EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Ms Romana Tomc
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 24 June 2016

Re: Your letter (QZ069)

Honourable Member of the European Parliament, dear Ms Tomc,

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 17 June 2016.

While we recognise the challenges in defining stress test scenarios and methodologies, we do not consider ex-post comparisons between stress test projections and conditions that subsequently materialised to be an appropriate way to assess the quality of a stress test. Stress tests are not forecasts of future events, but prudential exercises to determine whether banks are sufficiently capitalised to withstand severe but potentially realistic macroeconomic developments that would increase the risks to which these banks are exposed. Whether these risks will actually materialise in the short run is uncertain by definition. Therefore, an ex post observation that the risks did not materialise (or only partially materialised) does not negate the need to ensure that banks are prepared for a scenario in which they do.

The baseline scenario used in the 2014 comprehensive assessment was provided by the European Commission and reflected then-prevailing official macroeconomic forecasts, while the adverse scenario represented a severe economic downturn triggered by a materialisation of the main economic risks identified by the European Systemic Risk Board (ESRB). The stress test methodology published by the European Banking Authority was applied consistently to all relevant banks and was subject to thorough quality assurance by the ECB and the national competent authorities (NCAs). Based on the reasoning outlined above, we do not consider the circumstances you describe in your letter as evidence of flaws in the scenarios or the methodology.

In the 2014 comprehensive assessment, Nova Ljubljanska Banka d.d. and Nova Kreditna Banka Maribor d.d. were found to have Common Equity Tier 1 capital ratios slightly below the defined threshold of 5.5% under the adverse scenario. The impact of the restructuring measures to improve structural profitability and the maintenance of retained earnings in banks taken prior to the publication of the results of the comprehensive assessment was assessed as sufficient to cover the shortfalls identified. In the hypothetical case of a capital

European Central Bank
60640 Frankfurt am Main

Tel.: +49 69 1344 0
E-mail: info@ecb.europa.eu
Website: www.bankingsupervision.europa.eu

shortfall exceeding the positive impact of the restructuring measures (e.g. owing to a lower level of starting capital or an increase in the bank’s vulnerability compared with that demonstrated in the exercise), capital plans detailing measures for covering the capital shortfall would have been requested from the banks.

To conclude, the 2014 comprehensive assessment was a robust exercise delivered in a consistent manner. The harmonised methodology and the thorough quality assurance process conducted by the ECB and the NCAs assure the quality and credibility of the results.

Yours sincerely,

[signed]

Danièle Nouy