

Commentary on the decision calibrating capital buffers for domestic systemically important banks

Introduction

Domestic banks designated as ‘other systemically important institutions’ (O-SIIs)¹ are subject to an institution-specific O-SII buffer designed to cover risk and increase their resilience. These banks are significant for the local financial system and the local economy. The O-SII buffer rate that Národná banka Slovenska (NBS) can set for each O-SII is capped at a maximum level of 3% of the institution’s total risk exposures.²

Each year NBS designates certain banks as O-SIIs, and in 2023, 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-2022 data, six banks in Slovakia were designated as O-SIIs – the same six that were so designated in the previous year. The capital buffers for the individual O-SIIs remain unchanged from last year.

The domestic banking sector’s total capital ratio remained very strong in 2022, ending the year at 19.6% of risk-weighted assets. The sector’s capital headroom, i.e. surplus of capital resources above minimum regulatory requirements,⁴ amounted to €1.6 billion (3.9% of risk-weighted assets). Since the level of capital requirements for domestic O-SIIs will remain unchanged next year, the O-SII buffer decision will have no impact on the banking sector’s available capital. As a result, banks will have sufficient funds to maintain lending to the economy.

The list of O-SIIs remains unchanged

Inclusion in the list of O-SIIs is based on the methodology laid down in the above-mentioned EBA Guidelines.³ NBS also uses its own methodology, which is based on the EBA methodology while also taking into account certain specific features of the Slovak banking sector. The relationship between these methodologies is hierarchical. If a bank is identified as systemically important using the EBA methodology, it is automatically considered a systemically important bank. Under the national methodology, the list of systemically important banks can be extended to include banks that were not captured in the first step.

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 In the case of subsidiaries, the upper limit may be reduced by the level of the global systemically important institution (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.

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

⁴ Not including the minimum requirement for own funds and eligible liabilities (MREL).

Under the EBA methodology, six banks and one foreign bank branch⁵ exceeded the threshold score for O-SII designation in the 2023 assessment exercise. The ranking of the banks in the first four places remained unchanged, while Prima banka moved above 365.bank into fifth place. Prima banka's score continued its uptrend in 2022, while the systemic importance of 365.bank gradually declined.

The list of O-SIIs as from 1 January 2024:

- 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.

Capital buffer levels for systemically important banks

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. The bank-specific O-SII buffer rates for 2024 are the same as those for 2023.

Bank	O-SII buffer rate as from 1 January 2023	O-SII buffer rate as from 1 January 2024
Všeobecná úverová banka, a.s.	1.75%	1.75%
Slovenská sporiteľňa, a.s.	2.00%	2.00%
Tatra banka, a.s.	1.50%	1.50%
Československá obchodná banka, a.s.	1.25%	1.25%
Prima banka, a.s.	0.25%	0.25%
365.bank, a.s.	0.25%	0.25%

Sources: NBS, and ECB.

Notes: O-SII – other local systemically important institution; ECB – European Central Bank. Všeobecná úverová banka, a.s. (VÚB) achieved, as in previous years, a score that would ordinarily correspond to an O-SII buffer rate of 2.50%. However, VÚB's O-SII buffer rate is capped at the level of the O-SII buffer rate assigned to its parent group, Gruppo Intesa Sanpaolo, hence it remains at 1.75%.

⁵ Namely, UniCredit Bank Czech Republic and Slovakia, a.s. Buffer requirements cannot be set for foreign bank branches.

Annexes

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 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 2023 as in previous years, i.e. the methodology set out in EBA Guidelines published on 14 December 2014. The methodology is based on a set of ten indicators used in step 1 of 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, and the baseline threshold set by the methodology is 350 basis points. The methodology also allows national authorities to set an overall score using additional indicators. NBS calculates, in step 2, the overall score using three additional indicators, and it has set the threshold score for O-SII designation at 425 basis points.

The three indicators that NBS uses in step 2 are *total risk exposure amount, retail loans, and retail deposits*. These optional indicators better reflect the nature of systemic risk in the Slovak banking sector. In the O-SII identification methodology, these indicators are included as a fifth criterion. 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.

Table 2 O-SII identification methodology				
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.