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Ukraine Charges Russia's Sberbank With 'Financing Terrorism'

By Peter Hobson

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A worker taking a break from the construction of a Sberbank branch in Moscow.

As the death count rises in Ukraine's eastern regions, Ukraine has opened criminal proceedings against Russia's largest lender, state-owned Sberbank, and 13 other banks on suspicion of "financing terrorism."

"Checks are ongoing and financing has been curtailed at 14 banks that were financial platforms for separatism. Three hundred cases have been submitted and are being considered by the courts," Ukraine's acting Prosecutor General Oleh Makhnitskyi announced on Ukraine's Channel 5 on Wednesday evening.

Specifically, Sberbank is charged with "financing terrorism," he said, without providing any further details.

Eastern Ukraine has exploded in recent days as pro-Russian groups have occupied

government buildings and clashed with police. Three protesters were killed in the region on Thursday, Reuters reported.

Russian-speaking eastern Ukraine remained largely on the sidelines during the protests in Kiev that overthrew President Viktor Yanukovych — himself from eastern Ukraine — in February, and many in the region mistrust the acting Ukrainian government. Russia has been accused by Kiev, as well as many Western nations, of fermenting the recent violence to destabilize the country.

Sberbank denied the accusations. The bank's Ukrainian subsidiary said in a news release on its website it had been "bewildered to discover the news that a criminal case had been opened against it from the media."

Security Services Probe

The day before the Prosecutor General's declaration, Ukraine's security service, the SBU, announced the start of criminal proceedings against a number of employees of an unidentified Russian bank suspected of supporting protests in eastern Ukraine.

"It was established that ... over March and April employees of the central office of [this] bank in Kiev, in defiance of the law [against financing terrorism], financed organizers of terrorist groups whose members participated in violence against [Ukrainian] citizens, pogroms, arson, destruction of property, the seizure of state buildings, used weapons while resisting officials and law enforcement officers and contributed to preparations for terrorist acts," the SBU said in a news release published on its website Tuesday

Over the same period, employees of the bank "organized the cashing of 45 million hryvna ($4 million) to finance terrorist groups," the statement went on, and "transferred from $200 to $500 every day to bank cards distributed to participants in terrorist groups."

The name of the accused bank is still unclear, but major Russian banks operating in Ukraine deny wrongdoing.

Four Russian-owned banks are among the top 15 players in Ukraine: Prominvestbank, the country's 7th largest, Sberbank, 8th largest; Alfa-Bank, 11th largest, and VTB, 13th largest, according to Ukrainian business news website Capital.ua. Of these, only Alfa-Bank is privately owned.

Prominvestbank, 98.6 percent owned by Russian state-controlled Vneshekonombank, and VTB Ukraine, a subsidiary of Russia's second-largest banking group, branded the accusations "baseless" in statements published on their websites. VTB's press office in Ukraine said the bank had received no information from Ukrainian authorities.

Alfa-Bank Ukraine has received no claims from either the prosecutor or the security services, a representative said by phone.

Sberbank, the only one of the four to be directly accused, said in a statement that "no statements or documents have been submitted ... from the General Prosecutor's Office," and called on the prosecutor to either file documents or withdraw the claims.

All four banks declined to comment further on Thursday.

The accusations are ludicrous, said Garegin Tosunyan, president of the Russian Association of Banks.

“It is obviously a political act, and an absurd and meaningless one. The level of control by the Russian Central Bank is so high and strict that even talking about such violations is meaningless, particularly concerning such major players.”

“It could be a way of pressuring or blackmailing banks,” he said, adding that “unscrupulous business interests aiming to squeeze Russian banks out of the market could certainly also be involved.”

Dodgy Business

Alfa-Bank is convinced that business interests are involved.

On April 11, Mikhail Apostol, a deputy in the Ukrainian Rada, submitted a request to set up an investigative commission into the business activities of Alfa-Bank Ukraine and its links to Russia's security service, the FSB.

A representative of Alfa-Bank in Ukraine on Thursday said the initiative was a paid-for public relations attack against the bank.

“We think that [the commission] will not be registered,” the bank said in a statement on its website. Citing “sources that we are inclined to trust,” the bank said it had “found itself at the centre of a battle between a number of political forces for the post of head of Ukraine's financial regulator.”

A former Alfa-Bank employee, Andrei Volkov, was appointed head of the regulator on April 10.

The initiative has not yet been registered for technical reasons, a source in the Rada told RBC.

Future Risks

The investigative blitz does present a risk to Russian banks in Ukraine, said Tosunyan.

Russian banks' total exposure to Ukraine is about $28 billion, ratings agency Fitch said in February, citing a statement by President Vladimir Putin in November.

Prominvestbank has assets of about $5 billion, the agency said. Sberbank Ukraine has about $4 billion in assets. VTB's Ukrainian subsidiary has assets of about $3 billion, though the banking group's sovereign debt exposure was 20 billion rubles ($562 million) in December. Alfa-Bank Ukraine has assets worth about $3 billion.

State-owned Gazprombank also has significant exposure in Ukraine, though this is mainly through a multi-billion dollar loan to the country's state gas company Naftogaz rather than through a local subsidiary.

There is a saying, said Tosunyan — “One fool can throw a rock into a ditch and 10 clever

people will not heave it out. It might take one minute to throw the rock in, but it may take days or years to pull it out. That is why people should be careful and not make these sorts of accusations, especially in business."

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