



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY

Chair of the Supervisory Board

COURTESY TRANSLATION

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

Frankfurt am Main, 18 May 2018

Re: Your letter (QZ037)

Honourable Member of the European Parliament, dear Mr Viegas,

Thank you for your letter on fees charged by banks, 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 24 April 2018.

A sound banking system is essential to foster economic growth and provide adequate funding for the economy. Significant institutions have generally been experiencing weak profitability for a prolonged period of time. A number of euro area banks do not earn the cost of their capital and this situation is not sustainable over the longer term. Low profitability weakens a bank's ability to accumulate capital through retained earnings and it may also negatively affect its ability to raise funds externally by issuing equities. Furthermore, the incentive for managers to generate higher returns could result in excessive risk-taking or cost-cutting, which may make their bank more vulnerable to risks. With a view to contributing to the safety and soundness of banks, in line with our mandate¹, ECB Banking Supervision has made the sustainability of banks' business models a supervisory priority in recent years.²

There is no single way for a bank to achieve sustainable returns, and strategies to improve profitability can be very diverse. In the context of its supervisory dialogue, ECB Banking Supervision insists that banks keep their risk profile in line with their risk appetite when adapting their business models and stresses that their strategic steering capabilities are important factors in achieving this. Ultimately, it is the responsibility of a bank's management to decide which strategic avenues the institution should pursue.

Yours sincerely,

[signed]

Danièle Nouy

¹ Article 1 of Council Regulation (EU) No 1024/2013 (SSM Regulation)

² See also the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13).