

Geopolitical Risk aspects: Experience from the Front line region



Karlis Danevics

CRO, Member of the Management Board

Shortly about myself



BALTIC
— INSTITUTE —
OF CORPORATE GOVERNANCE



**SOS CHILDREN'S
VILLAGES**
INTERNATIONAL

One of the oldest banks with strong roots



André Oscar Wallenberg established the first privately owned bank in Sweden, Stockholms Enskilda Bank

Stockholms Enskilda Bank and Skandinaviska Banken merge

SEB is adopted as the sole brand for all the bank's activities

Johan Torgeby is appointed as new CEO to follow Annika Falkengren

1800s

'56

'64

1900s

'16

'72

'82

2000s

'13

SEB

'16

'17

Skandinaviska Banken is founded in Gothenburg, Sweden

Investor is founded

Enskilda Securities is founded

A client-centric organisation is under implementation



The bumpy "Baltic Way" to freedom and prosperity

Political events

Economy



Independence declaration



Soviet army leaves



Russians send tanks



Baltics join EU and NATO

EstLink operational

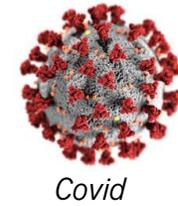


Russia stops Druzba pipeline

Baltics adopt Euro



War in Ukraine



Covid



1990

1995

2000

2005

2010

2015

2020

2025

Privatisation starts



Banking crisis in Baltics



Russian crisis



SEB enters Baltics



Global financial crisis and Baltic RE meltdown



LNG terminal, NordBalt and LitPolLink



AML

BRELL desynchronisation

Oil & gas imports from Russia >> 0



Reshape of state structure

Reshape of financial sector

Reorientation of trade

Reshape of credit

Redevelopment of energy infrastructure

Reshape of military (TBC)

Baltic states today

Success of democracy and freedom

Growth of GDP per capita, 1995 – 2024, constant prices

Graph by Morten Hansen



Government Multiparty republics
Estonia & Latvia – parliamentary
Lithuania – semi presidential

Population 6.1m
(40 % live in capital cities urban area)

Land Area 175224 sq km
(39 % of Sweden)

Members of EU  NATO 
Eurozone  OECD 

GDP EUR 277bn*
Estonia 80%, Latvia 70%, Lithuania 87%
of EU average

Fitch Rating Estonia A+
Latvia A-
Lithuania A

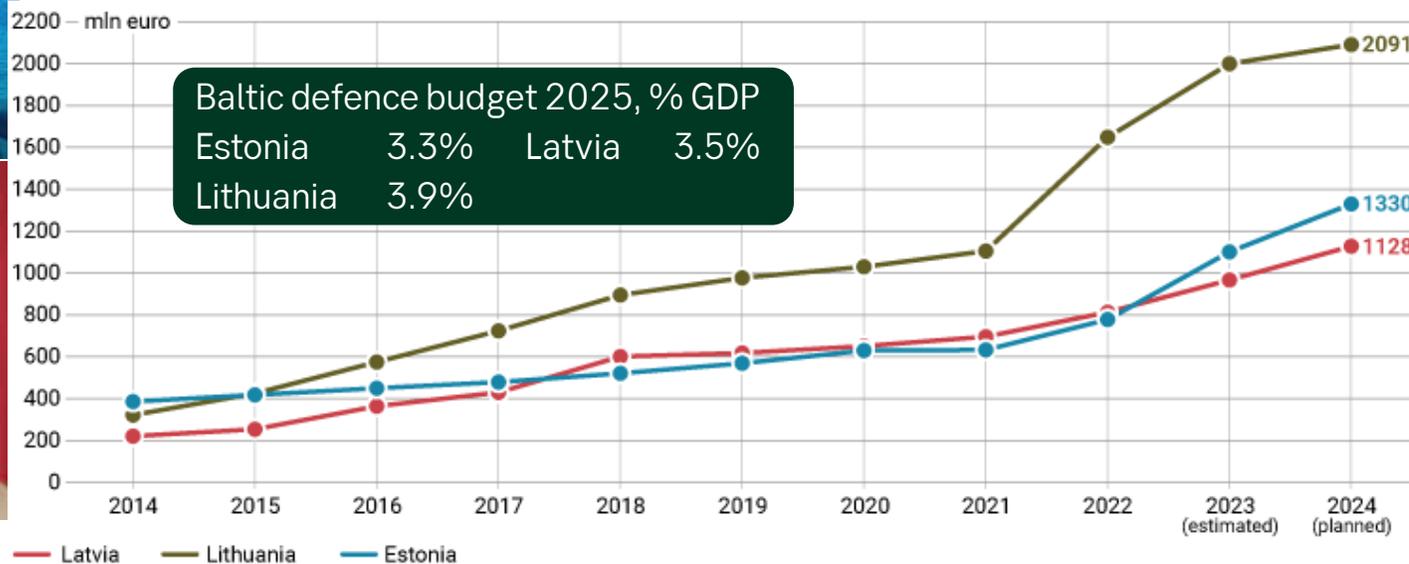
Military ~50k active
~370k in total reserve

