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## Principles for identifying other systemically important credit institutions (O-SIIs) and setting additional capital requirements

### 1. Background

Systemically important credit institutions are those that pose a systemic risk so great that, if realised, it would have a highly negative impact on the entire financial system and the real economy.

Systemically important financial institutions are typically large relative to other financial institutions, functionally diverse, and they have significant connections, directly or indirectly, with the rest of the financial system and the economy. As a result, the solvency and liquidity problems of these financial institutions easily spread to the rest of the financial system. In the regulatory framework, systemic importance is examined globally (G-SIB<sup>1</sup>) and at the EU level as well as nationally (O-SII<sup>2</sup>).

Authorities seek to mitigate the risks of systemically important credit institutions for the entire financial sector and the economy by strengthening the institutions' loss absorbency, thereby reducing the probability of their failure. The objective of additional capital requirements imposed on O-SIIs (O-SII buffers) is to prevent macroprudential risks arising from structural factors in the financial markets.

### 2. Identification principles for O-SIIs and designation of Finnish O-SIIs

Under chapter 10, section 8 of the Credit Institutions Act, national systemically important credit institutions (other systemically important institutions, O-SIIs) refer to credit institutions

1. the balance sheet total of which is at minimum EUR 1 billion **and**
2. the insolvency of which would jeopardise the stability of the financial markets in Finland or in another EU Member State.

The Financial Supervisory Authority (FIN-FSA) is required to identify the group of O-SIIs on an annual basis. The identification of Finnish O-SIIs is based on the Guidelines<sup>3</sup> of the European Banking Authority (EBA) on the assessment of O-SIIs. O-SIIs are identified using four core criteria and ten related indicators (Table 1). The indicators are normalised by dividing the indicator value of each individual credit institution by the sum of the indicator values of all credit institutions (incl. branches).

The EBA Guidelines determine O-SIIs in a two-step procedure:

1. Institutions whose O-SII score, calculated as the weighted average of indicator-specific scores, is at least 3.5% are automatically designated as O-SIIs. The national

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<sup>1</sup> Global Systemically Important Institution

<sup>2</sup> Other Systemically Important Institution

<sup>3</sup> [EBA/GL/2014/10](https://www.eba.europa.eu/media/1000000/1000000/eba-gl-2014-10.pdf)

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macroprudential authority may adjust the threshold to take into account the specificities of the national credit institutions sector and the statistical distribution of the scores. This ensures the homogeneity of the group of O-SIIs in terms of the O-SIIs' systemic importance. National discretion is  $\pm 0.75$  percentage points.

2. Macroprudential authorities should assess whether further institutions than those identified in the first step should be designated as O-SIIs. The assessment should be based on the mandatory or optional indicators specified in the Annexes to the EBA Guidelines.

In designating O-SII credit institutions, the FIN-FSA also applies the balance sheet total threshold of EUR 1 billion specified in chapter 10, section 8 of the Credit Institutions Act. However, credit institutions whose O-SII scores do not exceed 0.045% in the first-step assessment should also not be included in the group of O-SIIs when exercising discretion in step two.

*Table 1. Criteria and indicators applied in the identification O-SIIs<sup>4</sup>*

Criteria	Indicators	Weight
Size	Balance sheet total	25%
Importance/substitutability	Value of domestic payment transactions	8.33%
	Private sector deposits from depositors in the EU	8.33%
	Private sector loans to recipients in the EU	8.33%
Interconnectedness	Intra-financial system liabilities	8.33%
	Intra-financial system assets	8.33%
	Debt securities outstanding	8.33%
Complexity	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%

The FIN-FSA has set the threshold of the weighted average of the indicator-specific scores of the O-SIIs at 2.75%<sup>5</sup>. In recent years, there have been no such changes in the structure of

<sup>4</sup> In interpreting calculations and indicators, the following aspects should be taken into account:

- All the indicators are based on FINREP reporting data, except for the payment transaction indicator, which is based on TARGET payment transaction data.
- The calculations do not include insurance business items.
- Private sector deposits from depositors in the EU: credit institutions whose foreign liabilities account for less than 10% of balance sheet liabilities do not report deposits in the EU separately. For these institutions, the figure includes all deposits.
- Private sector loans to recipients in the EU: credit institutions whose foreign claims account for less than 10% of balance sheet assets do not report loans in the EU separately. For these institutions, the figure includes all loans.
- Cross-jurisdictional claims and liabilities: data only include items of credit institutions exceeding the 10% threshold value.

