

Domestic O-SII identification and the settings of additional capital buffer rates

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(5) of the Banking Act, NBS may decide to set for each O-SII an O-SII buffer requirement of up to 2% of the institution's total risk exposure amount.

Under Article 33e(1) of the Banking Act, NBS may also decide to set a systemic risk buffer requirement in order to prevent and mitigate long-term non-cyclical systemic or macroprudential risks.

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, the European Commission, the European Systemic Risk Board (ESRB), and the European Banking Authority (EBA).

Pursuant to Article 33d(9) of the Banking Act, where an O-SII is a subsidiary of either a 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 higher of:

- a) 1% of the total risk exposure amount; and
- b) the G-SII or O-SII buffer rate applicable to the group at consolidated level.

Review of domestic O-SII identification

As in previous years, the identification of O-SIIs was reviewed in 2019 using the methodology published in the EBA Guidelines of 16 December 2014.¹ The methodology prescribes the set of 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. The methodology provides national authorities with certain options in setting the threshold score above which banks are designated as O-SIIs. The threshold is recommended to be 350 basis points, with national authorities having discretion to set the threshold lower or higher, within a range from 275 to 425 basis points. A higher threshold is applied to Slovakia's relatively small and concentrated banking sector, and in 2019, as in previous years, it stood at 425 basis points.

National authorities may also assess institutions against a set of optional indicators. Subject to their score in this assessment, institutions that do not meet the threshold for automatic

¹ EBA/GL/2014/10:

<http://www.eba.europa.eu/documents/10180/930752/EBA-GL-2014-10+%28Guidelines+on+O-SIIs+Assessment%29.pdf>

designation as an O-SII may still be designated as such. The additional indicators applied in 2019 were, as in 2018, *total risk exposure amount*, *retail loans*, and *retail deposits*. In the methodology for O-SII identification, these indicators are included as a fifth criterion (additional indicators). The weights are set in accordance with the EBA methodology: evenly across each criterion and, within each criterion, evenly across all indicators. The way that the additional indicators are used in the calculation of the overall score is in line with the way other countries apply additional indicators.² The methodology is summarised in Table 1.

TABLE 1 O-SII IDENTIFICATION METHODOLOGY			
Criterion	Indicators		Weight
Size	I1	Total assets	20.00%
Importance (including substitutability/financial system infrastructure)	I2	Value of domestic payment transactions	6.67%
	I3	Private sector deposits from depositors in the EU	6.67%
	I4	Private sector loans to recipients in the EU	6.67%
Complexity/cross-border activity	I5	Value of OTC derivatives (notional)	6.67%
	I6	Cross-jurisdictional liabilities	6.67%
	I7	Cross-jurisdictional claims	6.67%
Interconnectedness	I8	Intra-financial system liabilities	6.67%
	I9	Intra-financial system assets	6.67%
	I10	Debt securities outstanding	6.67%
Additional indicators	I11	Total risk exposure amount	6.67%
	I12	Retail loans	6.67%
	I13	Retail deposits	6.67%

Source: NBS and EBA.

According to the O-SII identification review in 2019 (based on data as at 31 December 2018), a total of five banks and one foreign bank branch exceeded the 425 basis point threshold (foreign bank branches cannot be designated as O-SIIs). The list of five O-SIIs for 2019 is the same as the list for the previous year:

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

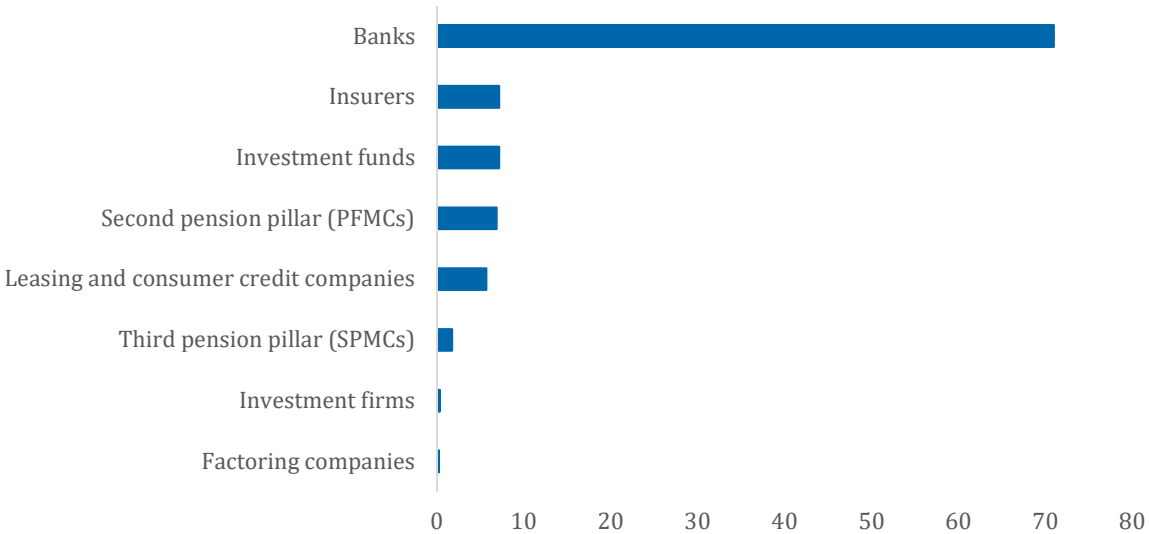
² Additional indicators are used also by, for example, Banco de Portugal and the Central Bank of Ireland. Banco de Portugal includes additional indicators under existing criteria, while the Central Bank of Ireland has created new criteria and excluded some of the base criteria.