*based on PPP

Undersea cables damaged



Russian hybrid attacks continue



Election meddling



Athens to Vilnius flight diverted over Belarus



Direction of migrants



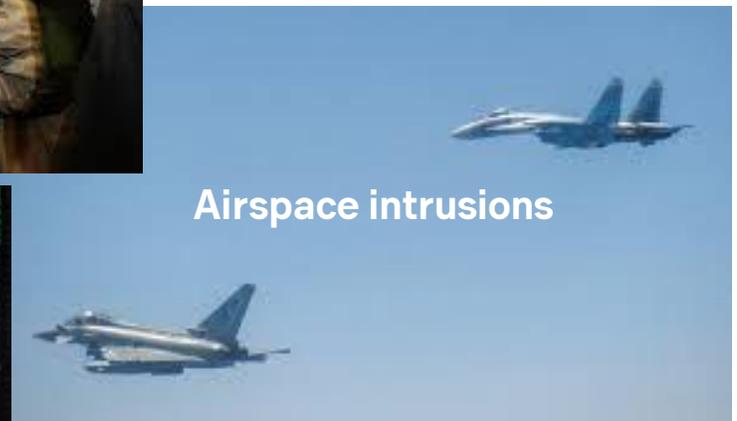
Influenced unrest



Bomb threats to schools



Airspace intrusions



Salami tactics & Think the unthinkable

<https://www.youtube.com/watch?v=QgkUVIj3KWY>

If ones fails to see the risk, it is either failure of imagination or lack of experience.

“The supreme art of war is to subdue the enemy without fighting.”

