal level of macroprudential buffers in light of research literature and international authorities' assessments remains up to date. Average macroprudential buffer needs derived solely from research literature are relatively close to the estimated buffer needs based on stress test calculations, converging towards the upper end of the range based on those calculations. The median of the buffer needs based on research literature is 7.4% and the average approximately 7.7%, when both extremes (the highest and lowest value) are excluded.[8]

[7] Appendix to *the 29 March 2023 decision by the FIN-FSA Board: Basis for imposing the systemic risk buffer, values of related indicators and information to be provided on the decision*

[8] In comparing individual research findings, it should be noted that the findings are partly based on divergent regulatory frameworks, methods and assumptions and are therefore not necessarily directly comparable. Of all the research papers examined, the sufficient level of macroprudential buffers in Finland has only been assessed in the Financial Sector Assessment Program (FSAP) for Finland, published by the International Monetary Fund (IMF) in January 2023. The IMF's estimate (7.4%) is very close to the FIN-FSA and the Bank of Finland's own estimates based on stress tests and other calculations.

In light of an overall assessment based on the FIN-FSA and Bank of Finland's stress-test and other calculations, the estimated sufficient aggregate level of macroprudential buffers has remained broadly unchanged (at 6–7% of risk-weighted assets). More refined estimates suggest that the sufficient aggregate level is closer to 7 than 6%. At the beginning of 2025, the aggregate macroprudential buffers of Finnish credit institutions amounted to approximately 7.0%. However, the estimate of the aggregate level indicates the average buffer need in the credit institution sector and not institution-specific capital needs, which also reflect regulatory requirements and setting principles for individual requirements as well as institution-specific special characteristics. Moreover, the estimate indicates the need for buffer requirements in an, so to speak, average cyclical risk environment, where cyclical vulnerabilities are at a neutral level. When cyclical or other stability threats escalate, it is warranted to apply higher buffer requirements.

An indicative benchmark rate for the systemic risk buffer requirement can be determined by deducting other imposed or anticipated macroprudential buffer requirements from the estimated sufficient aggregate level of macroprudential buffer requirements.[9] Hence, the systemic risk buffer only covers the proportion of systemic risks that is not covered by other buffer requirements. When calculated in this manner, the systemic risk buffer requirement should be set approximately at the level of 1% to ensure the resilience of the Finnish credit institution sector (Table 2).[10]

[9] Capital conservation buffer (2.5%), impact of other Nordic countries' capital buffer requirements on credit institution-specific countercyclical capital requirements (1.1%), O-SII buffer requirements (2.0%) and systemic risk buffer requirements applicable to Finnish credit institutions' exposures in Norway and certain exposures in Denmark (totalling approximately 0.4%).

[10] The application of the Norwegian systemic risk buffer as presented and, in contrast with the present, to the full extent, to Finnish credit institutions' exposures in Norway would increase the average impact of foreign systemic risk buffer requirements by approximately 0.1 percentage points, in which case the benchmark rate for the domestic systemic risk buffer requirement would be 0.9%.

Table 2. Calibration of the benchmark rate for SyRB requirements

Capital requirement	**Calibration (% of RWA)**
(1) Estimated sufficient aggregate level of macroprudential capital requirements	Approximately 7
(2) Capital conservation buffer	2.5
(3) O-SII buffers (average)	2.0
(4) Institution-specific countercyclical capital buffers (average)	1.1
(5) Norwegian and Danish systemic risk buffers (average impact on Finnish banks)	0.4
(6) Benchmark rate for the systemic risk buffer ((6)= (1)-(2)-(3)-(4)-(5))	**Approximately 1**

Considering the more detailed estimates of the sufficient aggregate level of macroprudential capital requirements, the current total of buffer requirements for credit institutions (approximately 7,0% of risk-weighted assets) can be deemed sufficient to ensure the resilience of the financial system. This assessment also supports retaining the systemic risk buffer requirement at its current level of 1.0% unless there are material changes in other requirements.

