



EUROPEAN CENTRAL BANK
EUROSYSTEM

COURTESY TRANSLATION

Mario DRAGHI

President

Mr Miguel Viegas
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 8 December 2014

L/MD/14/509

Re: Your letters (QZ 34 and QZ35)

Honourable Member of the European Parliament, dear Mr Viegas,

Thank you for your letters, which were passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 27 October 2014.

The stress test carried out as part of the ECB's comprehensive assessment was very rigorous and conservative. It thereby contributed to strengthening the resilience of the euro area banking sector. The bottom-up nature of the stress test has not impeded the quality and credibility of the results, as the exercise was governed by the EBA methodology, which provided clear guidance on how banks are supposed to conduct the test with regard to various risk types,¹ and in view of the very thorough quality assurance process by the ECB and the national competent authorities.

The completion of the comprehensive assessment marks the start of a new supervisory regime in the euro area, and the ECB will follow up on the results of the comprehensive assessment in its day-to-day supervisory activities. The exercise constitutes an important starting point for a process in which the ECB will make use of all the tools it has at its disposal to foster harmonisation in key areas of banks' supervisory

¹ <https://www.eba.europa.eu/documents/10180/669262/Methodological+Note.pdf>

and regulatory treatment across the euro area and to ensure the safety and soundness of the euro area banking system.

The stress-testing exercise on Novo Banco, S.A. has been postponed because of the developments that occurred in the course of 2014. The Asset Quality Review (AQR) had initially been carried out for Espírito Santo Financial Group (ESFG), the holding company subject to consolidated supervision by the Banco de Portugal as of December 2013. However, in July 2014 ESFG lost control of its subsidiary Banco Espírito Santo, S.A. (BES), owing to the reduction of its stake and changes at the level of the Board of Directors of BES. Consequently, the scope of direct supervision switched from ESFG to BES. Additionally, on 3 August 2014, the Banco de Portugal, as the resolution authority, applied a resolution measure to BES, including the creation of a bridge bank (“Novo Banco, S.A.”) that inherited the majority of the assets and liabilities of BES.

The sequential changes in the scope of direct supervision from ESFG to Novo Banco have not made it possible to carry out either the AQR or the stress test so far. The creation of the bridge bank has led to the launch of a comprehensive external audit of the assets and liabilities of Novo Banco. Along with the outcome of this audit, an opening balance sheet will have to be provided. Only when these two elements are made available to the ECB will it be able to provide an assessment of whether an AQR and, possibly, a stress test can be conducted on Novo Banco.

Yours sincerely,

[signed]

Mario Draghi