ESRB
European Systemic Risk Board
European System of Financial Supervision

Assessment Team on national macroprudential measures

Assessment of a measure taken in Norway pursuant to Article 131 of the Capital Requirements Directive in combination with a measure taken pursuant to Article 133 of that Directive Introduction

On 29 August 2024 the European Systemic Risk Board (ESRB) Secretariat received a formal notification from the Norwegian Ministry of Finance of its intention to require certain institutions, identified as other systemically important institutions (O-SIIs), to maintain an O-SII buffer in accordance with Article 131 of the Capital Requirements Directive (CRD)[1]. The proposed measure will continue to impose an O-SII buffer of 2% on one bank and 1% on three banks. This year's annual reassessment did not result in any change in the institutions to which the measure is applied, nor in the required O-SII buffer rates, compared with the notification received in 2023.

Simultaneously on 29 August 2024 the ESRB Secretariat received a formal notification from the Norwegian Ministry of Finance of its intention to renew the existing systemic risk buffer rate the existing systemic risk buffer (SyRB). A SyRB rate of 4.5% will continue to apply to all exposures in Norway. The measure first entered into force on 31 December 2020 and was previously renewed once, in 2022.

As the sum of the SyRB of 4.5% and the respective O-SII buffers results in a combined rate of above 5% for each of the four banks, the ESRB is required to provide the European Free Trade Association (EFTA) Standing Committee with an opinion in accordance with Article 131(5a) and (15) of the CRD read in conjunction with Annex IX of the Agreement on the European Economic Area.[2] The EFTA Standing Committee, taking into account the assessment of the ESRB, and if it is satisfied that the O-SII buffer does not entail disproportionate adverse effects on the whole or parts of the financial system of other European Economic Area (EEA) Contracting Parties or of the EEA as a whole forming or creating an obstacle to the proper functioning of the internal market, is required to adopt a decision authorising the adoption of the proposed measure.

On 4 December 2020 the ESRB issued a recommendation stating that the setting of the SyRB rate applicable in Norway was justified, suitable, proportionate, effective and efficient.[3] Following a notification received from the Norwegian Ministry of Finance asking for reciprocation of the SyRB, the ESRB recommended reciprocation of the

---

[1] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

[2] Agreement on the European Economic Area (OJ L 1, 3.1.1994, p. 3).

[3] See Recommendation of the European Systemic Risk Board of 4 December 2020 regarding Norwegian notification of its intention to set a systemic risk buffer rate in accordance with Article 133 of Directive (EU) 2013/36/EU (ESRB/2020/14) and the accompanying assessment note: "Assessment of the Norwegian notification in accordance with Article 133 of Directive (EU) 2013/36/EU concerning the application of a systemic risk buffer set between 3% and 5%", ESRB, December, 2020.

measure within 18 months of the publication of the recommendation on 11 June 2021, with a materiality threshold corresponding to about 1% of credit institutions' total risk-weighted exposures in Norway.[4] The materiality threshold was later lowered to 0.16%.[5] On 26 September 2024, the ESRB Secretariat received a new request for reciprocation from the Norwegian Ministry of Finance regarding the SyRB measure, asking that the ESRB continue to recommend reciprocation of the measure, both on an individual and on a consolidated basis. This request is being assessed separately from the present assessment.

In 2022 and 2023 the ESRB issued two opinions assessing that the application by the Norwegian Ministry of Finance of an O-SII buffer, cumulative with the SyRB to which the institutions concerned were already subject, appropriately addressed the identified risks. In its opinion dated 15 November 2022[6] the ESRB concluded that the application of the cumulative buffers to three credit institutions – DNB Bank ASA (2%), Kommunalbanken AS (1%) and Nordea Eiendomskreditt AS (1%) – appropriately addressed the identified risks. In 2023 SpareBank 1 SR-Bank ASA was added to the list as a fourth O-SII, with an imposed O-SII buffer rate of 1%. The buffer rates required from the other institutions on the list were unchanged. The ESRB opinion of 3 August 2023[7] reiterated the assessment that the cumulative buffers were adequate in addressing the relevant risks for all four institutions. In 2024 all the institutions and buffer rates remain unaltered.