Effects of setting a systemic risk buffer requirement - The FIN-FSA has estimated the potential direct effects of setting a systemic risk buffer requirement at 1% and other known upcoming changes to capital requirements on the lending capacity of Finnish credit institutions by analysing how the requirements affect the credit institutions' own funds in excess of their capital requirements. This surplus indicates the extent to which credit institutions are able to cover losses, increase lending and risk taking, and to distribute profits, before breaching any macroprudential requirements.

At present, all Finnish credit institutions fulfil all capital buffer requirements imposed on them (including the systemic risk buffer requirement). After the FIN-FSA's 2023 decision on the systemic risk buffer requirement, the profitability of the Finnish credit institution sector has remained solid, supporting the sector's ability to accumulate capital. The capital ratios of the credit institution sector have remained strong and slightly above the European average levels. At present, credit institutions' capital levels clearly exceed their respective capital requirements. At the end of 2024, the Finnish credit institutions sector's own funds surplus relative to the risk-weighted capital requirements exceeded the requirement for the total risk-weighted exposure amount by approximately 4.8 percentage points. If requirements concerning the leverage ratio and MREL are also taken into account, the sector-level surplus of own funds relative to the more binding capital requirements was 4.5 percentage points.

According to an assessment by the FIN-FSA and Bank of Finland's experts, Finnish credit institutions' surplus of own funds and thereby their lending capacity is expected to remain solid in circumstances where the systemic risk buffer requirement remains at its current level and the Finnish and other Nordic economies develop in line with recent economic forecasts. However, the FIN-FSA acknowledges that the economy and operating environment are subject to downside risks, which, if materialised, could significantly affect credit institutions' ability to build up their capital base and capital adequacy, and thus lending capacity.

Furthermore, the SyRB requirement is not assessed to have material indirect effects on the availability or pricing of credit, nor, consequently, on economic growth in Finland. This conclusion is supported by previous assessments of the macroeconomic impacts of an increase in capital requirements[11] and experiences from earlier regulatory changes or decisions that have had a much greater impact on banks' capital requirements. There is no direct causal link between capital requirements and lending, but lending and its pricing are affected not only by capital requirements and imputed capital costs but also by many other factors.

Moreover, the SyRB requirement is assessed to strengthen the Finnish credit institution sector's resilience to severe disruptions in the economy or the financial markets. The research literature suggests that the strong capital adequacy of the credit institution sector mitigates the risk of severe economic recessions and banking crises. Recovery from banking crises is also faster and the societal costs of a recession remain significantly lower if the credit institution sector is financially sound in the event of a crisis.

Estimate of the impact of the methodology applied by a credit institution on the capital requirement – The methodology applied by a credit institution in its prudential calculation determines the risk weights applicable to its asset items. The average risk weights of Finnish credit institutions that have adopted the IRB Approach are typically lower than those of credit institutions applying the Standardised Approach. The level of the applicable risk weights in turn determines the impact of the systemic risk buffer requirement on each credit institution in euro terms. Hence, the impact of an equal percentage buffer requirement is greater in euro terms for credit institutions with higher risk weights. On the other hand, risk weights also have a more general effect on the euro amount of macroprudential capital buffer requirements set in proportion to risk-weighted assets.

A 1% systemic risk buffer requirement is estimated to increase capital requirements for credit institutions applying internal models by approximately EUR 1.6 billion and for those applying the standardised approach by

[11] See e.g. Decision of the Board of the Financial Supervisory Authority on the application of macroprudential instruments, 28 June 2023.

approximately EUR 0.9 billion. When differences in the average risk weights for these types of credit institutions are accounted for, the systemic risk buffer requirement raises capital requirements in euro terms slightly more for those applying the standardised approach (see Table 3).

If other macroprudential buffer requirements are also taken into account, credit institutions applying internal models must reserve more capital in relative terms to meet macroprudential buffer requirements than those applying the standardised approach. This is because macroprudential buffer requirements set for credit institutions applying internal models are higher on average, when risk weights are taken into account. In practice, credit institutions applying internal models must reserve on average approximately EUR 2.3 of capital per each EUR 100 of exposures, as opposed to an average of EUR 1.9 for credit institutions applying the standardised approach.

