EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Dimitrios Papadimoulis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 3 November 2014

L/MD/14/457

Re: Your letter

Honourable Member of the European Parliament, dear Mr Papadimoulis,

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 25 September 2014.

A uniform methodology was applied in a consistent way to all banks included in the Comprehensive Assessment, which consisted of an Asset Quality Review (AQR) and a stress test (ST). In the AQR, the carrying value of assets in the participating banks' balance sheets as at 31 December 2013 was reviewed, focussing on the adequacy of the asset and collateral valuation and on related provisions. The ST examined the resilience of banks' balance sheets to stress scenarios. Its adverse scenario reflected systemic risks to the stability of the banking sector, such as (i) an increase in global bond yields, (ii) a further deterioration of credit quality in countries with feeble demand, weak fundamentals and still vulnerable banking sectors, (iii) stalling policy reforms jeopardising confidence in the sustainability of public finances and (iv) the lack of necessary bank balance sheet repair to maintain affordable market funding. These risks were translated into country-specific financial and economic shocks such as house price shocks, sovereign bond spread shocks or shocks to borrowing costs for households and corporates.

How bank assets, especially euro area sovereign bonds, were assessed in the ST depended on the classification of these assets for accounting purposes. For the treatment of positions held for trading –

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available for sale and designated at fair value through profit and loss – a set of common stressed-market parameters, including valuation haircuts for sovereign exposures under the adverse scenario, was directly applied. For sovereign exposures in both the loans and receivables portfolio and the held-to-maturity-portfolio, risk-weighted assets were calculated by applying the relevant formulae as set out in CRDIV/CRR.

Yours sincerely,
[signed]

Mario Draghi