

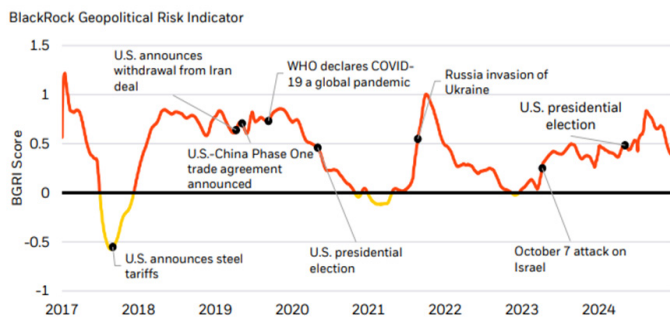
Geopolitical shocks test global banking resilience

By Marc Ellsmore



The global banking sector is navigating a period of heightened geopolitical uncertainty. Russia's invasion of Ukraine, persistent tensions in the Middle East, and the intensifying strategic rivalry between the United States and China - particularly over Taiwan - have all contributed to a more volatile and unpredictable global landscape. These developments are further compounded by the rise of inward-looking trade policies and the imposition of major new trade restrictions.

Chart 1¹: Blackrock geopolitical risk indicator



Geopolitical risk – A growing source of credit risk

Geopolitical events are an increasingly significant driver of credit risk, as they can elevate the likelihood of borrower default and heighten broader financial stability concerns. These risks can materialise through - but are not limited to - the following channels:

- **Market volatility:** Asset price declines, impacting collateral values and increasing credit risk for secured lending. Increased risk premia can worsen unrealised losses of banks fixed-rate loan portfolios, whilst weak demand for credit can lower earnings capacity.
- **Currency volatility:** Triggering sharp FX movements, which can lead to losses, increasing credit risk.
- **Supply chain disruptions:** Conflict or trade restrictions can disrupt supply chains, impacting the obligor's ability generate cash flow and meet debt obligations.
- **Operational Resilience:** Cyber-attacks and infrastructure disruptions linked to geopolitical tensions can impair banking operations and increase the likelihood of default. The EBA recently reported the results of its Risk Assessment Questionnaire² which showed that the share of EU/ EEA banks

that faced successful cyber-attacks has nearly tripled since 2022.

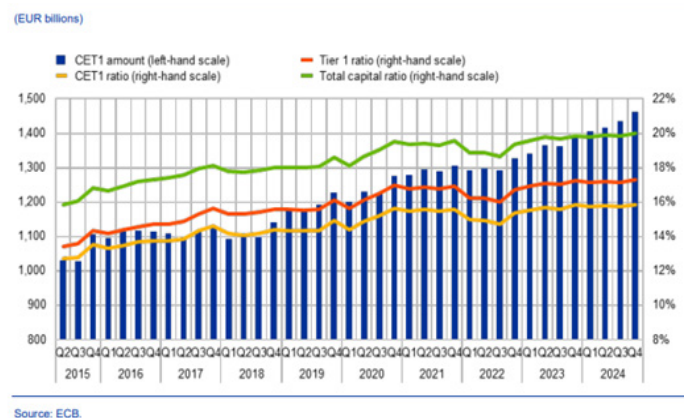
- **Sanctions exposure:** Changes in sanctions regimes or AML/CFT requirements can expose banks to compliance breaches, fines, or reputational damage. Banks or counterparties operating in sanctioned jurisdictions may be cut off from international payment systems (e.g. SWIFT), leading to liquidity crises or asset freezes.

Banks remain resilient amid geopolitical tensions

This evolving geopolitical environment is placing increasing pressure on financial stability and bank creditworthiness. While the sector as a whole has demonstrated resilience - underpinned by strengthened capital and liquidity positions, largely driven by more stringent regulatory requirements since the global financial crisis - individual institutions remain vulnerable to shocks that can impair asset quality, capital, funding, and liquidity.

As an example, tariffs or outright conflict can significantly impact a bank's loan portfolio by increasing default rates - often triggered by supply chain disruptions and reduced consumer demand. Additionally, financial sanctions have become a powerful tool for governments, restricting banks' access to the US dollar and limiting their ability to service dollar-denominated liabilities. In some cases, this has contributed to their failure, such as the case of Sberbank Europe AG (see below).

Chart 2³: Aggregate capital ratios of banks supervised directly by the ECB



Source: ECB.

¹ BlackRock - [Geopolitical risk dashboard](#)

² European Banking Authority - [Enhancing Europe's resilience against rising geopolitical risks](#)

³ European Central Bank - [Supervisory banking statistics on significant institutions for the fourth quarter of 2024](#)

No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. Past performance is not indicative of future performance.