<sup>5</sup> The redomiciliation of Nordea to Finland in 2018 reduced drastically the calculated systemic importance of other credit institutions, even though their risk exposure, scope and nature of their activities and absolute importance remained unchanged. To ensure that the systemic importance of O-SIIs is assessed in a consistent manner and that

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the Finnish banking sector as would necessitate adjustment of the systemic importance threshold. Hence, it is still justified to apply the threshold of 2.75% in the identification of O-SIIs.

Based on data as at end-2023, and as in the previous year, Nordea, OP Financial Group and Municipality Finance exceed the threshold of systemic importance (2.75%) and are therefore automatically designated as O-SIIs (Table 2). According to the FIN-FSA's assessment, there are no justifications to designate other credit institutions as O-SIIs.

Nordea remains decidedly the most significant credit institutions by all O-SII criteria (Table 3). Nordea and OP Financial Group exceed the O-SII threshold in terms of all the four core criteria, while Municipality Finance only exceeds the threshold in respect of the criteria 'size' and 'interconnectedness'.

*Table 2. Finnish credit institutions' O-SII scores as at 31 December 2023*

<b>Banking group</b>	<b>O-SII score (%)</b>	<b>O-SII institution</b>
Nordea	<b>62.71</b>	yes
OP Financial Group	<b>11.01</b>	yes
Municipality Finance	<b>3.89</b>	yes
Savings Bank Group	0.91	no
Aktia	0.91	no
S-Bank	0.78	no
Danske Mortgage Bank	0.55	no
Oma Savings Bank	0.54	no
Bank of Åland	0.51	no
POP Bank Group	0.46	no
The Mortgage Society of Finland	0.25	no
Alisa	0.02	no

*Table 3. Finnish credit institutions' core criterion-specific O-SII scores as at 31 December 2023*

<b>Banking group</b>	<b>Size</b>	<b>Importance</b>	<b>Complexity</b>	<b>Interconnectedness</b>
Nordea	<b>58.29</b>	<b>43.03</b>	<b>88.75</b>	<b>60.76</b>
OP Financial Group	<b>15.92</b>	<b>15.69</b>	<b>3.24</b>	<b>9.20</b>
Municipality Finance	<b>5.67</b>	1.34	0.31	<b>8.22</b>
Savings Bank Group	1.38	1.55	0.06	0.66
Aktia	1.19	1.14	0.22	1.08
S-Bank	1.15	1.56	0.05	0.36
Danske Mortgage Bank	0.69	0.42	0.21	0.88
Oma Savings Bank	0.87	0.87	0.01	0.42
Bank of Åland	0.61	0.65	0.33	0.46
POP Bank Group	0.69	0.86	0.03	0.25
Mortgage Society of Finland	0.41	0.34	0.01	0.25
Alisa	0.04	0.05	0.00	0.00

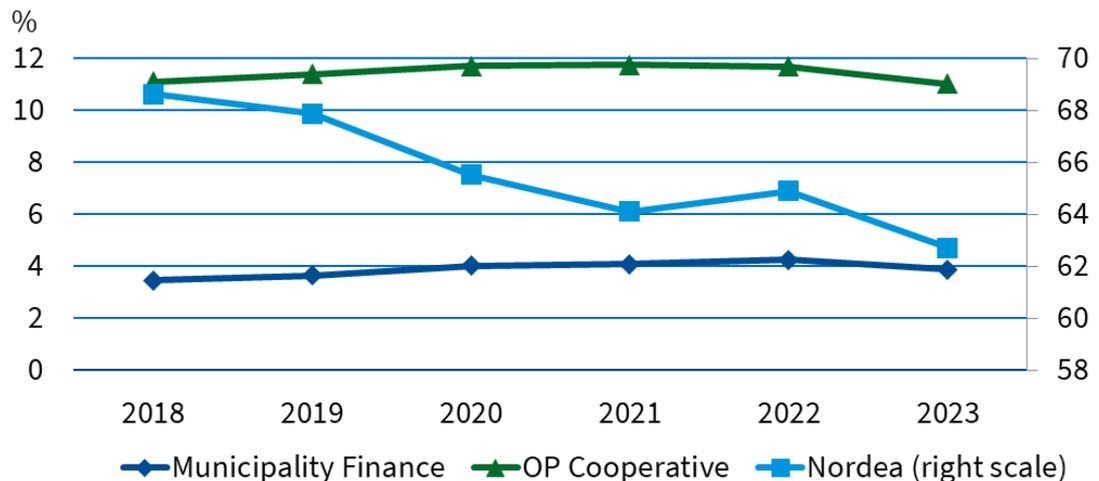
the group of O-SIIs remains homogeneous, the threshold of systemic importance was lowered from 3.5% to 2.75% in connection with the O-SII decisions taken in 2018.

