26 June 2025

Public

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

1 Basis for imposing the requirement

Under Article 133 of the Capital Requirements Directive (CRD), a Member State may introduce a systemic risk buffer in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks not covered by the Capital Requirements Regulation (CRR) or other macroprudential instruments 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.

Under chapter 10, section 4b, subsection 2 of the Act on Credit Institutions, this additional capital requirement may be imposed if the risk arising from long-term, non-cyclical factors threatening the financial system or the macroeconomy call for higher capital buffers and this risk threatens or has the potential of threatening the smooth operation and stability of the financial system at the national level. In addition, the imposition of the requirement may only have a minimal negative impact on the operation of the financial systems in other countries, and the risks in question may not have already been covered by other capital buffer requirements.

In imposing the buffer rate (systemic risk buffer), the Financial Supervisory Authority (FIN-FSA) shall take into account at least:

- the credit institutions 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 institutions sector with foreign banking and financial systems, central counterparties and other financial market actors;
- interconnectedness of the credit institutions sector with risks to the financial systems of EU Member States and of other countries;
- size and concentration of the credit institutions sector as measured by the total assets of credit institutions, and concentration in lending and in acceptance of retail deposits;
- importance of the credit institutions sector in the intermediation of finance to the domestic private sector;
- indebtedness of credit institutions' largest customer groups;
- measures and facts mitigating the probability of severe disruptions in the financial system.

2 Values of indicators guiding the imposition of the requirement

The indicators on grounds of which the requirement to maintain a systemic risk buffer (SyRB) is imposed are specified in section 3 of the Ministry of Finance Decree on the

Systemic Risk Buffer Requirement for the Credit Institutions Sector and Investment Firms. The values of the indicators for the risk factors considered are presented in the table below.

Table 1. Comparison of SyRB risk indicators with other EU countries and Finnish historical averages

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

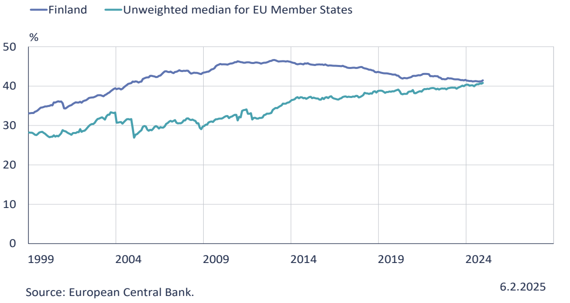
Based on data available on 21 February 2025.

Source: European Central Bank.

Indicator 1

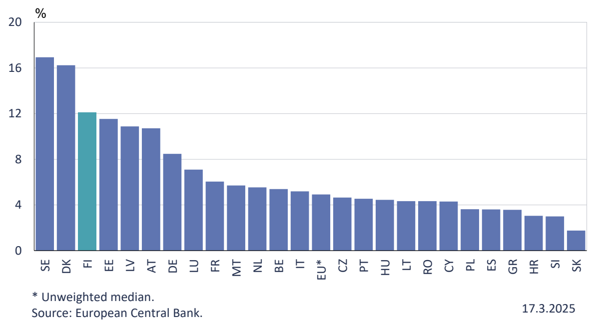
Housing loans granted to the domestic households as a share of total loans granted by the credit institutions sector to the private sector: EU countries 2024/12

Housing loans granted to domestic households as a share of total loans granted by the credit institutions sector to the private sector 2024/12

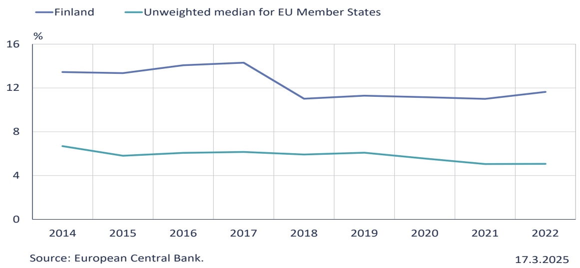


Indicator 2

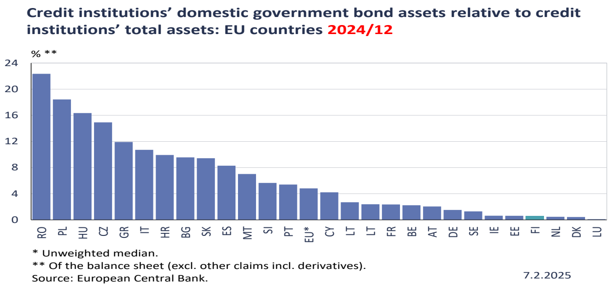
Credit institutions' claims on construction and real estate companies as a share of credit institutions' total assets: EU coutries 2023