Table 3. Impact of the prudential calculation methodology on capital requirement

Type of credit institution	**1% systemic risk buffer**		**Total macroprudential buffer requirements**	
	MEUR	**% of non-risk-weighted assets**	**MEUR**	**% of non-risk-weighted assets**
Banks applying internal models	1,617	0.3%	12,987	2.3%
Banks applying the standardised approach	913	0.4%	4,409	1.9%
TOTAL	**2,530**	**0.3%**	**17,396**	**2.2%**

Responses under section 34 of the Administrative Procedure Act – In accordance with section 34 of the Administrative Procedure Act (434/2003), prior to decision-making, on 23 April 2025 the relevant credit institutions were provided with the opportunity to express their view on the matter and to submit an explanation on claims and of evidence which may influence the decision. The FIN-FSA received a written response from Nordea Bank Abp.

According to Nordea Bank Abp, the FIN-FSA has not justified the imposition and targeting of the SyRB requirement. In addition, the FIN-FSA has not explained how the risks referred to would threaten the smooth operation and stability of the Finnish financial system and how the requirement would only have a minimal negative impact on the operation of financial systems in other countries. In other words, the intended decision has not sufficiently taken into account (i) its effects on other countries and (ii) overlaps with the capital requirements imposed by the authorities of other countries. Furthermore, the justifications for the intended decision contain (iii) methodological weaknesses that lead to an overestimation of risks, risk aversion and excessive capital requirements. Due to the above-mentioned considerations, the SyRB decision should be such that the requirement would only apply to credit institutions' exposures in Finland, and the decision on macroprudential buffer requirements such that these would not apply to credit institutions' cross-border consolidation groups. The increase in institution-specific (microprudential) capital requirements tightens the macoprudential buffer requirements in the actual amount of capital needed even if the required percentage remains unchanged.

According to Nordea Bank Abp, in its intended decision the FIN-FSA has not established that the SyRB has only a minimal negative impact on the operation of financial systems in other countries. Similarly, the FIN-FSA has not established that the SyRB requirement does not entail disproportionate adverse effects on the whole or parts of the financial system of other Member States or of the Union as a whole forming or creating an obstacle to the proper functioning of the internal market. To ensure that the buffer requirement does not have negative cross-border effects, the FIN-FSA should clarify the potential impacts, including the cross-border effects on Finland's national financial system (inward spillovers), cross-border effects on other Member States (outward spillovers) and the overall impact on the functioning of the Single Market.

Nordea Bank Abp also finds that the FIN-FSA has not provided an assessment of the overlap between the risks targeted by the intended SyRB and the other capital requirements, especially the O-SII buffer for systemically important institutions, the CCyB and the institution-specific Pillar 2 requirements. In Nordea Bank Abp's opinion, the risk overlaps should be quantified. The justifications for the SyRB and the O-SII buffer requirement are strongly correlated, as a result of which there are overlaps in the risk assessments, which in turn leads to excessive buffer requirements when these are added up. It would also be justified to take into account the other measures of the CRR that may have been applied in order to limit systemic risks (Articles 124, 164 and 458), the borrower-based macroprudential measures implemented, the institution-specific Pillar 1 and 2 requirements and the liquidity requirements in force.

Nordea Bank Abp also sees the methodological weaknesses in calculation methods as a problem with the intended SyRB requirement. When calculating capital buffer requirements, it is not justified to determine, on the basis of stress tests, an overall capital shortfall for macroprudential buffer requirements, which is then covered by all the macroprudential capital buffer requirements. In such a case, the SyRB requirement constitutes a simple top-up that does not take into account the individual conditions for the application of the different macroprudential buffer requirements and the associated risks. The method also leads to an increase in the SyRB requirement in euro terms when there are changes in risk weights. In addition, it is likely that the amendments to the CRD regarding the output floor will become applicable to the intended SyRB requirement, meaning that the contents of the amendments should already be taken into account in the calculations. Moreover, the research literature on capital requirements referred to in the FIN-FSA's intended SyRB decision is partly out of date and does not properly support the conclusions drawn.