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In 2023, the systemic importance of all three domestic O-SIIs decreased from the previous year (Chart 1). The O-SII score calculated with end-2023 data declined the most for Nordea (2.19 percentage points). Nordea's O-SII score declined in terms of all four criteria, but the decline in systemic importance was mainly explained by a contraction in the value of domestic payment transactions. The decrease of the systemic importance of OP Financial Group is mainly explained by the reduced balance sheet size and value of domestic payment transactions.

Among the other O-SIIs, the O-SII score of Municipality Finance declined mainly in terms of the complexity criterion, whereas the size and importance scores increased somewhat. The decline in Municipality Finance's O-SII score is mainly due to reporting technical reasons and not an actual decrease in its systemic importance.

Chart 1. Evolution of O-SII scores of Finnish O-SIIs



Source: FIN-FSA

### 3. Principles for setting O-SII buffer requirements for Finnish O-SIIs

#### Requirements of the Credit Institutions Act and the minimum level of O-SII buffers

In addition to identifying O-SIIs, the Credit Institutions Act obliges the FIN-FSA to review the additional capital requirements of O-SIIs (O-SII buffers) on an annual basis. If the review leads to changes in O-SII buffer requirements, the FIN-FSA is required to take a decision on the matter.

In accordance with the Credit Institutions Act<sup>6</sup>, the FIN-FSA is required to allocate O-SIIs into seven buckets according to their assessed systemic importance. As a rule, the O-SII buffer rate of credit institutions (other than O-SIIs) into the lowest bucket is 0% of their

<sup>6</sup> The Credit Institutions Act was updated in 2021 (legislative amendment 233/2021) reflecting the new Credit Requirements Directive (CRD V) and concerning, among other things, macroprudential buffers. As a result of these amendments, the maximum O-SII buffer rate rose to 3.0% (from 2.0%), and the O-SII buffer and the systemic risk buffer (SyRB) will be applied cumulatively going forward (previously only the higher of the two was effective).

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total risk exposure amount. The buffer rates of credit institutions in the other buckets (O-SIIs) increase at intervals of 0.5 percentage point so that, as a rule, the O-SII buffer rate of the institutions allocated into the highest (seventh) bucket is 3%. O-SII buffers must be covered by Common Equity Tier 1 (CET1) capital.

*Table 4. O-SII buckets under the Credit Institutions Act and associated buffer requirements*

Category	Additional capital requirement
1	0%
2	0.5%
3	1.0%
4	1.5%
5	2.0%
6	2.5%
7	3.0%

Under the Credit Institutions Act, the FIN-FSA is required to apply the following criteria in bucketing O-SIIs and determining their buffer requirements:

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

In practice, the bucketing of Finnish O-SIIs and the calibration of O-SII buffers is based on the systemic importance of O-SIIs, primarily assessed by means of the O-SII scores as per the EBA Guidelines. The calibration of O-SII buffers is also guided by the floor methodology of the European Central Bank (ECB). The ECB floor methodology establishes a minimum level for the buffer of each individual O-SII, determined by the O-SII score of an individual institution. When applying Article 5 of the SSM Regulation<sup>7</sup>, this minimum level is used as a benchmark in assessing capital requirements set by the national macroprudential authority. If an O-SII buffer falls below the minimum level indicated by the floor methodology, the ECB may raise the O-SII buffer requirement set by the national macroprudential authority.

Based on the ECB floor methodology<sup>8</sup>, the minimum level of O-SII buffers should be at least 1.5% for Nordea, 0.5% for OP Financial Group and 0.25% for Municipality Finance. Considering that the Credit Institutions Act requires the application of O-SII buffer rate increments of 0.5 percentage points and that a buffer rate of 0% would be contrary to the spirit of the regulations and of the ECB floor methodology, 0.5% can, in practice, be

<sup>7</sup> Council Regulation (EU) No 1024/2013.