— The Art of War, Sun Tzu



No campaign plan survives first contact with the enemy

~ Carl von Clausewitz

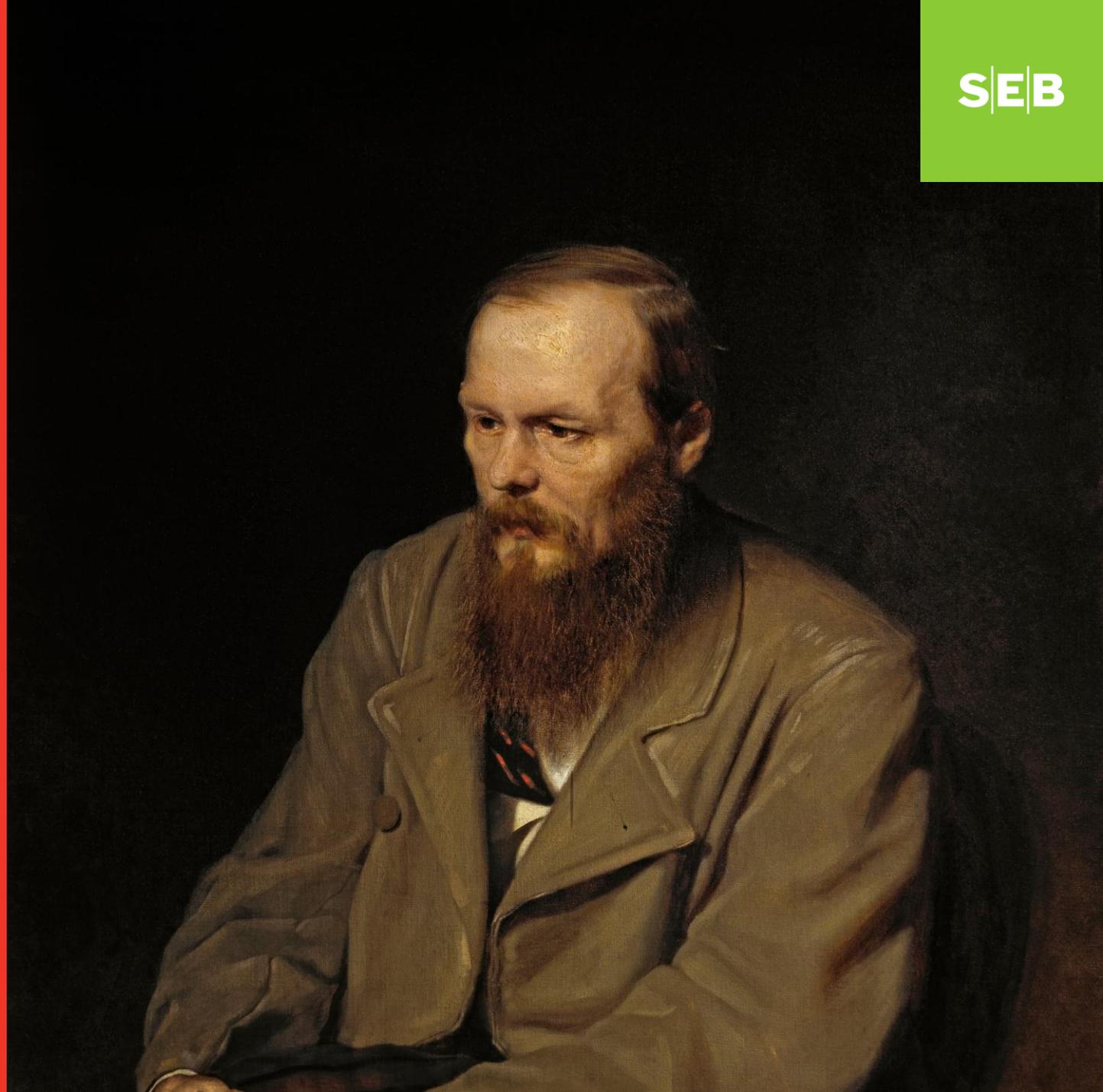


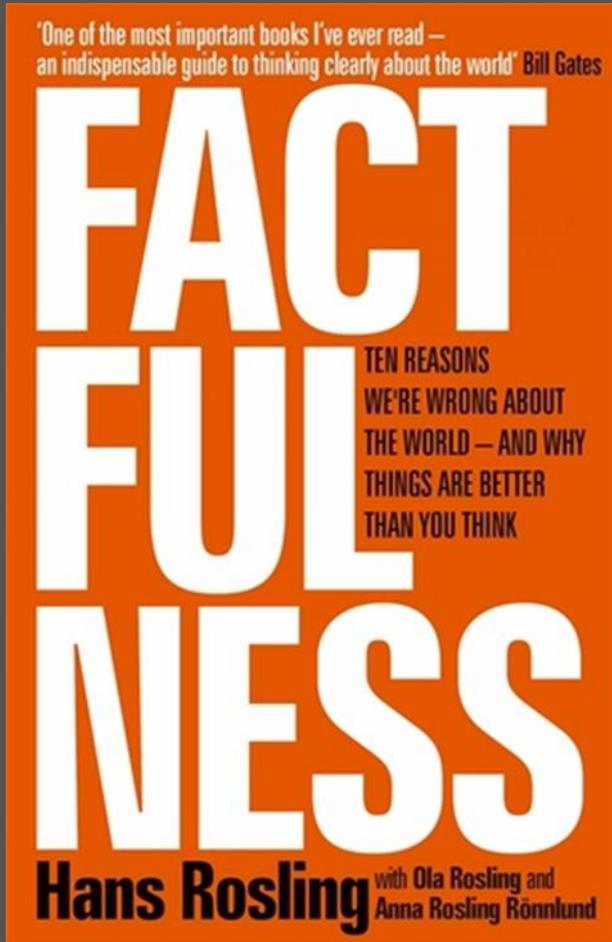
The enemy of a good plan is the dream of a perfect plan.

~ Carl von Clausewitz

Dostoyevsky

- "...the very distinction between good and evil is beginning to disappear. Reason has never had the power to define good and evil, or even to distinguish between good and evil, even approximately"
- "I think that the principal and most basic spiritual need of the Russian People is the need for suffering, incessant and unslakeable suffering, everywhere and in everything. I think the Russian People have been infused with this need to suffer from time immemorial."
- Read: **Crime and punishment; Idiot; Demons**





“There’s no room for facts when our minds are occupied by fear.”

