

VALUATION REPORT 1: SBERBANK D.D. (CROATIA)

for the purpose of Article 20(5)(a) of
Regulation (EU) No 806/2014

*INFORMING THE DETERMINATION OF WHETHER THE
CONDITIONS FOR RESOLUTION OR THE CONDITIONS
FOR THE WRITE DOWN OR CONVERSION OF CAPITAL
INSTRUMENTS ARE MET ("VALUATION 1")*

27 February 2022

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1. Scope and Information basis

1.1. Scope of the Valuation

This Valuation Report summarises the results of the provisional valuation 1, which has been performed by the Single Resolution Board in line with Article 20 of Regulation (EU) No 806/2014 (“SRMR”) for the purpose of informing the determination of whether Sberbank d.d. (“SBHR”) meets the conditions for resolution or the conditions for the write down or conversion of capital instruments pursuant to Article 20(5)(a) of the SRMR (“Valuation 1”). In particular, the report should support the determination of whether SBHR is failing or likely to fail pursuant to Article 18(1) (a) of SRMR. It should be noted that the valuation described in this report addresses the circumstances of Article 18(4)(a)(d) of SRMR leading to the decision that an institution is failing or likely to fail:

- a) the institution infringes or there are objective elements to support a determination that the institution will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation by the competent authority including but not limited to because the institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds;*
- b) the assets of the institution are or there are objective elements to support a determination that the assets of the institution will, in the near future, be less than its liabilities;*
- c) the institution is or there are objective elements to support a determination that the institution will, in the near future, be unable to pay its debts or other liabilities as they fall due.*
- d) extraordinary public support is required;*

The Valuation Report has been drafted taking into account Chapter II of the Commission Delegated Regulation (EU) on valuation (“Valuation CDR”)¹. The Valuation Report has been drafted taking into account the valuation methodology criteria of chapter II of the Valuation CDR, under the limitations of the available time and information restrictions at the valuation date. The classification as an provisional valuation pursuant to Article 36(9) of Directive 2014/59/EU implies that the valuation does not constitute either an audit or a review performed in accordance with International Standards on Auditing or International Standards on Review Engagements or relevant national standards or practices and consequently the Single Resolution Board is not in position to express any assurance for the accuracy of the results expressed in this report. The report should

¹ 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.

rather be understood as a best effort of the Single Resolution Board to assess the financial situation of SBHG on the basis of all available information and the time constraints at the valuation date.

Due to the sharp deterioration of SBHR's liquidity position over the last days the Single Resolution Board needed to conduct an urgent provisional valuation on the basis of available public and supervisory information.

1.2. 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 Single Resolution Board.

Due to limited access to relevant data, the Single Resolution Board decided to use the last 31 December 2021 quarterly reports on a consolidated basis.

In particular, as all available information as of 31 December 2021 is taken into account when deciding about potential adjustments to the financial statement figures, 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 the entity in resolution or not.

In accordance with Article 4 of Valuation CDR, 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.

2. Provisional Valuation methodology and outcome

In this section, the necessary adjustments to fairly represent the financial position of SBHR are presented. Due to the urgency in the circumstances of the case for the provisional valuation, the SRB focused on those areas of high concern that might have a significant impact on the capital and liquidity position of SBHR. To challenge the assumptions, data, methodologies and judgements, by which SBHR has elaborated its financial and prudential reporting, the SRB relied on the sources of information set out in Section 1.2.

2.1. Balance sheet / own funds / capital adequacy art 18(4) (A) SRMR

The following table presents balance sheets of the Institution 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
Cash, cash balances at central banks and other demand deposits	2.154.156.550	2.306.839.831	7%
Cash on hand	193.295.456	220.516.001	14%
Cash balances at central banks	1.129.954.800	1.311.609.916	16%
Other demand deposits	830.906.293	774.713.914	-7%
Financial assets held for trading	120.858.708	119.513.075	-1%
Derivatives	506.706	396.228	-22%
Financial assets at fair value through other comprehensive income	695.842.979	693.815.852	0%
Equity instruments	141.000	141.000	0%
Debt securities	695.701.979	693.674.852	0%
Financial assets at amortised cost	8.237.922.110	7.724.418.137	-6%
Debt securities (carrying amount)	6.327.021	10.070.688	59%
of which Stage 1	6.327.021	10.070.688	59%
Loans and advances (carrying amount)	8.231.595.088	7.714.347.448	-6%
of which Stage 1	7.572.577.565	6.887.210.016	-9%
of which Stage 2	531.767.061	727.559.875	37%
of which Stage 3	127.250.462	99.577.558	-22%
Tangible assets	90.752.795	88.174.786	-3%
Property, plant and equipment	90.752.795	88.174.786	-3%
Investment property	-	-	-
Intangible assets	101.998.029	111.808.848	10%
Goodwill	-	-	-
Other intangible assets	101.998.029	111.808.848	10%
Tax assets	29.884.852	21.102.305	-29%
Deferred tax assets	29.884.852	21.102.305	-29%
Other assets	23.920.579	23.778.855	-1%
Total assets	11.455.336.602	11.089.451.687	-3%

