



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Nicola Caputo
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 08 November 2016

Re: Your letter (QZ096)

Honourable Member of the European Parliament, dear Mr Caputo,

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. The Supervisory Board decided on one-offs in relation to significant institutions, applying the relevant provisions

of the EBA methodology¹ consistently. The decision on the approval of each one-off exemption was based on a thorough assessment by the relevant joint supervisory team (JST), supported by horizontal functions within the ECB and the NCAs. This process ensured a level playing field for all significant institutions. The review by the EBA Board of Supervisors subsequently confirmed the Supervisory Board's approval of the one-off exemption in the case of the sale of the Hua Xia stake, as well as all other recognised one-offs. Furthermore, the Supervisory Board reviewed and endorsed the results for each significant institution participating in the EBA's 2016 EU-wide stress test exercise, including the recognised one-offs, and the Governing Council, in its turn, gave final approval via the non-objection procedure. 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 tests.

Yours sincerely,

[signed]

Danièle Nouy

¹ <https://www.eba.europa.eu/documents/10180/1259315/2016+EU-wide+stress+test-Methodological+note.pdf>