

Press release

5 June 2020

ECB concludes comprehensive assessment of five Croatian banks

- Comprehensive assessment follows Croatia's request for close cooperation with ECB
- Asset quality review and stress test conducted for each bank
- Exercise did not reveal any capital shortfalls

The European Central Bank (ECB) has today published the results of a comprehensive assessment of five Croatian banks, following Croatia's request to establish close cooperation between the ECB and Hrvatska narodna banka (the central bank of Croatia). A comprehensive assessment is required as part of the process of establishing close cooperation between the ECB and the national competent authority of an EU Member State whose currency is not the euro.

The comprehensive assessment covered Zagrebačka banka, Privredna banka Zagreb, Erste & Steiermärkische Bank, OTP banka Hrvatska and Hrvatska poštanska banka, all of which consented to the disclosure of the exercise's findings.

The exercise comprised an asset quality review (AQR) and a stress test, both of which were based on the methodologies applied by ECB Banking Supervision in its regular comprehensive assessments of banks that have recently been classified as significant or could potentially become significant.

The AQR is a prudential rather than an accounting exercise, and provides the ECB with a point-in-time assessment of the carrying values of banks' assets on a particular date (30 June 2019 for the five Croatian banks). The AQR also determines whether there is a need to strengthen a bank's capital base. The AQR for the Croatian banks was carried out on the basis of the ECB's [latest version of the AQR methodology](#), which was published in June 2018.

The AQR was complemented by a stress test exercise, which looked at how the banks' capital positions would evolve under a baseline scenario and an adverse scenario over the three-year period from mid-2019 to mid-2022. That stress test was conducted using the methodology applied in the European Banking Authority's 2018 stress test. The baseline scenario was updated with the most

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recent projections at the start of the exercise (mainly the June 2019 ECB staff macroeconomic projections for the euro area and the IMF's April 2019 World Economic Outlook). The assumptions used for the stress test scenarios could not take into account the current COVID-19 crisis, which only started to evolve in the first quarter of 2020. The ECB is currently working on a consistent approach for all supervised entities in order to monitor the impact of the COVID-19 crisis. The same approach will be followed for Croatian banks should close cooperation with Croatia begin.

The threshold ratios applied for identifying capital shortfalls were maintained at the same levels as in previous exercises: a Common Equity Tier 1 (CET1) ratio of 8% for the AQR and the stress test's baseline scenario, and a CET1 ratio of 5.5% for the stress test's adverse scenario. The CET1 ratio is a key measure of a bank's financial soundness.

The comprehensive assessment shows that the five banks do not face any capital shortfalls as they did not fall below the relevant thresholds used in the AQR and the stress test. A summary of the results for the five participating banks can be found in Table 1 below.

Table 1

Evolution of CET1 ratios and resulting capital needs

Bank name	Initial CET1 ratio ⁽¹⁾	CET1 ratio post-AQR ⁽¹⁾	CET1 ratio in baseline scenario ⁽²⁾	CET1 ratio in adverse scenario ⁽²⁾	CET1 shortfall
	(%)	(%)	(%)	(%)	(EUR millions)
Zagrebačka banka	21.28%	21.14%	20.46%	13.94%	0
Privredna banka Zagreb	21.78%	21.77%	22.01%	16.40%	0
Erste & Steiermärkische Bank	17.55%	16.95%	17.96%	11.29%	0
OTP banka Hrvatska	20.27%	20.15%	18.85%	8.35%	0
Hrvatska poštanska banka	20.24%	18.69%	18.85%	6.30%	0

(1) CET1 ratio as at 30 June 2019.

(2) Lowest CET1 ratio over the three-year horizon of the stress test.

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Detailed results and information on the outcome of this exercise can be found on the ECB's banking supervision website.

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