

## Notification template for Articles 133 and 134(5) of the Capital Requirements Directives (CRD) – Systemic risk buffer (SyRB)

**Template for notifying the European Central Bank (ECB) and European Systemic Risk Board (ESRB) of the setting or resetting of one or more systemic risk buffer rates pursuant to Article 133(9) CRD and to request that the ESRB issue a recommendation to other Member States to reciprocate the measure under Article 134(5) CRD**

Please send/upload this template to

- [macropru.notifications@ecb.europa.eu](mailto:macropru.notifications@ecb.europa.eu) when notifying the ECB (under Article 5 of the Single Supervisory Mechanism (SSM) Regulation<sup>1</sup>);
- [DARWIN/ASTRA](#) when notifying the ESRB.

The ESRB will forward the notification to the European Commission, the European Banking Authority (EBA) and the competent and designated authorities of the Member States concerned without delay. This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure<sup>2</sup>.

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
<b>1.1 Name of the notifying authority</b>	Bank of Slovenia
<b>1.2 Country of the notifying authority</b>	Slovenia
<b>1.3 Type of measure (also for reviews of existing measures)</b>	Which SyRB measure do you intend to implement? <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Activate a new SyRB</li> <li><input type="checkbox"/> Change the level of an existing SyRB</li> <li><input type="checkbox"/> Change the scope of an existing SyRB (incl. changes to a subset of institutions or exposures)</li> <li><input type="checkbox"/> De-activate an existing SyRB</li> <li><input type="checkbox"/> Reset an existing SyRB (review)</li> </ul>

<sup>1</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>2</sup> On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

## 2. Description of the measure

### 2.1 Institutions covered by the intended SyRB

Please indicate whether the SyRB applies to:

- All institutions authorised in the Member State

*The intended SyRB applies to all banks authorised in Slovenia at the highest level of consolidation in Slovenia.*

- One or more subsets of credit institutions in the sector (please provide the names and identifiers (Legal Entity Identifier (LEI) code) of institutions covered)

Name of institution	LEI code	Consolidation level

- A subsidiary whose parent is established in another Member State. (Please provide the names and identifiers (LEI code) of subsidiaries)

Name of subsidiary	Name of the parent	LEI code of the subsidiary

If the SyRB applies to a subset of institutions, please describe the criteria for selection of the relevant institutions.

### 2.2 Exposures covered by the SyRB (Article 133(5) CRD)

Please indicate the exposures to which the SyRB applies:

- (a) all exposures located in the Member State that is setting the buffer;
- (b) the following sectoral exposures located in the Member State that is setting the buffer:
- (i)  all retail exposures to natural persons that are secured by residential property;
  - (ii)  all exposures to legal persons that are secured by mortgages on commercial immovable property;
  - (iii)  all exposures to legal persons excluding those specified in point (ii);
  - (iv)  all exposures to natural persons excluding those specified in point (i);
- (c) subsets of any of the sectoral exposures identified in point (b). Please specify the subsets in Section 2.3;
- (d) all exposures located in other Member States;
- (e) exposures located in third countries.

<p><b>2.3 Subsets of sectoral exposures</b></p>	<p>Where the systemic risk buffer applies to subsets of any of the sectoral exposures identified (see point 2.2 (c)), please specify:</p> <ul style="list-style-type: none"> <li>- The elements of the dimensions and subdimensions that were used to identify the subset(s) of sectoral exposures as laid down in the EBA Guidelines on the appropriate subsets of exposures in the application of SyRB:</li> </ul> <table border="1" data-bbox="632 421 1461 703"> <thead> <tr> <th>Dimensions/subdimensions</th> <th>Elements</th> </tr> </thead> <tbody> <tr> <td>1. Type of debtor or counterparty sector</td> <td></td> </tr> <tr> <td>1.a Economic activity</td> <td></td> </tr> <tr> <td>2. Type of exposure</td> <td></td> </tr> <tr> <td>2.a Risk profile</td> <td></td> </tr> <tr> <td>3. Type of collateral</td> <td></td> </tr> <tr> <td>3.a Geographical area</td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>- Assessment conducted in accordance with Section 5 of the EBA Guidelines on the systemic relevance of the risks stemming from this subset, taking into account: <ul style="list-style-type: none"> <li>(i) size</li> <li>(ii) riskiness</li> <li>(iii) interconnectedness.</li> </ul> </li> <li>- Why it would not have been appropriate to set the systemic risk buffer at the level of a sector (as in point 2.2(b)) to cover the risk targeted?</li> <li>- <i>Not applicable as Bank of Slovenia intends to introduce a sectoral systemic risk buffer according to Article 133(5)(b)(i and iv) CRD i.e. as indicated in point 2.2 (b)(i and iv).</i></li> </ul>	Dimensions/subdimensions	Elements	1. Type of debtor or counterparty sector		1.a Economic activity		2. Type of exposure		2.a Risk profile		3. Type of collateral		3.a Geographical area											
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<p><b>2.4 Exposures located in other Member States and in third countries</b></p>	<p>If the systemic risk buffer applies to exposures located in other Member States or third countries (see points 2.2(d) and (e)), please include the names of those countries</p> <p><i>Not applicable as the SyRB does not apply to exposures located in other Member States.</i></p>																								
<p><b>2.5 Buffer rate (Article 133(9)(e) CRD)</b></p>	<p>Specify the intended SyRB rate. If different buffer requirements apply to different exposures or subsets of exposures, please specify for each exposure indicated under 2.2.</p> <p>Please indicate any changes to the list in 2.1 of institutions concerned and in the buffer rates given in point 2.5 as compared to the last notification, and provide an explanation, if applicable.</p> <table border="1" data-bbox="632 1554 1473 1955"> <thead> <tr> <th rowspan="2">Exposures</th> <th colspan="2">New SyRB rate</th> <th colspan="2">Previous SyRB rate</th> </tr> <tr> <th>All institutions (SyRB rate)</th> <th>Set of institutions (range of SyRB rates)</th> <th>All institutions (SyRB rate)</th> <th>Set of institutions (range of SyRB rates)</th> </tr> </thead> <tbody> <tr> <td>(a) All exposures located in the Member State that is setting the buffer</td> <td>N/A</td> <td>N/A</td> <td></td> <td></td> </tr> <tr> <td>(b) <i>The following sectoral exposures located in the Member State that is setting the buffer:</i></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>(i) All retail exposures to natural persons that are secured by residential property</td> <td>1%</td> <td>N/A</td> <td></td> <td></td> </tr> </tbody> </table>	Exposures	New SyRB rate		Previous SyRB rate		All institutions (SyRB rate)	Set of institutions (range of SyRB rates)	All institutions (SyRB rate)	Set of institutions (range of SyRB rates)	(a) All exposures located in the Member State that is setting the buffer	N/A	N/A			(b) <i>The following sectoral exposures located in the Member State that is setting the buffer:</i>					(i) All retail exposures to natural persons that are secured by residential property	1%	N/A		
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(iii) All exposures to legal persons excluding those specified in point (ii)	N/A	N/A		
(iv) All exposures to natural persons excluding those specified in point (i)	0.5%	N/A		
(c) All exposures located in other Member States	N/A	N/A		
(e) Exposures located in third countries	N/A	N/A		
(f) Subsets of any of the sectoral exposures identified in point (b):				
(i) Please specify the subset [Dimension/subdimensions]	N/A	N/A		

