Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB;
- notifications@eba.europa.eu when notifying the EBA.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority

1.1 Name of the notifying authority

Bank of Slovenia

2. Description of the measure

2.1 Concerned institution or group of institutions

On which institution(s) is the measure applied (name and LEI code)?

The following institutions are designated as O-SIIs in Slovenia and are subject to an O-SII buffer:

Institutions	Basis	LEI code
NLB	Consolidated level	5493001BABFV7P27OW30
SID	Consolidated level	549300BZ3GKOJ13V6F87
NKBM	Consolidated level	549300J0GSZ83GTKBZ89
Abanka	Consolidated level	549300271OUEJT4RYD30
SKB	Sub-consolidated level	549300H7CCQ6BSQBGG72
Unicredit	Sub-consolidated level	549300O2UN9JLME31F08
Intesa Sanpaolo	Sub-consolidated level	549300ECJDDLOVWWL932

Is the measure applied on:

- The highest level of consolidation
- A sub-consolidated level
- An individual level

2.2 Level of the buffer applied

What is the level of the buffer (in %) applied to the institution(s)?

Institutions	Capital buffer
NLB	1.00%
SID	0.50%
NKBM	0.25%
Abanka	0.25%
SKB	0.25%
Unicredit	0.25%
Intesa Sanpaolo	0.25%

<table>
<tr><td>2.3 Name of the EU ultimate parent institution</td><td>Please provide the name and the LEI code of the EU ultimate parent institution of the group of each of the concerned institutions, in case the EU ultimate parent institution is not the concerned institution itself.
<table>
<tr><th>Institutions</th><th>Parent institutions</th><th>LEI code</th></tr>
<tr><td>NKBM</td><td>Biser Topco S.A R.L.</td><td>222100ZXZ9BRGDMKXL75</td></tr>
<tr><td>SKB</td><td>Société générale</td><td>O2RNE8IBXP4R0TD8PU41</td></tr>
<tr><td>Unicredit</td><td>UniCredit S.p.a.</td><td>549300TRUWO2CD2G5692</td></tr>
<tr><td>Intesa Sanpaolo</td><td>Intesa Sanpaolo S.p.a.</td><td>2W8N8UU78PMDQKZENC08</td></tr>
</table></td></tr>
<tr><td>2.4 Names of subsidiaries</td><td>If any of the concerned institutions is a parent institution and the buffer is applied on a (sub)consolidated level, please name the subsidiaries of the institution that are notified as O-SIIs (please give name and LEI code).
Not applicable.</td></tr>
<tr><td colspan="2">3. Timing of the measure</td></tr>
<tr><td>3.1 Timing of the Decision</td><td>What is the date of the official decision? <u>For SSM countries when notifying the ECB:</u> provide the date when the decision referred to in Article 5 of the SSMR shall be taken.
3 December 2019.</td></tr>
<tr><td>3.2 Timing of the Publication</td><td>What is the date of publication of the notified measure?
3 December 2019.</td></tr>
<tr><td>3.3 Disclosure</td><td>Information about the communication strategy of the notified measure to the market.
The Bank of Slovenia will publish the list of designated institutions and the applicable O-SII buffer requirement on its website.</td></tr>
<tr><td>3.4 Timing of Application</td><td>What is the intended date of activation (i.e. as of which date shall the measure be applicable)?
Banks were obliged to implement the requirement from 1 January 2019 onwards. Due to increased capital buffer following the 2018 assessment, SID bank has been obliged to implement the increased requirement gradually, from 1 January 2020 onwards (0.25% from 1.1.2019 onwards and 0.50% from 1.1.2020 onwards). Intesa Sanpaolo will be obliged to implement the requirement from 1 January 2021 onwards.</td></tr>
<tr><td>3.5 Phasing in</td><td>What is the intended timeline for the phase-in of the measure?
With exception of SID bank and Intesa Sanpaolo that were either assigned higher buffer or newly identified as O-SIIs in current or previous assessment, banks are required to meet the buffer requirement from 1 January 2019 onwards.</td></tr>
<tr><td>3.6 Review of the measure</td><td>When will the measure be reviewed (Article 131(6) and 131(12) specify that the buffer, the identification of O-SIIs and the allocation into subcategories must be reviewed at least annually)?
The list of designated institutions as well as the applicable buffer levels will be reviewed on an annual basis (Article 219 of the Banking Act (ZBan-2) valid as of 13 May 2015.)</td></tr>
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4. Reason for O-SII identification and activation of the O-SII buffer

4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs

(Article 131.3)

Please list here the name, overall scores, category scores, and indicator values of the identified O-SIIs related to

a. size;

b. importance for the economy of the relevant Member State or the Union, capturing substitutability/financial institution infrastructure;

c. complexity, including the additional complexities from cross-border activity;

d. interconnectedness of the institution or (sub-)group with the financial system.