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
Financial liabilities held for trading	330.669	20.647	-94%
Derivatives	330.669	20.647	-94%
Financial liabilities measured at amortised cost	10.015.792.807	9.591.892.344	-4%
Deposits	9.950.963.111	9.527.947.269	-4%
Other financial liabilities	64.829.695	63.945.074	-1%
Provisions	125.781.883	156.919.940	25%
Other long term employee benefits	1.814.331	1.582.651	-13%
Pending legal issues and tax litigation	102.808.781	140.918.871	37%
Commitments and guarantees given	13.763.549	5.607.376	-59%
Other provisions	7.395.220	8.811.041	19%
Other liabilities	116.610.022	138.708.322	19%
Total liabilities	10.258.515.383	9.887.541.255	-4%
Capital	615.623.000	615.623.000	0%
Paid up capital	615.623.000	615.623.000	0%
Share premium	915.045.100	915.045.100	0%
Accumulated other comprehensive income	9.624.029	7.109.312	-26%
Items that may be reclassified to profit and loss	9.624.029	7.109.312	-26%
Fair value changes of debt instruments measured at fair value through other comprehensive income	9.624.029	7.109.312	-26%
Retained earnings	-389.692.981	-389.692.981	0%
Other reserves	20.311.069	20.311.069	0%
Other	20.311.069	20.311.069	0%

Profit or loss attributable to Owners of the parent	25.911.000	33.514.931	29%
Total equity	1.196.821.218	1.201.910.431	0%
Total equity and total liabilities	11.455.336.602	11.089.451.687	-3%

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. [...]2, [...]3 [...]4 [...].

Reference date	SBHR		
	30/09/2021	31/12/2021	change
Own funds	1.256.876	1.337.051	6%
o/w CET1	1.054.485	1.134.293	8%
o/w AT1	0	0	-
o/w T2	202.391	202.758	0%
TREA	7.370.328	6.958.775	-6%
CET1 Capital ratio	14,31%	16,30%	14%
T1 Capital ratio	14,31%	16,30%	14%
Total Capital ratio	17,05%	19,21%	13%
Total SREP capital requirement ratio (TSCR)	11,30%	11,30%	0%
o/w to be made up of CET1	6,36%	6,36%	0%
Overall capital requirement ratio (OCR)	15,30%	15,30%	0%
o/w to be made up of CET1	10,36%	10,36%	0%

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

According to the Article 7(1) of Valuation CDR the valuation shall be based on fair and realistic assumptions and shall seek to ensure that losses under the appropriate scenario are fully recognised. Referring to Article 7(3) of Valuation CDR must be consistent with the accounting principles relevant to the preparation of the institution's financial statements and the prudential regulatory framework (e.g. for the calculation of Institution's capital requirements). Referring to Article 8 of Valuation CDR the valuation shall particularly focus on areas subject to significant valuation uncertainty, which have a significant impact on the overall valuation.

As a result of our analysis, we concluded that, considering the information available, no value adjustment on the balance sheet statement based on accounting principles in line with the CDR are necessary.

The assessment presented in this section, subject to the time available and information limitations described, does not indicate that – at the valuation date – the Institution is insolvent.

² [...]

³ [...]

⁴ [...]

2.2. Assets will be less than liabilities - Article 18(4) (B) SRMR

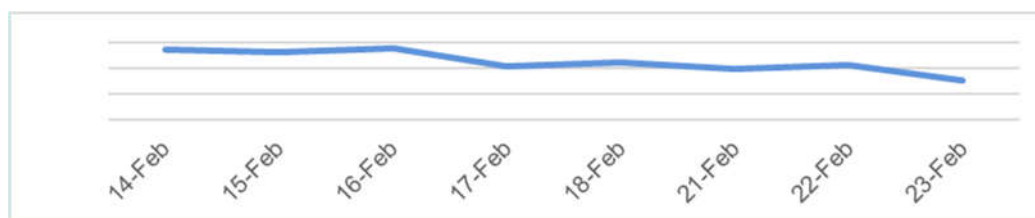
As disclosed above in section 2.1 “Own funds”, balance sheet adjustments cannot be justified based on the available information. Since the information available regarding the business plan of the institution is not detailed, no decisive conclusions can be derived from it. Although, due to the current situation, it is very likely that some assets will have to be urgently sold or used to pay out deposits in the next days, it is not entirely clear, with information available at current juncture, that this will result in assets being less than liabilities. Therefore, considering the limited time and information available and restrictions already mentioned in section 2.1, the SRB has no proof that assets of the institution will be less than its liabilities as of today and in the near future.

2.3. Liquidity – Article 18(4) (C) SRMR

This section presents SBHR’s liquidity position at individual level, with a focus on the funding structure, deposits mix and evolution, while it also analyses the LCR, the counterbalancing capacity (CBC) and the survival period.

[...]