If different buffer requirements apply to different subsets of institutions, please specify for each institution mentioned under 2.1.

Set of institutions				
Exposures	Name of institution	LEI code	New SyRB rate	Previous SyRB rate
			%	
			%	
			%	

### 3. Timing for the measure

<b>3.1 Timing for the decision</b>	<p>What is the date of the official decision? <u>For SSM countries when notifying the ECB</u>: provide the date on which the decision referred to in Article 5 of the Single Supervisory Mechanism Regulation (SSMR) will be taken.</p> <p>28/04/2022</p>
<b>3.2 Timing for publication</b>	<p>What is the proposed date of publication of the notified measure?</p> <p><i>The publication of the notified measure is intended by the first half of May 2022</i></p> <p>06/05/2022</p>
<b>3.3 Disclosure</b>	<p>Information about the strategy for communicating the notified measure to the market.</p> <p>Do you also intend to publish the justification for the SyRB? If not, why do you consider that publication could jeopardise the stability of the financial system?</p> <p><i>Yes, Bank of Slovenia intends to publish a justification for the SyRB on its webpage. A broader analysis would also be published within the Financial Stability Report.</i></p>
<b>3.4 Timing for application</b>	<p>What is the intended date of application of the measure?</p> <p>01/01/2023</p>
<b>3.5 Phasing in</b>	<p>What is the intended timeline for phase-in of the measure (if applicable)?</p> <p><i>(i) the sectoral SyRB rate of 1.0% for all retail exposures to natural persons that are secured by residential property) and the sectoral SyRB rate of 0.5% for</i></p>

	<p><i>all exposures to natural persons excluding those specified in point (i), must be applied from January 1, 2023 onwards.</i></p>
<p><b>3.6 Review/deactivation of the measure</b></p>	<p>Until when will the measure presumably be in place? What are the conditions for its deactivation? On what indicators would the decision be based? Please specify whether you intend to review the measure before the maximum period of two years foreseen in Article 133(8)(b) CRD.</p> <p><i>The impact assessment and the review of the sectoral SyRB rates, more specifically, of (i) the sectoral SyRB for all retail exposures to natural persons that are secured by residential property, and of (ii) the sectoral SyRB for all exposures to natural persons excluding those specified in point (i), will be carried out regularly at the latest one year after the phase-in of the buffers or if the selected indicators (elaborated on in Section 4.3) change significantly.</i></p>
<p><b>4. Reasons for the notified SyRB</b></p>	
<p><b>4.1 Description of the macroprudential or systemic risk in your Member State</b></p> <p><b>(Article 133(9)(a) of the CRD)</b></p>	<p>Where applicable, please classify the risks targeted by the notified SyRB under the following categories:</p> <ul style="list-style-type: none"> <li>(i) risks stemming from the structural characteristics of the banking sector <ul style="list-style-type: none"> <li>- Size and concentration of banks</li> <li>- Ownership structure</li> <li>- Other structural risks</li> </ul> </li> <li>(ii) risks stemming from the propagation and amplification of shocks within the financial system <ul style="list-style-type: none"> <li>- Exposure concentration/asset commonality <p><i>The intended measure addresses macroprudential risk stemming from the increased concentration of the banking sector's exposure to mortgage loans and the increasing share of exposures to households.</i></p> </li> <li>- Commonality in bank business models</li> <li>- Financial interconnections and contagion</li> </ul> </li> <li>(iii) risks to the banking system stemming from either the real economy or specific sectors <ul style="list-style-type: none"> <li>- Economic openness</li> <li>- Sectoral risks from the private non-financial sector, households and the public sector <p><i>The intended measure addresses macroprudential risk stemming from the household sector.</i></p> </li> </ul> </li> <li>(iv) Other risks</li> </ul> <p>Please specify:</p> <ul style="list-style-type: none"> <li>- Whether these risks are widespread across the whole financial sector?</li> <li>- Or whether they are concentrated only in one or more subsets of the sector?</li> </ul> <p><b><i>Description of the risks addressed by the intended measure</i></b></p> <p><i>The analysis focuses on risks associated with the following vulnerabilities in the financial system: (i) risks stemming from the overvaluation of RRE and its price dynamics, (ii) risks stemming from the increasing share of HH exposure in the balance sheet of banks, (iii) risks stemming from the LIRE, and (iv) risks stemming from the partial relaxation of the BBMs.</i></p>

