Sale of Business; Insolvency
Sberbank d.d. and Sberbank banka d.d.; Sberbank Europe AG (2022)

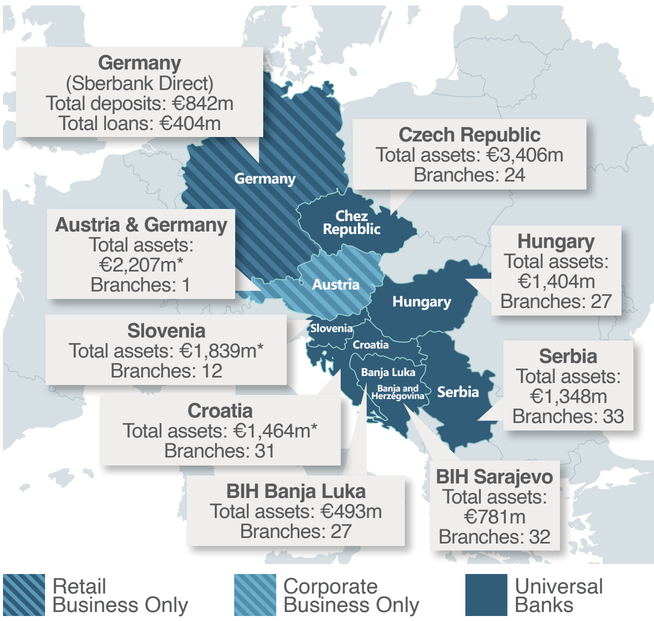
Croatia, Slovenia and Austria

Background and context

Sberbank Europe Group (Sberbank Group) operated as a universal banking group across Central and Eastern Europe. The parent entity of the Group, Sberbank Europe AG (Sberbank Europe) located in Austria was fully owned by Sberbank of Russia (Sberbank Russia), the largest bank which is also majority-owned by the Russian Federation (50% plus 1 voting share). Sberbank Europe was founded in 2012 after Sberbank Russia acquired Volksbank International AG (VBI)[35] and rebranded it as Sberbank Europe. Following the acquisition of the VBI, all VBI subsidiaries[36] were transferred accordingly to Sberbank Europe. Sberbank Europe had also a fully online branch in Germany (Sberbank Digital).

Sberbank Group had 185 branches and more than 3,933 staff serving corporates (loans and global market services), SMEs (loans and account services), and the retail segment (mortgage and consumer loans, deposits and account services). As at end-2021, Sberbank Europe's consolidated assets amounted to about €13.64 billion ($15.51 billion).

Diagram 2: Overview of Sberbank Group



Source: Sberbank Europe Fact Sheet 2020

[35] The acquisition was completed in 2012 for €505 million. Pursuant to its transformation and group restructuring, Vienna was selected as the regional headquarters of Sberbank Europe. In 2013, Sberbank Europe received a full banking license in Austria. VBI subsidiaries were then fully rebranded as Sberbank by 2014

[36] Two subsidiaries were within the banking union (Croatia and Slovenia), two were within EU member states but outside the banking union (Czech Republic and Hungary) and two were in third countries (Serbia and Bosnia and Herzegovina)

Russian invasion of Ukraine triggered the collapse of Sberbank Group

In 2021, Sberbank Europe had decided to sell its subsidiary banks in Serbia, Croatia, Slovenia, Bosnia and Herzegovina (including the subsidiary in the Republic of Srpska) and Hungary, by way of a package deal. The decision was driven by several factors, including the comparably low market share of Sberbank Group in most of its markets, substantial need for investments into digitalisation, market consolidation, as well as impact from the Covid-19 pandemic.

However, following Russia's commencement of military operations in Ukraine on 24 February 2022, the liquidity situation of Sberbank Europe and its subsidiaries weakened significantly within a short period. From 23 February onwards, Sberbank Group experienced significant deposit outflows.

