



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

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This is a non-confidential version of the ECB Failing or Likely to Fail (FOLTF) assessment adopted by the ECB on 27 February 2022.

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'Failing or Likely to Fail' Assessment of Sberbank Europe AG**I. Legal basis**

1. The assessment of FOLTF shall be made by the ECB, after consulting the SRB, in accordance with Article 18(1) subparagraph 2 of Regulation (EU) 806/2014 (the SRM Regulation – SRMR), if an entity fulfils one of the conditions mentioned in Article 18(4) of the SRMR.

II. Conclusion of the assessment

2. Sberbank Europe AG (hereinafter the 'Supervised Entity') is deemed to be failing or likely to fail as there are objective elements to support a determination that the Supervised Entity will, in the near future, be unable to pay its debts or other liabilities as they fall due in accordance with Article 18(4)(c) of the SRMR.

III. Facts

Background on sanctions imposed on the Supervised Entity and other reputational effects as a consequence of the Russia/Ukraine conflict 2021/2022

3. The Supervised Entity operates the Central and Eastern European business of the group led by the parent company Public Joint Stock Company Sberbank of Russia ('Sberbank of Russia'), a large financial institution based in the Russian Federation.
4. Geopolitical tensions between Russia and Ukraine began to intensify in November 2021 and escalated significantly in February 2022, with the subsequent invasion of Russia into Ukraine on 24 February 2022. As a result, the European Union and the US imposed extensive economic sanctions against Russia.^{1,2}
5. Following the increase of geopolitical tensions and even before any sanctions were imposed, the Supervised Entity experienced a significant reputational crisis, as a result of the relationship with its parent, which is a Russian state-owned bank. In addition, the uncertainty about possible severe

1 On 23 February 2022, the European Union agreed on a first package of sanctions, including asset freezes and travel bans on 27 individuals and entities and sanctions against the members of the Russian state Duma that voted for recognition of the two territories. In addition, the Russian government was restricted in its ability to raise money on EU financial markets and economic relations with the areas of Donetsk and Luhansk were restrained.

2 On 22 February 2022, US President Biden announced economic sanctions targeting two key Russian financial institutions, the Corporation Bank for Development and Foreign Economic Affairs Vnesheconombank (VEB) and Promsvyazbank Public Joint Stock Company (PSB), and five Russian oligarchs as well as additional restrictions on Russian sovereign debt.

sanctions (and countersanctions) and their potential impacts on the Supervised Entity triggered significant outflows and resulted in a significant deterioration of the liquidity position of the Supervised Entity.

6. Furthermore, on 24 February 2022, the Supervised Entity became the subject of direct sanctions by the Office of Foreign Assets Control (OFAC) of the US Treasury Department, which required all US financial institutions to close any Sberbank of Russia correspondent or payable-through accounts within 30 days and to reject any future transactions involving Sberbank of Russia or its foreign financial institution subsidiaries. Payments that Sberbank of Russia attempts to process in US dollars for its clients — with examples ranging from technology to transportation — will be disrupted and rejected once the payment hits a US financial institution. The above sanctions have significantly severed the Supervised Entity's access to US correspondent accounts, direct or otherwise, and the clearance of any transactions via US institutions. Additional sanctions were imposed by the European Union on 25 February 2022. Although they do not directly target the Supervised Entity (it was not put on the EU sanctions list), the latest EU sanctions further contribute to the reputational crisis of the Supervised Entity, as a result of the relationship with its Russian parent.³
7. In accordance with the information received from the Supervised Entity, there were countermeasures imposed by the Russian Federation, as the Central Bank of the Russian Federation prohibited Sberbank of Russia to transfer any foreign currency denominated funds in favour of/to any banking subsidiary located in any foreign jurisdiction/unions of jurisdictions, whose state authorities introduced sanctions against Russian legal persons and/or assets and/or officials thereof.

