

# Commentary on decisions concerning the settings of capital buffers for domestic systemically important banks



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## Introduction

**As a result of legislative changes, the only buffer that will be applied to banks in Slovakia designated as other systemically important institutions (O-SIIs) for the purpose of increasing their resilience is the O-SII buffer.** To cover risks arising from the systemic importance of banks, Národná banka Slovenska has so far been applying systemic risk buffers (SyRBs) in addition to O-SII buffers. However, under the latest update of the EU's Capital Requirements Directive (CRD V), transposed into Slovak law in late 2020, the SyRB will apply only to specific groups of exposures that constitute an elevated systemic risk. Hence the NBS Decision of May 2020 on the settings of SyRB rates<sup>1</sup> will be repealed. Under the law as it now stands, the only buffer that may be used to cover risks related to domestic systemically important institutions is the O-SII buffer. Furthermore, the O-SII buffer rates will be increased in order to compensate for the cancellation of the capital requirement arising from the SyRB.

**The maximum O-SII buffer rate is set at 3% of the total risk exposure amount, and an additional limit may apply to subsidiaries.** In the case of subsidiaries, the maximum O-SII buffer rate may be further limited by the level of the G-SII or O-SII buffer rate applicable to the group on a consolidated basis. Where such a rate applies, the O-SII buffer rate for the subsidiary must not exceed the sum of the G-SII or O-SII buffer rate applicable to the group on a consolidated basis and 1% of the total risk exposure amount.

**The Slovak banking sector therefore remains well capitalised.** Its aggregate total capital ratio was stable in 2020 and ended the year at 19.7% of risk-weighted assets. Banks' lending activity is not at present constrained by their capital positions, and the sector's available capital in excess of capital requirements amounts to €1.5 billion (3.8% of risk-weighted assets).

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<sup>1</sup> Decision No 10/2020 of Národná banka Slovenska of 26 May 2020 on the settings of systemic risk buffer rates.

## The list of domestic O-SIIs is the same in 2021 as in the previous year

**The identification of domestic O-SIIs is reviewed each year, with banks in Slovakia being designated as O-SIIs if they exceed a score of 425 basis points in the assessment exercise. In 2021 the five banks and one foreign bank branch<sup>2</sup> that exceeded the threshold were the same that had done so in the previous year.** The five banks are:

- Všeobecná úverová banka, a.s.
- Slovenská sporiteľňa, a.s.
- Tatra banka, a.s.
- Československá obchodná banka, a.s.
- Poštová banka, a.s.

**The overall O-SII scores did not differ significantly from the 2020 scores and provided no grounds to change the capital buffer for risks associated with banks' systemic importance.** According to the results of the latest O-SII assessment, all five domestic O-SIIs (VÚB, SLSP, Tatra banka, ČSOB, and Poštová banka) have a final score (above the O-SII identification threshold) whose level corresponds to the overall level of SyRBs and O-SII buffers applied to the same domestic banks in previous years.

## Changes in buffer rates and buffer structure settings for O-SIIs

**In the context of the EU's new CRD V legislation, the structure of buffers for domestic systemically important bank is to be changed.** Up to now, the overall capital buffer applicable to individual domestic O-SIIs on grounds of their systemic significance has consisted of an O-SII buffer and, in some cases, an SyRB buffer; in the future, however, based on the CRD V amendments, only the O-SII buffer will be applied to domestic O-SIIs on these grounds.

**The only substantive change in the capital requirement for a domestic O-SII concerns Všeobecná úverová banka, a.s. (VÚB).** At present VÚB is subject to an O-SII buffer of 1% and an SyRB of 1% (representing a cumulative buffer of 2%). Under the revised EU legislation (CRD V), however, the cap on buffer requirements for O-SIIs that are subsidiaries of a G-SII or another O-SII has been changed, to the parent's O-SII (or G-SII) plus 1%. In the case of VÚB, its group, Gruppo Intesa Sanpaolo, is assigned an O-SII buffer rate of 0.75%, so its own O-SII buffer rate is capped at 1.75%. Although VÚB's O-SII assessment score is the highest in the domestic banking sector and commensurate with an O-SII buffer rate of 2.00%, its O-SII buffer rate cannot exceed 1.75%.

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<sup>2</sup> The foreign bank branch is UniCredit. It is not possible to set capital requirements for foreign bank branches, so they cannot be designated as O-SIIs.