Sberbank Europe had been under supervision of the ECB since 2014, and was also under the SRB's remit. Hence, recovery and resolution plans had been put in place. In particular, on 3 May 2021, the SRB had adopted Sberbank Europe's 2020 resolution plan (Resolution Plan). Under the Resolution Plan, the preferred resolution strategy was bail-in at the parent / Sberbank Europe level, while recognising the sale of business strategy as another option.

On 25 February, Sberbank Europe activated its group recovery plan and triggered measures such as emergency funding requests from its shareholder (Sberbank Russia), asset transfers of performing loans within Sberbank Group, attracting additional retail deposits, and communications according to escalation procedures. However, events later in the same day saw the Central Bank of the Russian Federation prohibiting Sberbank Russia from providing financial support to Sberbank Europe.[37] Sberbank Europe then requested for Emergency Liquidity Assistance (ELA) from the Austrian National Bank (OeNB) and the European Central Bank (ECB). On the same day, the European Council imposed a second package of sanctions on Russia that included financial sector sanctions intended to cut Russia's access to important capital markets, and which targeted 70% of the Russian banking market.

On 26 February, Sberbank Europe informed the EU Single Resolution Board (SRB). ECB and Austrian Financial Market Authority that it would unlikely be able to pay debts and liabilities that fell due.

On 27 February, the OeNB notified Sberbank Europe that no ELA would be provided. Meanwhile, the authorities (ECB and SRB) continued to assess if Sberbank Europe, Sberbank d.d. in Croatia and Sberbank banka d.d. in Slovenia (Sberbank entities within the banking union) were Failing or Likely To Fail (FOLTF), given rapid deterioration in liquidity conditions. The SRB had conducted an urgent provisional valuation on those entities using available public and supervisory information.[38] Known as 'Valuation 1', this provisional valuation was used by the SRB to support the FOLTF determination.

On 28 February, the ECB announced that the Sberbank entities within the banking union were FOLTF. The ECB had considered the adverse reputational impact of geopolitical tensions on Sberbank Europe that hastened deposit withdrawals, expectations of financial support from Sberbank Europe to its subsidiaries, and the loss of access to both USD correspondent banking and payments. Moreover, external interbank funding was off the table as financial institutions ceased business relations with Sberbank Europe. Following the ECB's press release, the SRB also announced its FOLTF decision on the same entities, including the application of a 2-day moratorium to the three banks (refer section below on Resolution Actions).

> ***… there are no measures with a realistic chance of restoring Sberbank Europe's liquidity position at group level and in each of its subsidiaries within the banking union***
>
> European Central Bank

This case study focuses on actions taken by the SRB and National Resolution Authorities (NRAs) to resolve Sberbank entities within the banking union, i.e. Sberbank Europe, Sberbank d.d. (Sberbank Croatia)[39] and Sberbank Banka d.d. (Sberbank Slovenia). As for the other 5 subsidiaries of Sberbank Europe, those entities were resolved by their respective authorities in-charge, as depicted in Diagram 3.

[37] The prohibition prevented 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

[38] The Valuation 1 report is used to assess if there are objective elements to support a determination that, in the near future, the banking institutions will be unable to pay its liabilities as they fall due

[39] Sberbank entities within the banking union held €6.82 billion of Sberbank Group's total assets

Resolution actions

Diagram 3: Summary of Sberbank Group, resolution actions and authorities in-charge

Sberbank Russia (mother company)

Entity		Resolution action	Authority
Sberbank Europe AG Austria	Sberbank Direct Branch in Germany	**Closure** (deposit insurance stepping in)	SRB / Austrian Financial Market Authority
Sberbank BH d.d. Croatia		**Sales** to Croatin Postbank operations continue	SRB / Croatian National Bank
Sberbank banka d.d. Slovenia		**Sales** to Nova ljubljanska banka; operations continue	SRB / Bank of Slovenia
Sberbank CZ, a.s. Czech Republic		**Closure** (deposit insurance stepping in)	Czech National Bank
Sberbank Magyarorszag Zrt. Hungary		**Closure** (deposit insurance stepping in)	Central Bank of Hungary
Sberbank Srbija a.d. Serbia		**Sales** to AIK Banka operations continue	National Bank of Serbia
Sberbank a.d. Banja Luka Bosnia and Herzegovina		**Sales** to Nova Banka operations continue	Banking Agency of Republika Srpska
Sberbank BH d.d. Bosnia and Herzegovina		**Sales** to ASA Banka operations continue	Federation of Bosnia and Herzegovina Banking Agency

Source: EGOV

Resolution of Sberbank Entities Within The Banking Union – Timeline of Key Events

May 2021
SRB adopted 2020 Resolution Plan for Sberbank Group.