Developments of the liquidity position of the Supervised Entity

8. Following the intensification of the geopolitical tensions between Russia and Ukraine and the imposition of sanctions by the US and EU authorities, the Supervised Entity has suffered a deteriorating liquidity situation. Particularly, the consequences of the imposed sanctions have been threefold: i) a reputational impact, which has triggered a wave of deposit withdrawals from the Supervised Entity; ii) the Supervised Entity having to provide support to its subsidiaries in Czech Republic and Croatia, which also experienced significant outflows; and iii) the loss of access to USD correspondent banking and the loss of access to USD payments. Despite the US sanction measure only taking effect on 26 March 2022, the impact on the behaviour of depositors and potential market counterparts is already manifested without any indication of potential reversal.
9. Since 23 February 2022, the Supervised Entity sustained EUR **[amount]** net deposit outflows, which corresponds to **[percentage]** of its total deposit base as of 23 February 2022. Most of these outflows were **[description of deposits affected]**. In particular, as of 25 February, **[description of deposits affected]** deposits were reduced from EUR **[amount]** to EUR **[amount]**.
10. At the same time, most of the Supervised Entity's correspondent banks have ceased their business relations, particularly in USD which has become unavailable to swap into other currencies for the Supervised Entity. While the impact of the loss of correspondent banking relationships on the

³ The second package of EU sanctions included: (1) the prohibition of deposits over EUR 100000 per credit institution (with some exceptions), (2) prohibition of access to EU CSDs for securities issued after 12 April 2022, (3) prohibition to sell EUR denominated securities issued after 12 April 2022.

Supervised Entity has been contained on a consolidated level, as the group led by the Supervised Entity is self-funded in USD, on solo level the Supervised Entity has USD needs.

11. In addition, due to the risk of falling under the sanction regime, financial institutions outside the Supervised Entity's group have widely ceased to engage in funding relations with the Supervised Entity, which practically cuts it off from external interbank funding. While this channel does not represent a material funding source for the bank, the fact that it became unavailable demonstrates the significant reputational crisis the Supervised Entity is facing.
12. The Supervised Entity had prepared for the possibility that it could come under intensified sanctions and had taken several pre-emptive measures, including: (i) taking actions in order to de-risk its exposures with a Russian connection, (ii) reducing its USD exposures, and (iii) increasing its cash reserves. Moreover, following the deterioration of the liquidity situation of the Supervised Entity's group, the Supervised Entity took action **[description of action]** and requested from its parent company Sberbank of Russia [...] EUR **[amount]** to the Supervised Entity, **[description of group-internal communication]**⁴.
13. On 25 February 2022, the Supervised Entity convened its group Emergency Response Team (ERT), which decided to (i) activate the group recovery plan; (ii) implement the recovery option "Provision of additional funding by shareholder (SBRF)" (see paragraph 12) and the recovery options "asset transfer of existing performing loan portfolio within Sberbank Group" and "attraction of additional retail deposits"; (iii) trigger the respective communication according to the recovery plan escalation procedure.
14. On 25 February 2022, Sberbank of Russia informed the Supervised Entity that the requested **[kind of support]** cannot be provided as the Central Bank of the Russian Federation prohibited Sberbank of Russia from transferring any foreign currency denominated funds in favour of/to any banking subsidiary located in any foreign jurisdiction/unions of jurisdictions, whose state authorities introduced sanctions against Russian legal persons and/or assets and/or officials thereof.
15. The actions taken by the Supervised Entity mentioned above to address the increasing liquidity outflows faced by the group did not manage to restore the counterbalancing capacity of the Supervised Entity, which has been reduced since 23 February 2022 from EUR **[amount]** to EUR **[amount]** on 25 February 2022, of which EUR **[amount]** was on the central bank account. In terms of probable liquidity evolution, if the Supervised Entity continues to experience the same rate of outflows as observed after the imposition of the sanctions, its liquidity buffers are expected to be depleted in less than **[duration]**.
16. The Liquidity Coverage Ratio (LCR) decreased from **[percentage]** as at 23 February 2022 to **[percentage]** as at 25 February 2022, as none of the above-mentioned actions were successful in counterbalancing the above-mentioned outflows. In case the liquidity position of the bank continues to exhibit the same trend as the one displayed in the past few days, the LCR is expected to fall close to **[percentage]** in **[duration]**, as a result of **[description of reason]**.
17. Moreover, the Supervised Entity no longer has credible options to restore its liquidity position. Regarding the possibility to implement additional liquidity recovery measures identified by the Supervised Entity within its recovery plan **[description of recovery options and supervisory assessment]**. Overall, no measure contained in the recovery plan that is still available under the current circumstances, individually taken or in conjunction, would have sufficient impact on the liquidity

⁴ [...] **[Description of group-internal communication]**

position of the Supervised Entity in the timeframe necessary to address the Supervised Entity's liquidity needs.

