EUROPEAN CENTRAL BANK
BANKING SUPERVISION

**Andrea ENRIA**
Chair of the Supervisory Board

Mr Rasmus Andresen
Mr Jonás Fernández
Mr Luis Garicano
Mr Ernest Urtasun
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 April 2022

**Re: Your letter (QZ-010)**

Honourable Members of the European Parliament, dear Mr Andresen, Mr Fernández, Mr Garicano and Mr Urtasun,

Thank you for your letter on the supervision of subsidiaries and branches of Russian credit institutions following the Russian invasion of Ukraine, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 15 March 2022.

Subsidiaries of Russian banks in Europe are among those that have been significantly affected by the war in Ukraine and the sanctions against Russia, including their reputational impact. Where such institutions are under the direct supervision of the European Central Bank (ECB), the ECB has closely monitored the situation surrounding the institution in question and taken appropriate measures, in line with its mandate and European Union law. The first manifestation of this impact was the declaration of Sberbank Europe AG and its subsidiaries in Croatia and Slovenia as failing or likely to fail on 28 February 2022, made necessary by a severe deterioration in their liquidity situations. On 24 March 2022 ECB Banking Supervision (i) approved the sale of part of the loan portfolio of RCB Bank, a Cypriot bank in which VTB was until recently a relevant shareholder, to Hellenic Bank; (ii) restricted the RCB Bank's business by preventing it from accepting new deposits, granting new loans or making new investments; and (iii) appointed a temporary administrator to work with the management and closely monitor its liquidity and capital.

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In addition, ECB Banking Supervision is carrying out its oversight responsibilities for those less significant institutions that are directly supervised by their respective national competent authorities. In this regard, it is working closely with national supervisors to ensure that joint supervisory standards are applied consistently across the system. Against the backdrop of the well-established cooperation within the Single Supervisory Mechanism, ECB Banking Supervision has not taken over the direct supervision of particularly exposed subsidiaries of Russian banks operating in the euro area.

Regarding your question on the overall risk assessment of the implications of the above-mentioned sanctions for the European banking sector, the multifaceted and evolving nature of the sanctions framework adopted in response to the Russian invasion of Ukraine makes it challenging to provide a holistic assessment of their impacts. Please note that ECB Banking Supervision does not have a mandate to assess and enforce banks' adherence to the different sanction regimes. Nevertheless, in the exercise of our prudential supervisory tasks, the ECB is monitoring and evaluating the prudential implications of the sanctions very carefully. In particular, we are checking whether the banks in question have implemented adequate internal governance arrangements and controls to adhere to the sanctions, including an effective oversight by their management as well as strong internal control functions and processes to mitigate legal, reputational and organisational risks. The ECB interacts with the European Banking Authority, the European Commission and other relevant bodies to facilitate, where possible, banks' understanding and consistent application of the sanctions framework.

Our analysis of the euro area banking sector has shown that the direct exposure of euro area banks to Russia is contained overall, and financial stability impacts should be manageable in the first instance. Exposures appear to be concentrated in a few banks. For the nine most exposed banks, an exit from the Russian market that assumes the full write-off of direct cross-border exposures to Russian counterparts and the full loss of the equity held in subsidiaries located in Russia would entail an average CET1 capital depletion of between 70 basis points and 95 basis points. The outcome would depend on how banks manage to close their intra-group exposures to Russian parent banks. No individual bank would suffer a CET1 capital depletion of more than 200 basis points and, given the current solid capital and liquidity position, all banks involved would maintain sufficient headroom over the minimum and buffer requirements. Beyond these direct impacts, the ECB continues to monitor all developments closely, as uncertainty around the conflict and market volatility remains high. The commodity derivatives market is of particular relevance given Russia's importance as an exporter of energy and other commodities. So far, clearing houses have not reported any noteworthy default risk among their clearing members stemming from margin calls linked to the increase in commodity prices. The credit exposure of some euro area banks to the commodity sector also deserves close monitoring, since roughly one-third of the current volume of outstanding loans to commodity trading firms, at the global level, stems from euro area lenders). More broadly, sanctions against Russia and related retaliatory measures are causing a slowdown in economic growth which banks may need to take into account in their capital planning. Supervisors are in regular contact with the relevant banks to monitor their risk profiles, assess their reactions and identify any vulnerabilities at an early stage.

Finally, I would like to reassure you that ECB Banking Supervision has a regular and open dialogue with the banks under its supervision to discuss the risks stemming from their exposure to Russia and the possible repercussions of sanctions for the European banking system. Effectively implementing the sanctions against Russia is certainly a challenging task for banks, as they need to adjust their operations to adapt to the multifaceted and evolving nature of the sanctions framework.

Yours sincerely,

[signed]

Andrea Enria