With respect to the above considerations, as regards the decision on the intended SyRB requirement, the FIN-FSA is of the opinion that the hearing letter presents the justifications as required by law for the imposition of this requirement. The criteria for the application of the requirement, set out in the Ministry of Finance Decree on a Systemic Risk Buffer Requirement for Credit Institutions and Investment Firms (409/2021), provide justifications for the use of the requirement, and the stress tests applied and the other calculations the justifications for its level. The estimates derived from stress tests and other calculations indicate how the risks referred to would threaten the smooth operation and stability of the Finnish financial system. The scope of the exposures targeted by the SyRB is discussed on pages 6–8 of this decision.

The FIN-FSA has established that the SyRB requirement has only a minimal negative impact on the operation of whole or parts of the financial system of other countries or of the Union as a whole forming or creating an obstacle to the proper functioning of the internal market. The Finnish credit institution sector is a significant part of the Nordic financial system. The written rationale for the decision has been supplemented in this respect (pages 4–5) on the basis of Nordea Bank Abp's response.

In the rationale for the decision, the FIN-FSA has set out its view on the overlap between the intended SyRB and other capital requirements. Additionally, it should be noted that the purpose of institution-specific (microprudential) buffer requirements (incl. limits and additional requirements relating to internal models in prudential calculations) is to protect individual credit institution from the risks arising from their activities and specific characteristics. The purpose of macroprudential buffer requirements is to prevent risks that threaten the functioning of the wider financial system. In the FIN-FSA's view, it is justified to quantify the risks threatening the functioning

of the wider financial system with a stress test for the credit institution sector, as has now been done.

With respect to Nordea Bank Abp's criticism of the methodology applied in setting the SyRB requirement, the FIN-FSA points out that the stress-test based methodology used by it is also widely applied globally. All methodologies have their strengths and weaknesses, but stress tests covering the entire credit institution sector allow for a quantitative risk assessment that well corresponds to empirical conditions. The risk scenarios used in the stress tests are specified on page 8 of this decision (footnote 2). The FIN-FSA monitors the situation regarding the impacts of the application of the output floor and assesses the conditions from the perspective of an international level playing field and credit institutions' (relative) lending capacity. With regard to the research literature used, in its assessment and conclusions the FIN-FSA has taken into account regulatory changes and changes in the other conditions and circumstances.

Capital buffer requirement for other systemically important institutions (O-SII)

In accordance with chapter 10, section 8, subsection 1 of the Credit Institutions Act, other credit institutions significant for the financial system (O-SII) refer to credit institutions other than Global Systemically Important Institutions (G-SIIs) whose balance sheet total is at least a billion euros and whose insolvency would jeopardise the stability of the financial markets in Finland or in another European Union member state.

In accordance with subsection 5 of said provision, the FIN-FSA shall divide these credit institutions into capital add-on buckets based on the following criteria:

1. size of a credit institution measured by its total liabilities or the balance sheet total or consolidated balance sheet total;
2. liabilities of a credit institution and undertakings within its consolidated supervision to other credit institutions and receivables from other credit institutions as well as other direct linkages with the financial system;
3. substitutability of the critical functions of a credit institution and undertakings within its consolidated supervision in the event of the undertaking losing its capacity to continue its operation;
4. extent and significance of cross-border operations of a credit institution and undertakings within its consolidated supervision in Finland and in the European Economic Area.

In the bucketing, the FIN-FSA has applied: (i) quantitative classification methods, (ii) other factors based on the Credit Institutions Act with an influence on the assessment of the components of systemic importance, (iii) the European Banking Authority's (EBA) Guidelines on O-SIIs Assessment, and

(iv) the minimum buffer levels under the European Central Bank's (ECB) enhanced ECB O-SII floor methodology.[12] The ECB may apply these levels if a nationally set O-SII requirement is lower than the floors calculated by the ECB.[13] The detailed calculations along with related classifications and justifications are presented in Appendix 2 ('Principles for identifying other systemically important credit institutions (O-SIIs) and for setting their capital buffer requirements) to this decision.

