EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

President of the German Bundestag
Dr Wolfgang Schäuble MdB
Platz der Republik 1
11011 Berlin

Frankfurt am Main, 27 May 2019

Re: Your letter of 11 April 2019

Honourable President, dear Dr Schäuble,

Thank you for your letter, in which you submit a question from Dr Bayaz, Member of the German Parliament, in line with the right of national parliaments to put questions to ECB Banking Supervision.[1]

Dr Bayaz's question on a possible merger between Deutsche Bank and Commerzbank – exploratory talks for which have, in the meanwhile, been terminated by the parties involved – touches on a range of issues, some of which I have addressed in a reply to a letter from MEP Viegas, dated 19 March 2019.[2] While I cannot comment on individual credit institutions, I should like to highlight that ECB Banking Supervision would assess the viability and sustainability of any proposed merger to ensure that the resulting banking group was able to comply, continuously, with all prudential requirements in the foreseeable future.

This means that ECB Banking Supervision would examine the ability of the prospective entity to: (i) deliver a credible business plan that is capable of generating sustainable profits in the future; (ii) ensure sound governance with proper steering and execution capabilities; and (iii) maintain adequate levels of capital and liquidity, commensurate with the resulting entity's risk profile and the buffers needed to manage execution risks. More specifically, as part of the assessment, ECB Banking Supervision would analyse the drivers and components of the business plan, as well as project execution. In this context, the role of key stakeholders, such as investors, credit rating agencies and others relevant to the successful execution of a merger, would also be considered.

Regarding the question on whether ECB Banking Supervision would recognise any "badwill" that is generated in a merger, allow me to point out that badwill could increase the acquirer's Common Equity Tier 1 capital (CET1). As CET1 items need to be available for unrestricted and immediate use, supervisors should have sufficient confidence that the valuation of the assets and liabilities in the transaction has been performed properly. If needed, ECB Banking Supervision may use its supervisory powers under the Pillar 2

[1] In line with Article 21(2) of Council Regulation (EU) No 1024/2013.

[2] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter190321_Viegas~149b488400.en.pdf.

framework to impose targeted supervisory measures based on a case-by-case assessment. These measures, for example, include (partially) filtering badwill from CET1 and restricting distributions related to the amount of badwill.

Yours sincerely,

[signed]

Andrea Enria