23-25 Feb 2022
Sberbank Group experienced substantial deposit outflows.

24 Feb 2022
Russia's invasion of Ukraine.

25 Feb 2022
Sberbank Europe activated its group recovery plan. Sberbank Europe requested ELA from the OeNB and ECB.

25 Feb 2022
Russian Central Bank prohibited financial support from Sberbank Russia to Sberbank Europe.

European Council imposed second package of sanctions against Russia.

26 Feb 2022
Sberbank Europe informed authorities it would not be able to pay debts and liabilities that fell due.

27 Feb 2022
SRB finalised Valuation 1 (provisional) used to support the FOLTF determination.

The OeNB informed Sberbank Europe that no ELA will be provided.

28 Feb 2022
Croatian National Bank and Bank of Slovenia launched urgent marketing processes to seek bids for Sberbank Croatia and Sberbank Slovenia. SRB requested updated bids for the latter.

28 Feb 2022
ECB and SRB decided that Sberbank Europe and its subsidiaries were FOLTF.

SRB applied moratorium on three banks for until the end of 1 Mar, finalised Valuation 2 for Sberbank Croatia and Sberbank Slovenia.

1 Mar 2022
SRB decided to take resolution actions on Sberbank Croatia (sale of business to Croatian Postbank for €9.1 million) and Sberbank Slovenia (sale of business to NLB d.d. for €5.1 million). The Austrian parent of Sberbank Europe would be subject to national insolvency procedures.

9 Mar 2022
The Austrian DGS (ESA) contacted customers of Sberbank Europe on payout matters.

Moratorium and SRB's resolution scheme for Sberbank entities within the banking union

Following the declarations of FOLTF, the SRB immediately applied a moratorium on Sberbank entities within the banking union on 28 February for 48 hours until the end of 1 March (Moratorium). In essence, payments, enforcement and termination rights were suspended.[40] Depositor withdrawals were also limited to a daily allowance amount, as determined by NRAs in Austria, Croatia and Slovenia.

During the Moratorium, the SRB was able to consider next steps to resolve the troubled institutions (either to apply resolution actions or for insolvency procedures to be carried out according to national laws). It was also emphasised that depositors in Sberbank Europe and its subsidiaries were protected up to the limit of €100,000.

On 1 March, the SRB announced that resolution actions were necessary in the public interest for Sberbank Croatia and Sberbank Slovenia, in order to avoid adverse significant effects on financial stability in both countries. As for the Austrian parent, Sberbank Europe, no resolution action was necessary and insolvency procedures would be implemented in line with national laws.

[40] (1) All payment or delivery obligations pursuant to any contract to which Sberbank Europe and its subsidiaries were, including eligible deposits, were suspended, with the exception of payment or delivery obligations to systems and operators of systems, Central Counterparty Clearing Houses (CCPs) in the banking union, and central banks; (2) All secured creditors are restricted from enforcing security interests; (3) All termination rights of any party to a contract with Sberbank Europe and its subsidiaries are suspended

Sale of business of Sberbank's subsidiaries in Croatia and Slovenia

Sberbank Croatia was the 8th largest credit institution in Croatia by asset size, with 31 branches, 478 employees and about 84,000 customers across 22 cities. While the SRB ascertained that it did not provide critical functions,[41] the failure (insolvency and liquidation) of Sberbank Croatia would likely cause significant indirect contagion to the Croatian banking system and severely impact financial stability, as well as create a spill over effect into the real economy of Croatia.

