



**VALUATION REPORT  
FOR THE PURPOSE OF ARTICLE 20(5)(F) OF  
REGULATION (EU) NO 806/2014**

**INFORMING THE CHOICE OF RESOLUTION ACTION TO BE  
ADOPTED, AND WHAT CONSTITUTES COMMERCIAL TERMS  
FOR THE PURPOSES OF ARTICLE 24(2)(B) (“VALUATION 2”)**

**Sberbank d.d. (Croatia)**

**27 February 2022**

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## 1. Purpose of this report and scope

This Valuation Report summarises the results of the provisional valuation 2, which has been performed by the Single Resolution Board (SRB) in line with Article 20 of the Regulation (EU) No 806/2014 ("SRMR") for the purpose of informing the decision on the assets, rights, liabilities or instruments of ownership of SBHR to be transferred and to inform the Board's understanding of what constitutes commercial terms for the purposes of Article 24(2)(b) SRMR in respect to Sberbank d.d. (SBHR). In considering the basis of the valuation, the SRB has had regard to the requirements of Article 20(10) SRMR.

The Valuation Report has been drafted taking into account Chapter III of the Commission Delegated Regulation (EU) on valuation ("Valuation CDR")<sup>1</sup>. The Valuation Report has been drafted taking into account the valuation methodology criteria of Chapter III of the Valuation CDR, under very important limitations of the available time and information at the valuation date.

Due to the rapid and sharp deterioration of SBHR's liquidity position over the last days the Single Resolution Board needed to conduct urgently a provisional valuation on the basis of information publicly available and information provided either by the ECB or the bank. Due to the urgency of the case, and taking into account that the moratorium implemented based on Article 33a BRRD expires on 1 March 2022, it was not possible to carry an independent valuation. Considering the above, the outcome of the valuation provided in this report should be regarded as provisional for the purposes of Article 20(10) SRMR.

This Valuation Report assumes that the resolution scenario to be considered is the sale of business in the form of transfer of shares under Article 24(1)(a) SRMR and 38 of BRRD.

## 2. Background

SBHR is a fully owned subsidiary of Sberbank Europe AG ("SBAG"). SBAG operates the Central and Eastern European business of the group led by the parent company, which is the public joint stock company Sberbank of Russia ("Sberbank of Russia"), a large financial institution based in the Russian Federation.

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<sup>1</sup> Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities, C/2017/7438, OJ L 67, 9.3.2018, p. 8.

On 3 November 2021, SBAG entered in a Share Purchase Agreement (“SPA”) for the sale of all banking subsidiaries outside of Austria (including SBHR), with the exception of the subsidiary in Czech Republic to Agri Europe Cyprus Ltd (“AEC”).

Following the increase of the geopolitical tensions, SBHR experienced significant deposit outflows due to the relationship with its ultimate parent Sberbank of Russia. In addition, the current geopolitical developments in the Russia-Ukraine crisis and the EU<sup>2</sup> and the USA<sup>3</sup> measures in response to the crisis in Ukraine have led SBAG and its subsidiaries to face a significant deterioration of the liquidity position, which has sharply reduced the availability of cash for SBHR.

On 24 February 2022, SBAG 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 SBHR’s access to US correspondent accounts, direct or otherwise, and the clearance of any transactions via US institutions.

On 25 February 2022, the European Union imposed additional sanctions. Although they do not directly target SBHR (it was not put on the EU sanction list), the latest EU sanctions further contribute to the reputational crisis of SBHR and SBAG, because of the relationship with its Russian parent. Ultimately, 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.

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<sup>2</sup> 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.

<sup>3</sup> 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.

On 27 February 2022, ECB assessed that SBAG and its subsidiaries in Croatia (SBHR) and Slovenia (Sberbank banka d.d.) are failing or likely to fail owing to a deterioration of their liquidity situation. The ECB took the decision after determining that, in the near future, the bank and its subsidiaries are likely to be unable to pay its debts or other liabilities as they fall due.

Following up the ECB's assessment, on 27 February 2022, the SRB decided that there were objective elements to support a determination that SBAG and its subsidiaries SBHR and Sberbank banka d.d, will, in the near future, be unable to pay its debts or other liabilities as they fall due in the meaning of Article 18(4)(c) SRMR. Hence, the SRB concurred with the FOLTF assessment provided by the ECB in the meaning of Article 18(1)(a) SRMR.

