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BANKS' EXPOSURE TO RUSSIA AND UKRAINE

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Main Russian and Ukrainian exposures from non-Russian banks

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RBI is the most exposed. Socgen and Unicredit also exposed but to a much lower extent (2% of their loans, able to manage these exposures).

For the other banks not exposed to these countries, we will monitor spill-over effect on the macro.

The risk would be that the economic recovery observed post covid lockdowns is put to a halt. Also, the long-waited rise in interest rates by central bank could be pushed forward in time.

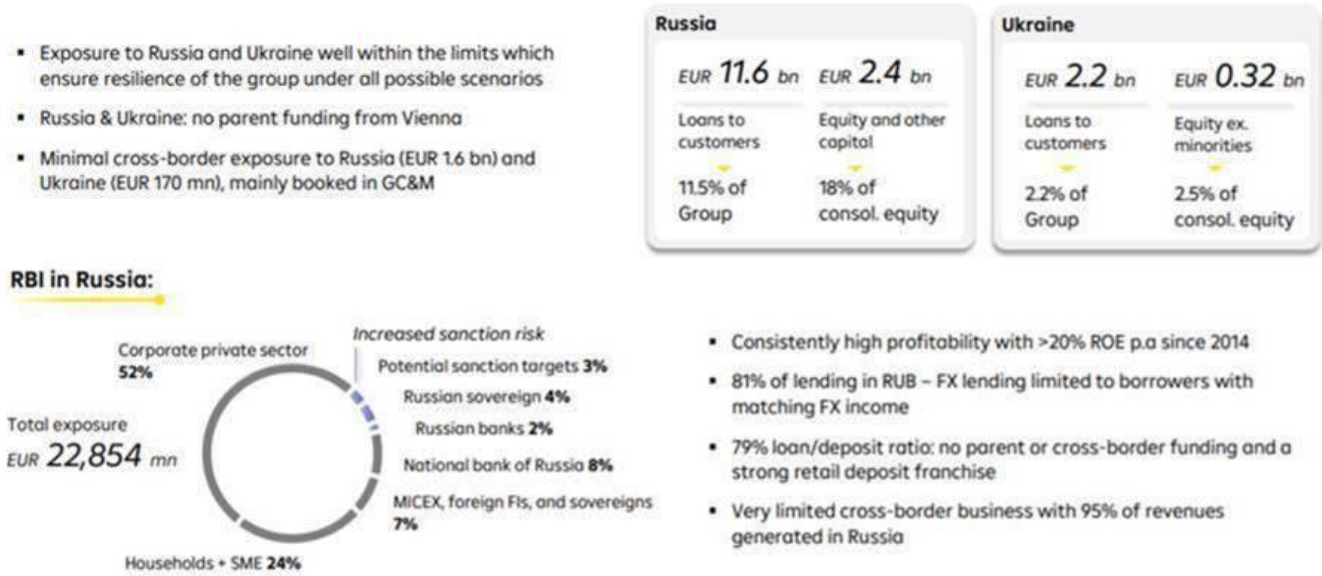
In return, a macro slowdown would negatively impact most banks in their revenues, earnings and asset quality. Bearing in mind that the starting point for banks is generally healthy, even post covid crisis.

Lastly, we will see heightened volatility in this highly uncertain environment which could be beneficial to some markets lines of business.

Raiffeisen bank international (RBI) which we rate HY1 is the most exposed to Russia. The bank is also exposed to Ukraine.

11.6bn or 11.5% of loans in Russia (out of €100.8bn total loans for RBI) and €2.2bn (2.2%) in Ukraine.

