



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Notice

The ECB has decided to publish non-confidential versions of its 'Failing or Likely to Fail' assessments for transparency and accountability purposes in view of their general interest while removing confidential information to comply with the professional secrecy rules governing supervisory work. The 'Failing or Likely to Fail' assessments were first announced in press releases and referenced in the subsequent decisions by the Single Resolution Board. The publication of non-confidential 'Failing or Likely to Fail' assessments is an exception to the general communications policy of the ECB, which, in line with the law, does not foresee publication of individual supervisory decisions that are protected by professional secrecy rules.

Press Release:

<https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220228~3121b6aec1.en.html>

MADE AVAILABLE FOR INFORMATION PURPOSES ONLY

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

Information protected by professional secrecy and confidentiality rules inherent to banking supervision has been blanked out. Considering confidentiality limitations, the information published in this non-confidential version may not give a comprehensive view of the supervisory history or the actions undertaken.

'Failing or Likely to Fail' Assessment of Sberbank banka d.d. (Slovenia)**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 banka 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 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, which is a member of a Russian state-owned banking group, experienced a

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.

reputational crisis. 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 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, 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 and Sberbank Europe AG's group, as a result of the relationship with its Russian parent.³
7. Based on information received from 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 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.

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 from the US and EU authorities, the Supervised Entity has suffered a reputational crisis that resulted in a deterioration of its liquidity situation. Particularly, the consequences of the imposed sanctions have been twofold: i) a reputational impact which has triggered a wave of deposit withdrawals from the Supervised Entity; and ii) 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 fully manifested without any indication of potential reversal.
9. From 23 February 2022 to 25 February 2022, the Supervised Entity sustained EUR **[amount]** deposit outflows, equal to **[percentage]** of its total deposit base as of 23 February 2022. Most of these outflows were related to **[description of clients]** of the Supervised Entity. The outflows accelerated significantly on 25 February 2022, when a reduction of **[percentage]** of total deposits was observed within 1 day.
10. In addition, due to the risk of falling under the sanctions regime, financial institutions outside Sberbank Europe AG's group have widely ceased to engage in funding relations with the Supervised Entity and its parent, which practically cuts it off from external interbank funding. The fact that external funding became unavailable demonstrates the significant reputational crisis the Supervised Entity is facing.

³ The second package of EU sanctions include: (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.

11. The Supervised Entity had prepared for the possibility that it could come under intensified sanctions and had taken several pre-emptive measures, including: [...] **[description of action taken]**.
12. The actions taken by the Supervised Entity 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]**, representing a reduction of **[percentage]**. 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]**.
13. Similarly, the Liquidity Coverage Ratio (LCR) dropped from **[percentage]** on 24 February to **[percentage]** on 25 February 2022, as none of the above-mentioned actions managed to restore the ratio at a more comfortable level. 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 case the liquidity position of the bank continues to evolve like in the past days, the LCR is expected to fall close to **[percentage]** in **[duration]**, as a result of **[description of reason]**.
14. Moreover, the Supervised Entity has limited additional options to restore its liquidity position. In particular, the recovery measures identified by the Supervised Entity include: [...] **[description of recovery plan options and supervisory assessment]**. As a result, no measures contained in the recovery plan, both individually as well as in conjunction, would have sufficient impact on the liquidity position of the Supervised Entity in a timely manner to address the liquidity outflows the Supervised Entity is facing.
15. [...] **[Information on central bank funding]**.
16. On 26 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 Sberbank Europe AG's ability to fulfil its obligations was endangered. **[Description of the letter]**.
17. Overall, given the increased liquidity outflows that the Supervised Entity is facing, which are expected to continue and the absence of any credible additional liquidity generating measures in the short term, 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

18. As of 31 January 2022, the Supervised Entity's total own funds amounted to EUR **[amount]**, and risk-weighted assets stood at EUR **[amount]**. This resulted in a Total capital ratio of **[percentage]**, which is above the Total capital requirement of **[percentage]**.

Information exchange with the SRB

19. On 31 January 2022, the ECB decided to activate enhanced monitoring of 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 (on a

weekly basis at least) since then and intensified on 22 February and further on 24 February 2022. It should be noted that:

- The SRB has enhanced access to IMAS for the specific Supervised Entity,
- The SRB received the supervisory decisions related to the Supervised Entity,
- The SRB attended the Supervisory Board meetings on 17, 23 and 27 February, where the Supervised Entity was discussed and the SRB attended the Institution-Specific Crisis Management Team meetings for the parent bank and 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

20. 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

21. The Supervised Entity has experienced net deposit outflows of EUR **[amount]**, corresponding to **[percentage]** of its total deposit base as of 23 February 2022. Moreover, the access of the Supervised Entity to external sources of funding has been significantly impaired following the imposition of sanctions on its parent Entity.
22. Given the deteriorating environment the Supervised Entity is operating in, including the severe reputational effects from the imposition of sanctions on its parent entity 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 over the last day, this would require a counterbalancing capacity of at least EUR **[amount]** to survive **[duration]**. The current readily available counterbalancing capacity however amounts to EUR **[amount]**, which is insufficient to cover expected outflows.
23. As already mentioned in paragraphs 14-15, there is no evidence of the capacity of the Supervised Entity to turn around its liquidity situation in the near future.
24. Moreover, 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 **[content of the letter]**.
25. 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

26. 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. The Supervised Entity has put in place some measures to correct the liquidity position, namely **[description of measures]**. Nevertheless, these measures have not been sufficient to reverse the deterioration of the liquidity position of the Supervised Entity. The recovery plan of the Supervised Entity

also does not include any other options which would be suitable under the current circumstances, in terms of timing as well as of liquidity generation capacity.

27. The parent of the Supervised Entity, Sberbank Europe AG, informed the ECB on 27 February 2022 that *[content of the letter]*.
28. [...] *[Description of previous supervisory measures]*.
29. 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

30. 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.
31. 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.
32. The SRB was consulted on 27 February 2022 on a draft of this FOLTF assessment and concurred with the ECB's assessment.