

## **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(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (EBA/GL/2014/10) (Guidelines), adopted by the European Banking Authority (EBA), and Article 138 of the Credit Institutions Act, "OG 159/2013, 19/2015 and 102/2015, the Croatian National Bank posts on its web pages 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 Credit Institutions Act, is obligated to identify other systemically important credit institutions (O-SII) and determine O-SII buffer rates and post the elements of that procedure on its web pages. Article 131, paragraph (3) of Directive 2013/36/EU has been implemented into Article 138 of the Credit Institutions Act, and it prescribes the conditions and the manner for identifying O-SIIs and the Guidelines have been implemented into internal bylaws of the Croatian National Bank<sup>1</sup>.

The Croatian National Bank uses the standard scoring approach, supported by expert assessments of systemic importance of credit institutions.

### **A. The procedure for determining other systemically important credit institutions**

1 The Croatian National Bank identifies each year, O-SIIs which it has authorised. The procedure for assessing O-SIIs starts with the collection of data, comprising the group of mandatory indicators (Table 1). The data are collected at the end of the quarter, beginning on 31 December 2013, on an unconsolidated basis and, where available, on a 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;
- individual basis and/or;
- sub-consolidated basis.

The Croatian National Bank identifies O-SII on an individual and/or sub-consolidated and/or consolidated basis.

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 of the credit institution for the economy of the Republic of Croatia;
- complexity of the credit institution;
- interconnectedness of the credit institution with the financial system.

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<sup>1</sup> <http://www.eba.europa.eu/documents/10180/930752/EBA+GL+2014+10-Compliance+Table-Guidelines+on+Criteria+for+the+assessment+of+O-SIIS.pdf>

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 And finally, 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. This ensures adequate identification of credit institution according to the criterion of importance. Namely, below the threshold of 350 basis points recommended by the guidelines there is still a clearly distinct group of institutions considerably departing in terms of scores from other institutions and their individual scores are all lower than the standard threshold, ranging from 290 to 309 basis points. These credit institutions are estimated to possess the elements of systemic importance and therefore the threshold of 275 basis points has been set as the threshold above which credit institutions are identified as O-SIIs.

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:

1 overall relevance of third-country branches in the domestic banking system; and

2 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 sector or the EU economy. The indicators shown in Table 1 or some of the substitute indicators 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 amount)
K2	Total value of payment transactions in the Croatian Large Value Payment System by credit institutions - credit transfers (outgoing payments)
K2	Deposits and loans (including electronic money) received from depositors from private (non-government and non-financial ) sectors in the EU
K2	Deposits and loans given to receivers from private (non-government and non-financial) sectors in the EU.
K3	Notional value of all non-standard derivative financial instruments (all except <i>futures</i> )
K3	Cross-border payables (payables to creditors outside Croatia)
K3	Cross-border receivables (receivables from debtors outside Croatia)
K4	Liabilities in the financial system
K4	Assets in the financial system
K4	Stock of issued debt securities

Source: CNB.

## B. Supervisory expert opinion

The classification of credit institutions by means of the described scoring approach is subject to supervisory 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 generate in the system.

## C. O-SII buffers

Based on thus identified O-SII's, the Croatian National Bank determines the buffer rate which individual O-SII has to apply to cover this systemic risk adequately. Pursuant to Article 137, paragraph (9) of the Credit Institution Act, the Croatian National Bank will issue a decision, identifying each O-SII and determining by that decision the O-SII buffer rates respectively. The Croatian National Bank determines the buffer rate for an O-SII taking into account the indicators of

systemic importance, historical losses in the system and supervisory estimates, in relation to other macroprudential instruments as a segment of coordinated central bank policy the objective of which is to achieve and maintain financial stability<sup>2</sup>. The basis for determining the buffer rate is the method of equal expected impact, where the amount of the buffer is determined with a view to minimising the impact of disturbances of an O-SII on overall system. Within the legally permitted range of 0% to 2%, the O-SII buffer rates may be classified in different classes, in accordance with the expert opinion.

#### **D. Disclosure of information**

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

The Croatian National Bank revises at least annually the list of O-SIIs and the methodology for identifying O-SIIs and posts on its web pages the revised procedures relevant for the following year.

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<sup>2</sup> Financial Stability, No. 12, Box 5. Monitoring systemic risk and designing macroprudential policy, Croatian National Bank, regular publications, 2014 (<http://http://www.hnb.hr/publikac/financijska%20stabilnost/e-fs-12-2014.pdf>)