

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

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1. Notifying national authority	
1.1 Name of the notifying authority	Seðlabanki Íslands (Central Bank of Iceland)
2. Description of the measure	
2.1 Concerned institution or group of institutions	Arion banki hf. (LEI: RIL4VBPDB0M7Z3KXSF19) Íslandsbanki hf. (LEI: 549300PZMFIQR79Q0T97) Landsbankinn hf. (LEI: 549300TLZPT6JELDWM92) The measure is applied at the highest level of consolidation
2.2 Level of the buffer applied	Arion banki hf.: 2% CET1 Íslandsbanki hf.: 2% CET1 Landsbankinn hf.: 2% CET1
2.3 Name of the EU ultimate parent institution	The institutions are in all cases the ultimate parent institutions
2.4 Names of subsidiaries	Not applicable
3. Timing of the measure	
3.1 Timing of the Decision	28 September 2021
3.2 Timing of the Publication	29 September 2021
3.3 Disclosure	All information on decisions regarding capital buffers is available on the Central Bank's website, see here: <a href="https://www.cb.is/financial-stability/macprudential-policy/capital-buffers/">https://www.cb.is/financial-stability/macprudential-policy/capital-buffers/</a>

<b>3.4 Timing of Application</b>	The measure was introduced on 1 April 2016. The measure has now been reviewed and will continue to apply until next years' annual review of the measure.
<b>3.5 Phasing in</b>	The measure has already been activated and no phase in is foreseen.
<b>3.6 Review of the measure</b>	The measure will be reviewed during Q3 of 2022.
<b>4. Reason for O-SII identification and activation of the O-SII buffer</b>	
<b>4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)</b>	<p>The methodology of identifying systemic importance of institutions in Iceland is based on the EBA guidelines on the assessment of O-SIIs. One additional indicator is used to highlight the importance of the FX market for the Icelandic economy. The additional indicator, FX market turnover, is measured as the share of FX market transactions of the institution to total transactions from 1. January to 31 December of the preceding year. The indicator is included in the Importance category.</p> <p>Arion banki hf.:</p> <ul style="list-style-type: none"> <li>a. Size 2239</li> <li>b. Importance 2888</li> <li>c. Complexity 2914</li> <li>d. Interconnectedness 1368</li> </ul> <p>Overall score 2352</p> <p>Íslandsbanki hf.</p> <ul style="list-style-type: none"> <li>a. Size 2566</li> <li>b. Importance 3099</li> <li>c. Complexity 3801</li> <li>d. Interconnectedness 3331</li> </ul> <p>Overall score 3200</p> <p>Landsbankinn hf.</p> <ul style="list-style-type: none"> <li>a. Size 2986</li> <li>b. Importance 3332</li> <li>c. Complexity 2957</li> <li>d. Interconnectedness 2993</li> </ul> <p>Overall score 3067</p>
<b>4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)</b>	<ul style="list-style-type: none"> <li>a. Mandatory indicators in the EBA guidelines are used with the addition of one optional indicator under the Importance category.</li> <li>b. The default threshold is used, 350 points.</li> <li>c. See 4.1.</li> <li>d. Optional indicator, FX market turnover, is used and explained in 4.1.</li> <li>e. See 4.1.</li> <li>f. Optional indicator is not used to identify additional O-SII's but is rather used to measure the overall importance of all institutions which in turn is used to evaluate their overall score.</li> <li>g. No institutions are excluded from the identification process.</li> <li>h. Scores of relevant institutions not identified as O-SII are not published.</li> <li>i. The Housing Financing Fund is included in the calculations, but not identified as O-SII as the institution falls out of scope of the buffer requirement.</li> </ul>
<b>4.3 Supervisory judgement</b>	No institutions have been identified as O-SII through supervisory judgement.

<p><b>4.4 Calibrating the O-SII buffer</b></p>	<p>As all institutions identified as O-SII are well above the 350 points threshold, recommended by EBA guidelines, the maximum 2% buffer has been applied to O-SII banks.</p>
<p><b>4.5 Effectiveness and proportionality of measure</b></p>	<p>The combined size of the three institutions identified as O-SII represents about 78% of the assets of the domestic financial sector. The banks provide important services to the real economy, both to companies and households.</p> <p>The O-SII buffer applicable to Icelandic banks was calibrated accounting for the banks' systemic importance. The structure of the Icelandic financial sector is such that there are three very large and systemically important institutions that dominate the market with four very small savings and loans banks, mostly operating in rural areas, one small commercial bank and a few small financing companies. The failure of one of the O-SII could have widespread negative effects and result in contagion effects to other banks, due to deteriorating credit ratings, and access to foreign financial markets might be affected.</p> <p>Capital buffers reduce the risk of failure of systemically important institutions and thus the probability of negative effects on the real economy.</p> <p>Given the above considerations and the assessment of systemic importance according to the EBA guidelines, a 2% CET1 level of the O-SII buffer is considered effective and proportionate for all three banks identified as O-SIIs.</p>
<p><b>5. Cross-border and cross-sector impact of the measure</b></p>	
<p><b>5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)</b></p>	<p>Since Icelandic banks have very limited operations in member states of the EU, this measure is very unlikely to have any cross border effects or impact on the internal market. Also due to the fact that the buffer has been in effect since 2016 and remains unchanged.</p>
<p><b>5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b></p>	<p>Possible leakages are very unlikely. Since the O-SII buffer is applied at the highest consolidation level there are no risks of shifts in activity w.r.t. geographical location within groups. Also, the risk of reduced operations in order to be not classified as O-SII does not apply in Iceland since the reduction in operations would need to be extremely large. The banks affected by the measure already maintain the 2% CET1 capital to meet the O-SII buffer as it was introduced in full on 1 April 2016. The impact of the application of the O-SII buffer, at this time, is therefore assessed to be neutral w.r.t. lending growth and own funds requirements.</p>
<p><b>6. Combinations and interactions with other measures</b></p>	
<p><b>6.1 Combinations between G-SII and O-SII buffers (Article 131.14)</b></p>	<p>No G-SII institutions operate in Iceland and therefore no combinations of G-SII and O-SII buffers need to be considered.</p>
<p><b>6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)</b></p>	<p>The systemic risk buffer (SRB) has been implemented in Iceland.</p> <ul style="list-style-type: none"> <li>a. All three banks identified as O-SII also hold a 3% systemic risk buffer.</li> <li>b. The SRB applies to domestic exposures only.</li> <li>c. Both the O-SII buffer and SRB are applied at the highest consolidation level.</li> </ul>

<b>6.3 O-SII requirement for a subsidiary (Article 131.8)</b>	Not applicable.
<b>6.4 Interaction with other measures</b>	No other measures are used to address the same risk. The O-SII buffer is cumulative with the SRB as the SRB applies to domestic exposures only.

<b>7. Miscellaneous</b>	
<b>7.1 Contact person(s) at notifying authority</b>	<p>Mr. Jón Magnús Hannesson            Tel: +354 569 9600 – <a href="mailto:jon.magnus.hannesson@sedlabanki.is">jon.magnus.hannesson@sedlabanki.is</a></p> <p>Mr. Einar Jón Erlingsson            Tel: +354 569 9600 - <a href="mailto:einar.jon.erlingsson@sedlabanki.is">einar.jon.erlingsson@sedlabanki.is</a></p>
<b>7.2 Any other relevant information</b>	