



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Andrea ENRIA

Chair of the Supervisory Board

Ms Esther de Lange
Ms Rasa Juknevičienė
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 27 June 2023

Re: Your letter (QZ-015)

Honourable Members of the European Parliament, dear Ms de Lange and Ms Juknevičienė,

Thank you for your letter on the activities in Russia of banks subject to Single Supervisory Mechanism (SSM) supervision, 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 23 May 2023.

As observed in your letter, and although European Union sanctions do not apply outside the Union¹, operational, reputational, legal and financial risks associated with business activities in Russia and Belarus have increased in the current environment.

Since the start of Russia's war in Ukraine, ECB Banking Supervision has engaged in intense monitoring of, and dialogue with, the few supervised institutions that have subsidiaries in Russia. While most of these institutions have maintained their Russian banking subsidiaries, we observe that they have made progress in downsizing their activities. At aggregate level, supervised institutions have reduced their exposures by 37% between end-2021 and end-2022, accelerating this reduction in the fourth quarter of last year (-25%). Most institutions have also decided not to accept new business in Russia and are exploring different exit strategies, such as sale of business and winding down their operations in the Russian market.

Nevertheless, I have repeatedly and publicly expressed concerns about the disappointingly slow progress made by banks in reducing risks stemming from ongoing operations in the Russian market. Most recently, ECB Banking Supervision urged these banks to speed-up their downsizing and exit strategies by adopting clear roadmaps and by regularly reporting to their management bodies and to ECB Banking Supervision on the execution of these plans as well as explaining delays and/or execution impediments.

¹ See the FAQs on the European Commission's website, available at: https://finance.ec.europa.eu/system/files/2023-06/faqs-sanctions-russia-consolidated_en.pdf

Regarding the risks to group capital associated to subsidiaries in Russia and whether the SSM has a clear and uniform policy regarding additional capital requirements for banks with activities in Russia, let me reassure you that the ECB is closely monitoring the capital position and capital planning of the affected institutions within the regular Supervisory Review and Evaluation Process (SREP).

To respond to your question on whether the SSM has a dedicated policy regarding additional capital requirements for banks' activities in Russia, please note that these risks are integrated in the SREP according to Articles 4(1) and 16(2) of the SSM regulation. This means we are continuously evaluating whether further supervisory actions are warranted at the individual level, including potential measures in relation to capital adequacy. Where relevant, specific measures have been taken to reflect the singularity of the current situation, in which risks taken in Russia may affect the capital position of the group, while profits generated by subsidiaries cannot be used to absorb losses outside of Russia.

Yours sincerely,

[signed]

Andrea Enria