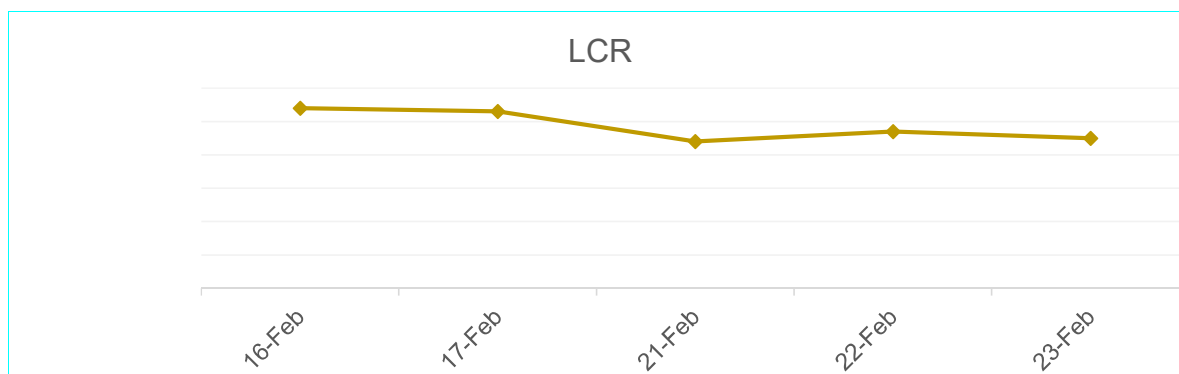
The daily evolution of total deposits from 14.02.2022 to 23.02.2022 is shown in the graph below:



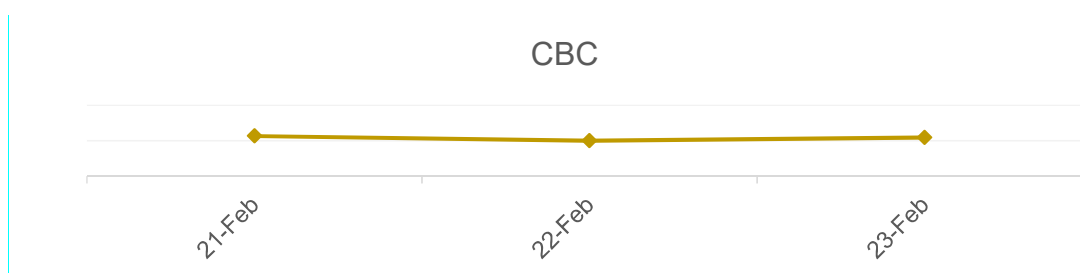
Graph 1: Evolution of SBHR's deposits since 14.02.2022 (source: SSM daily liquidity template)

From 16.02.2022 to 23.02.2022 SBHR's total deposits remained relatively stable. During such period deposits decreased by [...].

The daily evolution of LCR and the CBC is presented in the graphs below:



Graph 2: Evolution of SBHR's LCR since 07.02.2022 (source: SSM daily liquidity template)



Graph 3: Evolution of SBHR's CBC since 07.02.2022 (source: SSM daily liquidity template)

From 07.02.2022 to 22.02.2022, the liquidity situation remained relatively stable. On 23 February 2022 SBHR's counterbalancing capacity amounted [...].

The accelerated escalation of the geopolitical tensions between Russia and Ukraine [...] caused significant deposit withdrawals.

In more detail, from 23 to 25 February 2022, due to significant withdrawal of deposits (circa EUR [...]), the counterbalancing capacity of SBHR was reduced to EUR [...] (circa [...]%), which sharply reduced its LCR to [...]% (below minimum regulatory LCR requirements [...]%-).

Regarding the recovery measures identified in the recovery plan, [...]. Other measures have not been deemed feasible given the current situation.

Moreover, [...], if the Institution continues to experience the same rate of outflows as observed [...], its liquidity buffers are expected to be depleted [...].

2.4. Extraordinary public financial support – Article 18(4) (D) SRMR

SRB has no information whether extraordinary public financial support is / will be requested or will be provided.

3. Conclusions of the provisional valuation

In accordance with Article 18(1)(a) and (4)(c) of the SRMR, the ECB has assessed that SBHR is failing, or in any case likely to fail in the near future, and notified the SRB accordingly on February 27th. The ECB has assessed the recent developments concerning the financial situation of SBSI, in particular regarding the material deterioration of its liquidity position. In light of the above, the ECB has reached the conclusion that there is material evidence to conclude that SBSI is likely to be unable in the near future to pay its debts or other liabilities as they fall due according to Art 18(4) (c) SRMR.

The assessment presented in the second section, subject to the time available and information limitations described in the first section, does not indicate that – at the valuation date – the Institution is insolvent. However, based on section 2.3 above the SRB considers that there are objective elements to support a determination that the SBSI, in the near future, will be unable to pay its liabilities as they fall due in the meaning of Article 18(4)(c) SRMR. Hence, the SRB concurs with the FOLTF assessment provided by the ECB.

The SRB concludes that the Institution is failing or likely to fail in the meaning of Article 18(1)(a) SRMR.