**Table 1 Composition of buffers applicable to O-SIIs**

<b>Bank</b>	<b>Buffer</b>	<b>Composition of capital buffers from 1 January 2021</b>	<b>Composition of capital buffers from 1 January 2022</b>
Všeobecná úverová banka, a.s.	O-SII buffer	1.00%	1.75%
	SyRB	1.00%	not applied
Slovenská sporiteľňa, a.s.	O-SII buffer	1.00%	2.00%
	SyRB	1.00%	not applied
Tatra banka, a.s.	O-SII buffer	0.50%	1.50%
	SyRB	1.00%	not applied
Československá obchodná banka, a.s.	O-SII buffer	1.00%	1.00%
	SyRB	not applied	not applied
Poštová banka, a.s.	O-SII buffer	0.25%	0.25%
	SyRB	not applied	not applied

Source: NBS.

Note: O-SII buffer – buffer applied to domestic systemically important institutions; SyRB – systemic risk buffer, applied only to all domestic exposures.

# 1. Annexes

## Annex 1

### Legislative framework

**Under Article 33d(1) of Act No 483/2001 on banks, as amended ('the Banking Act'), Národná banka Slovenska (NBS) is required to identify domestic systemically important banks that are to be designated as other systemically important institutions (O-SIIs) and is required to publish the list of these O-SIIs on its website. In addition, based on Article 33d(6) of the Banking Act, NBS may decide to set for each O-SII an O-SII buffer requirement.**

Under Article 33e(1) of the Banking Act, NBS may also decide to set a systemic risk buffer (SyRB) requirement in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks. Under a Banking Act amendment in effect since the end of 2020, this capital buffer cannot be used as it has been used, i.e. to cover risks arising from banks' systemic importance.

Under Article 33d(14) of the Banking Act, NBS is required to review annually the identification of O-SIIs and report the result to the systemically important institutions concerned and the European Systemic Risk Board (ESRB). The month in which this decision is submitted to the NBS Bank Board is usually May.

Pursuant to Article 33d(10) of the Banking Act, where an O-SII is a subsidiary of either a global systemically important institution (G-SII) or an O-SII which is an EU parent institution and subject to an O-SII buffer on a consolidated basis, the buffer that applies at individual or sub-consolidated level for the O-SII may not exceed the lower of:

- a) the sum of the higher of the G-SII or the O-SII buffer rate applicable to the group on a consolidated basis and 1% of the total risk exposure amount calculated in accordance with the applicable legislation;
- b) 3% of the total risk exposure amount calculated in accordance with the applicable legislation, or the O-SII buffer rate the European Commission has authorised to be applied to the group on a consolidated basis.

The level of the capital buffer applied to O-SIIs is therefore effectively capped at either 3% or at the O-SII/G-SII buffer applicable to the parent institution plus 1%.

## Annex 2

### Methodological framework

The methodology used to identify O-SIIs in Slovakia was the same in 2021 as in previous years, i.e. the methodology published in the EBA Guidelines of 14 December 2014 ([EBA/GL/2014/10](#)). The methodology lays down a set of ten indicators to be used for the given banking sector and economy, as well as the exact way of calculating the total score of each bank. In line with this methodology, Národná banka Slovenska has decided that banks will be designated as O-SIIs if they score more than 425 basis points in the O-SII assessment exercise.

National authorities may also use additional indicators that better reflect the nature of systemic risk in their particular country. The additional indicators applied in 2021 were, as in previous years, *total risk exposure amount*, *retail loans*, and *retail deposits*. In the O-SII identification methodology, these indicators are included as a fifth criterion (additional indicators). The weights are set in accordance with the EBA Guidelines: evenly across each criterion and, within each criterion, evenly across all indicators. The list of indicators and their weights are summarised in Table 2.

Table 2 O-SII identification methodology				
Criterion	Indicator		NBS weight	EBA weight
Size	I1	Total assets	20.00%	25.00%
	I2	Value of domestic payment transactions	6.67%	8.33%
Importance (including substitutability/financial system infrastructure)	I3	Private sector deposits from depositors in the EU	6.67%	8.33%
	I4	Private sector loans to recipients in the EU	6.67%	8.33%
Complexity/cross-border activity	I5	Value of OTC derivatives (notional)	6.67%	8.33%
	I6	Cross-jurisdictional liabilities	6.67%	8.33%
Interconnectedness	I7	Cross-jurisdictional assets	6.67%	8.33%
	I8	Intra-financial system liabilities	6.67%	8.33%
	I9	Intra-financial system assets	6.67%	8.33%
Additional indicators	I10	Debt securities outstanding	6.67%	8.33%
	I11	Total risk exposure amount	6.67%	
	I12	Retail loans	6.67%	
	I13	Retail deposits	6.67%	

Sources: EBA, and NBS.

Note: O-SII – other systemically important institution.