The recommended O-SII buffer rates based on quantitative bucketing methods are 3.0% for Nordea Bank Abp (bucket 7), 1.5% for OP Financial Group (bucket 4) and 0.5% for Municipality Finance Plc (bucket 2). Based on quantitative scoring, Nordea Bank Abp's systemic importance has increased slightly from the previous year, while that of OP Financial Group and Municipality Finance Plc has remained broadly unchanged.

All in all, changes in the quantitative indicators for the national systemic importance of credit institutions are limited, which supports keeping the O-SII requirements for these institutions at their present levels. In its reformed and enhanced floor methodology, the ECB also assesses the systemic importance of credit institutions across the entire banking union. For a majority of O-SIIs in the banking union, including Finnish institutions, the O-SII requirements calibrated by national criteria and the minimum levels calculated by the ECB under the national perspective are higher than the minimum levels calculated by the ECB under the banking union perspective.

There are grounds to incorporate qualitative factors alongside quantitative indicators in calibrating of O-SII requirements. In assessing the systemic importance of credit institutions, and thereby in calibrating their O-SII requirements, one should also consider, in accordance with Article 131(3) of the CRD, the importance of the credit institution for the economy of the whole EU, which is not included in the quantitative bucketing methodologies used. The enhancement of supervision and crisis resolution tools, along with improved cooperation among authorities through the banking union, somewhat reduce the probability of failure or distress for banks in participating member states as well as related societal costs. Common banking supervision, similarly to O-SII requirements, reduces the probability of failure of systemic institutions, whereas resolution requirements and measures primarily reduce the societal costs of failure by securing the continuity of critical functions, reducing the financial stability impacts of distress and limiting the potential need to employ public funds.

[12] EBA Guidelines 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) https://www.ecb.europa.eu/press/govcstatement/pdf/ecb.govcstatement202412~b1f786e5f1.en.pdf

[13] 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, Article 5.

In the FIN-FSA's view, a functioning resolution framework may counterbalance the need for O-SII requirements. The basis of a functioning resolution framework is credit institutions' resolvability and authorities' crisis management resources. The importance of the resolution framework has been considered as a factor in the FIN-FSA's earlier decisions on the O-SII requirement. Also the G-SII methodology and subsequently the ECB's O-SII floor methodology recognise the reduction in risks associated with systemic importance as a result of common banking regulation, banking supervision and crisis resolution. In the FIN-FSA's view, there are grounds to consider these risk-reducing factors, also recognised internationally, as qualitative criteria in calibrating O-SII requirements.

In accordance with section 34 of the Administrative Procedure Act (434/2003), prior to decision-making, on 23 April 2025 the relevant credit institutions were provided with the opportunity to express their view on the matter and to submit an explanation on claims and of evidence which may influence the decision. Nordea Bank Abp submitted its response to the FIN-FSA within the deadline (9 May 2025).

According to Nordea Bank Abp's response, the credit institution acknowledges the need to assess the level of O-SII buffers on a comprehensive basis in line with the FIN-FSA's view. However, according to Nordea Bank Abp's understanding, the assessment has been carried out incorrectly in that the O-SII buffer requirement set for it as well as its overall combined buffer requirement (CBR) are excessively high relative to the risks of the credit institution's activities. Furthermore, the O-SII buffer of 2.5% proposed by the FIN-FSA is excessive when taking into account Nordea Bank Abp's other capital requirements set due to its size. It also deviates from comparable requirements applicable to Nordea Bank Abp's European competitors.

