EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Marco Zanni and Mr Marco Valli
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 10 December 2015

Re: Your letter (QZ-165)

Honourable Members of the European Parliament, dear Mr Zanni, dear Mr Valli,

In your letter passed on by Mr Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs, to Mr Mario Draghi, President of the ECB, with a cover letter of 17 November 2015, you raised questions relating to the ECB in its supervisory capacity. The President has therefore forwarded your letter to me. I would like to kindly ask you to address such questions to me in the future, in line with the SSM Regulation and the Interinstitutional Agreement between the European Parliament and the ECB.

As regards your first question, in which you asked whether potential losses from non-performing exposures (NPEs) are sufficiently covered in a deteriorating economic environment, let me emphasise that banks, after taking into account the available collateral, must reserve a sufficient amount of funds in the form of provisions for incurred losses.

The following figures for Greek bank loans illustrate that there is sufficient coverage for potential losses from NPEs. On aggregate, Greek bank loans (excluding loans by foreign subsidiaries) amounted to EUR 209.3 billion as of 30 September 2015; of these loans, an amount of EUR 100.1 billion was identified as NPEs. The total value of collateral related to NPEs represents 53.6% of NPEs, while the amount of provisions reserved for incurred losses from NPEs represents 46.6%. Based on these figures, the NPEs are fully covered (100.2%) by collateral and readily available provisions to cover materialising losses.

During the asset quality review of Greek banks, collateral values were reviewed and adjusted downwards to reflect current market conditions.[1]

In addition to the current coverage of NPEs, the stress test assumptions led to increasing provisions for defaulted exposures.

[1] For more details, please refer to the Aggregate report on the Greek comprehensive assessment 2015, pp. 33-35 and p. 40

Furthermore, you asked what the potential consequences would be for the capital requirements of the four Greek significant institutions if deferred tax assets (DTAs) were declared as state aid. This question applies to DTAs that do not rely on future profitability, can be conditionally replaced with a tax credit and are non-deductible from banks' capital (these are also called deferred tax credits (DTCs))[2]. By contrast, DTAs that rely on future profitability are to be deducted in line with the phase-in of the respective regulatory provisions in the Capital Requirements Regulation[3].

The capital adequacy of the four Greek significant banks is assessed on the basis of currently applicable regulatory provisions. Risks to the capital adequacy of the banks are duly considered in the context of the ECB's prudential supervision, which takes into account potential changes to the treatment of DTAs/DTCs. The impact on the banks' capital if DTCs were declared as state aid depends on decisions which lie outside the ECB's responsibilities. In such a case, the impact would need to be assessed on the basis of the content of the relevant decisions.

Finally, as regards the reliability of the recently conducted comprehensive assessment, I would like to underline that this exercise has been conducted using conservative assumptions in order to produce the most reliable results possible. Information concerning, for example, collateral valuations, implied credit risks and DTAs was appropriately reviewed and considered in the projections.

Yours sincerely,

[signed]

Danièle Nouy

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[2] The conditions under which DTCs can be non-deductible from banks' capital are laid down in Article 39 of the Capital Requirements Regulation.

[3] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.