18. [...] **[Information on central bank funding]**

19. The Supervised Entity has subsidiaries in Croatia (Sberbank d.d.) and Slovenia (Sberbank banka d.d.), which are supervised by the ECB. Moreover, the Supervised Entity also has subsidiaries in other EU Member States outside the banking union, namely in Czech Republic (Sberbank CZ, a.s.) and Hungary (Sberbank Hungary Ltd.). Additionally, the Supervised Entity has the following subsidiaries outside the EU: in Bosnia and Herzegovina (Sarajevo and Banja Luka) (Sberbank BH d.d. Sarajevo and Sberbank a.d. Banja Luka) and in Serbia (Sberbank Srbija a.d. Beograd). Several of the subsidiaries of the Supervised Entity have experienced acute liquidity outflows in the past days. Despite the decentralised funding structure of the Supervised Entity's group, subsidiaries are dependent on the Supervised Entity for the provision of additional liquidity in case of need. In particular, the subsidiary in the Czech Republic has experienced deposit outflows of EUR **[amount]** (approx. **[percentage]**) of its deposits, including **[description of deposits affected]** on 24 and 25 February and was supported by the Supervised Entity with EUR **[amount]** of liquidity. Despite this support, the counterbalancing capacity of the Czech subsidiary as of close of business on 25 February amounted to only **[amount]** and **[description of the situation of the subsidiary]**. The subsidiary **[description of the situation of the subsidiary]** closed all branches in the course of the day on 25 February **[description of measures]**. According to the information provided by the Supervised Entity, **[content of the letter]**. As a result of the material outflows of EUR **[amount]** since **[date]** and the lack of viable recovery options, on 27 February 2022, the Croatian subsidiary notified to the competent authority that as of 28 February it would be likely to fail to fulfil its obligations in full and on time and that measures they performed or plan to perform are not sufficient to enable its regular business and provision of services to clients to be restored. Liquidity outflows were also reported in the other subsidiaries of the Supervised Entity of in total EUR **[amount and breakdown to subsidiaries]**.
20. Given the operating structure of the group and the dependence of the subsidiaries on the Supervised Entity for liquidity, the deterioration of the liquidity situation at subsidiary level is contributing to the worsening of the liquidity situation for the Supervised Entity. Moreover, the Supervised Entity and its subsidiaries are also dependent upon each other in terms of public perception and reputation. Thus, a failure of a subsidiary is expected to have a further impact on the reputation of the Supervised Entity.
21. On 26 February 2022, the Supervised Entity submitted a letter to the ECB, to the Financial Market Authority of Austria and to the SRB informing them that it could reasonably be expected that the Supervised Entity is likely to be unable to pay its debts and liabilities as they fall due in the near future and that there were circumstances which indicated that the Supervised Entity's ability to fulfil its obligations was endangered. [...] **[Description of the letter]**.
22. Overall, given the increased liquidity outflows that the Supervised Entity is facing, which are expected to continue, the absence of any credible additional liquidity generating measures in the short term, the additional liquidity needs of the subsidiaries which the Supervised Entity will be asked to cover, and the Supervised Entity's own declaration, the Supervised Entity is expected to be unable in the near future to pay its debts or other liabilities as they fall due.

Capital situation of the Supervised Entity

23. As of 31 January 2022, the Supervised Entity held EUR **[amount]** in Tier 1 and EUR **[amount]** in Tier 2 capital. The Supervised Entity's total own funds amounted to EUR **[amount]**, and risk-weighted assets stood at EUR **[amount]**. This resulted in a Tier 1 ratio of **[percentage]** and a Total capital ratio of **[percentage]**, which are above the respective requirements of **[percentage]** for the Tier 1 capital requirement of and **[percentage]** for the Total capital requirement.

Information exchange with the SRB

24. On 31 January 2022, the ECB decided to activate enhanced monitoring to the Supervised Entity in accordance with the ECB's Emergency Action Plan framework. On the same day, the SRB was informed thereof and the information exchange between ECB and the SRB has been continuous since then and intensified on 22 February and further on 24 February. It should be noted that:

- SRB has enhanced access to IMAS for the specific Supervised Entity,
- SRB received the supervisory decisions related to the Supervised Entity,
- SRB received daily liquidity updates,
- SRB attended the Supervisory Board meetings on 17, 23 and 27 February, where the Supervised Entity was discussed, and the Institution-Specific Crisis Management Team meetings for the Supervised Entity on 25 and 26 February,
- The ECB attended the SRB Extended Executive Sessions on the Supervised Entity on 26 and 27 February.