Hans Rosling



“Leading Culture Change at SEB”

Successful attempt to influence culture, directly aimed at building psychological safety and perspective-taking

Risk Culture & Mindset

SEB only does business with customers known to the bank and where **there is a good understanding of all risks and capacity to manage and control them.**

AML?

KYC?





„Two rules. Rule number one is not to do anything stupid. Rule number two is not to forget the first rule“

Warren Buffet

Chairman and CEO of Berkshire Hathaway

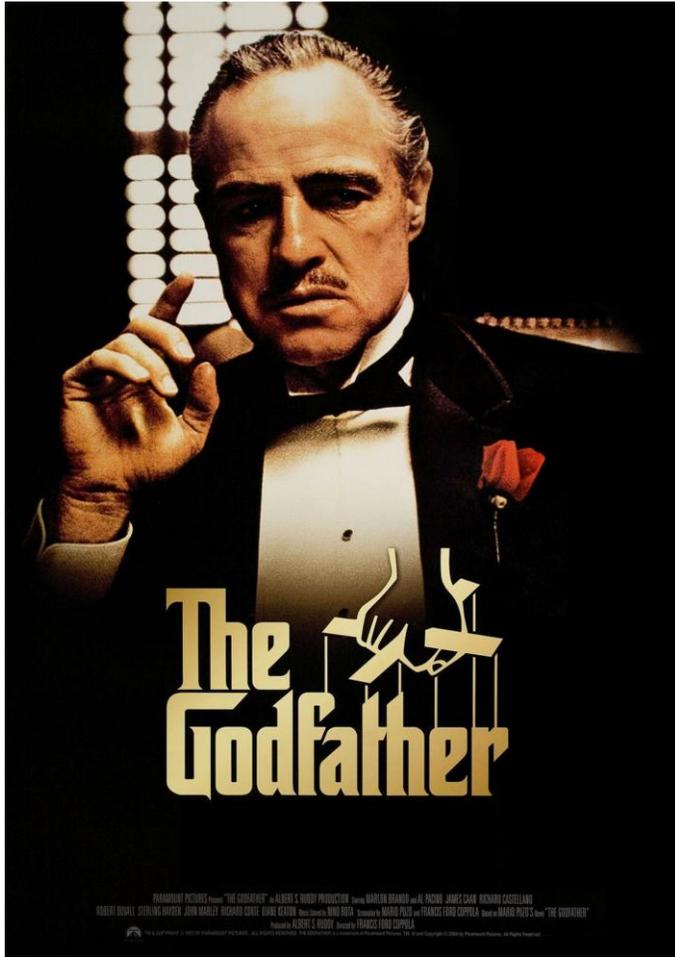


„It is remarkable how much long-term advantage people like us have by trying to be consistently not stupid, instead of trying to be very intelligent“