The SRB had hired an independent valuer earlier to perform a provisional valuation informing the application of resolution tools. The value of shares in Sberbank Croatia was estimated to range from HRK -2 million to HRK1 million (-€642,000 to €321,000), including a buffer for additional losses. Given the exigent circumstances, the SRB deemed this to be a fair disposal value that purchasers may be willing to pay. Known as 'Valuation 2', this serves the purpose of informing the SRB on elements constituting commercial terms, i.e. decisions on the assets, rights, liabilities or instruments of ownership of Sberbank Croatia to be transferred to another party.

On 28 February, the Croatian National Bank (CNB) launched a marketing process targeted at a specific number of potential bidders with the capacity to absorb Sberbank Croatia. Urgent invitations were sent out for potential buyers to provide unconditional and binding offers (by 15:00), given impending expiry of the Moratorium the following day. This was further complicated by the fact that no due diligence could be performed, and data on the business of Sberbank Croatia was unavailable.

The SRB explained that deviation from typical marketing processes[42] to complete an expedient sale were necessary, given the risk of aggravating uncertainty and further loss of market and depositor confidence in Sberbank Croatia, in turn constituting a material threat to financial stability in Croatia. In addition, while CNB sought to maximise the transaction price, it also recognised the need for immediate resolution action taking precedence over prolonged price negotiations.

On 1 March, the bid of HRK71 million (€9.4 million / $10.5 million) from Hrvatska Poštanska Banka d.d. (Croatian Postbank) was accepted and the SRB decided to transfer all the shares from Sberbank Croatia to its acquirer. Beyond considerations on commercial terms of the price (which conformed to Valuation 2), the Croatian Postbank demonstrated capability to plug the liquidity drain of Sberbank Croatia, and preserve financial stability. The Croatian Postbank is 77% owned (directly or indirectly) by the Republic of Croatia, including 9% ownership by the Croatian Deposit Insurance Agency.

> ***Given the specific circumstances of the case, the sale of business tool in the form of transfer of shares will ensure that Sberbank Croatia and Sberbank Slovenia will continue operating as part of a group, and thus would meet the resolution objectives more effectively than the bail-in or bridge institution tools (even if those were combined with the asset separation tool)***
>
> Single Resolution Board

In the case of Sberbank Slovenia, it was a medium sized bank and the 9th largest credit institution in Slovenia by asset size, with 12 branches, 371 employees and about 49,000 customers. Importantly, the SRB deemed Sberbank Slovenia's lending to SMEs as a critical function. Most of its SME clients only had one banking relationship, with a longer timeframe required for substitution. Hence, a sudden disruption could negatively impact third parties and trigger contagion / undermine the confidence of broader market participants.

A 'Valuation 2' exercise was conducted and placed the estimated value of shares in Sberbank Slovenia within the range of €-2 million and €1 million (including buffer for additional losses), which the SRB deemed to be a fair price due to prevailing circumstances.

On 28 February, the Bank of Slovenia (BoS) contacted several potential acquirers with the capability to immediately support Sberbank Slovenia by addressing the deterioration in its liquidity and preserving its critical function. Two bidders submitted offers by the urgent deadline of 15:00, and were subsequently invited by the SRB to adjust the offers. This process was significantly aided by virtual data rooms that facilitated access by potential purchasers to key data supporting the transfer, including supervisory information.

On 1 March, the updated bid from Nova Ljubljanska Banka d.d. (NLB) of €5.1 million ($5.7 million) proved to be the highest and was accepted. The SRB decided to transfer all the shares from Sberbank Slovenia to NLB, constituting commercial terms that conformed to Valuation 2. The Republic of Slovenia holds a 25% equity stake in NLB.

By implementing the sale of business tool, the SRB emphasised that depositors or clients of Sberbank Croatia and Sberbank Slovenia would not experience any disruption and operations would resume as normal. From the customer perspective, they would now be part of large, well established and robust banking groups.