The role of the Assessment Team is to prepare a draft opinion on the appropriateness of the combination of the SyRB and O-SII buffer, with regard to relevant requirements under the CRD, from a financial stability perspective.

Description of the proposed measures

The resetting of O-SII buffer rates in Norway will not result in any changes regarding the institutions identified or the buffer rates applied. It applies to four domestically established Norwegian banks, one of which is a subsidiary of an entity domiciled in Finland. Financial institutions in Norway are identified as O-SIIs when their assets exceed 10% of Norway's GDP and/or their total loans exceed 5% of total loans to the private non-financial sector in Norway. This is complemented by an assessment of whether further entities could be designated as O-SIIs on a discretionary basis,

---

[4] See **Recommendation of the European Systemic Risk Board of 30 April 2021 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/3) 2021/C 222/01**.

[5] See **Recommendation of the European Systemic Risk Board of 6 March 2023 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2023/1) 2023/C 158/01**.

[6] See the **Opinion of the European System Risk Board of 15 November 2022 regarding the existing systemic risk buffer pursuant to Article 133 and the Norwegian notification of the setting or resetting of an O-SII buffer pursuant to Article 131 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions (ESRB/2022/8)** and the accompanying assessment note: "**Assessment of a measure taken in Norway pursuant to Article 131 of the Capital Requirements Directive which is cumulative with an existing measure pursuant to Article 133**", ESRB, of 15 November 2022.

[7] See **Opinion of the European Systemic Risk Board of 3 August 2023 regarding the existing systemic risk buffer pursuant to Article 133 and the Norwegian notification of the setting or resetting of an O-SII buffer pursuant to Article 131 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions (ESRB/2023/6)** and the accompanying assessment note: "**Assessment of a measure taken in Norway pursuant to Article 131 of the Capital Requirements Directive which is cumulative with an existing measure pursuant to Article 133 of that Directive**", ESRB, 3 August 2023.

on the basis of scores calculated under the European Banking Authority (EBA) Guidelines[8]. This approach to assessing O-SIIs complies partially with the Guidelines.[9] The list of O-SIIs and the buffer rates required from the institutions will be unchanged. All four banks subject to O-SII buffers are also subject to the SyRB, which is applicable to all domestic exposures in Norway.

The level of the O-SII buffer rate is decided according to the following rule. The buffer is set at 2% for institutions with total assets corresponding to at least 20% of Norway's GDP or with a share of at least 10% in total loans to the private non-financial sector. This was the case for DNB Bank ASA, with total assets equivalent to 89.2% of Norway's GDP and a 25.4% share in total loans to the private non-financial sector. The buffer is set at 1% for institutions with total assets corresponding to at least 10% of Norway's GDP or with a share of at least 5% in total loans to the private non-financial sector. This was the case for Kommunalbanken AS and Nordea Eiendomskreditt AS, with total assets-to-GDP ratios of 13.5% and 9.0% respectively and shares in total loans to the private non-financial sector of 5.5% and 5.4% respectively. In addition, given that SpareBank 1 SR-Bank ASA's total assets as a share of Norway's GDP are close to the qualification requirement (9.4%) and the bank's overall EBA score of 353 is higher than the suggested threshold for automatic identification as a systemically important institution in the EBA Guidelines, the bank is considered to be systemically important, with its buffer set at 1%. SpareBank 1 SR-Bank ASA also has a higher overall EBA score than Nordea, which already features on the O-SII list.