	<p><b>Risks stemming from the RRE price dynamics</b></p> <p><i>The overvaluation of RRE prices presents a broad risk to financial stability. The risks stemming from the Slovene real estate market are currently assessed as elevated. In 2021 (especially towards the end of the year), the growth in RRE prices significantly accelerated resulting to, according to the majority of indicators, an overvaluation of RRE of around 15 p.p. We expect further increase in the overvaluation trend. Nominal RRE prices have already exceeded the pre-crisis 2008 peak in 2019, while the real prices surpassed the 2008 peak in the end of 2021 and are currently 5 p.p. above the previous peak. In the second half of 2021 we also observed an acceleration in the growth of housing loans.</i></p> <p><b>Risks stemming from increased lending to households</b></p> <p><i>The importance of loans to households has increased for banks during last 10 years. In December 2021 those loans accounted for 45% of loans to non banking sector, whereas in 2008 this share was 22%.</i></p> <p><i>Despite the swift reaction of the government to the pandemic crisis, in the household sector, especially in consumer loans there is a clear trend of increasing NPE ratio. In December 2020 it stood at 3.2%, while a year later it saw an increase to 3.7%. At the end of 2020 we have also observed increased reclassification of loans to households to groups with increased credit risk (stage 2). For consumer loans this trend continued in 2021.</i></p> <p><b>Risks stemming from LIRE</b></p> <p><i>The declining yields caused by the low interest rate environment (LIRE) have lead to increased vulnerability of banks and other financial intermediaries. For the last several years lower yields have put pressure on the ability of banks to generate stable income. The associated gradual decline in the net interest income and margin, first from 2014 and again from 2020 onwards, has negatively impacted the traditional business models of banks.</i></p> <p><b>Risks stemming from the partial relaxation of the BBMs</b></p> <p><i>With the intended partial relaxation of the borrower based measures we expect risks to new loans to households to increase somewhat. By increasing the regulatory capital at the same time we aim to increase the resilience of the banking sector to meet the potentially elevated risk level.</i></p>
<p><b>4.2 Reasons why the dimension of the macroprudential or systemic risks threatens the stability of the financial system in your Member State</b></p> <p><b>(Article 133(9)(b) CRD)</b></p>	<p>Reasons why the macroprudential or systemic risks threaten financial stability and justifying the systemic risk buffer rate.</p> <p><b>Risks inherent to the real estate market</b></p> <p><i>The growth in residential real estate prices accelerated in 2021 and surpassed the growth rates from 2008. In Q3 2021 it amounted to 12.9% y-o-y, averaging 10% y-o-y during in 2021, compared to 4.6 % in 2020 and 6.7% in 2019. The growth in residential real estate prices has been increasing since 2015, however at that time the trend in price increase was part of the overall improvement in macroeconomic and financial fundamentals, such as the pick-up in household income and lending standards after the GFC. Nevertheless, the real estate prices caught up with the long-term average three years ago, while the overvaluation indicators are currently already deep in the overvaluation territory, thus suggesting that the real estate market is in a mature phase of business cycle. This fact is much more evident looking at the residential real estate prices to rents ratio, which shows its significant increase in the 2020-2021 period. One of the reasons of</i></p>

*the significant increase is also a drop in rents during the pandemic period. A 15 p.p. overvaluation is shown by a more complex overvaluation indicator that incorporates several aspects of the real estate market, i.e. supply, demand and the banking sector. On the other hand, a residential real estate prices to disposable income is only 5 p.p. over the long-term average. This is due to the fact that the income base in the calculation of the indicator increased strongly as well.*

*Amongst the indicators that show real estate market imbalances is also the lucrativeness of renting relative to real estate prices. When residential real estate prices were decreasing between 2010 and 2015, the indicator increased. As low interest rate environment kicked in in 2014, the indicator started to decrease (with a lag). Additional reason for this dynamic could be attributed to the lack of safe and profitable assets (search-for-yield motive). Despite the decrease in the indicator, the low interest rate environment affected the long-term deposit rates even more, making the margin between the lucrativeness indicator and long-term deposit rate wider, which suggests that the current disparity of the indicator and low deposit rates indicates that the residential real estate prices may also increase in the future.*