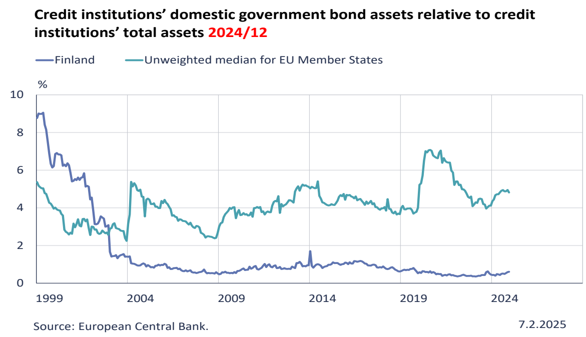


Credit institutions' claims on construction and real estate companies as a share of credit institutions' total assets 2023

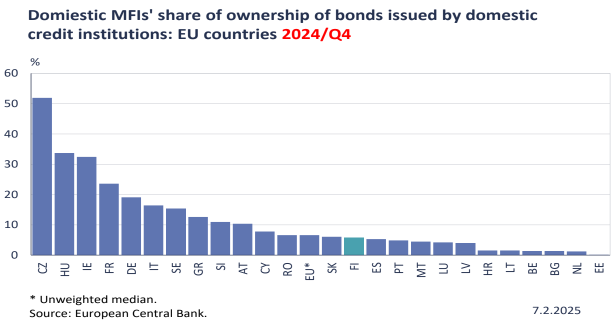


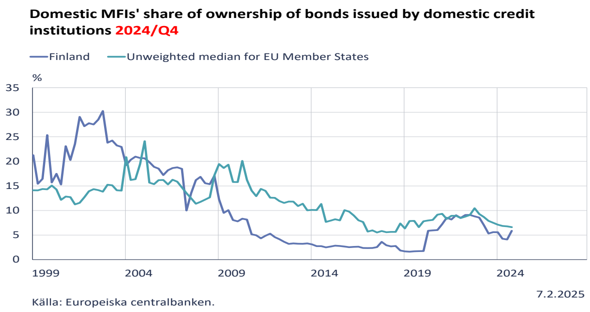
Indicator 3





Indicator 4





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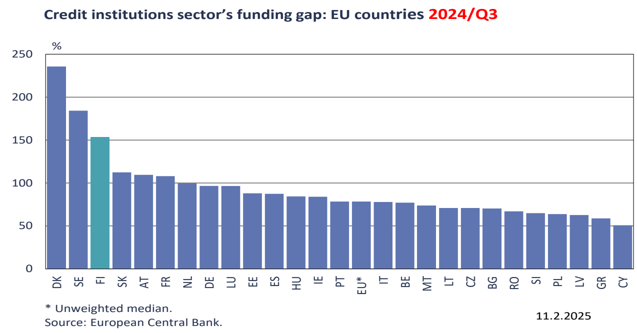
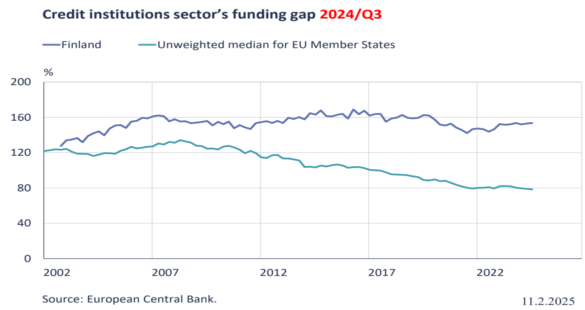
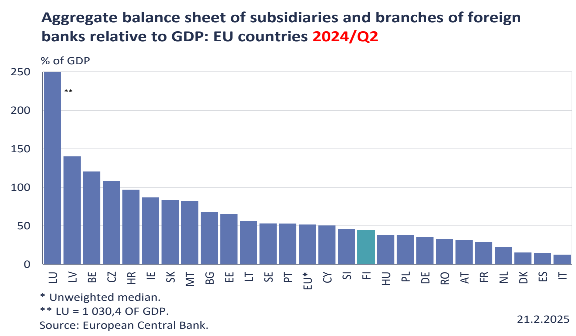
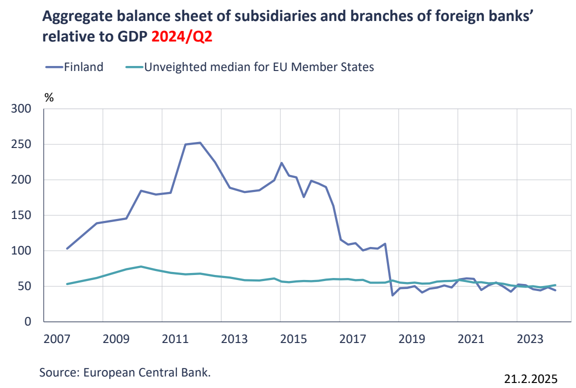
Indicator 5