The SyRB will be reset at an unchanged level of 4.5%, applying to the domestic exposures of all credit institutions and financial holding companies authorised in Norway. As the buffer is aimed at systemic risks in Norway, the requirement only applies to domestic exposures. The SyRB is intended to promote domestic financial stability in Norway by safeguarding the resilience of the financial system and by ensuring that banks continue to be adequately capitalised given the high level of long-term systemic risk. It is set by the Ministry of Finance with Norges Bank having an advisory role. The measure first entered into force on 31 December 2020. A transitional rule applied to banks not using the advanced internal ratings-based approach, for which the buffer rate for all exposures was 3% until 31 December 2023. The measure will be in place until further notice, with no end date set. The SyRB rate for domestic exposures will be evaluated every second year, as specified in the CRD.

Risks addressed through the proposed measures

The risks leading to the resetting of the O-SII buffers stem from the particularly important role played by systemically important institutions in the Norwegian economy. The aim of the O-SII buffer is to increase the loss-absorbing capacity of the most systemically important institutions in Norway, thereby reducing financial stability risks that could arise should they run into difficulties. O-SIIs are particularly important in the Norwegian financial system

---

8 "**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) (EBA/GL/2014/10)**", EBA, 16 December 2014.

9 According to the **compliance table appended to the EBA Guidelines**, "The Norwegian Ministry of Finance adopted a regulation on the identification of systemically important financial institutions in Norway in May 2014… As a general rule, an institution shall be designated as systemically important if it has total assets corresponding to at least 10 per cent of Mainland Norway's GDP, or a share of the Norwegian lending market of at least 5 per cent… In addition to the two main criteria, the Regulation says that the FSA's advice also shall be based on an assessment of the institution's size, the institution's importance in Norway and other countries, the institution's complexity, the institution's role in the financial system infrastructure and to which degree the institution is interconnected with the rest of the financial system. To enlighten these criteria, the FSA will use the methodology in the EBA Guidelines".

given their size relative to the Norwegian economy and their shares in loans to the private non-financial sector. According to the Norwegian authorities, the financial stability outlook has not changed substantially since the last O-SII assessment.

The SyRB is intended to ensure that banks hold sufficient capital to withstand future economic downturns and reflects the assessment of structural vulnerabilities. The Norwegian authorities assert that structural vulnerabilities in the financial system remain at levels similar to those observed when the SyRB was last reset at 4.5% in 2022. Key vulnerabilities include high household indebtedness and substantial commercial real estate exposure among banks. Despite a slight reduction in leverage over the past two years, household debt remains high, both historically and compared with other countries, rendering households vulnerable to higher interest rates, income loss and falling home prices. Such economic shocks could reduce consumption and could also lead to increased bank losses on corporate exposures. Furthermore, losses from commercial real estate lending, constituting about half of corporate exposures, pose significant risks to banks' solvency. Many commercial real estate firms have high debt-to-revenue ratios and are experiencing lower profitability due to higher interest rates. A fall in demand for commercial properties, driven by for example lower employment or structural changes such as a rise in remote working, could lead to falling incomes and property values, resulting in losses for banks. Additionally, climate change and the energy transition are expected to increase costs for both households and firms in relation to emission taxes, energy efficiency improvements and damages caused by changes in weather and climate. Although banks are expected overall to maintain sound capital adequacy ratios in the scenarios considered by Norges Bank in its climate stress test, their large exposures to vulnerable sectors such as shipping, oil extraction and real estate pose several concerns.[10] If firms in these sectors are adversely affected, banks' losses would likely increase. Individual banks may not be able to account for the potential systemic impact of multiple banks incurring climate-related losses simultaneously. Thus macroprudential risks are present that are probably not fully covered by microprudential regulation. These macroprudential risks are exacerbated if, at the same time as banks are incurring climate risk-related losses, firms need financing (primarily from banks) to invest in green technology. Finally, the interconnectedness of banks through interbank exposures such as the cross-holding of covered bonds, also accounting for a substantial share of banks' liquidity reserves, further exacerbates these risks, as challenges faced by one institution can quickly spread to others.