Sovereign stress: Geopolitics and the risk of default

Geopolitical instability also increases the risk of sovereign debt default, particularly in emerging markets. Sanctions can freeze central bank reserves and cut off access to international capital markets, as seen in Russia. For countries without reserve currency status, foreign exchange reserves are a critical buffer against economic shocks and a key tool for maintaining exchange rate stability.

Geopolitical risk in action: The Russia-Ukraine example

The financial fallout from the Russia-Ukraine war has been far-reaching, affecting not only domestic institutions but also banks headquartered beyond the region. This case underscores how geopolitical risk events can have wide-ranging and systemic consequences across the global financial system.

The exclusion of Russian banks from the SWIFT payment system has had a profound impact on the Russian banking sector. For instance, in February 2022, the European Central Bank deemed Sberbank Europe AG “failing or likely to fail”⁴ due to a liquidity crisis triggered by sanctions on its parent, PJSC Sberbank. In addition, the U.S. Treasury imposed full blocking sanctions on VTB Bank⁵, Russia’s second-largest financial institution. This means that any assets held in U.S. financial institutions are frozen and inaccessible to the Russian government. Overall, U.S. financial sanctions - including the prohibition on trading Russian securities such as debt instruments - have impacted approximately 80% of the assets within Russia’s banking sector⁶.

The ripple effects have extended beyond Russia. Raiffeisen Bank International AG (RBI), headquartered in Austria, has faced significant challenges, underscoring the risks of operating in jurisdictions subject to conflict or Western sanctions. In September 2024, a Russian court imposed a transfer ban⁷ on RBI’s shares in its Russian subsidiary, effectively locking in profits and capital.

In a further escalation, the EU recently imposed sanctions on two Chinese banks⁸ - Suifenhe Rural Commercial Bank and Heihe Rural Commercial Bank - for providing cryptocurrency services that undermined sanctions against Russia. This marked the first time Chinese banks have been targeted in this context, signalling a potential

shift in the geopolitical risk landscape for financial institutions operating in or with China.

Growing regulatory scrutiny of geopolitical risk

Regulators are increasingly focused on how banks manage geopolitical risk, considering its potential impact on financial stability. The European Central Bank (ECB) has recently emphasised⁹ the need for banks to integrate geopolitical risk into their governance frameworks, Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), and credit risk management frameworks. It also confirmed that geopolitical risk will be a key component of its 2025 EU-wide stress test. A recent Bank of England survey also found that geopolitical risk and cyber-attacks are now the most frequently cited concerns among financial institutions.

Geopolitics in focus: Our credit risk strategy

Here in the UK, we have two core business lines: Treasury & Banking, and Asset Management. The Banking & Treasury business is exposed to geo-political risks through its interbank lending, and has taken taken proactive steps to strengthen its geopolitical risk management framework, including:

- **Third-party risk platforms:** Integrated into the credit approval process to assess counterparties’ geopolitical exposure and flag elevated risk profiles early.
- **Country and sector limits:** Applied to jurisdictions and industries with heightened geopolitical or sanctions-related risk, helping to contain potential losses.
- **Portfolio diversification:** Across geographies and sectors to mitigate concentration risk and reduce reliance on countries that may be vulnerable to geopolitical instability.
- **Stress testing:** Integrating geopolitical risks into stress testing frameworks.
- **Credit default swap (CDS) monitoring:** Used to track market sentiment and early warning signals.

⁴ European Central Bank - [ECB assesses that Sberbank Europe AG and its subsidiaries in Croatia and Slovenia are failing or likely to fail](#)

⁵ U.S. Department of the Treasury - [Press release](#)

⁶ Council Foreign Relations - [Are the sanctions against Russia making a difference?](#)

⁷ Raiffeisen Bank - [Transfer ban for shares of Russian AO Raiffeisenbank](#)

⁸ Deloitte - [The 18th sanctions package against Russia and Belarus](#)

⁹ BDO - [Implications for Governance and Risk Frameworks](#)

GIB AM is the trading name of Gulf International Bank (UK) Limited. Our Treasury services do not fall under the GIB AM trading name.

