

Reg. No: 83-020/23-01-18/DO
Zagreb, 23 January 2018

TO ALL CREDIT INSTITUTIONS

Subject: Implementation of Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 and Application of the Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01, 16 January 2018)

Dear Sir/Madam,

The European Parliament and the Council adopted Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State (OJ L 345, 27.12.2017; hereinafter: the Regulation).

The Regulation entered into force on 28 December 2017 (the first working day following the date of publication in the Official Journal of the European Union) and it provided transitional arrangements allowing credit institutions to mitigate the impact of the introduction of the International Financial Reporting Standard 9 Financial instruments (hereinafter: IFRS 9) on common equity tier 1 capital arising from expected credit loss accounting.

The impact of the introduction of IFRS 9 on common equity tier 1 capital is mitigated by adding the amount calculated in accordance with the Regulation to common equity tier 1 capital. However, it should be noted that credit institutions that decide to include in their common equity tier 1 capital the amount calculated in accordance with the Regulation shall be obligated to recalculate all requirements laid down in the Regulation and Directive 2013/36/EU that use any of the items under the Regulation by not taking into account the effects that the expected credit loss provisions that they included in their common equity tier 1 capital have on those items.

Furthermore, credit institutions that have decided to apply the transitional arrangements set out in the Regulation shall disclose the amounts of own funds, common equity tier 1 capital and tier 1 capital, the common equity tier 1 capital ratio, the tier 1 capital ratio, the total capital ratio and the leverage ratio they would have in case they were not to apply the Regulation.

With reference to the application of the Regulation, we hereby inform you that, pursuant to Article 1, paragraph (10) of the Regulation, the European Banking Authority (hereinafter: the EBA) on 16 January 2018 adopted the

Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01, 16 January 2018).

More specifically, in accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015 and 102/2015), the Croatian National Bank shall make every effort to comply with those guidelines and recommendations issued by the EBA in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

These guidelines specify the uniform disclosure format in accordance with which the disclosures required under Article 473a of Regulation (EU) No 575/2013 (hereinafter: the Capital Requirements Regulation) should be made.

The guidelines apply to institutions referred to in paragraph (1) of Article 473a of the Capital Requirements Regulation that are subject to all or part of the disclosure requirements specified in Part Eight of the Capital Requirements Regulation in accordance with Articles 6, 10 and 13 of the Capital Requirements Regulation. These guidelines apply during the transitional period from 20 March 2018 until the end of the transitional period referred to in paragraph (6) of Article 473a of the Capital Requirements Regulation.

The Croatian National Bank expects credit institutions to fully comply with the Guidelines in the part applicable to them. If a credit institution fails to comply with the applicable provisions of the Guidelines referred to in this circular, the Croatian National Bank will consider the need to impose supervisory measures to ensure compliance with the Guidelines.

The Regulation and the Guidelines are available on the following websites:

1. Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures

<http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1514452798162&uri=CELEX%3A32017R2395>

2. Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2018/01, 16 January 2018)

https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2084799/302d6722-c37b-4869-ba12-6d3b4a1092fb/Guidelines%20on%20uniform%20disclosure%20of%20IFRS%209%20transitional%20arrangements_EN.pdf?retry=1

In conclusion, please note that pursuant to the provisions of paragraph (9) of Article 1 of the Regulation, credit institutions are obligated to inform the Croatian National Bank by 1 February 2018 of their decision regarding the application of the transitional arrangements set out in the Regulation. Subject to the prior permission of the Croatian National Bank, credit institutions may reverse once their initial decision during the transitional period. Credit institutions are obligated to publicly disclose any decision taken in accordance with paragraph (9) of Article 1 of the Regulation.

Kind regards,

Damir Odak

Vicegovernor