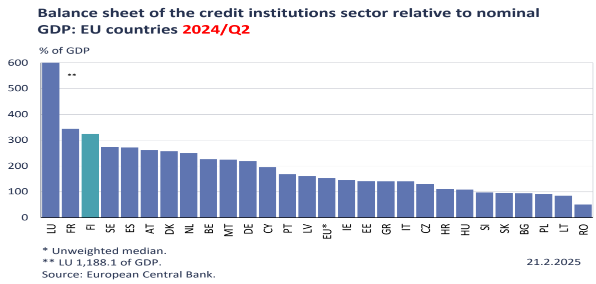


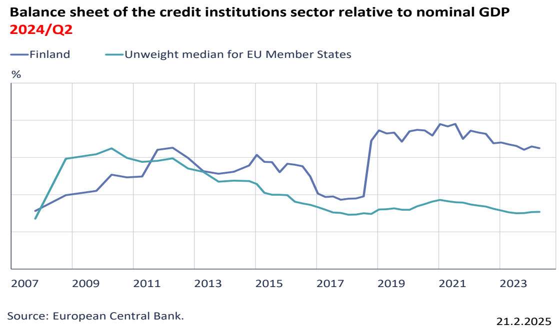
Indicator 6



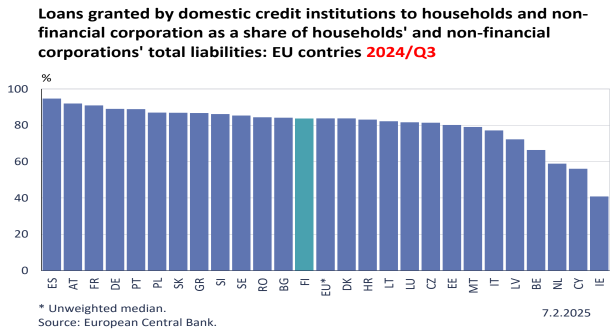


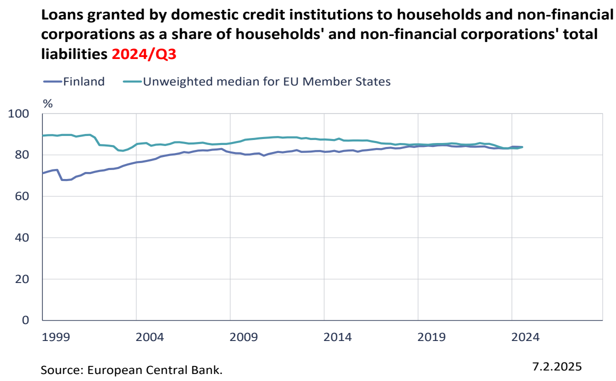
Indicator 7





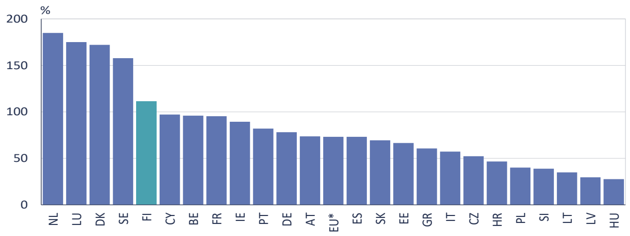
Indicator 8





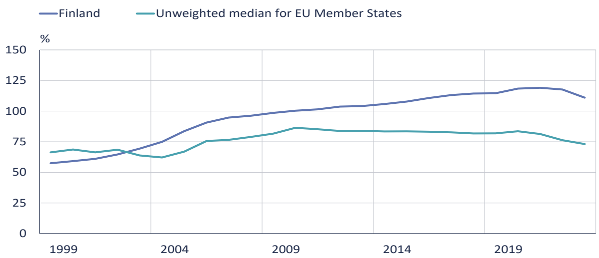
Indicator 9

Household sector liabilities relative to households' disposable income: EU countries 2023



* Unweighted median.
Loans held by households' and non-profit institutions serving households, relative to the adjusted disposable gross income for these sectors.
Source: European Central Bank.