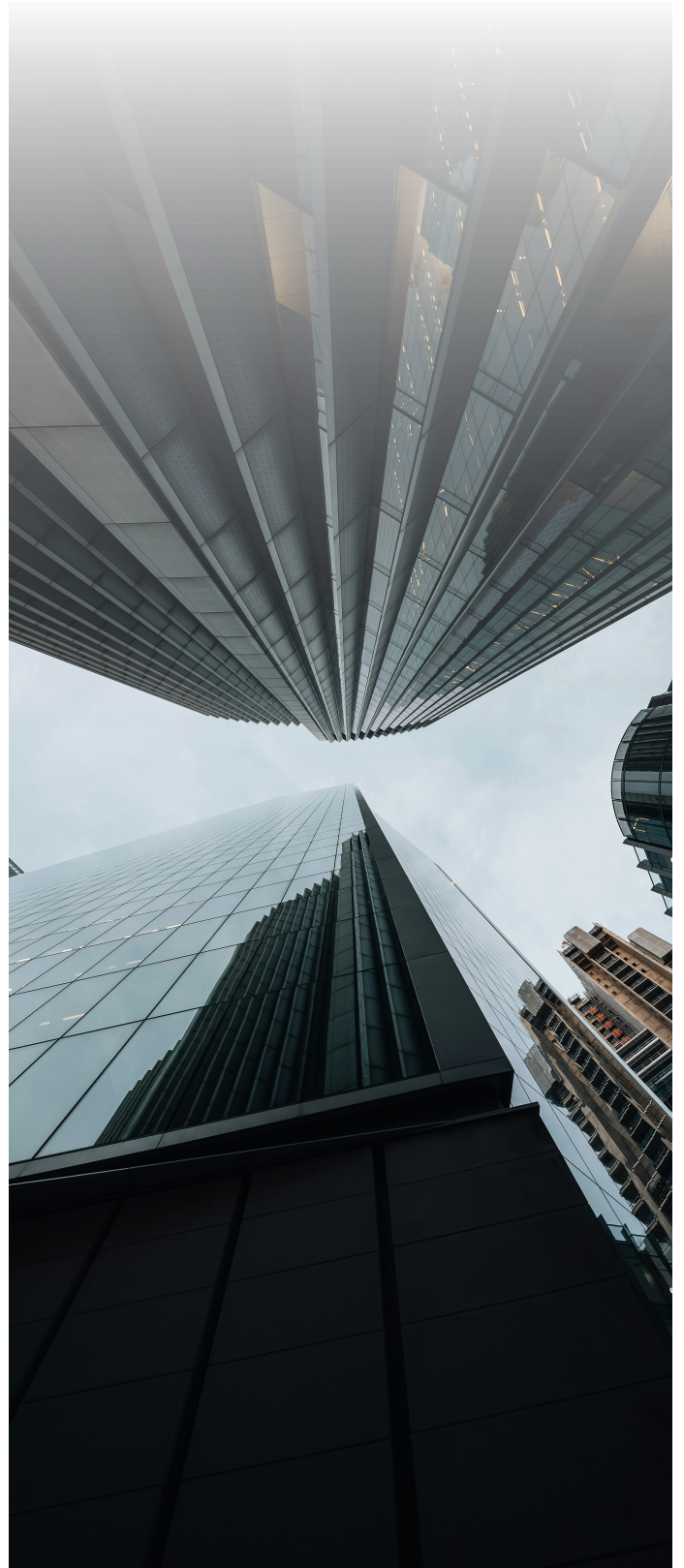
Geopolitical events often trigger investor risk aversion, leading to asset sell-offs and higher risk premiums - particularly for banks perceived as having weaker capitalisation or earnings resilience.

It is important to determine whether published CDS spreads are derived from actual trades, as certain CDS markets are illiquid due to the absence of foreign-currency debt. In such cases, CDS activity is minimal or non-existent, rendering this an ineffective monitoring tool for some.

Conclusion

While banks have made strides in strengthening their financial resilience, the evolving nature of geopolitical shocks - ranging from sanctions and cyber threats to supply chain disruptions and sovereign defaults - means a more dynamic and forward-looking approach to risk management is now needed.

As demonstrated by the fallout from the Russia-Ukraine conflict and the growing regulatory focus on geopolitical risk management, financial institutions must embed these risks into their core credit frameworks and decision-making. This includes enhancing scenario analysis, refining country and sectoral exposures, and leveraging real-time market indicators such as CDS spreads to detect early signs of stress.





This document is not for distribution to retail clients and is directed exclusively at GIB Asset Management's professional clients, institutional clients and/or Qualified Persons. This document has been prepared by Gulf International Bank (UK) Limited ("GIB (UK)"), trading as GIB Asset Management for discussion purposes only with the intended recipient. GIB UK is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and PRA. GIB UK is registered as an Investment Adviser with the Securities and Exchange Commission in the United States. The document shows market commentary and does not constitute investment research. This document is provided for information purposes and is intended for your use only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation.

Observations and views of GIB UK may change at any time without notice. Information and opinions presented in this document have been obtained or derived from sources believed by GIB UK to be reliable, but GIB UK makes no representation as to their accuracy or completeness. GIB UK accepts no liability for loss arising from the use of this document. Moreover, any investment or service to which this document may relate will not be made available by GIB UK to retail customers.

The price and value of investments mentioned and any income

that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. Nothing in any document constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to individual circumstances, or otherwise constitutes a personal recommendation to any specific investor unless clearly stated. The registered address of GIB UK is First Floor, One Curzon Street, W1J 5HD.

Contact

info@gibam.com

T: +44 (0) 20 7259 3456

Follow us: 