<u>Detail of exposure</u>

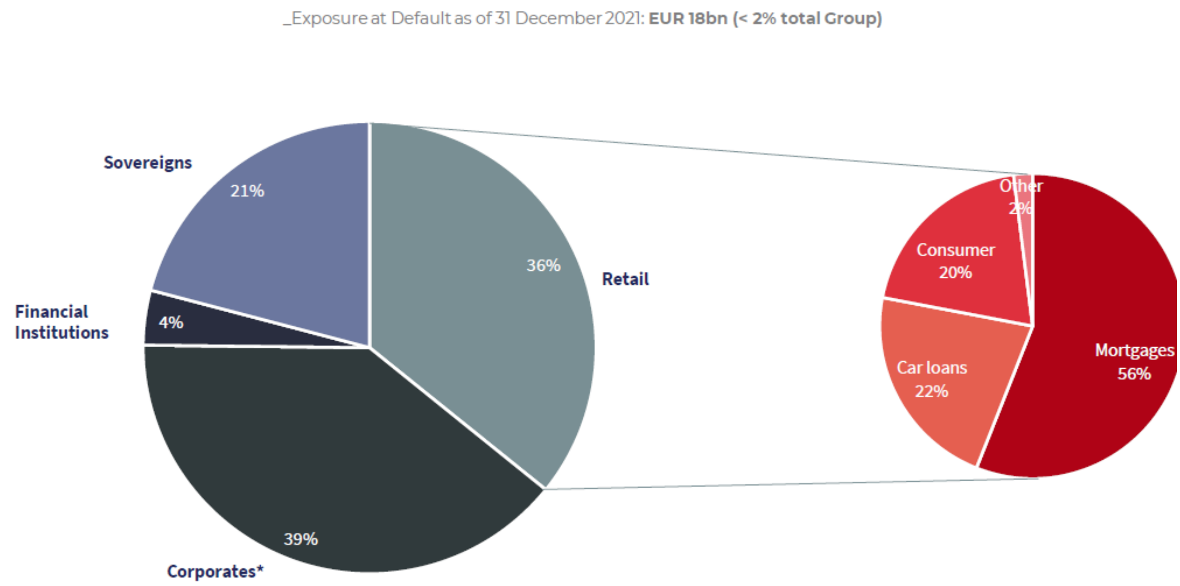


Source : RBI

Of note, RBI has €15.4bn equity, 13.1% CET1 ratio, €5.5bn revenues and €1.8bn pre-tax profit in 2021.

Société Générale (IG4): exposed to Russia (2% of group exposure) / not exposed to Ukraine. Overall small exposure for Socgen.

Exposure at Default as of 31 December 2021: EUR 18bn (< 2% total Group). This includes €10.5bn loans made by Rosbank and sovereign exposure including government bonds and central bank deposits as shown on the graph below.



Source: Société Générale

- Rosbank operates as the 2nd largest private bank in Russia (non-state owned). Yet, we view them as a second-tier player with limited market shares (given the importance of public banks).
- The exposure has been stable throughout the years as it was Socgen's strategy not to grow risk too much in the country.
- Rosbank is deposit funded (€13bn deposits), and profitable (€115m net income in 2021, out of Socgen group total net income at €5,641m, hence a 2% contribution).
- There has not been any disruption to the business at this stage.

We had a call with Socgen top management. They prepare for 2 scenarios:

- Base case: Rosbank will be subject to sanctions like probably all Russian banks. This would constrain the banks' activities and revenues. Asset quality could also deteriorate from current NPL ratio a bit below 5%. This would mean a hit to Socgen's group revenues and earnings, but manageable in the overall picture of Socgen (having €25.7bn revenues in 2021 et group level, hence a cushion to absorb shocks).
- Worst case scenario: Socgen is pushed to 'involuntary' exit Russia. In this case they would lose their equity stake (€2.1bn net of FX effect or €3.2bn gross) and their €500m subordinated loan to Rosbank (in place since 2014). This would be absorbable through earnings. The capital impact on Socgen would be manageable bearing in mind that the denominator of the ratio (RWA) would also decrease by €11bn).

Worth mentioning that Socgen has €65.1bn equity and a 13.7% CET1 ratio which gives the bank a cushion to absorb shocks.

Unicrédit (IG3): exposed to Russia (2% of loans) / not exposed to Ukraine. Small exposure.

- €7.8bn loans (2% of Unicredit). Fully deposit funded.
- Russia accounts for 2.8% of the group's revenues (total group revenues at €17.5bn) and 4.6% of the group consolidated profit (underlying net profit of €3.9bn).
- Unicredit's equity stake in AO Unicredit Bank (Russian subsidiary) was accounted for €1.8bn at end 2020. This is to be put in the context of total equity for Unicredit group at €60.8bn at end 2021 (with 15.03% CET1 ratio). Any impairment in their Russian bank equity stake would thus be absorbable.

Detail of the Russian lines of business revenues and earnings below:

(mln Euro)	2021	2020
OPERATING INCOME	513	589
PROFIT BEFORE TAX	224	145
CONSOLIDATED PROFIT	180	121
INCOME STATEMENT RATIOS		
Cost income ratio	45.6%	40.5%
Cost of Risk (LLP annualised on Avg Loans) in basis points	41	209
VOLUMES (bn)		
Customers Loans (excl. Repos and IC)	7.8	7.0
Customer Depos (excl. Repos and IC)	10.5	10.3
Total RWA	9.4	9.2

Source: Unicredit

Other and highly negligible: Crédit Agricole has very low exposure to Ukraine. Around €1.4bn which is less than 0.5% of loans. Highly manageable.

What about the other banks of our universe not exposed to Russia and Ukraine? Watch spillover effect on the macro! Starting point is sound fundamentals for most banks.

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