### 3. Sources of Information and Valuation Date

The provisional valuation, of which the outcome is summarised in this report, is the result of an assessment of all relevant public and non-public supervisory and other information that was available to the SRB.

Due to limited access to relevant data, the SRB decided to use the last 31 December 2021 quarterly reports on an individual basis. In particular, all available information as of 31 December 2021 is taken into account when deciding about potential adjustments to the book value of SBHR. The reference date of the valuation, in accordance with Article 2 of Valuation CDR, shall be the 31 December 2021, which is as close as possible to the expected date of the decision by the resolution authority whether to put SBHR in resolution or not.

The sources of the information for the provisional valuation were the following:

- a) Individual financial statements as of 31 December 2021;
- b) FINREP/COREP data as of 31 December 2021;
- c) [...];
- d) Discussions with the ECB;
- e) ECB daily liquidity monitoring at individual level;
- f) ECB's FOLTF assessment of Sberbank d.d. (Croatia) as of 27 February 2022;
- g) Sale and purchase agreement.

## 4. Balance sheet and own funds

The following table presents an updated balance sheets of SBHR based on IFRS accounting, as of different dates, for information purposes:

Assets (carrying amount - HRK)	FINREP		
	As of 30/09/21	As of 31/12/21	change
<b>Cash, cash balances at central banks and other demand deposits</b>	<b>2.154.156.550</b>	<b>2.306.839.831</b>	<b>7%</b>
<b>Financial assets held for trading</b>	<b>120.858.708</b>	<b>119.513.075</b>	<b>-1%</b>
<b>Financial assets at FV through OCI – Debt securities</b>	<b>695.842.979</b>	<b>693.815.852</b>	<b>0%</b>
<b>Financial assets at amortised cost</b>	<b>8.237.922.110</b>	<b>7.724.418.137</b>	<b>-6%</b>
<b>Debt securities (carrying amount)</b>	<b>6.327.021</b>	<b>10.070.688</b>	<b>59%</b>
<b>Loans and advances (carrying amount)</b>	<b>8.231.595.088</b>	<b>7.714.347.448</b>	<b>-6%</b>
<i>of which Stage 3</i>	<i>127.250.462</i>	<i>99.579.369</i>	<i>13%</i>
<b>Tangible assets</b>	<b>90.752.795</b>	<b>88.174.786</b>	<b>-3%</b>
<b>Intangible assets</b>	<b>101.998.029</b>	<b>111.808.848</b>	<b>10%</b>
<b>Tax assets - DTAs</b>	<b>29.884.852</b>	<b>21.102.305</b>	<b>-29%</b>
<b>Other assets</b>	<b>23.920.579</b>	<b>23.778.855</b>	<b>-1%</b>
<b>Total assets</b>	<b>11.455.336.602</b>	<b>11.089.451.687</b>	<b>-3%</b>

Table 1: Quarterly evolution of SBHR's assets (source: FINREP)

Liabilities (carrying amount - HRK)	FINREP		
	As of 30/09/21	As of 31/12/21	change
<b>Financial liabilities held for trading - Derivatives</b>	<b>330.669</b>	<b>20.647</b>	<b>-94%</b>
<b>Financial liabilities measured at amortised cost</b>	<b>10.015.792.807</b>	<b>9.591.892.344</b>	<b>-4%</b>
Deposits	9.950.963.111	9.527.947.269	-4%
<b>Provisions</b>	<b>125.781.883</b>	<b>156.919.940</b>	<b>25%</b>
Pending legal issues and tax litigation	102.808.781	140.918.871	37%
<b>Other liabilities</b>	<b>116.610.022</b>	<b>138.708.322</b>	<b>19%</b>
<b>Total liabilities</b>	<b>10.258.515.383</b>	<b>9.887.541.255</b>	<b>-4%</b>
<b>Capital</b>	<b>615.623.000</b>	<b>615.623.000</b>	<b>0%</b>
<b>Share premium</b>	<b>915.045.100</b>	<b>915.045.100</b>	<b>0%</b>
<b>Accumulated other comprehensive income</b>	<b>9.624.029</b>	<b>7.109.312</b>	<b>-26%</b>
<b>Retained earnings</b>	<b>(389.692.981)</b>	<b>(389.692.981)</b>	<b>0%</b>
<b>Other reserves</b>	<b>20.311.069</b>	<b>20.311.069</b>	<b>0%</b>
<b>Profit or loss attributable to Owners of the parent</b>	<b>25.911.000</b>	<b>33.514.931</b>	<b>29%</b>
<b>Total equity</b>	<b>1.196.821.218</b>	<b>1.201.910.431</b>	<b>0%</b>
<b>Total equity and total liabilities</b>	<b>11.455.336.602</b>	<b>11.089.451.687</b>	<b>-3%</b>