Institutions	Total score
NLB	2915
SID	1428
NKBM	940
Abanka	712
SKB	631
Unicredit	602
Intesa Sanpaolo	512

When notifying the ECB or EBA, please provide relevant information (methodology, calculations and formulas, data sources, information set used for denominators) in a separate Excel file.

Not applicable.

4.2 Methodology and indicators used for designation of the O-SII

(Article 131.3)

Please provide information on:

a. whether you followed the EBA guidelines on the assessment of O-SIIs
The EBA methodology has been applied to compute the scores for all institutions operating in Slovenia.

b. which threshold score has been set to identify O-SIIs

Bank of Slovenia applies threshold of 500 basis points.

This year seven institutions with scores above 500 basis points have been identified as O-SIIs. The measure will be applied at the highest level of consolidation in Slovenia (dependant on individual bank whether this indicates solo, subconsolidated or consolidated level).

c. which overall score is attributed to the O-SIIs
Information on the overall scores is provided in section 4.1.

d. which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores
No additional optional indicators were used in the overall assessment.

e. why these optional indicators are relevant for the Member State

Not applicable.

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<td>f. why the bank is systemically important in terms of those particular optional indicators
Not applicable.

g. whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process
No credit institutions have been excluded for the assessment. The identification process covers entire Slovene banking sector. The identification process has followed the mandatory indicators set out in the EBA's Guidelines (EBA/GL/2014/10).

h. names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1)
Not applicable.

i. whether non-bank institutions have been included in the calculations
No non-bank institutions have been included in the calculations.</td>
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<td>4.3 Supervisory judgement</td>
<td>Has any of the institutions listed in 2.1 been identified through supervisory judgement as laid down in EBA guidelines on the assessment of O-SIIs? If yes, please list the respective institutions.

No such institution has been identified through supervisory judgement.</td>
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<tr>
<td>4.4 Calibrating the O-SII buffer</td>
<td>Please provide information on the criteria and indicators used to calibrate the level of the O-SII buffer requirement and the mapping to institution-specific buffer requirements.

Decision on the bucket allocation and buffer rate took into account the scores that the banks achived when EBA methodology was applied. Additionally, following criteria for setting the bucket size and buffer rates were used:

- buckets should not be too narrow,
- buckets should have constant width,
- banks should not easily move from one bucket to another (in order to assure predicatility),
- cyclical effects of structural instruments (as emphasized in the ESRB Handbook and IMF Staff guidance note on macroprudential policy) should be taken into account when determining both, the buffer rate and the phasing-in of the instrument,
- comparability of buffer rate across institutions of similar size within the EU should be assured in order to ensure level of playing field,
- the highest buckets should not be populated in order to incentivize institutions not to increase their systematic importantce.

