

Announcement of the Governing Board of the Bank of Slovenia  
1 December 2017

**Macro-prudential instrument:**

**CAPITAL BUFFER FOR OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS**

Pursuant to a resolution adopted by the Governing Board of the Bank of Slovenia at its 546<sup>th</sup> meeting of 8 December 2015, the Bank of Slovenia introduced the macro-prudential measure of a capital buffer for other systemically important institutions (hereinafter: O-SIIs). Banks that the Bank of Slovenia has identified as O-SIIs will be required to meet the buffer as of 1 January 2019.

The Bank of Slovenia identified O-SIIs pursuant to the Banking Act (the ZBan-2; Official Gazette of the Republic of Slovenia, No. 25/15 and 44/16 – ZRPPB, 77/16-ZCKR and 41/17). It made the identification on the basis of the EBA Guidelines, whose partial application is set out by the Regulation on application of the Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) (Official Gazette of the Republic of Slovenia, No. 66/15, 68/17). Pursuant to Article 219 of the ZBan-2, the Bank of Slovenia shall verify the fulfilment of O-SII criteria and the appropriateness of O-SII buffer rates at least once a year. The Governing Board of the Bank of Slovenia confirmed the revised values of the systemic importance scores and corresponding buffer rates for O-SIIs at its 590<sup>th</sup> meeting of 27 November 2017. Final values of the indicator of systemic importance and individual buffer rates will be published after the decisions are served on the banks with changed buffer rates or changed O-SII status.

In the identification process the Bank of Slovenia took full account of the mandatory indicators prescribed by the EBA, which are illustrated in the table below.

**Table 1: Mandatory indicators of systemic importance of banks**

Category	Weight	Criterion	Weight
<b>Size</b>	<b>25%</b>	Total assets	25.00%
<b>Importance (including substitutability / financial system infrastructure)</b>	<b>25%</b>	Value of domestic payment transactions	8.33%
		Private sector deposits from depositors in the EU	8.33%
		Private sector loans to recipients in the EU	8.33%
<b>Complexity / cross-border activity</b>	<b>25%</b>	Value of OTC derivatives (notional)	8.33%
		Cross-jurisdictional liabilities	8.33%
		Cross-jurisdictional claims	8.33%
<b>Interconnectedness</b>	<b>25%</b>	Intra-financial system liabilities	8.33%
		Intra-financial system assets	8.33%
		Debt securities outstanding	8.33%

Source: EBA Guidelines

The score was calculated in accordance with the guidance set out in point 8 of the EBA Guidelines:

- (a) by dividing the indicator value of each individual relevant entity by the aggregate amount of the respective indicator values summed across all institutions in the Member State (the “denominators”);
- (b) by multiplying the resulting percentages by 10,000 (to express the indicator scores in terms of basis points);
- (c) by calculating the category score for each relevant entity by taking a simple average of the indicator scores in that category;
- (d) by calculating the overall score for each relevant entity by taking a simple average of its four category scores.

When identifying O-SIIs, the Bank of Slovenia followed the EBA methodology, with the exception of point 9 of the EBA Guidelines, which entrusts the authorities with the possibility to raise the threshold for O-SII identification up to 425 basis points as a maximum. Namely, in 2017 the Bank of Slovenia decided to raise the threshold for the identification of O-SIIs from 350 to 500 basis points and, consequently, to adjust the scale linking the achieved number of points and the buffer rate for the O-SIIs (Article 2 of the Regulation on the determination of the buffer for other systemically important institutions, Official Gazette of the Republic of Slovenia, No. 96/15, 68/17). Bank of Slovenia staff's analysis has shown that under the threshold of 350 extremely small banks, which are by size (measured by total assets or by their shares in gross domestic product) completely incomparable with O-SIIs in other parts of the banking union would qualify as O-SIIs. Furthermore, if using the previous threshold of 350 basis points, two thirds of banks established in Slovenia would be identified as O-SIIs, which is not in line with the purpose of the Guidelines.

The Bank of Slovenia simultaneously set out the buffer for O-SIIs in accordance with Article 221 of the ZBan-2. Banks are required to meet the buffer for O-SIIs as of 1 January 2019.

In the definition of the buffer rate and the length of the transition period, the Bank of Slovenia took particular account of the score calculated on the basis of the EBA Guidelines, and additionally took account of the buffer rates defined by other EU Member States and the state of the credit cycle in Slovenia. The thresholds for the bands for which a specific buffer rate is defined are set out by the Regulation on the determination of the buffer for other systemically important institutions. They are also illustrated in the table below.

**Table 2: Capital buffer rate**

<b>SCORE</b>	<b>CAPITAL BUFFER</b>
5400 and higher	2.00%
4700-5399	1.75 %
4000-4699	1.50 %
3300-3999	1.25 %
2600-3299	1.00 %
1900-2599	0.75 %
1200-1899	0.50 %
500-1199	0.25 %

Source: Regulation on the determination of the buffer for other systemically important institutions

The scores in relation to the indicators of systemic importance and the capital buffer rates as confirmed in 2017 that must be met by banks as of 1 January 2019 are illustrated in the table below. Each bank must meet the buffer at the highest level of consolidation in Slovenia, through common equity Tier 1 capital.

**Table 3: Scores in assessment of systemic importance and capital buffer rates**

	<b>SYSTEMIC IMPORTANCE SCORE (EBA GUIDELINES)</b>	<b>CAPITAL BUFFER RATE AS OF 1 JANUARY 2019</b>

		<b>(as proportion of total risk exposure amount)</b>
NLB d.d.	3071	1.00 %
SID banka. d.d.. Ljubljana	1183	0.25 %
Nova KBM d.d.	951	0.25 %
Unicredit banka Slovenija d.d.	710	0.25 %
Abanka d.d.	659	0.25 %
SKB d.d.	600	0.25 %
Sberbank d.d.	535	0.25 %

Source: Bank of Slovenia