

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

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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, 151/2022 and 145/2024, hereinafter referred to as 'Act'), the Croatian National Bank publishes on its website the Procedure for identifying other systemically important credit institutions and capital buffer requirements for other systemically important credit institutions.

Based on the Act, the Croatian National Bank, is obligated to identify other systemically important credit institutions (hereinafter referred to as 'O-SII'), determine O-SII buffer rates and publish 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 prescribing the conditions and the manner for identifying O-SIIs, while the Guidelines have been implemented into internal bylaws of the Croatian National Bank.

The Croatian National Bank revises at least annually the systemic importance of credit institutions and the buffer for O-SIIs, notifies O-SIIs of the results of this revision and publishes on its website the updated list of identified O-SIIs and appropriate capital buffer requirements.

A. Standard scoring approach for identifying O-SIIs

1. As the designated authority, the Croatian National Bank identifies each year O-SIIs which it has authorised by using the standard scoring approach, supported by expert judgement 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 at the end of the year or turnovers during the year 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 on an unconsolidated and, where applicable, 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 (K1);
 - importance for the economy of the Republic of Croatia or the European Union (K2);
 - complexity of the credit institution (K3); and
 - interconnectedness of the credit institution with the financial system (K4).
4. Each of the listed categories consists of one or more mandatory indicators of size, importance for the economy of the Republic of Croatia or the European Union, complexity and interconnectedness of the credit institution with the overall financial system, shown in Table 1.
5. If an individual indicator referred to in Table 1 is not available, an appropriate, substitute indicator selected by the Croatian National Bank is used.
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.
 - 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. Points are then calculated for each credit institution for the categories referred to in item 3 by calculating a simple average of indicator scores within each of these categories.
 - 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. For the purposes of scoring referred to in item 6, indicators may include the values of indicators of branches authorised in the member states or in third countries, ensuring that the results of the scoring referred to in item 6.4 adequately reflect the structure of the banking sector in the Republic of Croatia.
8. Taking into account the overall importance of third country branches for the domestic banking system and the availability, comparability and adequacy of data on their activities, the scoring procedure referred to in item 6 may be applied to third country branches and where this is justified, they may be identified as O-SIIs.
9. The Croatian National Bank identifies credit institutions as O-SIIs if the sum total of their scores equals or exceeds 275 basis points.
10. The Croatian National Bank identifies O-SIIs on an individual and/or sub-consolidated and/or consolidated basis, as applicable.

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 RC and/or the EU, K3 – complexity of the credit institution, K4 – interconnectedness of the credit institution with the financial system.

Criterion	Indicators
K1	Total assets
K2	Value of domestic payment transactions
	Private sector deposits from depositors in the EU
	Private sector loans to recipients in the EU
K3	Value of OTC derivatives (notional)
	Cross-jurisdictional liabilities (liabilities towards creditors outside the Republic of Croatia)
	Cross-jurisdictional claims (claims from debtors outside the Republic of Croatia)
K4	Intra financial system liabilities
	Intra financial system assets
	Debt securities outstanding

Source: CNB.

B. Expert judgement

11. The classification of credit institutions according to the described scoring approach is supported by expert judgement based on additional information on the systemic importance of individual institutions from the point of view of the assessment of potential consequences that possible disturbances in the operation of such credit institutions would have on the financial system of the Republic of Croatia.
12. In the context of expert judgement, the Croatian National Bank assesses if a credit institution with a total score below the threshold of 275 points, based on the scoring of indicators in any of the categories referred to in item 3 and/or additional qualitative and/or quantitative indicators of systemic importance adequately reflecting systemic risk in the domestic economy or the economy of the EU given in the list of additional indicators in the Guidelines, should be identified as an O-SII.
13. Additional quantitative indicators of systemic importance serving as a starting point for identifying an O-SII based on expert judgement include:
 - 13.1. deposits guaranteed under deposit guarantee system;
 - 13.2. number of deposit accounts – retail; and
 - 13.3. number of deposit accounts – business.
14. The scores for additional quantitative indicators are calculated in accordance with items 6.1 and 6.2.

15. A credit institution with at least one indicator referred to in item 13 exceeding the threshold of 275 points may be identified as an O-SII based on expert judgement.
16. Expert judgement of the systemic importance of a credit institution referred to in items 13 to 15 of this Procedure is supported by additional qualitative indicators reflecting systemic risks associated with the reputation and other factors related to the credit institution and/or a group that the credit institution belongs to, and which may have an impact on a credit institution's stability.
17. Also, taking into account the principle of continuity and stability of capital requirements and the fact that the scoring procedure is based on a mechanical calculation of market shares of the indicators, which may fluctuate considerably, the status of an O-SII may be kept for two years after the scores of an O-SII based on the mandatory indicators calculated in the first round of assessment fell below the threshold of 275 points and/or after the conditions referred to in items 15 and 16 of this Procedure have not been met.
18. 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).
19. When a credit institution scoring below the threshold of 275 basis points based on a standardised scoring approach is identified as an O-SII based on expert judgement, the Croatian National Bank publishes for such a credit institution on its website the following information:
 - the indicators used for identifying this credit institution as an O-SII;
 - the systemic importance of that credit institution from the point of view of additional indicators used.

C. O-SII buffers

20. Pursuant to Article 137, paragraph (11) of the Act, the Croatian National Bank shall issue a decision identifying each O-SII and the buffer rate for each O-SII.
21. The Croatian National Bank determines the buffer rate for an O-SII 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 and their contribution to preserving financial system stability.
22. 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 expert judgement.

23. In accordance with the obligation referred to in Article 137, paragraph (6) of the Act, each O-SII shall 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

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