



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Notice

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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 d.d. (Croatia)**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 d.d. (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 is a fully-owned subsidiary of Sberbank Europe AG. Sberbank Europe AG 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 since November 2021 and escalated significantly in February 2022 with the subsequent invasion by the Russian Federation into Ukraine on 24 February 2022. As a result, the European Union and the US imposed extensive economic sanctions against Russia.^{1,2}

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.

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 ultimate parent, which is a Russian state-owned bank. In addition, the uncertainty about possible severe 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 parent of 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 severed also the Supervised Entity's access to US correspondent accounts 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 and Sberbank's Europe AG, as a result of the relationship with its Russian parent.³
7. In accordance with the parent of 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. The intensification of the geopolitical tensions between Russia and Ukraine and the imposition of sanctions by the US and EU authorities resulted in a negative reputational impact on the Supervised Entity, which suffered from a deteriorating liquidity situation starting from 14 February 2022.
 - (i) On 14 February 2022, **[description of clients]** withdrew **[description of deposits]** for an amount of EUR **[amount]** ahead of their contractual maturity. In order to compensate for the unexpected outflows, the Supervised Entity **[description of actions taken]** and received liquidity support by Sberbank Europe AG (EUR **[amount]**) and **[another group entity]** (EUR **[amount]**).
 - (ii) The escalation of the geopolitical tensions triggered additional outflows on 24 February 2022 when the Supervised Entity recorded deposit net outflows of EUR **[amount]**. In order to compensate for the outflows, the Supervised Entity drew on its committed credit line at Sberbank Europe AG (EUR **[amount]**);
 - (iii) On 25 February 2022, the Supervised Entity recorded additional deposit outflows of EUR **[amount]**.

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.

9. According to the information provided by the Supervised Entity, as of 25 February 2022, **[information regarding market funding]**.
10. In order to address the deteriorating liquidity position, the Supervised Entity implemented the following measures: [...] **[description of actions taken]**.
11. The actions taken by the Supervised Entity mentioned above to address the increasing liquidity outflows did not manage to restore the counterbalancing capacity of the Supervised Entity, which decreased from EUR **[amount]** on 21 February 2022 to EUR **[amount]** by the end of 25 February 2022. On 25 February 2022, the Supervised Entity's Liquidity Coverage Ratio (LCR) ratio was **[percentage]**, which is below minimum regulatory requirements. Furthermore, the Supervised Entity informed Hrvatska Narodna Banka that further withdrawals of deposits for a total net amount of EUR **[amount]** are expected on 28 February 2022, corresponding to **[percentage]** of the total deposits outstanding as of the end of 25 February 2022. Moreover, the Supervised Entity may face additional liquidity pressures due to the reputational impact of a possible failure of the Czech subsidiary of Sberbank Europe, **[description of the liquidity position]**. 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 **[duration]**.
12. Moreover, the Supervised Entity has limited additional options to restore its liquidity position. Regarding the possibility to implement additional liquidity measures, the Supervised Entity's recovery plan does not include any other options which would be suitable under the current circumstances. Regarding the possibility of obtaining additional funding from Hrvatska Narodna Banka (see paragraph 10 points iii and iv), **[information on central bank funding]**.
13. On 27 February 2022, the parent of the Supervised Entity, Sberbank Europe AG, 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 Sberbank Europe AG 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 Sberbank Europe AG's ability to fulfil its obligations was endangered. According to the information provided by Sberbank Europe AG, **[content of the letter]**.
14. On the same date, the Supervised Entity notified to the Hrvatska Narodna Banka, in accordance with paragraph 45 of the Resolution Act of the Republic of Croatia, that as of 28 February it would be likely to fail to fulfil its obligations in full and on time. The Supervised Entity communicated that all measures they performed or plan to perform are not sufficient to enable its regular business and provision of services to clients to be restored.
15. Overall, given the increased liquidity outflows that the Supervised Entity is facing which are expected to continue, the lack of credible additional liquidity generating measures and additional liquidity support from Sberbank Europe AG, as well as the self declaration of the Supervised Entity, 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

16. As of 24 February 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 its risk-weighted assets stood at EUR **[amount]**. This resulted in a Tier 1 capital ratio of **[percentage]** and a

Total capital ratio of **[percentage]** are above its Tier 1 and Total SREP capital requirements of respectively **[percentage]** and **[percentage]**. [...] **[Description of current capital requirements and future capital requirements imposed starting from 1 March 2022]**.