*Growth of mortgage loans started to accelerate in the second half of 2021, amounting 9.1% in December y-o-y and exceeding 10 % in February 2022. The pick up in growth of mortgage loans also surpassed the average growth of mortgage loans in other European countries, and is currently at the 75th percentile of all countries in the sample. The average growth of mortgage loans was 5.4% in the 2019-2021, while in the euro area this figure was 4.4%. The share of mortgage loans in GDP increased as well in the last three years, however, it is still lower than the euro area average (due to structural reasons of the real estate market, such as high ownership share).*

*Despite the accelerating dynamics in the real estate market, the credit standards for mortgage loans remain stable. The average LTV ratio decreased to 63% in Q4 2021 from 68% in 2020, which consequently improved the structure (distribution) of LTV ratio as only 11% of mortgage loans had a LTV ratio above 80% (which is the recommended value by BoS). This share was 20% in 2019, and slightly less than 16% in 2020. Nevertheless, we still evaluate that there are possibilities that excesses on the loan side of the real estate market may contribute to the inflation of the real estate bubble, thus increasing the banks' exposure and worsening the vulnerability of the banking sector if sudden price correction occurs on the residential real estate market.*

#### **Risks from increased household loans dynamics**

*We see a significant increase in share of household loans in the last decade. The loans represented 45% share of all loans to the private non-bank sector in December 2021, while this share amounted to 22% in 2008. This is due to the fact that the share of loans to NFCs decreased significantly during this period. On aggregate, the exposure of the banking sector to households is currently around one half of non-banking sector and from this point of view makes it more vulnerable, especially in the case of larger residential real estate price corrections.*

*With respect to household loans we have seen a slight upward trend reversal in NPEs. In December 2020 the share of NPEs amounted to 3.2%, while the share of NPEs increased to 3.7% in December 2021. One of the main reasons of the increase may be attributed to the pandemic and abolishment of the measures that were taken to mitigate the crisis. The majority of NPEs in household loans are surfacing in loans that were granted before the introduction of binding macroprudential measures in 2019,*

suggesting that the implementation of BBMs from 2019 has played a role in the conservation of the credit standards. However, in the last months of 2020 the reclassification of exposures in the household sector to the stage with higher credit risk (stage 2) increased and continued in 2021, especially for the segment of consumer loans. At end of 2020, 7.2% of consumer loans were classified as stage 2, towards end of 2021 this share increased to 11.2%. Compared to 2018 the share doubled. Most of stage 2 loans originate from five banks (three of them being O-SIIs). The share of stage 2 loans in 2021 also increased in mortgage loans (for 1.6 p.p.) and other HH loans (for 1 p.p.).

#### **Risks stemming from LIRE**

The declining yields caused by the low interest rate environment (LIRE) have lead to increased vulnerability of banks and other financial intermediaries. For the last several years lower yields have put pressure on the ability of banks to generate stable income. The associated decline in the net interest income and margin has negatively impacted the traditional business models of banks.

The net interest margin had begun decreasing from the end of 2014 with a relatively stabilised period in 2017 and 2018 as well as the beginning of 2019. However, a major decline in the net interest margin happened again in 2020. The decrease continued also in 2021, however at a lower pace. The main reason for it was due to the gradual decrease of the effective interest rate for mortgage loans. A similar trend is observable in other EU/EA countries. Nevertheless, the net interest margin in Slovenia remains on the average of EU, while lower net interest margin is present in countries, such as Germany, Austria, France, Netherlands, Belgium and Luxembourg (i.e. in countries with prevailing different bank business models, compared to Slovenia). Consequently, the banks' profitability decreased (alongside other one-off factors), creating incentive for banks to take on more risks by changing their portfolios with more risk but higher yield, despite the macroprudential measures put in place (for example strict BBMs).

Above mentioned risks in an adverse scenario may lead to higher losses of the banking sector and increased needs for additional capital. From this perspective it is important to react by implementing capital buffers in (still relatively) favourable macroeconomic situation. A potential negative shock (price corrections in the real estate market) may lead to increase in non-performing loans, especially in the household sector. The implementation of SyRB buffer also addresses the ongoing debate regarding the disproportion representation between the cyclical and structural buffers in the current macroprudential framework in favour of increasing the macroprudential space.

#### **Risks stemming from the relaxation of the BBMs**

We expect that banks will utilise the allowed deviations from DSTI cap since now the threshold for credit worthiness has been removed. The banks will now be able to issue loans to persons who were previously not credit worthy under the macroprudential restrictions, but are according to banks' internal assessment deemed creditworthy. Those loans are very likely going to be riskier than the rest of the stock. To cover the additional risks arising from the stock of allowed exceptions from the DSTI cap Bank of Slovenia has decided to introduce additional capital requirements in the form of sectoral systemic risk buffers. As the relaxation will be introduced for both housing and consumer loans two sectoral systemic risk buffers are needed. The risk arising from relaxation of borrower based measures for housing loans will be covered by the buffer applied to all retail exposures to natural persons that