Based on this, following buckets were determined:
<table>
<tr><th>Score</th><th>Capital buffer</th></tr>
<tr><td>5400 and higher</td><td>2.00%</td></tr>
<tr><td>4700-5399</td><td>1.75%</td></tr>
<tr><td>4000-4699</td><td>1.50%</td></tr>
<tr><td>3300-3999</td><td>1.25%</td></tr>
<tr><td>2600-3299</td><td>1.00%</td></tr>
<tr><td>1900-2599</td><td>0.75%</td></tr>
<tr><td>1200-1899</td><td>0.50%</td></tr>
<tr><td>500-1199</td><td>0.25%</td></tr>
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</tr>
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	In the future buffer rates as well as bucket distribution might be subject to changes if significant structural changes in the banking sector occur, while individual institutions might be subject to change in the buffer rate if the degree of their systemic importance changes.
4.5 Effectiveness and proportionality of measure	Please provide a justification for why the O-SII buffer is considered likely to be effective and proportionate to mitigate the risk. **The failure of a systemic institution could have severe negative impact on the financial system and the real economy. Such structural risk is constantly present in the system and has to be mitigated by increasing the resilience of the banking system.** **Seven identified institutions represent 74.0% of the total assets of the Slovene banking system. EBA Guidelines based assessment revealed the importance of these institutions for the functioning of the financial system and the real economy. In order to reduce the probability of a malfunctioning of these institutions and their negative impact on the economy, O-SII buffer is being introduced. The buffer will increase the resilience of O-SII and consequently of the whole banking system.** **Additionally, it will reduce funding advantages that systemically important banks enjoy due to the perceived too-big-to-fail status. In order to take the cyclical momentum into account and give O-SIIs sufficient time to adapt to the capital buffer without major disruptions in the financial system or the real economy, a deferred introduction of the measure was decided.**
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market **(Recommendation ESRB/2015/2)**	Assessment of the cross-border effects of the implementation of the draft measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector[1] can be used. **- (cross-border) risk adjustment: cross-border effects of the O-SII buffer may arise through this channel. In fact, the (potential) target service providers may change their foreign exposures in order to not to be designated as O-SII or be subject to lower buffer. This can be in the form of cross-border direct lending or securities exposures.** **- regulatory arbitrage: capital regulatory arbitrage may manifest itself if foreign service providers react to increase in capital requirement (like the O-SII buffer) by a) converting subsidiaries into branches or b) transferring capital-intensive activity from their balance sheet to special purpose vehicle, while keeping the overall level of exposures unchanged. This latter sub-channel (b) may be, in principle, relevant in the case of the O-SII buffer since derivatives are capital-intensive assets and the value of derivatives is a criterion for O-SII designation. In the specific case of the O-SII buffer introduced in Slovenia, given that the measure applies to the highest level of consolidation, the importance of this channel should be very limited.** b. Assessment of:

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[1] Available on the ESRB's website at www.esrb.europa.eu.

	o cross-border effects (leakages and regulatory arbitrage) of the implementation of the measure in your own jurisdiction (inward spillovers); and o cross-border effects on other Member States and on the Single Market of the measure (outward spillovers). **Inward effects** o **Because of higher capital requirement (the O-SII buffer), the O-SIIs may transfer the higher cost of lending to borrowers who, in turn, may redirect their borrowing request toward foreign banks. The impact of these effect is a priori ambiguous. Indeed, on one hand, the redirection of borrowing toward foreign loan providers, associated with a reduction of O-SII lending activity, would imply a contraction in size of banks designated as O-SIIs. In this way, this cross-border effect contributes to reduce the systemic importance of the target financial institutions and, therefore, reinforce the effectiveness of the measure (the O-SII buffer) at limiting moral hazard of too-big-to-fail institutions. However, on the other hand, the O-SIIs may (want to) countervail the described potential contraction in lending activity by increasing other (and maybe riskier and more complex) types of exposures, like riskier foreign exposures with higher expected profits. Nevertheless, the incentives for increasing complexity and expanding cross-border activity should be negligible if the criteria for O-SII designation adequately address these features of a financial institution. Therefore, overall we can expect that the described cross-border effect would be non-material.** o **It may happen that the designated O-SIIs meet the higher capital requirement (i.e. the O-SII buffer) by raising capital in international markets. This would impair the effectiveness of the measure in the activating country if the aim of the measure were to limit further expansion of big financial institutions, in order to limit their contribution to systemic risk. Instead, the objective of the increasing resilience of O-SIIs is fulfilled, no matter the way in which the target institutions meet the requirement (even by raising capital in international markets). However, since all O-SIIs fulfill already the requirement, this scenario will probably not materialize for some time horizon.** o **The measure creates incentive for capital regulatory arbitrage, i.e. conversion of subsidiaries of foreign financial service providers into branches. Should it occur, this effect undermines the effectiveness of the measure as it is a clear way to escape the measure. For the specific case at hand, this cross-border effect should not be material, at least not for some horizon, since the designated O-SIIs already fulfill the requirement.** **Outward effects** o **The introduced O-SII buffer will bring about positive outward effects, as the reduced risk of financial instability in Slovenia will also reduce the risk of possible contagion to other countries, whose financial systems or economies are, for any reason, connected.** o **If domestic financial service providers have to meet higher capital requirements (like the O-SII buffer), we might expect a stronger contraction in foreign lending (more in general, a contraction in foreign exposures), especially direct lending, relative to domestic lending (exposures). Moreover, reducing the foreign exposures lowers the probability of being designated as an O-SII and the O-SII buffer, since the amount of foreign exposures is a criterion for O-SII designation and buffer determination. The fact that domestic banks may reduce foreign (credit or other) exposures represents a negative outward spillover effects, if the foreign country is already experiencing excessive deleveraging. However, at present EU countries are not documenting or reporting cases of excessive deleveraging, therefore this effect**

should not be material for some time horizon.