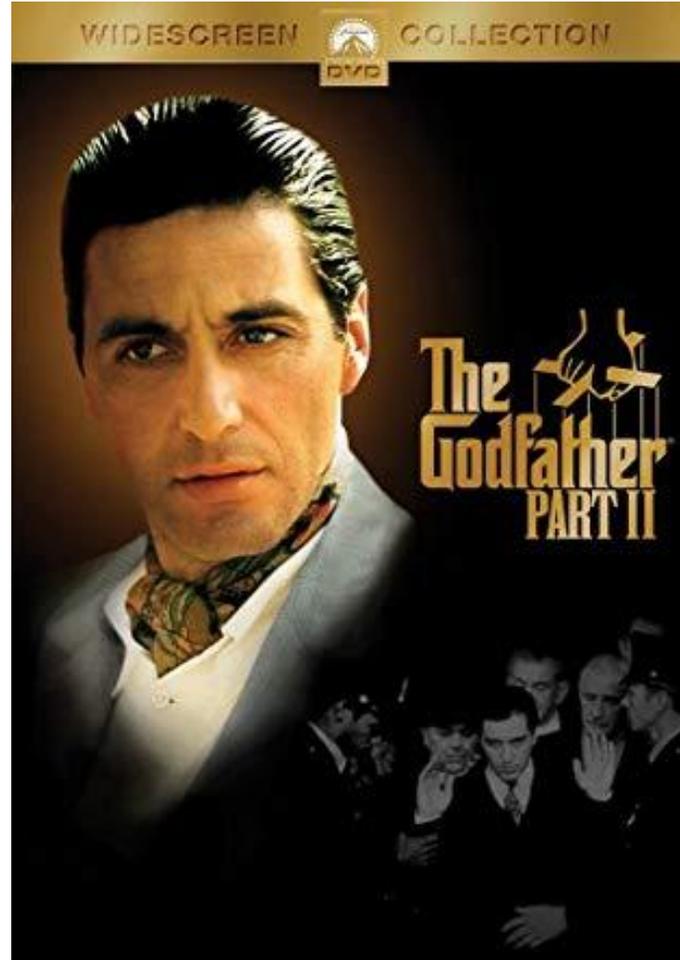
Charlie Munger

Vice chairman of Berkshire Hathaway

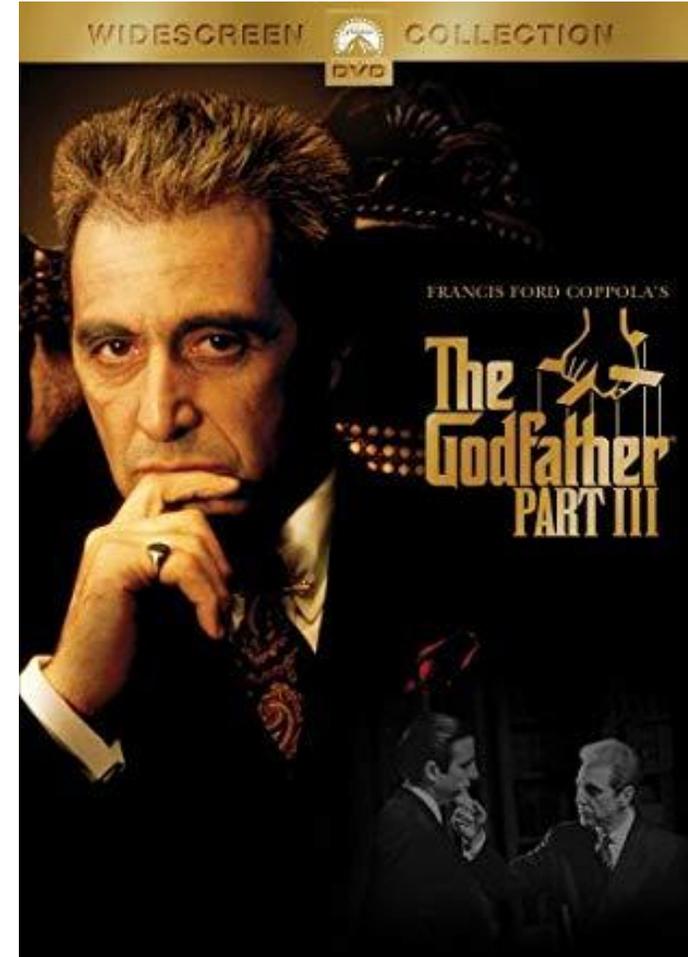
Have you seen this movie?



