



HNB

GUVERNER

Reg. No.: 348/020/20-3/BV

Zagreb, 21 April 2020

**TO ALL CREDIT INSTITUTIONS**

**Attention of: Management Board**

**Subject: Amendment to supervisory expectations, treatment of clients suffering consequences of the devastating earthquake that struck Croatia on 22 March 2020**

Dear Sir/Madam,

Further to the supervisory expectations sent to you on 19 March 2020 in relation to the disruption resulting from the coronavirus pandemic (our letter Reg. No. 180-020/19-03-20/BV), we would hereby like to inform you of the amendment to the aforementioned supervisory expectations that take into account the difficult living and working conditions of your clients resulting from the devastating earthquake that struck Croatia (Zagreb and its surroundings) on 22 March 2020, which may be reflected in the settling of their obligations to credit institutions.

The level of damage and the immediate consequences of the earthquake are so severe that they may result in the inability to regularly meet obligations, lack of liquidity and additional expenses for numerous natural persons and small and medium-sized enterprises; not even large enterprises are exempt from possible significant difficulties in their business operations. In that regard, the Croatian National Bank (hereinafter: the CNB) has decided to expand the scope of its supervisory expectations of 19 March 2020 by the following amendment:

**AMENDMENT TO SUPERVISORY EXPECTATIONS**

As a rule, the role of credit institutions in situations such as these is reflected in short-term urgent measures of granting moratoria/payment deferrals and similar forms of restructuring, as well as in granting new placements in order to mitigate short-term liquidity pressures on clients whose business is sustainable in the long term with an adequate level of historical data on the creditworthiness of particular exposure categories.

In order to stabilize the financial and social status of clients whose place of residence or business operations have been jeopardised by the devastating earthquake that struck Croatia on 22 March 2020, the CNB hereby instructs credit institutions to, by way of exception, classify existing and new exposures in the period from 31 March 2020 to 31 March 2021 according to the rules provided below.

The exposures of clients that are not natural persons and

- whose exposures were not classified into risk category B or C as at 31 December 2019 or who did not have obligations to credit institutions, and
  - who, as a result of the devastating consequences of the earthquake, cannot perform their business activity on their business premises due to either permanent or temporary inability to use the business premises, or
  - who have to bear significant costs to enable their business premises to meet the minimum criteria for performing their registered activity, and who may not realistically be expected to acquire the necessary funds independently
- and to whom the credit institution granted
- deferred payment,
  - other measures for restructuring exposures, or
  - new exposures (to existing or new clients)
- may be allocated to risk category A during the aforementioned period, i.e. they do not have to be reported as non-performing exposures (NPEs) as long as the client is not more than 90 days past due on any material obligation.

Furthermore, credit institutions may classify exposures to natural persons during the aforementioned period into risk category A, meaning that they do not have to report such exposures as non-performing exposures (NPEs) as long as the client who is a natural person is not more than 90 days past due on any material obligation in cases where:

- the exposures of the natural person were not classified into risk category B or C as at 31 December 2019;
  - the natural person is the owner of real estate or a member of the household with a registered place of residence identified in preliminary damage assessment as temporarily or permanently uninhabitable; or where
  - inhabitable real estate was identified as having suffered significant damage which, in order to be repaired, requires a significant amount of funds/where the clients may not be realistically expected to finance the costs of reparation independently
- and where the credit institution granted to the client:
- deferred payment,
  - other measures for restructuring exposures, or
  - new exposures.

The aforementioned new exposures to all clients refer exclusively to the dedicated financing of real estate renovation and housing- or business-related expenses arising from the inability of further safe use of residential or commercial real estate damaged in the earthquake that struck Croatia (Zagreb and its surroundings) on 22 March 2020 over the next 12 months.

Credit institutions are expected to run a re-assessment of the classification of all exposures referred to above with the reporting date of 30 June 2021, and to include an assessment of a debtor's ability to fully meet their obligations.

The Croatian National Bank will continue to adjust, where necessary, measures aimed at credit institutions to allow them to develop an adequate approach to re-defining their business relationships to clients in these exceptional circumstances.

Kind regards,

**Boris Vujčić**  
**Governor**