	<p>are secured by residential property. The risk arising from relaxation of borrower based measures for consumer loans will be covered by the buffer applied to all retail exposures to natural persons except for those secured by residential property. Our simulations (described in Section 4.4) show that for both segment applying the lowest possible buffer rate i.e. 0.5 % is currently more than sufficient to cover all the risks resulting from the relaxation of borrower based measures.</p>
<p><b>4.3 Indicators used for activation of the measure</b></p>	<p>Provide the indicators triggering activation of the measure. When notifying the ECB, please provide the data on which the decision is based, if possible (preferably in an Excel file).</p> <p><i>The following indicators (described in the previous Section) were considered when deciding whether to introduce the SyRB:</i></p> <ul style="list-style-type: none"> <li>• <i>Price dynamics of residential real estate</i></li> <li>• <i>The ration between real estate prices and disposable income</i></li> <li>• <i>The ration between real estate prices and rent prices</i></li> <li>• <i>The overvaluation indicator of residential real estate</i></li> <li>• <i>The ratio between the average price of a flat in Ljubljana (60m2) and average annual salary</i></li> <li>• <i>Index of real estate prices (model estimate)</i></li> <li>• <i>UOC indicator (model estimate)</i></li> <li>• <i>Exposure of banks to household (both in terms of growth and share)</i></li> <li>• <i>Share of new housing loans for primary property</i></li> <li>• <i>The spread between the deposit interest rate and rental yield</i></li> <li>• <i>Distribution of LTV for new housing loans</i></li> <li>• <i>Exposure of banks to the real estate market</i></li> <li>• <i>Share of NPEs for loans to households</i></li> <li>• <i>Share of stage 2 exposure for loans to households</i></li> </ul> <p><i>We also considered the output gap, voluntary management buffers, and the profitability of the banking system.</i></p> <p><b>Principles for (de)activation of the measure and calibration of buffer rates</b></p> <p><i>The decision on the introduction and the calibration of the sSyRB buffers was guided by the principles outlined below:</i></p> <ol style="list-style-type: none"> <li>1. <i>When there is a high growth in loans, secured by residential property but there is no excessive credit growth or increased debt servicing costs of the private non-financial sector, the use of sectoral SyRB for RRE exposures to natural persons should be considered.</i> <p><i>In contrast to the CCyB this sectoral SyRB address different types of risk. It can address the risks related to the exposure to the real estate market for a particular segment of clients (e.g. natural persons). In contrast, the countercyclical buffer addresses broader cyclical risks (including cyclical risk arising from the commercial property market). In this way the (sectoral) SyRB and the CCyB, interact which means that, depending on the situation, they can substitute or complement each other.</i></p> </li> <li>2. <i>The (sectoral) SyRB for exposures secured by residential property is a measure that (unlike the CCyB) can be introduced at an early stage of the real estate cycle, ideally when:</i> <ul style="list-style-type: none"> <li>• <i>the stock and growth rate of loans for house purchases is starting to increase, but significant imbalances in the housing market are not yet present;</i></li> </ul> </li> </ol>

	<ul style="list-style-type: none"> <li>• <i>the output gap is close to or above zero (when the economy is in an expansionary phase of the cycle), which allows banks to build capital buffers without negatively effecting their lending activity;</i></li> <li>• <i>the banking system is profitable and sufficiently capitalised.</i></li> </ul> <p><i>At this stage, the sectoral SyRB can be introduced also for other types of exposures to natural persons i.e. for consumer loans and unsecured housing loans.</i></p> <p>3. <i>The basic analysis that should inform the calibration of the sectoral SyRB includes the following:</i></p> <ul style="list-style-type: none"> <li>• <i>the assessed impact of additional capital requirements on mortgage interest rates, mortgage credits, house prices and GDP.</i></li> <li>• <i>the assessed impact of the additional capital requirement on the resilience of the financial system in case of a negative shock to the economy e.g. when households' ability to service their debt deteriorates significantly or in the case of a sudden correction of real estate collateral values.</i></li> </ul> <p><i>The SSyRB rate is reduced to a lower level in the event of an economic crisis or in the case of significantly reduced imbalances that the measure is addressing.</i></p>
<p><b>4.4 Effectiveness and proportionality of the measure</b> <b>(Article 133(9)(c) CRD)</b></p>	<p>Explanation why the draft measures are deemed likely to be effective and proportionate to mitigate the risk. E.g. how will the effectiveness of the measure be assessed? Based on which indicators? What are the expected transmission mechanisms?</p> <p><i>The activation of the sectoral systemic risk buffer is an integral part of a broader package of measures, which primarily, but by no means exclusively addresses residential real estate risks as it aims also at addressing the risk arising from lending to households in general.</i></p> <p><i>The setting of the sectoral buffer rates follows the preliminary principles for activation and calibration of the measure and setting of the buffer rates (described in Section 4.3) and are founded in the risk analysis (Sections 4.1 and 4.2) and the historical simulations explained in continuation.</i></p> <p><b>Calibration of the measure</b></p> <p><i>The additional capital needed to cover the increased risks arising from the relaxation of the borrower based measures was estimated using a historical simulation. We simulate the stock of the allowed exceptions from the DSTI cap at the end of 2021 under the conservative assumption that the banks would use the whole quota and that the relaxations of BBM would be introduced already on the 01.11.2019. At the level of the banking system the stock of allowed deviations from the DSTI cap would be 286 mil EUR for housing and 112 mil EUR for consumer loans. The actual stock of allowed deviations from the DSTI stock is negligible, therefore the additional notional exposure of banks at the end of 2021 would be 389 mio EUR. Then on the 01.01.2022, we applied a one time shock to the portfolio. Shock was modelled by applying a certain PD and LGD to the stock of allowed exceptions. We applied PDs in the range of 5% to 25% and LGDs in the range of 20% to 50%. The losses were then decreased by the cumulative interest income obtained from allowed exception approved from 01.11.2019 (cost of funding was assumed to be 0%), the resulting number gave the expected additional losses from the relaxation of borrower based measures. Our simulations show that, under the most conservative assumptions for both segments (i.e. of (i) the sectoral SyRB for all retail exposures to natural persons that are secured by residential property, and of (ii) the sectoral SyRB for all exposures to natural persons excluding</i></p>

those specified in point (i)), applying the lowest possible buffer rates (i.e. 0.5%) would be more than sufficient to cover all the risks resulting from the relaxation of borrower based measures.