Only a small number of Nordea Bank Abp's competitors have been subject to both the O-SII and the SyRB requirement since the two became additive following amendments to the CRD. When setting SyRB requirements, O-SII buffer requirements have been lowered in other countries, and the FIN-FSA should conduct an analysis of the need to lower the requirement in Finland. In addition, Nordea Bank Abp is currently also subject to the Finnish, the Norwegian and the Danish SyRB requirements. Many global G-SIIs are subject to lower G/O-SII buffer requirements than Nordea Bank Abp.

According to Nordea Bank Abp, the FIN-FSA should consider, in all respects, overlaps across the requirements of the macroprudential supervision framework. Nordea Bank Abp also finds that the principles applied by the FIN-FSA in setting O-SII buffer requirements result in higher buffer requirements in comparison with other countries. Therefore, the principles should be adjusted so that they better reflect the needs of the financial system and the practices of other EU countries.

According to Nordea Bank Abp's understanding, the calibration of both the national SyRB and the O-SII buffer requirement is guided by Nordea Bank Abp's size as well as the geographical diversification of its activities and its funding structures. These overlaps should be taken into account when setting capital requirements. In particular, a credit institution's size is, as with the O-SII buffer, among the criteria for the application of the Finnish and the Norwegian SyRB requirements. Interconnectedness with other credit institutions, which is a criterium for setting an O-SII buffer requirement, is also among the criteria for the application of the Norwegian SyRB requirement. Furthermore, according to Nordea Bank Abp, the extent and significance of cross-border operations overlap as criteria with the criteria for the application of the Finnish, the Norwegian and the Danish SyRB requirements.

In Nordea Bank Abp's opinion, when setting capital buffer requirements, the FIN-FSA should also take into account the protective effect of the ECB banking supervision and of the Single Resolution Mechanism (SRM) on depositors and taxpayers from the perspective of a credit institution's default risk.

With respect to the above considerations, the FIN-FSA states that the hearing letter presents the justifications as required by law for the imposition and calibration of the intended O-SII buffer requirement, also taking into consideration the Guidelines of the European Banking Authority (EBA/GL/2014/10). According to the FIN-FSA's opinion, no unfounded overlaps have emerged in the application of buffer requirements.

The purpose of institution-specific (microprudential) buffer requirements is to protect individual credit institutions from the risks arising from their activities and specific characteristics. The purpose of macroprudential buffer requirements is to prevent risks that threaten the functioning of the wider financial system. Nordea Bank Abp is a significant actor in the Nordic financial markets and in relation to the Finnish economy. In the FIN-FSA's view, there are some regional differences in the level of macroprudential capital buffer requirements in Europe, which are explained by differences in the risk assessments of the various Member States' supervisory authorities and in the methodologies applied in setting O-SII buffer requirements.

The national SyRB requirement will apply to all credit institutions registered in Finland at a level of 1.0% based on a stress test for the Nordic financial markets. According to the FIN-FSA's understanding, the primary objective of the SyRB requirement is to protect credit institutions from risks to the financial system, whereas that of the O-SII buffer requirement is to protect the financial system from the risks stemming from O-SIIs. The Norwegian and the Danish SyRB requirements are deducted to a certain extent from the national SyRB requirement in order to eliminate the overlap between the risks and the requirements. The criteria for the application of the requirement, set out in the Ministry of Finance Decree on a Systemic Risk Buffer Requirement for Credit Institutions and Investment Firms (409/2021), provide

justifications for the use of the requirement, and the stress test applied the justifications for its level. The FIN-FSA is of the view that the potential overlaps between the criteria for the application of O-SII buffer requirements and those for the Norwegian and the Danish SyRB requirements are minor.

In its decision on the O-SII buffer, the FIN-FSA has, as described above, taken into account the impact of the ECB banking supervision and of the SRM on credit institutions' risks.

With a view to the above, the FIN-FSA finds that Nordea Bank Abp's systemic importance corresponds to bucket 6 under Section 8 of the Credit Institutions Act, for which the capital add-on is 2.5%. The systemic importance of OP Financial Group and Municipality Finance Plc is considered to correspond to buckets 4 (buffer rate 1.5%) and 2 (buffer rate 0.5%), respectively.