Table 2: Quarterly evolution of SBHR's liabilities and own funds (source: FINREP)

The bank had, as of 31 December 2021, a CET1 (16.30% TREA) surplus of 994 bps above the minimum TSCR required and 594 bps above the minimum OCR required. [...] <sup>4</sup>, [...] <sup>5</sup> [...] <sup>6</sup> [...].

<i>in thousands (HRK)</i>		<b>SBHR</b>		
<b>Reference date</b>	<b>30/09/2021</b>	<b>31/12/2021</b>	<b>change</b>	
<b>Own funds</b>	1.256.876	1.337.051	6%	
<i>o/w CET1</i>	1.054.485	1.134.293	8%	
<i>o/w T2</i>	202.391	202.758	0%	
<b>TREA</b>	7.370.328	6.958.775	-6%	
<b>CET1 Capital ratio</b>	14,31%	16,30%	14%	
<b>T1 Capital ratio</b>	14,31%	16,30%	14%	
<b>Total Capital ratio</b>	17,05%	19,21%	13%	
<b>Total SREP capital requirement ratio (TSCR)</b>	11,30%	11,30%	-%	
<i>o/w to be made up of CET1</i>	6,36%	6,36%	-%	
<b>Overall capital requirement ratio (OCR)</b>	15,30%	15,30%	-%	
<i>o/w to be made up of CET1</i>	10,36%	10,36%	-%	

Table 3: Quarterly evolution of SBHR's capital adequacy (source: COREP)

## 5. Provisional Valuation: methodology and outcome

The Valuation 2 seeks to provide an estimate of the value which may be offered for the whole bank by a potential purchaser, following an open, fair, and competitive auction process. That value is known as the 'disposal value', as required by Article 11 of the Valuation CDR for a sale of business.

There are a number of standard valuation methodologies available, namely: cash flow valuations, the multiples method and the adjusted book value method. However, given the circumstances of SBHR, some of those methodologies for bank valuation are unsuitable as due to extreme urgency of situation. The SRB was not in position to access all reliable prospective financial information to support a dividend discount model and the market multiples method cannot be applied since there are no multiples derived from comparable entities in a similar financial situation.

The SRB has adopted a variant of the adjusted book value methodology, which provides a pragmatic alternative to the discounted cash flow methods<sup>7</sup>. The adjusted book value method relies on adjustments applied to the book value of the entity's balance sheet, which are intended

<sup>4</sup> [...]

<sup>5</sup> [...]

<sup>6</sup> [...]

<sup>7</sup> As per the EBA Handbook on valuation purposes of resolution, besides the main valuation methods, further valuation methodologies exist and could be applied.

to account for the effects of resolution tools such as an accelerated sale of assets in a potentially illiquid market but also the risk factors potentially affecting the price that a potential buyer is willing to pay for.

Instead of applying a category-by-category approach, adjusting book values of each asset and liability class to estimate existing losses or gains and other adjustment which any buyer would apply to the book value of SBHR, the SRB has adopted a market-based approach, whereby the book value of SBHR is adjusted accounting for valuation risk factors or any other objective evidence that might justify a downward adjustment to the book value of SBHR to determine the disposal value.

Due to the important limitations of the available time and information, the Valuation Report does not include an assessment of the value of SBHR in liquidation and the recoveries expected by each class of creditors, as required by Article 36(8) of the BRRD.