Structural systemic risks as grounds for the activation of O-SII buffers and systemic risk buffers (SyRBs)

NBS has discretion, not an obligation, to require that the identified O-SIIs maintain an O-SII buffer and a systemic risk buffer. In exercising that discretion, NBS has taken into account the structural characteristics of the Slovak banking and financial sector as well as the Slovak economy.

The banking sector is by far the largest segment of the Slovak financial sector, with its share of the sector’s total assets amounting to 70% at the end of 2018. Moreover, the banking sector is virtually the only segment that provides external sources of financing to the real economy. Concentration is relatively high both in the financial sector as a whole and in the banking sector. As at the end of 2018, the identified O-SIIs accounted for more than 70% of the banking sector’s total assets, for 76% of the domestic retail lending market, for the bulk of the banking sector’s bond issuance (93% of the total outstanding amount of mortgage bonds), and for 77% of overall covered deposits. In addition, these banks are important investors in domestic government bonds, as they hold the vast majority held by Slovak banks (83% at end-2018) and 17% of the total outstanding amount of these bonds.

Chart 1 The Slovak financial sector’s total assets and assets under management broken down by segment (percentages)



Source: NBS.
 Notes: The second pillar of the Slovak pension system – the old-age pension scheme – is a largely compulsory defined-contribution scheme operated by pension fund management companies (PFMCs). The third pillar – the supplementary pension scheme – is a voluntary defined-contribution scheme operated by supplementary pension management companies (SPMCs).

Since the Slovak banking sector is focused mainly on financing of the domestic economy, it also faces structural systemic risks arising from Slovakia’s position as a small and open economy vulnerable to trends in the global economy and in the country’s principal trading partners. This vulnerability was apparent in 2009 when the economic downturn in Slovakia was among the most severe in the EU. Hence it may be assumed that when the global economy contracts, the transmission of adverse shocks to the domestic economy will be relatively fast and intensive and that the debt-servicing capacity of the non-financial sector, in particular non-financial corporations (NFCs), will deteriorate. Whereas in the past interest rates could be cut to mitigate a deterioration in debt-servicing capacity, at present they are at historically low levels with little scope for further reduction.

In addition, the sector is marked by concentration risk related to lending to NFCs, which likewise stems from the structural character of the domestic economy.

For that reason, the five identified O-SIIs are subject to O-SII buffer requirements and, in some cases, systemic risk buffer requirements. This increase in the total capital requirement is intended to strengthen the resilience of these banks to adverse developments in the real economy, thus ensuring that the functionality of the banking system is maintained even in the event of sizeable unexpected future losses.

Settings of O-SII buffer rates and SyRB rates

The methodologies used to identify O-SIIs are relatively similar across EU Member States, since they are based on the above-mentioned EBA Guidelines (EBA/GL/2014/10). As regards the settings of O-SII buffer rates, however, there are no such guidelines. Nevertheless, macroprudential authorities in all euro area countries have now identified the O-SIIs in their jurisdictions and set corresponding O-SII buffer rates. All O-SIIs (in SSM countries) and their buffers can now be compared for level playing field reasons. In the 2019 round of rate-setting, the NBS Bank Board decided to keep the O-SII buffer rates and SyRB buffer rates for 2020 the same as those for 2019.

TABLE 1 SETTINGS OF ADDITIONAL CAPITAL BUFFER RATES FOR O-SIIS		
Bank	Target additional capital buffer requirement	Additional capital buffers applied as of 1 January 2020
Všeobecná úverová banka, a.s.	2%	1% O-SII buffer + 1% SyRB
Slovenská sporiteľňa, a.s.	2%	1% O-SII buffer + 1% SyRB
Tatra banka, a.s.	1.5%	0.5% O-SII buffer + 1% SyRB
Československá obchodná banka, a.s.	1%	1% O-SII buffer
Poštová banka, a.s.	1%	1% O-SII buffer

Source: NBS.

Notes: The additional capital buffer requirement for Tatra banka is set the way it is because, under Article 33e(2) of the Banking Act, the systemic risk buffer requirement may not be less than 1% of the applicable risk exposure amount.