<sup>8</sup> ECB (2022) [Governing Council statement on macroprudential policies](#).

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considered as the minimum O-SII buffer requirement for OP Financial Group and Municipality Finance.

*The FIN-FSA's methodology for calibrating O-SII buffers*

The higher-than-average level of concentration of the Finnish banking sector and the large size of the biggest credit institutions relative to the national economy support the application of O-SII buffer rates above the minimum level as suggested by the ECB's floor methodologies. The FIN-FSA reviews O-SII buffers using two alternative bucketing methods in which O-SIIs are allocated into seven buckets according to their assessed systemic importance. Both of the methods measure systemic importance by means of the O-SII scores under the EBA Guidelines. One of the methods – the linear bucketing approach – applies equally-sized bucket ranges and increments based on the O-SII scores, consistent with the threshold of systemic importance (2.75%). The FIN-FSA has applied a corresponding method in calibrating O-SII buffers in previous years.

The other method determines the bucket ranges based on the Equal Expected Impact (EEI) approach. The method has been applied e.g. in calibrating additional capital requirements for global systemically important institutions (G-SIIs).<sup>9</sup> Under the EEI approach, the additional capital requirements of systemically important institutions (SIIs) are calibrated in such a way that the expected social costs from the default of an SII equal those from the default of a non-SII. Table 5 illustrates the bucket ranges under both the linear and the EEI approach and the indicative O-SII buffer requirement applied in each bucket.

*Table 5. O-SII buckets and indicative buffer requirements under the linear approach and the EEI approach*

Category	O-SII score (linear approach)	O-SII score (EEI approach)	Indicative O-SII buffer
1	0–2.75	0–2.75	0.0%
2	2.75–5.50	2.75–6.00	0.5%
3	5.50–8.25	6.00–10.00	1.0%
4	8.25–11.00	10.00–17.00	1.5%
5	11.00–13.75	17.00–28.00	2.0%
6	13.75–16.50	28.00–48.00	2.5%
7	16.50–	48.00–	3.0%

Table 6 illustrates Finnish O-SIIs' current O-SII buffers and the recommended buffer rates under the two alternative bucketing approaches. The Table also presents the minimum O-SII buffer rate derived from the ECB floor methodology. The recommended buffer rates under the different calibration approaches suggest that the current O-SII buffer of 0.5% for Municipality Finance is proportionate to the institution's systemic importance. OP Financial Group's current O-SII buffer is consistent with the level under the EEI approach, whereas the linear bucketing approach suggests it would be justified to raise the buffer rate from 1.5% to 2.0%. However, the continued decline in OP Financial Group's systemic importance in 2023 supports keeping its O-SII buffer at the present level. The decision to

<sup>9</sup> Federal Reserve (2015) [Calibrating the GSIB Surcharge](#)

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raise OP Financial Group's O-SII buffer from 1.0% to 1.5% was made in 2022. The new buffer requirement entered into force on 1 January 2023.

In the case of Nordea, the recommended buffer rates under the different bucketing approaches suggest that Nordea's O-SII buffer could be raised to the regulatory upper limit of 3.0% (bucket 7). The highest available O-SII buffer rate would be supported, for example, by the fact that Nordea is the most significant O-SII in the EU both as measured by its O-SII score and relative to the national financial system.<sup>10</sup> On the other hand, Nordea's O-SII score has declined steadily from 2018 to 2023 (except for 2022), standing at the lowest level of the whole review period at end-2023. In 2023, Nordea's systemic importance also declined across all four criteria. Therefore, it remains warranted to refrain from imposing the highest requirement and keeping it unchanged at 2.5%. The buffer framework continues to incentivise the most significant credit institutions to avoid increasing their systemic importance. In 2022, a decision was made to raise Nordea's O-SII buffer from 2.0% to 2.5%, and the new buffer entered into force on 1 January 2023.