[41] Across deposit taking, lending and loan services, payment systems, capital market and investment activities, and wholesale funding markets activities (defined as per Article 2(1)(35) of the Directive 2014/59/EU and Article 6 of the Commission Delegated Regulation (EU) 2016/778)

[42] Article 24(3) of Regulation (EU) No 806/2014 and Article 39(3) of Directive 2014/59/EU, provide for the resolution authority's possibility to deviate from the marketing requirements as established in Article 24(1) of Regulation (EU) No 806/2014 and Article 39(1) of Directive 2014/59/EU

Insolvency of Sberbank Europe in Austria

Since the SRB had decided that resolution action would not be applied to Sberbank Europe, it would only be subject to insolvency procedures carried out according to national laws and depositors would be protected by the Austrian Deposit Guarantee System (DGS).

In the 2020 Resolution Plan for Sberbank Europe (adopted in May 2021), the SRB concluded that the failure of Sberbank Europe would adversely affect financial stability beyond the Austrian market. This was due to the financial and operational inter-connectedness of Sberbank Europe with other entities in Sberbank Group across the EU.

However, the SRB recognised that the situation had changed since 2021 and justifications for resolution action using the bail-in and sale of business tools as set forth in the Resolution Plan was no longer applicable. The SRB had also assessed that for the Austrian market, Sberbank Europe did not provide any critical functions and its failure (insolvency) would not substantially impact financial stability at the national level.[43]

Hence, the SRB concluded that a deviation from the assessment included in the Resolution Plan[44] for Sberbank Europe was warranted, owing to significant changes in circumstances since it was adopted. Sberbank Europe was unlikely to significantly impact financial stability beyond the Austrian market due to among others, its level of systemic relevance, asset size and market share (below medium-low threshold), low impact of failure on the real economy and the rest of the banking union financial system[45] (no other institution was identified as being at risk of failure in any scenario), low interconnectedness with other market participants, and insignificant indirect contagion effects in Austria.

Payout to depositors

In Austria, there are 3 schemes for deposit insurance – the Einlagensicherung Austria GmbH (ESA), Sparkassen-Haftungs GmbH and the Austrian Raiffeisen Protection Scheme eGen (ORS). Under relevant provisions of the Deposit Guarantee Schemes and Investor Compensation Act, each Austrian DGS made financial means available (proportionally provided by all Austrian banks)[46] to reimburse depositors of Sberbank Europe up to the limit of €100,000.

As envisaged for cross-border compensation cases in Europe, we are resorting to the support of the national deposit guarantee scheme in this pay-out process. In coordination with ESA, the Compensation Scheme of German Private Banks (EdB) will ensure that all eligible depositors in Germany will be able to obtain their money quickly and without complications

Stefan Tacke, Managing Director of ESA

Sberbank Europe had about 35,000 customers with guaranteed deposits of €913 million (from the total of £1 billion). According to ESA, it contacted the customers of Sberbank Europe on 9 March, and most have already been compensated.

As for deposits in Sberbank Europe's branch in Frankfurt, Germany, those were also protected by the Austrian DGS. However, on behalf of ESA, those reimbursements were implemented by the Compensation Scheme of the German Private Banks (EdB) within 7 days of ascertaining payable compensation.

[43] Sberbank Europe did not identify any functions as critical in its 2021 Recovery Plan and Critical Function Report (for FYE 2020)
[44] In accordance with Article 23 (third subparagraph) of Regulation (EU) No 806/2014
[45] Based on the SRB's internal multilayer network contagion model
[46] According to the ratio of the total amount of covered deposits of their members as a proportion of the total covered deposits of the members of all Austrian DGS as of 31 December 2021

Key takeaways

The resolution of Sberbank Europe holds out several useful lessons and five are highlighted in this section.