As the proposed SyRB rate on exposures to natural persons not secured by mortgages (0.5%) is expected to cover the losses under the most conservative scenario of the above mentioned simulations and reflects the somewhat increased risk in the household crediting as described in Section 4.2, the proposed SyRB rate on exposures secured by mortgages (1%) on the other hand is expected to cover the risks expected to materialise from the relaxation of the current BBMs (reflecting only part of the capital requirement, i.e. 0.5%) and the risks inherent to the current phase of the real estate cycle and the build up of the vulnerabilities in the LIRE (reflecting the rest of the intended additional capital requirement, i.e. 0.5%). The proposed rate concurrently reflects our considerations for the current financial and macroeconomic developments and outlook. We also extensively re-evaluate our measures on a yearly basis, together with shorter reconsiderations alongside the justification of the CCyB set-up on a quarterly basis.

The calibration of the measures also takes into account the trade-off between the resulting benefits and costs. The benefits relate primarily to the main objective of the measures that is to preserve and strengthen the resilience of the banking system against the possible future materialization of the aforementioned foreseen risks related to household lending. In order to make sure that the measure entails minimal costs on the real economy, an analysis of the effects of the measure on relevant macroeconomic variables was conducted within the 3D DSGE model and the BEAST model.

The assessment prepared in the 3D model refers to the sSyRB for the residential real estate loans, as the model has not been operationalised to include the other segment of household loans. The following table shows that the expected short-run costs of the measure for the real economy, in terms of tighter credit conditions (higher rates on loans and lower volumes) and lower GDP, are very small. Yet, the measure entails positive, although small, effects in the long-run.

Annualised % change	Short-run effects*	Long-run effects**
HH-loan spread (% increase)	0.34	0.00
NFC-loan spread (% increase)	0.47	0.00
HH-loan (% change)	-5.69	0.28
NFC-loan (% change)	-2.27	0.23
GDP (% change)	-0.21	0.14
Bank Default Probability (% change)	0.00	-0.20

Note: the variables' percentage change are annualised.

\*Short-run effects: refer to the first quarter after the introduction of the measure.

\*\*Long-run effects: refer to the steady-state of the model.

Moreover, the 3D model was used to simulate the effects of different shocks that would leave the banking system exposed to higher risks. Results show that, in presence of the sSyRB, the response of the main macroeconomic and financial variables (GDP, consumption, loans, capital and housing investment, house price, bank default probability and deposit risk premium) is not worse but actually better than in absence of the measure.

#### **Capital impact assessment**

On the basis of data available at 2021 Q3, the proposed instruments would result in additional regulatory capital of 52.8 million EUR or 0.17% of the total RWA in the banking sector. There is heterogeneity among banks with respect

	<i>to their share of sectoral risk-weighted exposures in their total risk-weighted exposures, which would in turn result in different size of the impact on their capital upon the activation of the measure. However, the additional regulatory capital would in terms of 2021 banking sector profits amount to around 10%.</i>
<b>4.5 Reason why the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD (Article 133(9)(f) CRD)</b>	<p>Where the systemic risk buffer rate applies to all exposures, please justify why the authority considers that the systemic risk buffer is not duplicating the functioning of the O-SII buffer provided for in Article 131 CRD.</p> <p><i>Not applicable, as the SyRB applies to sectoral exposures located in Slovenia.</i></p>
<b>5. Sufficiency, consistency and non-overlap of the policy response</b>	
<b>5.1 Sufficiency of the policy response</b>	<p>For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy.</p> <p>Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member States.</p> <p>Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response.</p> <p><i>The Bank of Slovenia considers the intended measure sufficient and appropriate for the observed level of the systemic risk. The combined regulatory capital that will be secured by the sectoral buffers is expected to absorb the direct credit losses foreseen in the different scenarios, to complement the limited relaxation of borrower-based measures and to increase the financial sector's resilience.</i></p> <p><i>The expected impact on the main macroeconomic and financial variables is described in detail in Section 4.4. We estimate that the measure will slightly improve the main macroeconomic and financial indicators in the long term. In the short term, the introduction of the sSyRB is expected to have only a negligible negative impact on consumption and GDP. We expect that the intended rates of both buffers would be neutralized with short-term and long-term effects.</i></p>
<b>5.2 Consistency of application of the policy response</b>	<p>For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives as outlined in ESRB/2013/1<sup>3</sup> and must be implemented in accordance with the common principles set out in the relevant legal texts.</p> <p>Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time.</p> <p>Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response.</p> <p><i>The Bank of Slovenia considers its intended application of the sectoral SyRBs as consistent with the intermediate objectives recommended by the ESRB as well as introduced in the Strategic framework for macroprudential policy at the</i></p>

