

Other systemically important institutions (O-SIIs)

The Polish Financial Supervision Authority (hereinafter: the “KNF”), pursuant to the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in financial system (Journal of Laws of 1 October 2015, as amended, hereinafter referred to as the “Act”), and in consultation with the Financial Stability Committee has identified twelve institutions as other systemically important institutions (hereinafter: the “O-SII”). On that basis, the KNF has decided to impose appropriate capital buffers on the aforementioned institutions.

Identification of the O-SII takes into account the following set of criteria: size, economic importance for the Republic of Poland and the European Union, cross-border activity and interconnectedness with the financial system, and is compliant with the guidelines issued by the European Banking Authority (hereinafter: the “EBA”) of 16 December 2014 on the criteria to determine the conditions of application of Article 131 (3) of the CRD in relation to the assessment of O-SII (EBA/GL/2014/10, hereinafter the “EBA Guidelines”).

The EBA Guidelines set out a two-fold O-SII identification process. The first element thereof is a minimum mandatory framework, which consists of a prescribed set of criteria that authorities, including the KNF should use to identify the O-SIIs. The second element provides for authorities, including the KNF’s discretion to supplement the mandatory part of the framework with optional indicators in order to better reflect the specificities of the domestic banking sector.

In accordance with the EBA Guidelines, each bank should be assigned with the relevant score, which is calculated as a weighted average of individual share in aggregate amount of the respective indicator values. Specification on indicators and weights are given in Table 1.

Table 1

The mandatory indicators for the scoring according with the EBA Guidelines

Criterion	Indicators	Weight
Size	Total assets	25%
Importance (including	Value of domestic payment transactions	8.33%

substitutability/financial system infrastructure)	Private sector deposits from depositors in the EU	8.33%
	Private sector loans to recipients in the EU	8.33%
Complexity / cross-border activity	Value of OTC derivatives (notional)	8.33%
	Cross-jurisdictional liabilities	8.33%
	Cross-jurisdictional claims	8.33%
Interconnectedness	Intra financial system liabilities	8.33%
	Intra financial system assets	8.33%
	Debt securities issued	8.33%

Source: EBA

The KNF on the basis of mandatory indicators for the scoring – identified ten O-SIIs, and basing on the optional indicators for the scoring (i.e. importance for an Institutional Protection Scheme [hereinafter: the "IPS"] of which the entity is a member) identified two O-SIIs.

The reason for using the above mentioned optional indicator for the scoring is the specific structure of the domestic banking sector encompassing 560 cooperative banks. The vast majority of them is characterized by a relatively low asset value and at the same time by scope of operations limited to a local market.

The IPS in accordance with the Act of 7 December 2000 on the functioning of cooperative banks, their associations and on associating banks enables providing the immediate support, to ensure the maintenance of liquidity and solvency of each of the system's participants, in case of critical situations. Creation of the IPS was followed by the internalization of the risk which is generated by every participant (especially the associating bank) for the financial system on an individual basis.

In accordance with the KNF's decisions, the banks participating in the IPS are exempted from obligation of compliance with the minimum liquidity LCR ratio on the individual basis. Each of the two associating banks was indicated as obliged to meet the required level LCR indicator and to report on the basis of the consolidated situation of all banks creating the IPS. Therefore, the establishment of IPS has improved the quality of risk management in the cooperative banking sector. Therefore, after introducing the optional indicator for evaluation of the role of an entity within the IPS, the KNF identified two associating banks, i.e.: Bank Polskiej Spółdzielczości S.A. and SGB – Bank S.A. as the O-SIIs.

The next step of the respective proceedings was establishment of the O-SII buffer level. Pursuant to Article 38 (1) of the Act, the O-SII buffer cannot exceed 2% of the total risk exposure amount calculated in accordance with Article 92 (3) of the CRR. Additional limitation stems from Article 41 of the Act, concerning situations of the banks being

subsidiaries of European banking groups identified in their home countries as a G-SIIs or an O-SIIs. In case at hand the O-SII buffer assessed by the KNF shall not exceed the higher of the following levels:

- 1% of the total risk exposure amount calculated in accordance with Article 92 (3) of the CRR;
- the G-SII or O-SII buffer rate applicable to the relevant group at consolidated level.

This provision is important for the domestic banking sector, because part of this system consists of subsidiaries of foreign banking groups registered in the EU.

The buffer was not set for institutions with the score lower than 350 bps. For institutions which passed the threshold of 350 bps the O-SII buffer was calibrated using a proportional method. However after exceeding the limit size as well as limit scale and characteristics of operations by a given institution, the risk generated by this institution to both financial sector and the real economy increases in non-linear way. Thus, adoption of the maximum of the O-SII buffer requirement is justified. The information regarding the O-SII's buffer calibration in Poland is contained in Table 2.

Table 2
O-SII's indicator buffer calibration in Poland

Scoring according to mandatory indicators of the EBA Guidelines	O-SII buffer rate (as percentage of total risk exposure amount)
<0; 350)	0.00
<350; 700)	0.25
<700; 1050)	0.50
<1050; 1400)	0.75
<1400; 1750)	1.00
<1750; ∞)	2.00

Source: own elaboration

After the necessary calculations and appropriate proceedings, administrative decisions on identification of the twelve O-SIIs and application of the O-SII buffer were taken on 4th October 2016. The KNF has also indicated that the banks are required to maintain an O-SIIs buffer on individual and consolidated basis¹. For banks which are subsidiaries of EU parent institutions, the consolidation refers to the highest national level of prudential consolidation as stipulated in the CRR.

The final distribution of imposed O-SIIs buffers is presented in Table 3.

¹ The exception is SGB-Bank S.A., on which the KNF imposed O-SII buffer only on an individual basis, because the bank does not create a capital group.

Table 3

Other systematically important institutions in Poland

Lp.	Institution	Score	O-SII buffer rate (as percentage of total risk exposure amount)
1.	Powszechna Kasa Oszczędności Bank Polski S.A.	1 374	0.75
2.	Bank Polska Kasa Opieki S.A.	1 144	0.75
3.	Bank Zachodni WBK S.A.	983	0.50
4.	mBank S.A.	953	0.50
5.	ING Bank Śląski S.A.	765	0.50
6.	Bank Handlowy w Warszawie S.A.	580	0.25
7.	Bank Millennium S.A.	424	0.25
8.	Raiffeisen Bank Polska S.A.	404	0.25
9.	Bank BGŻ BNP Paribas S.A.	402	0.25
10.	Getin Noble Bank S.A.	386	0.25
11.	Bank Polskiej Spółdzielczości S.A. *	217	0
12.	SGB-Bank S.A.*	122	0

* Scoring calculated according to annual data of the entire IPS. O-SII's buffer applies only to the given associating bank.

Source: own calculations based on data from the KNF and the NBP