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Reg. No.: 348/020/20-10/MD
Zagreb, 23 December 2020

TO ALL CREDIT INSTITUTIONS
Attention of: Management Board

Subject: Implementation of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/15)

Dear Sir/Madam,

Further to the circulars sent to credit institutions by the Croatian National Bank (hereinafter: the CNB) since the start of the coronavirus pandemic in relation to:

- the classification of exposures (*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* – Reg. No. 180-020/19-03-20/BV; hereinafter: the March circular) and
- the reclassification of exposures (*Addendum to the Circular of the Croatian National Bank (Reg. No. 180-020/19-03-20/BV) dated 19 March 2020 on the COVID-19 pandemic in the context of the subsequently published documents of the European Banking Authority and the European Securities and Markets Authority* – Reg. No. 348/020/20-7/BV; hereinafter: the May circular),
- as well as the *Implementation of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02)* – Reg. No. 348/020/20-8/MD of 3 June 2020 (hereinafter: the June circular).

we would hereby like to inform you of amendments to Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/15) (hereinafter: Amended EBA Guidelines) issued by the European Banking Authority (hereinafter: EBA) on 2 December 2020 and demonstrate the manner in which credit institutions are expected to implement the provisions of EBA Guidelines in their operations.

The requirements defined by Amended EBA Guidelines and CNB expectations related to their implementation by credit institutions in the Republic of Croatia are specified below.

REQUIREMENTS SET OUT IN AMENDED EBA GUIDELINES

In accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019 and 47/2020), the Croatian National Bank (hereinafter: CNB) is obliged to make every effort to comply with the guidelines and recommendations issued by the EBA in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

EBA Guidelines were issued on 2 April 2020 in the light of the outbreak of the COVID-19 pandemic and the measures that have been adopted in many countries across the globe and in the European Union (EU), and include some forms of moratorium on payments of credit obligations with the aim of supporting the short-term operational and liquidity challenges faced by the borrowers. EBA Guidelines aim to clarify the application of the definition of default in accordance with Article 178 of Regulation (EU) No 575/2013 (hereinafter: the Regulation) and classification of forbearance in accordance with Article 47b of the Regulation, for moratoria complying with the conditions of EBA Guidelines. EBA Guidelines were applied to moratoria concluded by 30 Jun 2020. However, as a result of the early reaction to the coronavirus pandemic, the CNB diverged from that deadline, as specified in the June circular, i.e. set the deadline for the application of the "preferential treatment" until 31 March 2021.

On 25 June 2020, EBA issued EBA/GL/2020/08, extending the deadline for application of EBA Guidelines to 30 September 2020.

However, due to the second wave of the corona pandemic, the EBA issued Amended EBA Guidelines (EBA/GL/2020/15) on 2 December 2020. Namely, the EBA recognised that the lockdown of the economy increases the risk that some obligors may become insolvent and that long-term payment difficulties of obligors may not be recognised in banks' balance sheet in a timely manner. Considering how important it is to ensure that this risk continues to be reflected in banks' capital positions, the reactivation of guidelines is conditioned by additional constraints.

Amendments to EBA Guidelines of 2 December 2020 are reflected in the following:

- the deadline for application was extended so EBA Guidelines apply to moratoria concluded by 31 March 2021;
- a new criterion was introduced, restricting the duration of the moratoria granted pursuant to EBA Guidelines to not more than 9 months. The said constraint relates to all new loan agreements with changes in payment schedules and are a result of the first application of moratoria and exposures relating to pandemic outbreak provided they meet the conditions of EBA Guidelines and were agreed between 1 October 2020 and 31 March 2021. The 9-month cap requirement also applies to earlier granted moratoria pursuant to EBA Guidelines for which a change in the schedule of payments was agreed after 30 September 2020. The set cap does not apply to agreements concluded prior to 1 October 2020 in relation to which there will be no subsequent changes in the schedule of payments after that deadline.

- the obligation to notify the relevant competent authority and submit plans detailing the process, sources of information and responsibilities in the context of the assessment of potential unlikelihood that the obligor will fully settle their obligations subject to the moratorium was also supplemented;
- transitional arrangements were specified for exposures for which changes in the schedule of payments were agreed between 1 October and 1 December 2020, i.e. prior to the date of application of the Amended EBA Guidelines, and which were classified as defaulted due to distressed restructuring and/or forbore. Credit institutions may revise earlier classification of these exposures and if all of the conditions of Amended EBA Guidelines are met, the treatment set out in EBA Guidelines can be applied to this exposure, thus revising its earlier classification.

In addition, EBA Guidelines remind that credit institutions must continue adequately identifying situations in which borrowers may face long-term financial difficulties and classify exposures in accordance with existing regulations.

CNB EXPECTATIONS

The CNB expects credit institutions granting moratoria on loan repayments to fully implement the Amended EBA Guidelines.

CONCLUSION

EBA Guidelines are available at the following link:

https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/GL%20amending%20EBA-GL-2020-02%20on%20payment%20moratoria/960349/Final%20report%20on%20EBA-GL-2020-02%20Guidelines%20on%20payment%20moratoria%20-%20consolidated%20version.pdf

Kind regards,

Martina Drvar

Vicegovernor