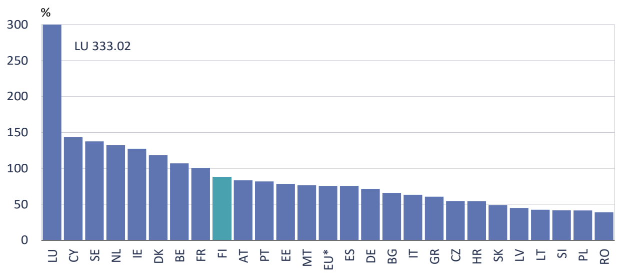
Household sector liabilities relative to households' disposable income 2023



Loans held by households' and non-profit institutions serving households, relative to the adjusted disposable gross income for these sectors. 7.3.2025
Source: European Central Bank.

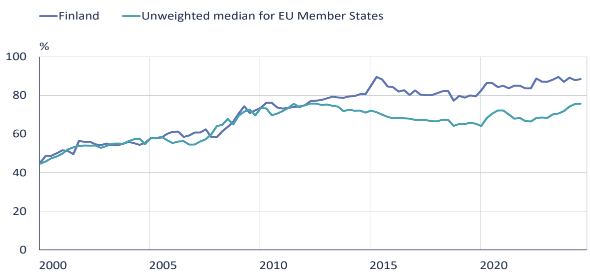
Indicator 10

Non-financial corporations' indebtedness relative to GDP: EU countries 2024/Q3



* Unweighted median.
Source: European Central Bank.

Non-financial corporations' indebtedness relative to GDP 2024/Q3



Source: European Central Bank.

Further information on the risk indicators for the SyRB requirement and their definitions, and on the criteria, statistical data sources and related time series-keys used in their calculation, is available on the Bank of Finland website: [Microsoft Power BI]

3 Information to be published on the decision

Section 4 of the Ministry of Finance Decree on the Systemic Risk Buffer Requirement for the Credit Institutions Sector and Investment Firms specifies the information to be published on the decision regarding the SyRB requirement.

Size of buffer requirement, changes on previous decision, effective date and period of validity (section 4, subsection 1, paragraphs 1 and 6)

The size of the SyRB requirement to be imposed (buffer rate) is 1.0%, i.e. the requirement will remain unchanged. The requirement is applied to all of the credit institutions' exposures. The decision of the Board of the Financial Supervisory Authority (FIN-FSA) of 26 June 2025 will enter into force on 1 July 2026 and will be valid indefinitely.

Assessment of risk factors supporting buffer imposition, their significance and changes since the previous decision (section 4, subsection 1, paragraphs 2, 3 and 10)

An assessment of the risk factors supporting the imposition of the SyRB requirement, of related risk levels, and of changes therein is provided in the decision of the FIN-FSA Board of 26 June 2025. A comparison of the risk factor-specific indicator values with peer countries and previous observations is presented in section 2 of this document.

The Finnish credit institutions 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 institutions sector, which constitutes the key justification for setting an above-zero systemic risk buffer requirement. On the basis of the updated values of the risk indicators specified in the Ministry of Finance Decree and used in the quantitative assessment of the risk factors laid down in the Act on Credit Institutions, the Finnish credit institutions sector remains more vulnerable in terms of its structure than the credit institutions sectors of EU countries on average. The sector is structurally vulnerable especially because of its

- (i) large size;
- (ii) cross-country interconnectedness (tight interconnectedness of the Finnish credit institutions sector, measured by the funding gap, with foreign banking and financial systems);
- (Iii) the credit institutions sector's large risk concentrations in residential mortgage and real estate lending (the credit institutions sector's risk concentrations in housing loans and loans to construction and real estate companies); and
- (iv) among its key customer groups, the high indebtedness of households, in particular (household sector's high indebtedness relative to disposable income).

Moreover, (v) the importance of the credit institutions 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. At present, five indicators are above their historic average.

Of these factors, the value of risk factor (iv) has decreased since the previous decision in 2023 on the size of the SyRB, and the indicators of factors (i) and (v) have remained virtually unchanged. The indicator of risk factor (ii) has increased. Of the indicators of risk factor (iii), housing loans granted to the domestic households as a share of total loans granted by the credit institutions sector to the private sector has decreased slightly, whereas credit institutions' claims on construction and real estate companies as a share of credit institutions' total assets has increased. The risk factors and changes in their indicators show that systemic risks related to the structural vulnerability of the Finnish credit institutions sector have not changed significantly compared to 2023, when the previous decision on the application of the SyRB was made.