<sup>3</sup> Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

	<p><i>Bank of Slovenia; namely, “to mitigate and prevent excessive credit growth and excessive leverage” and to “limit direct and indirect exposures concentrations”. These measures are expected also to indirectly increase the resilience of the financial system, and prevent the build-up of systemic risks, which would further ensure financial sector’s sustainable contribution to economic growth as outlined in Article 2 of the ZMbnFS, and the ESRB 2018 Handbook.</i></p> <p><i>By introducing the proposed measures, Bank of Slovenia follows the principles defined in Article 246 ZBan-3, which foresees the introduction of a measure that “shall take into account risks that are not covered by the requirements of Articles 232, 243 and 244 of this Act and of Regulation 575/2013/EU, and in particular take into account the risk of disruption in the financial system that could have serious negative consequences for the financial system and the real economy in the Republic of Slovenia.”</i></p> <p><i>For example, in the case of the sectoral SyRB for exposures secured by residential property, the instrument does not address the risks covered by Article 241 ZBan-3 (i.e. Article 131 CRD) (that define the use of O-SII and G-SII buffers). In addition, the intended sectoral SyRB does not address a broader cyclical risk as defined in Article 232 ZBan-3 (or Article 130 CRD) (defining the use of the CCyB), although the cyclical risk element in the residential real estate market is part of the broader cyclical risk. The Bank of Slovenia considers that the case for not applying a broad cyclical instrument such as the CCyB is reasonable and valid (as explained in Sections 4.3 and 4.4) and that the sectoral SyRB is the most appropriate tool for preventing and mitigating the current risks arising from the real estate market, which have both a structural and a cyclical component. However, in the case of the introduction of the CCyB, the currently proposed level of sectoral SyRB should be reassessed to avoid overlapping of measures and double-counting of risks.</i></p>
<p><b>5.3 Non-overlap of the policy response</b></p>	<p>For a policy instrument to be ‘non-overlapping’, it should aim to address a systemic risk that either differs to the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk.</p> <ul style="list-style-type: none"> <li>- Are other policy instruments used to address the <u>same</u> systemic risk?</li> <li>- If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other.</li> </ul> <p><i>The intended sectoral SyRBs would complement the existing borrower-based measures (DSTI, maturity limits and LTV recommendation) with the aim of preventing excessive credit growth, excessive leverage and exposures thus increasing the resilience of the financial system through increased capital requirements towards banks that will increase or have already increased their exposures in the housing market and natural persons in general. The macroprudential restrictions on household lending reduce the risk of new (mortgage) loans, by making indebted households more resilient to negative shocks, limiting household indebtedness and encouraging responsible lending practices, while, for example, the sectoral SyRB on mortgage loans addresses risks stemming from the housing market through other channels. The increasing overvaluation of residential property and the increased concentration of banks’ mortgage exposures require measures that increase the resilience of banks and credit institutions in the event that risks materialise and the quality of existing mortgage portfolios deteriorates.</i></p> <p><i>Concurrent to the partial relaxation of the macroprudential restrictions on household lending, the sectoral SyRB for other exposures to natural persons is</i></p>

	<p><i>introduced with the aims of preventing arbitrage and strengthening the resilience of the financial system.</i></p> <p><i>Other currently active measures (the O-SII buffer and the CCyB) address different risks than the measure described above.</i></p>
<b>6. Cross-border and cross-sector impact of the measure</b>	
<p><b>6.1 Assessment of cross-border effects and the likely impact on the Internal Market</b></p> <p><b>(Article 133(9)(d) of the CRD and Recommendation ESRB/2015/2<sup>4</sup>)</b></p>	<p>Assessment of the cross-border effects of implementation of the measure.</p> <p>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 Macroprudential Policy in the Banking Sector<sup>5</sup> and the <a href="#">Framework to assess cross-border spillover effects of macroprudential policies</a> of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used.</p> <p>b. Assessment of the:</p> <ul style="list-style-type: none"> <li>o cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers);</li> <li>o cross-border effects on other Member States and on the Single Market of the measure (outward spillovers);</li> <li>o overall impact on the Single Market of implementation of the measure.</li> </ul> <p><i>The introduction of both sectoral SyRBs could generate cross-border effects through the following channels:</i></p> <ol style="list-style-type: none"> <li>1) <i>conversion of subsidiaries of foreign banks operating in Slovenia into branches;</i></li> <li>2) <i>increasing loans to Slovenian households from foreign financial service providers;</i></li> <li>3) <i>increasing risk awareness in foreign financial service providers.</i></li> </ol> <p><i>The first two channels would raise the loans that Slovenian households can obtain from foreign financial service providers (negative inward effect), making the latter more exposed to the risk in Slovenia that the introduction of the measure intend to address (negative outward effect). However, the third channel would work in the opposite direction.</i></p> <p><i>The scenarios operating through the first two aforementioned channels are more likely the higher the share of the market (in this case represented by household loans) served by foreign financial service providers. In the case of Slovenia, the share of household loans coming from a neighbouring country represents roughly 2% of the total market of loans to Slovenian households, while from other countries the figures are negligible. Therefore, we assess that the potential cross-border effects are non-material at least over a one-year horizon from the introduction of the measure.</i></p> <p><i>Consequently, Bank of Slovenia will not ask the ESRB to issue a recommendation to other Member States for the reciprocation of the measure as made possible in the Article 247 ZBan-3.</i></p>

<sup>4</sup> Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

<sup>5</sup> Available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).

