

The procedure for identifying other systemically important credit institutions and capital buffer requirements for other systemically important credit institutions

Pursuant to item (15) of the Guidelines on the criteria to determine the conditions of application of Article 131, paragraph (3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (EBA/GL/2014/10) (hereinafter referred to as 'Guidelines'), adopted by the European Banking Authority (hereinafter referred to as 'EBA'), and Article 138 of the Credit Institutions Act, (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020, 146/2020 and 151/2022; hereinafter referred to as 'Act') the Croatian National Bank publishes on its website the Procedure for identifying other systemically important credit institutions and for capital buffer requirements for other systemically important credit institutions.

The Croatian National Bank, based on the Act, is obligated to identify other systemically important credit institutions (hereinafter referred to as 'O-SII') and determine O-SII buffer rates and post the elements of that procedure on its website. Article 131, paragraph (3) of Directive 2013/36/EU has been implemented into Article 138 of the Act, and it prescribes the conditions and the manner for identifying O-SIIs, while the Guidelines have been implemented into internal bylaws of the Croatian National Bank¹.

The Croatian National Bank revises at least annually the O-SIIs buffer and notifies the credit institution of the results of this revision and publishes on its website the updated list of identified O-SIIs.

A. The procedure for determining other systemically important credit institutions

1. Each year the Croatian National Bank as the designated authority identifies O-SIIs which it has authorised by using the standard scoring approach, supported by expert assessments of systemic importance of credit institutions. The assessment procedure starts with the collection of data, comprising the group of mandatory indicators (Table 1). The data are collected for balances or turnovers at the end of the quarter, on an unconsolidated basis and, where applicable, on a sub-consolidated and/or consolidated basis.
2. The Croatian National Bank calculates scores for each credit institution to identify a credit institution as an O-SII either on a:
 - consolidated basis and/or;

¹ [https://www.eba.europa.eu/sites/default/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20\(Guidelines%20on%20O-SIIs%20Assessment\).pdf](https://www.eba.europa.eu/sites/default/files/documents/10180/930752/964fa8c7-6f7c-431a-8c34-82d42d112d91/EBA-GL-2014-10%20(Guidelines%20on%20O-SIIs%20Assessment).pdf)

- individual basis and/or;
- sub-consolidated basis.

The Croatian National Bank identifies O-SIIs on an individual and/or sub-consolidated and/or consolidated basis, as applicable.

3. The scores for identifying a credit institution as an O-SII are calculated on the basis of a group of criteria for scoring systemic importance which consists of the following categories:
 - size of the credit institution;
 - importance for the economy of the Republic of Croatia or the European Union;
 - complexity of the credit institution and
 - interconnectedness of the credit institution with the financial system.
4. Each of the listed criteria consists of one or more mandatory indicators, shown in Table 1. The indicators within each criterion are weighted by the same weight factor compared to the other indicators within the same criterion.
5. If an individual indicator referred to in Table 1 is not available, an appropriate, substitute indicator is used. The substitute indicator used is selected by the Croatian National Bank.
6. The scores for identifying a credit institution as an O-SII are calculated for each credit institution in the following manner:
 - 6.1. The value of the indicator of each credit institution is divided by the sum total of individual indicator values in all credit institutions in the Republic of Croatia (relative indicator of importance).
 - 6.2. The relative indicators of importance referred to in item 6.1 are multiplied by 10.000 (ten thousand) so that they can be expressed in basis points.
 - 6.3. Basis points are then calculated for each credit institution for the categories referred to in item 3 so that a simple average of indicator scores within each of these categories is calculated.
 - 6.4. For each credit institution, summary scores are calculated as a simple average of the scores for each of the categories listed in item 3.
7. The Croatian National Bank identifies credit institutions as O-SII if the sum total of their scores equals or exceeds 275 basis points.
8. For the purposes of scoring referred to in item 6, indicators may include the values of indicators of branches in the member states or in third countries if the number of scores obtained adequately reflects the banking sector in the Republic of Croatia.
9. In the procedure of scoring third-country branches referred to in item 8, account may be taken of the following:

- overall relevance of third-country branches in the domestic banking system; and
- data availability, comparability and adequacy in terms of activities of third-country branches and their identification as O-SII, where this is relevant for the application of prudential requirements.

10. By way of derogation from item 8, the Croatian National Bank assesses whether an individual credit institution should be identified as an O-SII based on indicator scores in one of the categories referred to in item 3 and/or based on additional qualitative and/or quantitative indicators of systemic importance.

11. In the case referred to in item 10, the Croatian National Bank selects the indicators it considers to be adequately reflecting systemic risk in the domestic economy or the EU economy. The indicators shown in Table 1 or some of the substitute indicators specified in the Guidelines are used for this purpose.

12. No credit institution may be identified as an O-SII if its total number of scores equals or is below 4.5 (four and a half) basis points.

13. In the case where a credit institution with a score below the selected threshold of 275 basis points referred to in item 7 is identified as an O-SII, the Croatian National Bank posts on its web sites for such a credit institution the following information:

- the indicators used for identifying this credit institution as an O-SII;
- why these indicators are relevant in the Republic of Croatia;
- systemic importance of that credit institution from the point of view of an individual indicator or a number of indicators.

Table 1 Indicators of systemic importance classified according to the following criteria: K1 – size of the credit institution, K2 – importance of the credit institution for the economy of the Republic of Croatia, K3 – complexity of the credit institution, K4 – interconnectedness of the credit institution with the financial system:

Criterion	Indicator
K1	Total assets (balance sheet total)
K2	Total value of payment transactions in the Croatian Large Value Payment System by credit institution – credit transfers (outgoing payments)
K2	Loans and deposits (including electronic money) received from depositors from EU private (non-governmental and non-financial) sectors
K2	Loans and deposits granted to recipients from EU private (non-governmental and non-financial) sectors
K3	Contracted value of all non-standardised derivatives (except futures)
K3	Cross-border liabilities (liabilities of creditors outside Croatia)
K3	Cross-border receivables (receivables of creditors outside Croatia)
K4	Financial system liabilities
K4	Financial system assets
K4	Amount of issued debt securities

Source: CNB.

B. Expert assessment

The classification of credit institutions by means of the described scoring approach is subject to expert assessment, taking into account all available qualitative and quantitative information on system importance of individual institutions from the point of view of assessment of potential consequences that possible disturbances in such credit institutions would create in the system.

C. O-SII buffers

Pursuant to Article 137, paragraph (12) of the Act, the Croatian National Bank will issue a decision, identifying each O-SII and determining the O-SII buffer rates respectively. The Croatian National Bank determines the buffer rate for an O-SII within the legally permitted range in accordance with Article 137, paragraph (4) of the Act, taking into account the indicators of systemic importance, historical losses in the system and expert judgement, in relation to other macroprudential instruments as a segment of a coordinated central bank policy aimed at achieving and maintaining financial stability. The basis for determining the buffer rate is the equal expected impact method, wherein the level of the O-SII buffer is set with a view to equalising the expected impact of an O-SII's distress on the overall system with the potential impact of a non-O-SII's distress. Within the legally permitted range of 0% to 3%, the O-SII buffer rates may be classified in different classes, in accordance with an expert assessment.

In accordance with Article 137, paragraph (7) of this Act, an O-SII is obligated to maintain an O-SII buffer in the amount set by the Croatian National Bank, taking into account the applicable provisions of the Act.

D. Disclosure of information

After decisions on the identification of O-SIIs and O-SII buffer rates are delivered to individual OSIIIs, the Croatian National Bank will publish its web pages the list of identified O-SIIs.