The decision on the SyRB is not based on other risk indicators than those mentioned above. In addition to the indicators, the calibration of the buffer rate takes into account the relevant qualitative grounds.

Account of buffer calibration and other qualitative and quantitative grounds for the decision (section 4, subsection 1, paragraphs 4 and 5)

The decision takes into account:
(i) the BoF–FIN-FSA stress test scenario on the Finnish credit institutions sector's sufficient level of required capital buffers;
(ii) stress test scenarios on the impact of financial crises on the capital adequacy of Finland's largest credit institutions, conducted by the International Monetary Fund (IMF) in connection with the Financial Sector Assessment Program (2023) on Finland's financial system;
(iii) calculations by FIN-FSA and Bank of Finland experts on the impacts of imposing the SyRB on the own funds surplus of Finnish credit institutions and the Finnish credit institutions sector relative to capital adequacy requirements and thereby the ability of the institutions and the sector to provide credit;
(iv) O-SII buffer requirements imposed by the FIN-FSA Board on other systemically important institutions (O-SIIs) for Finland's financial system;
(v) institution-specific Pillar 2 requirements imposed by the ECB and the FIN-FSA on Finnish credit institutions, minimum requirements and supervisory requirements related to credit institutions' capital adequacy calculations; and
(vi) the impact of Finland's membership in the Single Resolution Mechanism of the Banking Union on the probability and spreading of financial crises.

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 aggregate 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 institutions 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.

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 to credit institutions in the 2022 stress scenario by the Bank of Finland and the FIN-FSA stem from external shocks to the Finnish credit institutions sector, the effects of which are amplified by the sector's structural vulnerabilities[1]. 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 the level of required buffers. 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.[2] 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.

In light of an overall assessment based on the FIN-FSA and Bank of Finland's stress-test and other calculations as well as research literature, the estimated aggregate level of macroprudential buffers deemed as sufficient has remained broadly unchanged (at 6–7% of risk-weighted assets). The 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 institutions 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

[1] 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*
[2] For a more details, see*Finland's banking sector could withstand even a harsher recession than forecast – Bank of Finland Bulletin*

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.

The calibration and targeting of the SyRB measure and other qualitative and quantitative grounds for the decision are discussed in more detail in the FIN-FSA Board's decision.

Recommendations, guidelines and warnings of the European Systemic Risk Board and the European Banking Authority considered in the decision (section 4, subsection 1, paragraphs 7 and 8)

The FIN-FSA Board has considered in its decision the European Systemic Risk Board (ESRB) recommendation on intermediate objectives and instruments of macroprudential policy (ESRB/2013/1), the ESRB (2018) handbook on operationalising macroprudential policy in the banking sector and European Banking Authority's (EBA) guideline on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer (EBA/GL/2020/13).

Relationship between the SyRB and other macroprudential tools and measures (section 4, subsection 1, paragraph 9)

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 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.[3]

Assessment of the impact of the decision on credit institutions' credit supply (section 4, subsection 1, paragraph 11)

The FIN-FSA has assessed the impact of the SyRB requirement of 1.0% and other announced changes in capital requirements on credit institutions' lending capacity by analysing how the requirements affect the amount of own funds in excess of capital adequacy requirements. This own funds surplus denotes the extent to which credit institutions can cover losses, increase credit supply and risk taking and distribute profits before falling short of their macroprudential buffer requirements.

At present, all Finnish credit institutions meet all the capital buffer requirements imposed on them (including the systemic risk buffer requirement). Since the FIN-FSA's decision on the SyRB rate in 2023, the profitability of the Finnish credit institutions sector has remained good, which has supported the sector's ability to build up its capital base. The capital ratios of the credit institutions sector have remained strong and slightly above the European average. 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.

[3] 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).

An estimate of the impact of the approach applied by credit institutions in capital adequacy calculations on the capital requirement (Section 4, subsection 1, paragraph 12)

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 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 2. Impact of the approach applied in capital adequacy calculations on the capital requirement

Type of credit institution	1% systemic risk buffer		Total macroprudential buffer requirements	
	EUR million	% of non-risk-weighted assets	EUR million	% of non-risk-weighted assets
IRB approach	1617	0.3%	12987	2.3%
Standardised approach	913	0.4%	4409	1.9%
TOTAL	**2530**	**0.3%**	**17396**	**2.2%**