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Banking stress tests

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BANKING STRESS TESTS UKRAINE/RUSSIA

The year 2022 was supposed to mark the beginning of a new era for European banks: that of the first-rate hikes with fruitful revenue prospects. This was without considering the invasion of Ukraine by Russia.

Indeed, **the conflict in Ukraine may have broad implications for European banks,** including higher loan loss provisions, trading losses, and a delayed rate hike cycle. Shareholders will be affected in 2022, especially if European banks hit by the Ukraine crisis decide to reduce and stop their dividend payments. At this stage and in the absence of information regarding the duration of the war and its final magnitude, it is difficult to estimate the total impact.

However, the main European banks exposed to Russia, Ukraine, and Belarus issue press releases to inform investors of their exposures or not, with varying degrees of detail. **The European banks with the highest exposure to Russia and Ukraine** are Raiffeisen Bank International with an exposure of 13.7% (% of loan exposure), UniCredit with 1.9%, Société Générale with 1.8%, Intesa Sanpaolo with 1.2% and ING Groep with 0.6%.

In order to get an idea of the potential loss on their Russian/Ukrainian subsidiaries, we assessed the above-mentioned banks in much more severe stress scenarios than the so-called expropriation scenarios that have been published by some banks.

Double stress test with strict assumptions Russia/Ukraine/Belarus:

We assume in a **first stress test** (i) a 10% drop in group revenues, (ii) loan loss provisions of **10%** of Russian/Ukrainian/Belarusian loans, (iii) nationalisation of the local entity with subsequent loss of equity, (iv) loss of intra-group funding, (v) 80% drop in risk-weighted assets of Russian/Ukrainian/Belarusian subsidiaries. We still add a 20% tax shield on items (ii), (iii), (iv).

1- Results following the first simulation

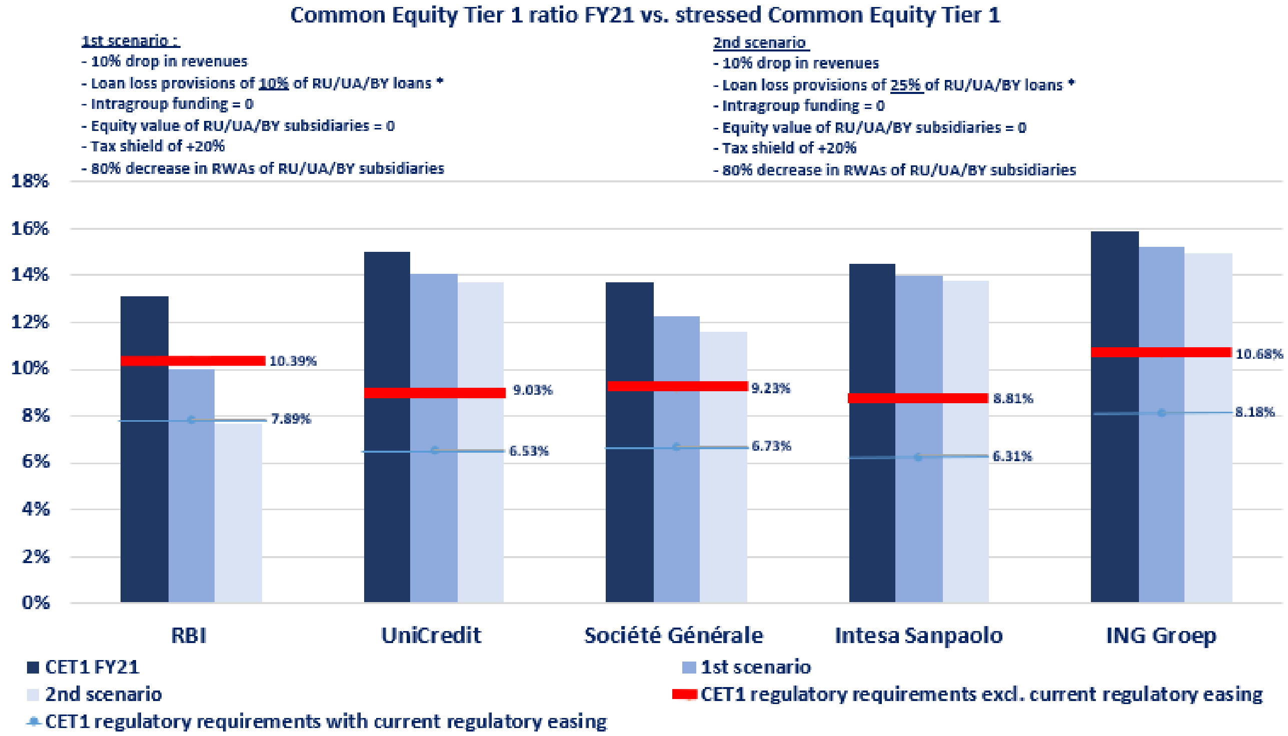
	RBI	UniCredit	Société Générale	Intesa Sanpaolo	ING Groep
Capital loss (Bn)	4.2	4.15	4.5	2.27	2.3
Decrease in RWAs (Bn)	13.7	7.52	5.6	2.08	1.04
CET1 Impact (Bn)	310	99	144	54	68