<p><b>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b></p>	<p>Referring to your Member State'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)?</p> <p>Is there scope for "leakages and regulatory arbitrage" in other jurisdictions?</p> <p><i>Please see Section 6.1 for explanation.</i></p>												
<p><b>6.3 Request for reciprocity by other Member States</b></p> <p><b>(Article 134(5) CRD and Recommendation ESRB/2015/2)</b></p>	<p>Does the authority intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 134(5) CRD?</p> <p>No</p> <ul style="list-style-type: none"> <li>- If yes, please provide in Section 6.4. the justification for that reciprocity.</li> <li>- If no, what are the reasons for not requesting reciprocity?</li> </ul> <p><i>As mentioned in Section 6.1, the potential for cross-border effects of measures is stronger the higher the share of loans that Slovenian households receive from foreign financial service providers. Since these loans currently represent a very small share of the market (around 2%), it is assessed as unlikely that cross-border effects emerge at least over a one year horizon. Therefore, reciprocity is deemed unnecessary at present.</i></p>												
<p><b>6.4 Justification for the request for reciprocity by other Member States</b></p> <p><b>(Article 134(5) CRD and Recommendation ESRB/2015/2)</b></p>	<p>To request reciprocity, please provide the following:</p> <ul style="list-style-type: none"> <li>- a concise description of the measure to be reciprocated;</li> <li>- the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness;</li> <li>- the proposed materiality threshold and justification for that level.</li> </ul> <p>If the ESRB deems the request for reciprocity to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of Recommendation ESRB/2015/2.</p> <p><i>Not applicable as the Bank of Slovenia does not intend to ask the ESRB to issue a recommendation for reciprocity of the measures.</i></p>												
<p><b>7. Combination of the SyRB with other buffers</b></p>													
<p><b>7.1 Combination with G-SII and/or O-SII buffers</b></p> <p><b>(Article 131(15) CRD)</b></p>	<p>Is the sum of the systemic risk buffer rate and the higher of the O-SII/G-SII buffer rates to which the same institution is subject above 5%?</p> <p><i>No.</i></p> <p><i>The sum of the sectoral SyRB rates and the O-SII buffer rate for any institution does not exceed 3%.</i></p> <p>Please provide a list of the institutions subject to a G-SII or an O-SII buffer, indicating the G-SII or O-SII buffer and the sum of the G-SII/O-SII and SyRB buffers (a combined buffer rate of over 5% requires authorisation by the Commission).</p> <table border="1" data-bbox="632 1753 1461 2000"> <thead> <tr> <th>Name of institution</th> <th>G-SII/O-SII buffer rate</th> <th>O-SII consolidation level</th> <th>Sum of G-SII/O-SII and SyRB rates</th> </tr> </thead> <tbody> <tr> <td>NLB</td> <td>1.25%</td> <td>Consolidated level (highest level of consolidation in Slovenia)</td> <td>2.75%</td> </tr> <tr> <td>NKBM</td> <td>0.50%</td> <td>Consolidated level (highest level of consolidation in Slovenia)</td> <td>2.00%</td> </tr> </tbody> </table>	Name of institution	G-SII/O-SII buffer rate	O-SII consolidation level	Sum of G-SII/O-SII and SyRB rates	NLB	1.25%	Consolidated level (highest level of consolidation in Slovenia)	2.75%	NKBM	0.50%	Consolidated level (highest level of consolidation in Slovenia)	2.00%
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<p><b>7.2 Combination with other systemic risk buffers</b> (Article 133(11) and (12) CRD)</p>	<p>Indicate all sets or subsets of exposures that would be subject to one or more systemic risk buffers with a combined systemic risk buffer rate in the ranges below:</p> <ul style="list-style-type: none"> <li>- above 3% and up to 5%</li> <li>- above 5%</li> </ul> <p>Indicate whether any subsidiaries of a parent in another EU Member State would be subject to a combined systemic risk buffer rate above 3%</p> <p><i>With the introduction of the sectoral SyRB of 1% for exposures to private individuals secured by residential property and the sectoral SyRB of 0.5% for other exposures to natural persons, the total SyRB rate will not exceed 3% .</i></p>																																																																																
<b>8. Miscellaneous</b>																																																																																	
<p><b>8.1 Contact person(s)/mailbox at notifying authority</b></p>	<p>Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries.</p> <p>Marija Drenkovska, +386 (1) 4719-678, <a href="mailto:marija.drenkovska@bsi.si">marija.drenkovska@bsi.si</a></p> <p>Monika Tepina, +386 (1) 4719-368, <a href="mailto:monika.tepina@bsi.si">monika.tepina@bsi.si</a></p> <p>Črt Lenarčič, +386 (1) 4719-693, <a href="mailto:crt.lenarcic@bsi.si">crt.lenarcic@bsi.si</a></p>																																																																																
<p><b>8.2 Any other relevant information</b></p>	/																																																																																
<p><b>8.3 Date of the notification</b></p>	<p>Please provide the date on which this notification was uploaded/sent.</p> <p>12/04/2022</p>																																																																																