Failure can happen for many reasons, and not all of them can be simulated

First is the speed of failure emanating from geopolitical risks and how essential it is for banks and authorities to be prepared for crisis and a potential resolution scenario. Within a matter of days (prior to and after the Russian invasion of Ukraine), Sberbank Europe and its subsidiaries were confronted with deposit withdrawals and severe liquidity gaps that ultimately led to its failures. Those institutions ended up being resolved by the SRB and NRAs within the short span of 6 days or less than a week of the risk event being triggered. The case of Sberbank Europe also demonstrates how unexpected sources and nature of crises - this time from geopolitics - can lead to the idiosyncratic failure of otherwise healthy financial institutions. It is worth noting that the nature and severity of this geopolitical crisis scuppered Sberbank Europe's recovery plans, which depended substantially on financial lifelines from Sberbank Russia.

Planning helps, even if not fully

Secondly, resolution authorities were fast and agile in execution owing to advanced preparations and having in place a robust resolution framework. The Resolution Plan for Sberbank Group provided important groundwork to facilitate swift and informed decision making by authorities during the time of resolution. While the bail-in tool had been identified as the preferred resolution strategy for Sberbank Europe, the SRB re-assessed and adapted its approach to fit new and pressing circumstances from the Russia-Ukraine war. As a result, Sberbank Europe entered into insolvency in Austria (with depositor payout by the Austrian DGS), while the sale of business tool was effectively deployed for Sberbank Croatia and Sberbank Slovenia. Deviations from the Resolution Plan and other rules such as marketing processes enabled efficient resolution implementation. This included trade-offs concerning immediacy of closing the sale (bids received within the same day of marketing by 15:00) versus more time to negotiate for higher prices.

Clear communications helped smoother execution

In terms of communications, clear messages were transmitted to key stakeholders. In particular, timely assurances were provided to depositors and customers of Sberbank in Croatia and Slovenia (to expect resumption of normal day-to-day operations under strong national banking groups) as well as in Austria (to expect deposit protection and payout by the DGS). Collectively, these and other effective actions taken by the SRB and NRAs achieved the ultimate aim of preserving financial stability across the EU.

> ***The resolution of Sberbank showed again that the system works: Financial stability was maintained, there was no need for a public bailout, and the taxpayer was protected. That is the definition of a successful outcome for resolution cases***
>
> Elke König, former Chair of the Single Resolution Board

Different approaches for different cases, even though in the same group

Fourth is a related point in recognising that resolution actions can be highly contextual and market or institution-specific, against the backdrop of applying the broad resolution framework and tools. A case in point is the different treatment of resolving the parent entity in Austria compared to its subsidiaries in Croatia and Slovenia. Even when the sale of business tool was activated for both Sberbank Croatia and Sberbank Slovenia, it was not a cookie-cutter approach and specific circumstances guided the implementation of resolution strategies and tactics. For example, a critical function (lending to SMEs) was identified for the Slovenian market, with none in Croatia. Potential acquirers of Sberbank Slovenia also had access to a virtual data room and were requested to provide updated bids to the SRB, while prospective buyers of Sberbank Croatia were not able to access any specific data.

Institutional arrangements and strong co-ordination matters

Lastly, the effectiveness of resolution decisions and actions were underpinned by strong institutional structures and interagency co-ordination arrangements. For instance, the close coordination between the ECB and SRB saw both institutions attend multiple joint-meetings (of the ECB's Supervisory Board meetings and specific crisis management team meetings, as well as SRB's Extended Executive Sessions) during the crucial period of tackling troubles at Sberbank Europe and its subsidiaries.[47] These important practices for cooperation and information exchange had been formalised in an SRB-ECB MoU, which was subsequently revised in December 2022.

Besides this, cross-border coordination also contributed to the successful resolution of Sberbank Europe and its subsidiaries. This was exemplified by close cooperation between the SRB and relevant NRAs, regular engagements by the SRB with relevant members of the European resolution college, as well as cooperation between the DGS in Austria (ESA) and Germany (EdB) to ensure efficient payouts to affected customers from the German branch of Sberbank Europe.

[47] The SRB attended the ECB's Supervisory Board meetings on 17, 23 and 27 February 2022, and specific Crisis Management Team meetings for Sberbank Europe on 25 and 26 February 2022. The ECB attended the SRB Extended Executive Sessions on Sberbank Europe on 26, 27, 28 February and 1 March 2022