HRVATSKA NARODNA BANKA (HNB): NOTIFICATION OF THE EUROPEAN COMMISSION (EC), EUROPEAN BANKING AUTHORITY (EBA), EUROPEAN SYSTEMIC RISK BOARD (ESRB) AND COMPETENT OR DESIGNATED AUTHORITIES IN THE EU AND THIRD COUNTRIES ON THE INTENDED USE OF THE STRUCTURAL SYSTEMIC RISK BUFFER (SRB)

1. NOTIFYING NATIONAL AUTHORITY	
1.1 Categorisation of measures	Introduction of new SRB
1.2 Review of the SRB	Please see 1.1.
1.3 Notification of the intention to implement/move SRB up to 3%	Subgroup 1=1.5%; Subgroup 2=3% (subject to the "notification only procedure" according to Art 133.).
1.3 Notification of the intention to move SRB above 3%	Please see 1.3. above
1.4 Scope affected by the intended SRB	All credit institutions. SRB includes all exposures. Subgroup 1 includes credit institutions with lower level of complexity, whereas Subgroup 2 consists of high level of complexity credit institutions.
2. RATIONALE FOR ACTIVATION OF THE STRICTER NATIONAL MEASURE	
2.1 Description of structural systemic risk **(Article 133.1)**	At the moment, the prevailing systemic risks of structural character are related to: **(i)** Possible adverse consequences for the real economy and the whole financial system arising from disruptions in the operations of systemically important financial institutions (Subgroup 2), which are not adequately addressed by the domestic macro-prudential framework. **(ii)** Elevated structural macroeconomic imbalances that increase the probability of severe shocks to the financial system; particularly given the potential for adverse feedback loops between the real economy and performance of the banks in the Subgroup 2. **(iii)** Real-estate markets characterised by low turnover and liquidity complicating the exercise of collateral and increasing risks to the financial system arising from non-performing loans (Subgroups 1&2). **(iv)** The high level and continuous increase of the concentration in the financial sector (Subgroups 1&2).
2.2 Analysis of the potential to have serious negative consequences to the financial system and the real economy in your Member State	**Ad 2.1 (i), (ii) and (iv):** Since the SII buffers are to be implemented in 2016, this interim period lacks the full instrument set and HNB decided to use SRB as a substitute. Additionally, an interplay of macroeconomic imbalances specified under 2.1 (ii) above and systemic domestic institutions (specified in 2.1 (i) and (iv)) introduce risks related to common exposures and the structure of the banking sector in terms of size, concentration and interconnectedness. **Ad 2.1 (iii)** Both systemically important banks and banks of smaller systemic importance are exposed to the real estate market which is illiquid. As a result, it is difficult to exercise collateral.

2.3 Indicators used for activation of the measure	**Ad 2.1 (i)** indexes of complexity (relative size and relative RWA shares of credit institutions; expert judgment) **Ad 2.1 (ii)** relative macroeconomic imbalances assessed with European Commission's MIP Scoreboard data **Ad 2.1 (iii)** number of transactions in the real estate market **Ad 2.1 (iv)** Bank assets Hirschman-Herfindahl index
2.4 Justification of the scope of the SRB	The minimum of 1.5% SRB along with minimum capital ratio (8%) and capital conservation buffer of 2.5% amounts to 12% for 29 credit institutions (Subgroup 1). However due to more complex and larger operations (in terms of number of clients, sectoral and geographical dispersion of credit activity and amounts of loans outstanding) of credit institutions in Subgroup 2 (6 credit institutions) that could amplify potential shocks to the financial system arising from elevated level of macroeconomic imbalances, additional capital buffer is required. The quantification of the summary measure of complexity is based on the share of each institution's total assets on 31.12.2013, and institutions classified in Subgroup2 have the share larger than 5%. Difference in the SRB of 1.5 p.p. between the two groups of institutions is calibrated on the basis of the comparative analysis. Having in mind the voluntary capital buffers that these credit institutions have maintained historically (almost double capital buffer in relation to regulatory requirement until 31.12.2013) it is not expected that these measure will influence their potential for financial intermediation. Other macro-prudential buffers cannot address the issue sufficiently while their applicability is limited in 2014 (SII buffers are introduced later). Additionally, during this interim period the capital conservation buffer is not large enough to capture these risks).
3. DESCRIPTION OF THE SRB NOTIFIED	
3.2 combination with G-SII Buffer **(Articles 133.4/5)**	SII not applied.
3.3 Combinations with O-SII buffers (Article 133.4/5)	SII not applied.
3.3 combined buffer requirement **(Article 133-6 and Article 133-7)**	Please see 3.2 and 3.3
3.4 Suitability, effectiveness and proportionality of measure	Since the measure is to a large extent expected to help conserve current capital requirements, it is not creating a constraint on balance sheet expansion (please see 2.4). As a result, it is considered to have satisfied criteria of suitability and proportionality. Indicators to assess the effectiveness of the measure will be those set out in 2.1 and possibly additional indicators at disposal to HNB.

3.5 Assessment of likely impact on the internal market	The measure should not have a significant impact on the internal market as the overall capital requirement for institutions of higher complexity (Subgroup 2) is not significantly higher than the previous regulatory requirement. The expected spill-over effects to other Member States are virtually non-existent because Croatian banks have low cross-border exposures, particularly towards the non-financial sector.
3.6 Timing of the measure	The intended date of activation: 19 May 2014.
3.7 Duration of the measure	The envisaged duration of the measure: at least 2 years. Identified conditions for its deactivation prior to this period do not exist (please see 2.1), but there could be change in terms of scope (as noted in 1.4). All possible future revisions should take into account other aspects of CRR/CRDIV, primarily the introduction of SII buffers in 2016 and adjustment to liquidity standards in the 2016-2018 period.
3.8 Review	The review is planned to take place annually.
3.9 extension to other Member States (question 1.3.b)	Please see 1.3.
4. MISCELLANEOUS	
4.1 Disclosure **(Article 133)**	HNB intends to disclose the SRB in the Official Gazette and on its website, fully justifying the measure (according to Article 133; Credit Institution Act).
4.2 Contact person(s) at notifying authority	Mr Tomislav Ridzak, director, Financial Stability Department tomislav.ridzak@hnb.hr
4.3 Any other relevant information	Where measures agreed upon through the joint decisions on the risk-based capital adequacy by the College of Supervisors are legally binding, the Decision on SRB will not be applied.