## 6. Valuation risk factors

The section that follows explains the valuation risk factors that might justify a downward adjustment to SBHR's book value to determine the value of its shares:

- **[...] transaction and financial soundness of SBHR**

In November 2021, AEC Group agreed to purchase for EUR [...] Sberbank Europe AG's banking subsidiaries in Croatia, Slovenia, Hungary, Serbia and Bosnia Herzegovina [...]<sup>8</sup>, [...].

- **Reputation damage due to media coverage and general perception by the EU public**

On 24 February 2022, HR news agencies<sup>9</sup> informed that SBHR's online and mobile banking is temporarily unavailable due to technical difficulties relating to its basic mobile banking application. This incident had a significant reputational impact affected the reputation of SBHR as it occurred at the same time the sanctions imposed on Russia were being announced.

On 25 February 2022, the reputation was once again severely impacted by the negative coverage in the media<sup>10</sup> including pictures of lines forming in front of the banks. All major news outlets

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<sup>8</sup> [...]

<sup>9</sup> <https://dnevnik.hr/vijesti/hrvatska/sberbank-na-web-stranicama-objavio-da-je-njihovo-mobilno-i-internet-bankarstvo-privremeno-nedostupno---697285.html>

<sup>10</sup> <https://www.index.hr/vijesti/clanak/foto-ovo-su-redovi-ispred-sberbanke-u-zagrebu-i-splitu/2342506.aspx>



reported on the massive numbers of clients trying to retrieve their deposits and the poor performance of the bank due to the sanctions being imposed.

The SRB concluded that the disposal value would be severely affected by the reputational damage.

- **Liquidity situation justifies an adjustment to the book value.**

SBHR's funding profile is largely comprised of customer deposits. The accelerated escalation of the geopolitical tensions between Russia and Ukraine and the subsequent imposition of sanction by the EU, UK and US authorities caused significant deposits withdrawals in the week of 21<sup>st</sup> February 2022. In more detail, from 23 to 25 February 2022, due to significant withdrawal of deposits (more than EUR [...]), the counterbalancing capacity of SBHR was reduced to EUR [...]( [...]%), which in turn reduced its LCR to below regulatory minimum LCR ([...]%). On 25<sup>th</sup> February, it was also confirmed that the shareholder Sberbank Russia would not provide any support and that no other liquidity recovery was deemed feasible, at that time. Moreover, according to the ECB's FOLTF notification of 27<sup>th</sup> February, the readily available counterbalancing capacity was deemed insufficient to cover expected outflows [...] and the parent entity itself notified on 26<sup>th</sup> February that it was in FOLTF situation and that SBHR was unable to meet payments in the near future on its debts or other liabilities as they fall due.

The SRB assessed that a potential purchaser would have to provide additional liquidity support to SBHR to cover the short-term liquidity needs and restore regulatory liquidity requirements liquidity.

The SRB concluded that the disposal value is to be severely affected by the current liquidity situation of SBHR. The bank admitted itself to SRB and ECB it is FOLTF itself, which further confirms the significantly deteriorated situation.

- **Integration and restructuring costs.**

The Valuation 1 Report concluded that considering the information available for SBHR was not insolvent at the valuation date. However, [...], the potential buyer would be expected to undertake measures to improve profitability indicators and enhance the control framework of SBHR [...]. Furthermore, a sale of business transaction entails several costs arising from the restructuring required to successfully integrate business operations into the acquirer's business. Potential compensations arising from layoffs of employees, cost-efficiency measures such as reducing costly structures (closing of least profitable branches or the existing ones due to the overlap with acquirer's branches, staff rationalisation, eliminating non-profitable business lines, selling premises, IT system integration costs, administration costs, etc.) had significantly reduced the disposal value of SBHR's target.

[...]. Based on the above considerations, the SRB concluded that the disposal value of SBHR is to be severely affected.

## 7. Valuation outcome

The estimated value of the shares of SBHR is in the range between HRK -2mn and 1mn. The valuation range considers a buffer for additional losses that accounts for the extreme valuation uncertainty and the risk factors mentioned in the previous section. SBHR has a significantly deteriorated financial situation aggravated by significant deposit outflows and severe impact of the recent increase in its reputational risks. Considering the financial situation of SBHR and the current circumstances that have worsen additionally its financial soundness and liquidity position, jointly with all the risk factors described above, the SRB considers that there are no reasonable prospects that a potential buyer would be willing to pay a higher price for the SBHR's shares.