IV. Overall supervisory assessment

25. Pursuant to Article 18(4)(c) of SRMR, an entity is deemed failing or likely to fail if the entity is, or there are objective elements to support a determination that the entity will, in the near future, be unable to pay its debts or other liabilities as they fall due.

(Likely) inability to pay liabilities

26. The Supervised Entity has experienced deposit outflows of EUR **[amount]**, as a result of reputational issues, corresponding to **[percentage]** of its deposit base in the 2 days since 23 February 2022. The Supervised Entity requested **[description of measure]** from its parent entity, Sberbank of Russia, which however could not be provided due to restrictions set by the Central Bank of the Russian Federation. Moreover, the access of the Supervised Entity to other external sources of funding has been significantly impaired following the imposition of sanctions. At the same time, the Supervised Entity has been providing liquidity support to several of its subsidiaries facing liquidity outflows, which has had a negative impact on its available liquidity buffers.

27. Given the deteriorating environment the Supervised Entity is operating in, including the severe reputational effects from the imposition of sanctions and its limited access to any form of market funding, the Supervised Entity should at the very least maintain a sufficient counterbalancing capacity to cover expected deposit outflows in the near future. Based on the outflows observed on 24 and 25 February and level of the counterbalancing capacity on 25 February, the counterbalancing capacity of

the Supervised Entity would be fully exhausted in less than **[duration]**. The current readily available counterbalancing capacity, as of 25 February, therefore amounts to EUR **[amount]**, which is insufficient to cover expected outflows.

28. Moreover, as already mentioned in paragraphs 9-16, there is no evidence of the capacity of the Supervised Entity to turn around its liquidity situation in the near future.
29. Finally, for the reasons outlined in paragraph 21, on 26 February 2022 the Supervised Entity informed the ECB that it could reasonably be expected that the Supervised Entity is likely to be unable to pay its debts and liabilities as they fall due in the near future.
30. Given the above, the Supervised Entity is likely to be unable to meet payments in the near future on its debts or other liabilities as they fall due.

Assessment of alternative liquidity measures

31. The Supervised Entity currently has very limited options to obtain funding via regular market transactions or central bank operations and has not been able to mobilise sufficient additional liquidity (see paragraphs 17 to 18 above). The Supervised Entity has put in place several measures to correct the liquidity position, including de-risking its exposures with Russian connection, reducing its USD exposures, increasing its cash reserves, activating its recovery plan and trying (but not succeeding) to get liquidity support from Sberbank of Russia (see paragraphs 12 to 14 above). Nevertheless, these measures have not been sufficient to reverse the deterioration of the liquidity position of the Supervised Entity. Moreover, the recovery plan of the Supervised Entity does not include any other options which would be suitable under the current circumstances. The Supervised Entity informed the ECB that it could reasonably be expected that the Supervised Entity is likely to be unable to pay its debts and liabilities as they fall due in the near future, as no measures were available to provide relief to the liquidity position or slowdown the deposit outflows (see paragraph 21).
32. [...] **[Description of previous supervisory measures]**.
33. There are no further available supervisory or early intervention measures that could restore the liquidity position of the Supervised Entity in an immediate way and allow it to ensure sufficient time in order to implement measures. The available measures to the ECB as competent authority under the national transposition of Article 104 of Directive 2013/36/EU (CRD) and Articles 27-29 of Directive 2014/59/EU (BRRD) or under Article 16 of Regulation (EU) No 1024/2013 (the SSM Regulation) have been explored but they cannot allow the institution to be in a position to meet its liabilities and other debt as they fall due, given the extent and pace of the liquidity deterioration observed.

V. Conclusion

34. On the basis of the above, there is material evidence to conclude that the Supervised Entity is likely to be unable in the near future to pay its debts or other liabilities as they fall due.
35. Therefore, the Supervised Entity is deemed to be failing or likely to fail in accordance with Article 18(1)(a) and 18(4)(c) of SRMR.
36. The SRB was consulted on 27 February 2022 on a draft of this FOLTF assessment and concurred with the ECB's assessment.