Information exchange with the SRB

17. On 31 January 2022, the ECB decided to activate enhanced monitoring to the parent bank, Sberbank Europe AG 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, HNB and the SRB has been continuous since then and intensified on 22 February and further on 24 February 2022. It should be noted that:

- SRB has enhanced access to IMAS for the specific Supervised Entity,
- The SRB received the supervisory decisions related to the parent bank, also having impact on the Supervised Entity,
- The SRB received regular liquidity updates,
- The 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 parent bank and Supervised Entity on 25 and 26 February 2022,
- The ECB attended the SRB Extended Executive Sessions on the Supervised Entity on 26 and 27 February 2022.

IV. Overall supervisory assessment

18. 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

19. Given the increased liquidity outflows that the Supervised Entity is facing which are expected to continue, the lack of credible additional liquidity generating measures and the unavailability by Sberbank Europe AG to provide additional liquidity support, the Supervised Entity is expected to be unable to cover its liabilities as they fall due.

20. The Supervised Entity has experienced total deposit outflows of EUR **[amount]** in two days (24 February and 25 February 2022), which represents **[percentage]** of its total deposit base as of 23 February 2022.

21. As at 25 February 2022, after the implementation of all the available measures, the counterbalancing capacity decreased to EUR **[amount]**. Furthermore, the Supervised Entity informed Hrvatska Narodna Banka that further withdrawals of deposits for a total net amount of EUR **[amount]** are expected on 28 February 2022, of which EUR **[breakdown of amount]**.

22. The Supervised Entity's current liquidity base suggests that the outflows observed until now are likely to continue or worsen due to the following circumstances: (i) the deposits outflows observed on 24 and 25 February affected **[description of deposits]** deposits and the Supervised Entity expects

withdrawals to continue for **[description of deposits]** also on 28 February; (ii) the deterioration of the market perception towards the Supervised Entity related to the developments in the geopolitical situation has not only hampered its access to the wholesale funding market, but also eroded the confidence of **[description of clients]** clients in the Supervised Entity, impairing its ability to attract new deposits to timely restore levels of counterbalancing capacity sufficient to withstand the current volume of outflows.

23. According to the expectations of the Supervised Entity, the counterbalancing capacity of **[amount]** EUR is expected to be fully depleted by the net outflows of EUR **[amount]** on 28 February 2022, already foreseen by the Supervised Entity.
24. As already mentioned in paragraphs 10-12, there is no evidence of the capacity of the Supervised Entity to turn around its liquidity situation in the near future.
25. On 27 February, the parent of the Supervised Entity submitted a letter to the ECB, to the Financial Market Authority of Austria and to the SRB informing them that **[content of the letter]**.
26. On the same day, the Supervised Entity notified to the Hrvatska Narodna Banka that as of 28 February it would be likely to fail to fulfil its obligations in full and on time. The Supervised Entity communicated that all measures it performed or planned to perform are not sufficient to enable its regular business and provision of services to clients to be restored.
27. 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

28. The recourse to market-based measures in order to revert the Supervised Entity's liquidity position appears not to be feasible, as the Supervised Entity's access to the wholesale market is constrained by the entry into force of restrictive measures against the Russian Federation and to the following reputational impact on the Supervised Entity. Moreover, the Supervised Entity's recovery plan does not include any other options which would be suitable under the current circumstances.
29. [...] **[Information on central bank funding]**.
30. On 27 February 2022, the Supervised Entity communicated that all measures it performed or planned to perform are not sufficient to enable its regular business and provision of services to clients to be restored and that it was likely to fail to fulfil its obligations in full and on time as of 28 February 2022.
31. Given the accelerating intensity of the outflows observed in the last days and the lack of promptly available contingency measures, there are no options which would allow for a timely contribution to the counterbalancing capacity of the Supervised Entity.
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 such measures. The available measures to the ECB as competent authority under the national transposition of Article 104 of Directive 2013/36/EU (CRD IV) 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 are not expected to produce a result where the institution would 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.