- **If the parent financial institutions of subsidiaries operating in Slovenia and identified as O-SIIs converted them into branches, in order to avoid the introduced O-SII measure, a negative cross-border effect can be envisage for the home country of these institutions. In fact, by escaping the measure, they do not build a cushion (the O-SII buffer) against the risk associated with the systemic dimension of such institutions (contagion included). We assume that parent institutions would not change the legal status of their banks in Slovenia only due to banks' O-SII status.**

5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State

Referring to your country's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e., circumvention of the measure/leakages to other parts of the financial sector)?

Some of the banks identified as O-SIIs are subsidiaries of parent institutions from other countries. Measure will be applied at the highest level of consolidation in Slovenia in order to prevent circumvention. Leakages are therefore not expected.

6. Combinations and interactions with other measures

6.1 Combinations between G-SII and O-SII buffers (Article 131.14)

In case both G-SII and O-SII criteria applied to the same institution at the consolidated level, which of the two buffers is the highest?

Not applicable, as no bank in Slovenia is subject to both an O-SII and G-SII buffer on a consolidated basis.

6.2 Combinations with SRB buffers

(Article 131.14 + Article 133.5)

Are any of the institutions subject to a systemic risk buffer?

No institution is subject to a systemic risk buffer in Slovenia.

If yes, please provide the following information:

a. What is the level of the systemic risk buffer (in %) applied to the concerned institution

b. Is the systemic risk buffer applied to all exposures located in your Member State only?

c. Is the systemic risk buffer applied at the same consolidation level as the O-SII buffer?

Not applicable.

6.3 O-SII requirement for a subsidiary (Article 131.8)

In case the O-SII is a subsidiary of an EU parent institution which is subject to a G-SII or O-SII buffer on a consolidated basis, what is the G-SII or O-SII buffer rate on a consolidated basis of the parent institution?

Institutions	Parent institutions	G-SII buffer of the parent	O-SII buffer of the parent
NKBM	Biser Topco S.A R.L.	N/A	N/A
SKB	Société générale	1.00%	1.00%
Unicredit	UniCredit S.p.a.	1.00%	0.50% *
Intesa Sanpaolo	Intesa Sanpaolo S.p.a.	0.00%	0.38% *

Note: * O-SII buffers fully loaded by 1. 1. 2021.

6.4 Interaction with other measures	How does the buffer requirement interact with other measures addressing the same risk (e.g. with other supervisory measures)? **Identified O-SIIs are also subject to the following macroprudential measures, which futher enhance the resilience of the banking system in Slovenia:** • **<u>Countercyclical Capital Buffer (CCyB)</u> - applicable in Slovenia as from 1 January 2016. The purpose of the instrument is to protect the banking system against potential losses insofar as these are related to an increase in risks in the system as a result of excessive growth in lending.** • **<u>Gross loans to deposits flows (GLTDF)</u> - applicable in Slovenia as from 30 June 2014. The GLTDF instrument aims at slowing down the decline in the loan-to-deposit ratio, stabilizing the banking system funding structure and mitigating systemic risk**. • **<u>Limits on deposit rates</u> - applicable in Slovenia as from 1 March 2012. The instrument aims at mitigating income risk in the context of an excessive increase in interest rates on deposits by the non-banking sector**. • **<u>Instruments for all household lending</u> - applicable in Slovenia as from 1 November 2019. Binding instruments consist of the maximum level of the DSTI (debt service-to-income) ratio and restrictions on debt maturity. Maximum level of the LTV (loan-to-value) ratio is a recommended instrument.**

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	**Meta Ahtik**, tel.: +386 1 47 19 350, email: meta.ahtik@bsi.si **Miha Pučnik**, tel.: +386 1 47 19 588, email: miha.pucnik@bsi.si
7.2 Any other relevant information	**Not applicable.**