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Zagreb, 10 June 2019

TO ALL CREDIT INSTITUTIONS
Attention of: Management Board

Subject: Application of the Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)

Dear Sir/Madam,

We hereby draw your attention to the fact that the European Banking Authority (hereinafter: the EBA) on 31 October 2018 issued the **Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)**; hereinafter: the NPL guidelines)¹.

In accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015 and 15/2018), the Croatian National Bank (hereinafter: the CNB) shall make every effort to comply with those guidelines and recommendations issued by the European Banking Authority in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

The objective of the NPL guidelines is to ensure the application of sound risk management practices for credit institutions for managing non-performing and forborne exposures and to provide competent authorities a harmonised approach to assessing credit institutions' risk management practices, policies, processes and procedures for managing non-performing and forborne exposures as part of the supervisory review and evaluation process (SREP). The CNB has recognised the management of non-performing and forborne exposures as a particular area of supervisory attention and expects credit institutions to give special attention to the application of the NPL guidelines.

The NPL guidelines apply from 30 June 2019. For the first application of the NPL guidelines, credit institutions should calculate their non-performing loan (NPL) ratios using the reference date of 31 December 2018. In accordance with the provisions of paragraphs 11 to 16 of the NPL guidelines, we emphasize that all credit institutions in the RC should apply sections 6 to 9 of the NPL guidelines, whereas credit institutions with a gross NPL ratio equal to or greater than 5% on a solo or sub-consolidated level should also apply sections 4 and 5 of the NPL guidelines. Where credit institutions have a gross NPL ratio below the 5% level but have a high share or material amount of non-performing exposures in an individual portfolio or individual portfolios with a specific concentration of non-performing exposures in a geographical region, an economic sector or a group of connected clients, competent authorities may require credit institutions to apply sections 4 and 5 of the NPL guidelines at the level of these portfolios.

¹ The NPL guidelines are available on the EBA's website at the following link:
<https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2425705/371ff4ba-d7db-4fa9-a3c7-231cb9c2a26a/Final%20Guidelines%20on%20management%20of%20non-performing%20and%20forborne%20exposures.pdf>

Accordingly, taking into account the gross NPL ratio on the reference date of 31 December 2018, we note that all credit institutions in the RC (with the exception of housing savings banks) are expected to apply sections 4 and 5 of the NPL Guidelines. Also, credit institutions are expected to analyse the applicability of the best practices related to the criteria for grouping retail non-performing exposures, benchmarks for NPL monitoring, collecting information on borrowers from external and internal sources, NPL-related policies and possible forbearance measures as referred to in Annexes 1 to 5 of the NPL guidelines and to implement them.

Furthermore, by **1 September 2019 at the latest**, please provide a strategy for non-performing exposures (hereinafter: the NPL strategy), which is fully aligned with the provisions of section 4 of the NPL guidelines. In that document, credit institutions are expected to develop the NPL strategy for short-, medium- and long-term time horizons. The NPL strategy/NPL operational plan should cover quantitative targets for main NPL portfolios and significant NPL clients.

Also, to assess the current status of compliance with the NPL guidelines and activities planned by credit institutions, a questionnaire has been made to collect relevant information from all credit institutions in the RC. If you have already adopted and delivered to the CNB a NPL strategy that is fully compliant with the NPL guidelines, please refer to that document when delivering the completed questionnaire on the status of compliance with the NPL guidelines.

To facilitate its completion, we will forward the questionnaire in electronic format to the persons appointed for completing the questionnaire. Please provide contact data of the appointed persons as soon as possible (at the latest within 7 days) after receiving this circular and send the completed questionnaire in electronic format by 12 July 2019 at the latest to the following e-mail address: NPLsmjernice@hnb.hr. Any questions related to the completion of the questionnaire should be submitted to the same e-mail addresses.

Paragraph 189 of the NPL guidelines specifies that competent authorities should define a common threshold for the individual valuation of the collaterals used for non-performing exposures by an independent appraiser. This threshold should be applicable to all credit institutions in the RC and should be publicly disclosed. In this regard, after analysing the questionnaire, the CNB will set a threshold for the individual valuation of the collaterals used for non-performing exposures and will publicly disclose it by the end of 2019.

Finally, we invite representatives of your credit institution to attend a **presentation on the new NPL guidelines**, which will be held at the CNB's premises in Jurišićeva 17 on **2 July 2019, starting at 10 a.m.** The names of your credit institution's representatives who will attend the presentation should be forwarded by the end of the working day on 17 June 2019 at the latest, to ensure their access to the CNB's premises.

Kind regards,

Martina Drvar

Vicegovernor