According to Article 133(8) of the CRD, the SyRB is not to be used to address risks that are covered by the O-SII buffers, as detailed in Article 131 of the CRD. Hence the justifications for the use of the SyRB should differ from those for the use of O-SII buffers. In its assessments in 2022 and 2023 the Assessment Team found that some of the criteria for setting the two buffer requirements were similar, but it did not conclude that this could lead to disproportionate adverse effects on the whole or parts of the financial system of other EEA Contracting Parties or the EEA as a whole forming or creating an obstacle to the proper functioning of the internal market. In addition, the Norwegian authorities stressed that the way the SyRB was calibrated took into account the overlap in the methodologies used to set O-SII buffers and the SyRB. Compared with the last SyRB resetting in 2022, there has been little change in the structural features giving rise to the vulnerabilities justifying the current resetting of the SyRB. However, vulnerabilities related to climate transition are assessed to be more important than previously, and less emphasis is placed on the vulnerability

[10] For more information on climate stress testing of Norwegian banks see "**Financial Stability Report – 2024 H1**", Norges Bank, 2024.

related to the concentration of the banking sector and its importance as regards the Norwegian economy. This helps to further clarify that the SyRB is not intended to reflect vulnerabilities that can be fully addressed by other capital requirements such as the O-SII buffer.

Effectiveness and proportionality

The Assessment Team considers the combination of the SyRB and O-SII buffers to be effective in addressing systemic risk, although it notes that a greater differentiation of O-SII buffer rates might improve proportionality. Stress tests conducted by Norges Bank and Finanstilsynet show that a scenario including a severe downturn in the Norwegian economy and a sharp fall in property prices could result in banks incurring large losses and drawing down their capital buffers. The stress tests show that the capital buffers of the largest Norwegian banks as a whole are sufficient to absorb losses in such a scenario. As for the proportionality of O-SII buffer rates, the Assessment Team is of the view that while the differentiation of the buffer requirements on the basis of the degree of systemic importance of the banks in question contributes to the proportionality of the measure, it could be worth considering a greater differentiation of the buffer rates to more closely reflect their systemic importance. The difference in the O-SII buffer rates is currently relatively small considering that the largest institution is almost six times as big and almost ten times as systemically important than the second largest, according to the overall EBA scores. Furthermore, the smallest institution's EBA score is below the reference threshold in the EBA Guidelines and this institution is identified as an O-SII via a supervisory assessment, but it has the same buffer rate as two other institutions. In addition, when a combination of both buffers is considered, the differences in the rates between the institutions are smaller. However, the Assessment Team also recognises that the differentiation of rates cannot fully replicate all the specificities of the measurement of systemic importance of credit institutions and considers the level of a combination of the O-SII buffers and the SyRB to be sufficient for mitigating the risks posed by the largest institutions.

The Norwegian authorities are encouraged to monitor the impact of upcoming regulatory changes on the effectiveness of the SyRB and O-SII buffer measures. The CRD VI and CRR III amendments to the Capital Requirements Directive and Capital Requirements Regulation introduce the output floor and revised risk weight calculation rules. These changes will have an effect on banks' risk weights and therefore on the effectiveness of capital buffers. In addition, risk weight floors pursuant to Article 458 of the CRR are also applicable in Norway and are currently being revised by Norwegian authorities. The Norwegian authorities should monitor and carefully assess the impact of these changes on the effectiveness of macroprudential capital buffers and on banks' overall nominal capital available to absorb losses.

Conclusions

The ESRB is of the view that the proposed combined buffer consisting of the SyRB and the O-SII buffers appropriately addresses the identified risks. It does not entail disproportionate adverse effects on financial stability in Norway or the EEA and is not expected to form or create an obstacle to the proper functioning of the internal market. Nonetheless, the Assessment Team has observed differences between Norway and other jurisdictions in applying the EBA Guidelines on the criteria for assessing O-SIIs and suggests that the O-SII methodology could have a higher level of granularity.