

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



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Introduction

Banks designated as ‘other systemically important institutions’ (O-SIIs)¹ are subject to an institution-specific O-SII buffer to mitigate the systemic risk emanating from them. In Slovakia, O-SII buffer rates are set by Národná banka Slovenska (NBS). They may not exceed 3% of the given bank’s total risk exposure amount, although, in the case of subsidiaries, the upper limit may be reduced by the level of the G-SII² 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.

Each year NBS designates certain banks as O-SIIs, and in 2022, as in previous years, it identified the O-SIIs using a methodology set out in Guidelines issued by the European Banking Authority (EBA).³ Individual banks are identified as systemically important on the basis of a set of criteria that include one or more indicators. Based on end-2021 data, six banks in Slovakia were designated as O-SIIs. One new O-SII was assigned a buffer rate of 0.25% and another existing O-SII had its rate increased by 25 basis points. Increasing capital buffers has a positive impact on banks’ resilience.

Banks in Slovakia remain well capitalised, with their aggregate total capital ratio standing at 19.8% at the end of 2021. Even after the increase in O-SII buffer rates, banks will have sufficient capital to sustain lending activity. The sector’s current capital headroom above regulatory buffers amounts to €1.7 billion (4.5% of risk-weighted assets).

¹ Other systemically important institutions as defined in Section 33a(1)(c) of Act No 483/2001 on banks and in Article 131(1) of Directive No 2013/36/EU of the European Parliament and of the Council of 26 June 2013.

² G-SIIs are global systemically important institutions as defined in Section 33a(1)(b) of Act No 483/2001 on banks and in Article 131(1) of Directive No 2013/36/EU of the European Parliament and of the Council of 26 June 2013.

³ EBA Guidelines of 14 December 2014 ([EBA/GL/2014/10](#)).

One bank to be added to the list of domestic O-SIIs

In the 2022 assessment exercise for O-SII identification (based on end-2021 data), a total of six banks and one branch of a foreign bank⁴ exceeded the threshold score for O-SII designation (350 basis points under EBA's methodology and 425 basis points under NBS's expanded methodology). The six banks exceeding the threshold score were:

- 365.bank, a.s.
- Československá obchodná banka, a.s.
- Prima banka Slovensko, a.s.
- Slovenská sporiteľňa, a.s.
- Tatra banka, a.s.
- Všeobecná úverová banka, a.s.

The most notable change since last year is the designation of Prima banka as an O-SII, after it exceeded the threshold score (350 bp/425 bp) for the first time. ČSOB also performed strongly in the assessment exercise, achieving a score that necessitated an upward revision of the O-SII buffer rate currently applied to it. The scores of the other four banks (VÚB, SLSP, Tatra banka, and 365.bank) were such that did not require any change to O-SII buffer rates approved for them last year. Table 1 shows the O-SII buffer rates for all six banks.

Bank	O-SII buffer rate as from 1 January 2022	O-SII buffer rate as from 1 January 2023
365.bank, a.s.	0.25%	0.25%
Československá obchodná banka, a.s.	1.00%	1.25%
Prima banka Slovensko, a.s.	-	0.25%
Slovenská sporiteľňa, a.s.	2.00%	2.00%
Tatra banka, a.s.	1.50%	1.50%
Všeobecná úverová banka, a.s.	1.75%	1.75%

Sources: NBS, and ECB.

Note: O-SII – other systemically important institution.

O-SII buffer rate changes

Most of the banks designated as O-SIIs achieved an assessment score that did not necessitate any change in the O-SII buffer rate previously approved for them. As mentioned above, the only exceptions were Prima banka and ČSOB. Prima banka's rapid growth in recent years translated into an increase in its O-SII

⁴ The foreign bank branch is UniCredit Bank Czech Republic and Slovakia, a.s. Buffer requirements cannot be set for foreign bank branches.

assessment score, qualifying the bank for designation as an O-SII and for an O-SII buffer rate of 0.25%.

The increase in ČSOB's score resulted mainly from its acquisition of OTP banka. In accordance with the new score, the bank's O-SII buffer rate was raised by 25 basis points to 1.25%.

VÚB's score also improved significantly, to a level that would ordinarily correspond to an O-SII rate of 2.50%. Its rate was not, however, increased to this level, since the buffer requirements for O-SIIs that are subsidiaries of another O-SII (or G-SII) is capped at the parent's O-SII(G-SII) buffer rate 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 2.50%, its O-SII buffer rate cannot exceed 1.75%.

Annex 1

Legislative framework

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

Under Section 33d(14) of the Banking Act, NBS is required annually to reassess the identification of O-SIIs and report the assessment results to the systemically important institutions concerned and the European Systemic Risk Board. These decisions are usually submitted to the NBS Bank Board in April or May.

Pursuant to Section 33d(10) 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 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;⁵
- 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%.

⁵ Article 92(3) of Regulation (EU) No 575/2013.

Annex 2

Methodological framework

The methodology used to identify O-SIIs in Slovakia was the same in 2022 as in previous years, i.e. the methodology set out in EBA Guidelines. The methodology is based on a set of ten indicators used in the calculations for the given banking sector. The overall score of each bank in the sector is calculated on the basis of how it scores for each indicator. The methodology allows national authorities to set a threshold score for O-SII designation which is higher than the baseline threshold set by the EBA (350 basis points). NBS has set the threshold score at 425 basis points.

National authorities may also use additional indicators that better reflect the nature of systemic risk in their particular country. In 2022, as in previous years, NBS included the following three optional indicators in the O-SII identification calculation: total risk exposure amount, retail loans, and retail deposits. In the O-SII identification methodology, these indicators are included as a fifth criterion (optional indicators). The weights are set evenly across each criterion and, within each criterion, evenly across all indicators. The list of indicators and their weights are summarised in Table 2.

Criterion	Indicator		EBA weight	NBS weight
Size	I1	Total assets	25.00%	20.00%
Importance (including substitutability/financial system infrastructure)	I2	Value of domestic payment transactions	8.33%	6.67%
	I3	Private sector deposits from depositors in the EU	8.33%	6.67%
	I4	Private sector loans to recipients in the EU	8.33%	6.67%
Complexity/cross-border activity	I5	Value of OTC derivatives (notional)	8.33%	6.67%
	I6	Cross-jurisdictional liabilities	8.33%	6.67%
	I7	Cross-jurisdictional assets	8.33%	6.67%
Interconnectedness	I8	Intra-financial system liabilities	8.33%	6.67%
	I9	Intra-financial system assets	8.33%	6.67%
	I10	Debt securities outstanding	8.33%	6.67%
Optional indicators	I11	Total risk exposure amount		6.67%
	I12	Retail loans		6.67%
	I13	Retail deposits		6.67%
Threshold for O-SII designation			350 bp	425 bp

Sources: EBA, and NBS.

Note: O-SII – other systemically important institution; EU – European Union; OTC derivatives – over-the-counter derivatives; EBA – European Banking Authority.