*Table 6. Table 6. Indicative O-SII buffer requirements for Finnish O-SIIs under different approaches*

<b>Banking group</b>	<b>Current O-SII buffer</b>	<b>Indicative O-SII buffer (linear approach)</b>	<b>Indicative O-SII buffer (EEI approach)</b>	<b>Minimum buffer level derived with floor methodology</b>
Nordea	2.5%	3.0%	3.0%	1.5%
OP Financial Group	1.5%	2.0%	1.5%	0.5%
Municipality Finance	0.5%	0.5%	0.5%	0.5%

Single banking supervision and crisis resolution contribute to reducing the probability of failure or distress of banks operating in the participating Member States and lower the related costs to society. In assessing the different O-SII criteria, the banking union can be considered to reduce in particular the systemic importance of Nordea as a very large and complex bank operating extensively in several countries, which also supports the case for a more moderate buffer requirement. The same arguments also lend support to keeping the O-SII buffer requirement for OP Financial Group at its present level.

The first pillar of the Banking Union – the Single Supervisory Mechanism (SSM) – has improved and harmonised supervisory tools and practices in participating Member States and strengthened banks' balance sheets and loss-absorption capacity, which can be considered to have reduced the O-SII criteria of size, interconnectedness and complexity from the perspective of the probability of failure or distress of the institution. The Single Resolution Mechanism (SRM) and close cooperation with other Nordic resolution authorities has improved the conditions for orderly and harmonised resolution of banks with cross-border operations in the event of a crisis. This reduces the importance of cross-border claims and liabilities and thereby of the O-SII criterion "complexity" in assessing the effects of failure of a credit institution. Furthermore, the requirements imposed on credit institutions in connection with resolution planning reduce the role of the bank's importance as an O-SII

<sup>10</sup> See the [O-SII scores](#) of European banks published on the EBA website.

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criterion because these requirements improve the preconditions for effective resolution and promote the continuity of societally important functions.<sup>11</sup> In addition, the preparedness of institutions and authorities for crisis management reduces the significance of size and interconnectedness.

### Conclusions

Based on the O-SII scores as at end-2023, O-SII credit institutions comprise Nordea, OP Financial Group and Municipality Finance, as in the previous years. In line with the buffers suggested by the different approaches and the reasons stated above, the FIN-FSA finds it justified to keep the O-SII buffer rates for all three O-SIIs at their current levels: 2.5% for Nordea, 1.5% for OP Financial Group and 0.5% for Municipality Finance. The systemic importance of Finnish O-SIIs has also decreased slightly during 2023, and therefore the O-SII buffer requirements most recently increased in June 2022 can be considered proportionate to the systemic risks related to the systemic importance.

*Table 7. O-SII buffers and O-SII buckets of Finnish O-SIIs*

<b>Banking group</b>	<b>O-SII buffer (current buffer requirement)</b>	<b>O-SII bucket under Credit Institutions Act</b>
Nordea	2.5% (2.5%)	6
OP Financial Group	1.5% (1.5%)	4
Municipality Finance	0.5% (0.5%)	2

The assessment of the adequate total amount of macroprudential buffers based on stress tests is also used as an input in the calibration of the target O-SII buffer levels. In March 2023, the FIN-FSA Board decided to raise the additional capital requirement based on the structural characteristics of the financial system (systemic risk buffer) to 1%. The raise entered into force on 1 April 2024. In June 2023, the FIN-FSA Board decided to reciprocate the systemic risk buffer imposed by the Norwegian macroprudential authority for partial application to Finnish banks' exposures in Norway. The buffer requirement enters into force on 1 July 2024. These buffer decisions contribute to the resilience of the Finnish banking sector, and once they enter into force, the combined amount of the macroprudential buffer requirements on the Finnish banking sector rises to an overall level deemed adequate by the FIN-FSA.

The changing operating environment of the financial sector and prevailing uncertainty further emphasise the importance of the buffer requirement and of ensuring the

<sup>11</sup> In connection with resolution planning, the resolution authority assesses whether the credit institution has critical functions, such as deposit and payment service functions, whose continuity must be ensured in the event of a crisis. The Minimum Requirements for Own Funds and Eligible Liabilities (MREL) established for banks in connection with resolution planning facilitate bail-in, the resolvability of the institution and the preconditions for the application of resolution measures. Furthermore, resolution authorities assess the resolvability of the credit institution, i.e. the feasibility of the primary resolution strategy, and require the credit institution to remove significant impediments where necessary.



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appropriateness of their level. Buffer requirements commensurate with systemic importance and the strong capital adequacy of the banking sector provide safety against losses caused by severe shocks in the economy or the financial system while improving the availability and conditions of funding. Upcoming increases of the buffer requirements are not estimated to impair the lending capacity of the banking sector.