The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Sberbank Dodges Brexit Risks by Opening Cypriot London Branch

The plan will allow Sberbank to offer services across the EU in the event of a 'no-deal' Brexit.

By Jason Corcoran for bne Intellinews

August 01, 2019



Sberbank quietly opened a London branch of its Cyprus unit a little over a year ago. **Moskva News Agency**

Russia's biggest lender Sberbank has dodged the fallout of a potential no-deal Brexit by opening a branch of its Cypriot business in the heart of London, *bne IntelliNews* reported Thursday.

The cunning plan will allow Sberbank's traders in London to continue to offer services across the entire European Union bloc if Britain, under the stewardship of its new Prime Minister Boris Johnson, crashes out of the EU without any deal.

The bank outlined the impact of various "exit scenarios" would have on its business in a

recent filing to UK Companies House.

“If the company loses its ability to ‘passport’ freely into EU countries, it would be prevented from accessing its EU-domiciled clients,” explained Sberbank UK chief in the filing. “The planned mitigation for such an eventuality would be to offer clients the facility to face another group company, most likely SIB (Cyprus) Ltd directly or through its London branch, prevailing regulatory regimes permitting.”

Sberbank, the Kremlin’s bedrock lender with about 46% of the nation’s deposits, quietly opened a London branch of its Sberbank CIB Cyprus unit a little over a year ago at the same Fleet Street address as its UK headquarters.

The crucial issue of passporting has prompted scores of banks, investment managers and insurers to open subsidiaries and offices in well-positioned EU capitals such as Frankfurt, Dublin and Paris. Sberbank’s state-controlled rival,VTB, is relocating several business lines and some of its London personnel to Frankfurt, *bne Intellinews* reported in May.

The filings show that Sberbank, which led by President Vladimir Putin’s former Economy Minister German Gref, is in fact doubling down on London by consolidating more of its investment banking functions there.

Notwithstanding Brexit, it’s a bold move by Gref considering how Russian banks in the Square Mile have been decimated by sanctions and a drive by UK authorities to clean up dubious “Londongrad” money.

Related article: Sberbank and Mail.ru Group to Form New Joint Venture

Relations with Moscow also sank to a new low last year after the UK expelled 23 Russian diplomats, who the government said were “undeclared intelligence officers,” after accusing Moscow of using a nerve agent in the attempted murder of former Russian spy Sergei Skripal in Salisbury.

On July 5, Sberbank’s hosted an event in London showcasing a new product providing international investors with ‘Direct Electric Access’ (DEA) to the Russian market. Igor Marich, FX and Money Market Managing Director at the Moscow Exchange, spoke at the event as well as a host of Sberbank executives from Moscow, including head of equities Olga Klimova.

Sberbank said the key advantage of DEA is the absence of risks as the client does not keep cash or securities with a broker and the contract is concluded on behalf of Sberbank CIB UK business, which is regulated by the FCA. The product, which is similar to 'Direct Market Access' (DMA) is capable of processing thousands of client transactions per day with trading carried out via a high-speed connection.

Officially, Sberbank has so far declined to outline any plans it may have for setting up a headquarters for its investment bank within the EU. However, the parent bank has been rapidly retreating from mainland Central, Eastern Europe and Turkey in a series of disposals.

Sberbank sold its Turkish unit Denizbank, for $3.5 billion in May to Dubai banking group Emirates NBD. In Ukraine, the Russian bank has been blocked from selling its business by the

regulator to a Belarus player.

Gref told state TV earlier this year that sanctions have the bank's life in Europe "extremely difficult."

Kremlin-controlled lenders like Sberbank have been subjected to sanctions by the U.S. and EU since Russia fomented a separatist war in eastern Ukraine in 2014, barring them from raising capital with a maturity of more than 30 days in western markets.

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Sberbank has had a torrid time in the U.K. over the past few years but intends to stay the course. The business was cut to the bone following a quadrupling of losses in 2014 and a record $5 million sexual discrimination award to Svetlana Lokhova, a former equity saleswoman.

But the latest earnings indicate the London business may have turned a corner after swinging to a profit last year of £5.5 million ($6.6 million) following a £8.2 million ($9.9 million) loss in 2017. This comes after the parent lender made a much-needed capital injection of £80 million ($96.8 million) in 2017 and two further injections of £75 million ($90.8 million) last year.

As part of an overhaul of its strategy, the company took on a new structured notes business, supplying business newly originated-notes from European banks to its Russian parent. The lender said this new line of business generated "significant revenues" for its fixed income operations last year.

Revenues from fixed income surged by 229% to £20.1 million ($24.3 million) while revenues from equities flatlined at £2.1 million ($2.5 million).

In the final months of 2018, the bank switched from a "back to back" trading model with its Cypriot affiliate to entering into transactions on its own balance sheet and at its own risk. By making London its sole hub for its international clients securities business, Sberbank said it hopes it will increase its client base.

In 2018, Sberbank's London operation also became the group's primary international counterparty for international capital markets transactions and was involved in "a number of deals that resulted in small revenue gains."

Sberbank admitted that the introduction of Mifid 2, an EU directive which states that investment research must be priced separately from other broker services to ensure transparency, had resulted in commission income dropping significantly as the lender negotiated new contracts with its client base.

Sberbank CIB's press service in Moscow didn't reply to enquiries seeking comment.

This article first appeared in bne IntelliNews.

Original url:

https://www.themoscowtimes.com/2019/08/01/sberbank-dodges-brexit-risks-by-opening-cypriot-london-branch-a66658