



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

Ms Paloma López Bermejo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 08 November 2016

Re: Your letter (QZ095)

Honourable Member of the European Parliament, dear Ms López Bermejo,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 October 2016.

In your letter, you enquired about why the results of the 2016 European Banking Authority (EBA) stress test for Deutsche Bank included the sale of its stake in the Chinese legal entity Hua Xia, which was agreed on 28 December 2015 and will be closed in 2016.

Stress tests are conducted, to a large extent, on the basis of historical data reported in stress test templates, for example on the administrative expenses of a bank. These data sometimes do not fully reflect relevant changes to the business of an institution that were implemented before the reference date of a stress test. Such changes could relate, for instance, to mergers, restructuring measures or asset disposals. This is why adjustments to the historical data to take account of one-off events are permitted by the EBA methodology for a narrow set of cases. These adjustments are designed to avoid distortion of the results of the forward-looking stress test. In this way, one-off adjustments make stress test results more realistic and, therefore, improve their usability for supervisory purposes.

Before the end of 2015, Deutsche Bank had completed the divestment of its stake in Hua Xia to the extent that it had entered into a binding sale contract with the buyer (PICC Property and Casualty Company, Ltd.), and Deutsche Bank reflected this fact in its 2015 annual accounts. The sale was therefore considered to be completed in this sense. The closing of the transaction was expected in 2016, as stated in the footnote to Deutsche Bank's published stress test results. Prior to the finalisation of the stress test, ECB Banking Supervision had received sufficient confirmation from the competent Chinese authorities to deem the closure in 2016 a formality and the requirements for approval in line with the EBA methodology fulfilled. Accordingly, the Supervisory Board of the ECB approved the one-off adjustment. The review by the EBA's Board of Supervisors confirmed this assessment. Let me also emphasise that we have been fully transparent

regarding the application of one-off adjustments, as they were published by the EBA on 29 July 2016 in the form of footnotes to the results of the stress test.

For the approval of one-off exemptions the ECB ensured a level playing field by applying the rules of the EBA methodology equally to all significant institutions. Each case was thoroughly assessed against the methodology's eligibility criteria for a one-off exemption. All applications for one-off exemptions that did not meet the eligibility requirements were rejected, while those which had been approved were published together with the results.

The names of the institutions for which one-off adjustments were approved, as well as information regarding the impact of these adjustments on their projected profit and loss statement under the stress test, are available as part of the official publication of the results on the EBA website. According to the EBA 2016 EU-wide stress test report¹, 21 out of the 51 EU banks participating in the EBA 2016 stress test were granted one-off adjustments. The 37 significant institutions participating in the EBA 2016 stress test submitted 46 requests, of which 38 were approved.

Regarding your question on the relationship between the EBA stress test results and the systemic risk posed by a bank to the wider economy, I would like to underline that the stress test results are not an adequate tool to assess such risk. The stress test focuses on the risks for the participating bank itself rather than the risk that the bank poses to the economy at large.

Yours sincerely,

Danièle Nouy

¹ <https://www.eba.europa.eu/documents/10180/1532819/2016-EU-wide-stress-test-Results.pdf>