In order to test a worst-case scenario (in our view)**,** we assume in a **second stress test** (i) a 10% drop in group revenues, (ii) loan loss provisions of **25%** of Russian/Ukrainian/Belarussian loans, (iii) nationalisation of the local entity with subsequent loss of equity, (iv) loss of intra-group funding, (v) an 80% decline in the risk-weighted assets of the Russian/Ukrainian/Belarussian subsidiaries. We further add a 20% tax shield on items (ii), (iii), (iv).

2- Second stress test results (worst case scenario)

	RBI	UniCredit	Société Générale	Intesa Sanpaolo	ING Groep
Capital loss (Bn)	5.98	5.22	6.74	2.94	3.16
Decrease in RWAs (Bn)	13.7	7.52	5.6	2.08	1.04
CET1 Impact (Bn)	545	133	207	73	96

The Chart below summarizes the impact of our two stress tests on selected banks solvency:



Direct exposures are low for the banking sector and are very concentrated on a few banks and in particular Raiffeisen Bank International.

Indeed, **the only bank that presents a solvency risk is RBI** with a failure to meet with the regulatory requirements in our two scenarios. In the first scenario**, RBI is below the initial regulatory requirement** (i.e. the regulatory requirement that will be reinstated from the end of 2022). In the second scenario (which is intended to be very strict and unlikely), **RBI falls under the current regulatory requirements** (solvency requirement after the regulatory easing granted by the ECB following the Covid crisis). **One of the risks of breaching regulatory requirements is the non-payment of AT1 coupons.**

RBI held a conference call to reassure market participants about their exposure to Ukraine and Russia. The bank continues to operate in Ukraine and Russia offering minimum banking services (but no new loans) subject to restrictions and sanctions in Russia. RBI announced the cancellation of its EUR 380m dividend, which adds +40 bps to the CET1 ratio.

It should be mentioned that other European banks publish information related to their exposures over time and to date:

Crédit Agricole: in 2021, Crédit Agricole Ukraine's activity represented NBI of EUR 125m and pre-tax income of EUR 58m. In Russia, the Crédit Agricole CIB AO activity represented NBI of EUR 22m and pre-tax income of EUR 5m. Its total on-shore and off-shore exposure in Russia and Ukraine represented EUR 6.7 billion in commercial commitments, or around 0.6% of the total at 31/12/2021. With a CET1 ratio of 17.5% at Group level and 11.9% at Crédit Agricole SA level, **we believe that the risk is manageable overall.**

UBS: the bank said its exposure to Russia, Belarus and Ukraine is limited. Direct exposure to Russia as of December 31 was USD 634m and has been reduced since then. Clients affected by the sanctions have less than $10m outstanding as of March 3. **The bank has no significant direct exposure to Ukraine or Belarus.**

Santander: The Spanish group said **it had no presence in Russia or Ukraine** and added that it would not do any new business with Russian companies.

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