



HNB

GUVERNER

Registry number: 180-020/19-03-20/BV

Zagreb, 19 March 2020

TO ALL CREDIT INSTITUTIONS

To the knowledge of: Management Board

Subject: Adjustments of certain supervisory activities, extension of deadlines for the implementation of supervisory measures and supervisory expectations regarding the classification of exposures in response to coronavirus pandemic

Dear Sir/Madam,

With regard to the economic disruption caused by the coronavirus pandemic, and following the communications¹ from the European Banking Supervisory Authority (hereinafter: the EBA) and the European Central Bank (hereinafter: the ECB), we would like to inform you about the following measures:

- adjustments of certain supervisory activities,
- extension of deadlines for the implementation of supervisory measures; and
- supervisory expectations related to
 - classification of exposures; and
 - fulfilment of the liquidity coverage ratio (LCR) requirement

that the Croatian National Bank (hereinafter: the CNB) plans to carry out.

ADJUSTMENT OF CERTAIN SUPERVISORY ACTIVITIES

From 20th of March until the recall, the CNB shall suspend the following supervisory activities undertaken with respect to or announced to credit institutions:

- supervisory stress testing and reviewing and imposing Pillar II Guidance,
- on-site inspections, except in duly justified circumstances; and
- ECL model estimation.

¹ EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector (link: <https://eba.europa.eu/eba-statement-actions-mitigate-impact-covid-19-eu-banking-sector>);

ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus (link: <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200312~43351ac3ac.en.html>).

EXTENSION OF DEADLINES FOR THE IMPLEMENTATION OF SUPERVISORY MEASURES

The CNB, within its supervisory dialogue with individual credit institutions, will consider the need to adjust the timetables for the implementation of supervisory measures.

At this point, the CNB does not consider necessary to modify in any way the deadlines for the submission of supervisory reports.

SUPERVISORY EXPECTATIONS

Credit institutions are instructed to exceptionally classify, from 20 March 2020 to 31 March 2021, their existing and new exposures in the manner described below with the view to safeguard and maintain the liquidity of the economic system of the Republic of Croatia, ensure sustainable economic activity and preserve jobs, which are threatened by the coronavirus pandemic.

A credit institution may, in the above-mentioned period, exposures to legal persons:

- not classified in risk category B or C on 31 December 2019 or exposures to legal person which had no obligations to credit institutions, and
- which business operation or revenue generation has already been affected (realised revenue decline in March 2020 compared to March 2019) or is expected to be affected (expected revenue for 2020, including newly emerging circumstances, is lower than projected revenue for the year 2020) by coronavirus pandemic,

and to which the credit institution granted:

- deferred payment,
- other measures for restructuring exposures, or
- new specified exposures (to existing or new clients)

assign to risk category A, meaning that those exposures do not have to be reported as non-performing exposures (NPEs), as long as those clients are not past due more than 90 days on any material credit obligation.

The credit institution may, in the above mentioned period, classify exposures to natural persons in risk category A, meaning that those exposures do not have to be reported as non-performing exposures (NPEs) as long as the clients - natural persons are not past due more than 90 days on any material credit obligation and if:

- exposures to natural persons on 31 December 2019 were not classified in risk category B or C
- the natural person is employed by an entrepreneur whose business operations or generated revenue has already been affected (realised revenue decline in March 2020 compared to March 2019) or is expected to be affected (expected revenue for 2020, including newly emerging circumstances, is lower than projected revenue for the year 2020) by coronavirus pandemic,

and the credit institution approved:

- deferred payment,
- other measures for restructuring exposures, or
- new exposures.

Above mentioned new specified exposures to all clients relate solely to (i) dedicated financing for maintaining the continuity of the client's business and employment and (ii) financing of unforeseen operating expenses due to the coronavirus pandemic.

Credit institutions are expected to make a new assessment of the classification of all exposures with reporting date of 30th of June 2021, and to include an assessment whether the obligor will be able to fully meet its obligations.

The CNB enables credit institutions to adopt a decision by which they will not take enforcement measures (foreclosure, activation of collateral) to collect the debt of their obligors (natural and legal persons) who, in the period of three consecutive months, starting from April 2020, fail to settle three instalments/annuities of their credit obligations; and the same will not effect the classification of those exposures as non-performing.

Given that the LCR serves to preserve the liquidity of credit institutions in stress situations, credit institutions are allowed to use temporarily, in the aforementioned period, their liquidity buffers to support and maintain the liquidity of the economic system of the Republic of Croatia.

In this regard, the CNB will individually order each credit institution to retain its net profit generated in 2019. At the same time, the CNB expects credit institutions to appropriately adjust their variable remuneration payments.

CONCLUSION

Given high level of capitalisation and liquidity of credit institutions as a whole, the meeting of the above-mentioned supervisory expectations should mitigate the negative impact of the coronavirus pandemic on economic activity in the Republic of Croatia.

The CNB believes that banks should play a key role in order for the coronavirus pandemic not to turn into a social and economic crisis, and therefore the CNB has decided to apply more flexible approach in the application of the existing regulatory framework in these exceptional circumstances, with the aim of enabling banks to fulfil their key role in maintaining the liquidity of the real sector.

In conclusion, the CNB will continue to ensure, through its monetary measures, the safety and stability of credit institutions in the Republic of Croatia.

Kind regards,

Boris Vujčić
Governor