Stage One: Placement



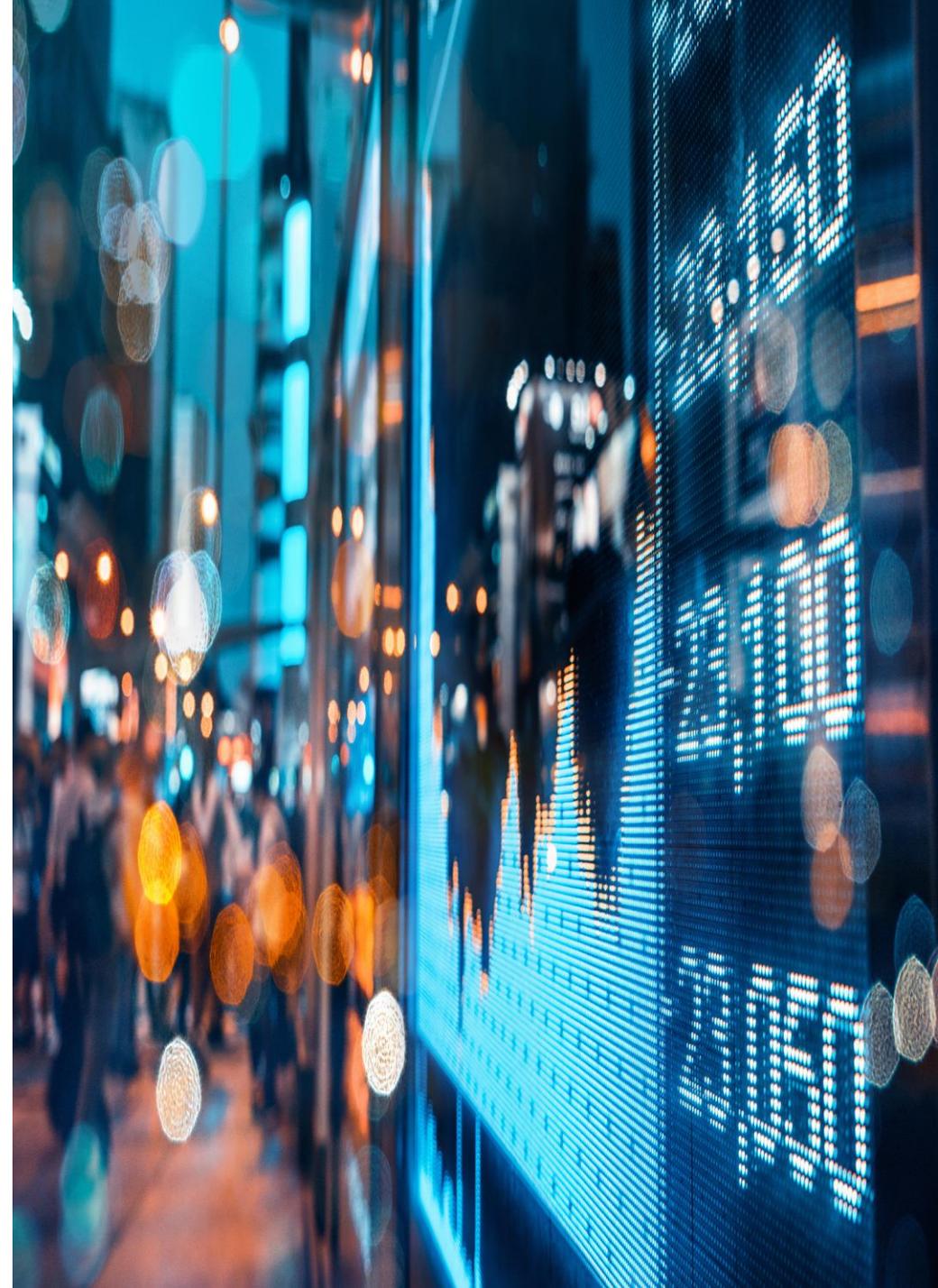
Stage Two: Layering



Stage Three: Integration

Geopolitical risk management

- ❑ **Definition** of Geopolitical risk as a risk driver for non-financial and credit risk, implying strengthening of resilience and portfolio monitoring
- ❑ **Governance** setup with regular reporting and involvement of senior management
- ❑ **Cooperation** with local governmental institutions in terms of training and CMT exercises
- ❑ High **attention** to Baltics, high attention towards energy infrastructure
- ❑ A number of **tools** employed, like scenario analysis, cyber monitoring, CMT exercises and portfolio monitoring
- ❑ Utilization of **external** support through Investor network (cooperation with military think tank)



We define risk drivers, identify potential trigger events and evaluate transmission channels, then review actions

Geopolitical risks

Cyber attacks, physical sabotages (hybrid warfare)
Regional escalation of war in Ukraine
US – EU trade war
Critical goods disruption from Asia, sanctions on Chinese banks
EU fragmentation (single market)

Trigger events (sample)

New US tariffs on European Union and countermeasures
German economy in recession
Chinese competition rise dramatically in key EU sectors
China invades Taiwan or support Russia with military aid
Russia reaches strategic objectives in Ukraine

Implications for banking operations or SEB customers

Operational disruption, i.e. risk of downtime, data loss
Sanctions, restrictions on cross-border data or capital flows
Market volatility
Trade barriers, export controls, new regulations
Higher energy & commodity prices, inflation pressures

Reviews and risk mitigating actions taken by SEB (sample)

Credit portfolio reviews: with specific geographical dimension in focus
Business continuity plans updated for operational resilience
DORA: successful implementation support operational resilience
Internal Cyber Threat Intel (CTI) unit consolidating cyber & security threat landscape
Modified business/risk strategy in various geographies, exit from certain geographies

Geopolitical risk can be a driver of credit risk

Definition, key channels of transmission

Definition: geopolitical risk

- Military actions
- Trade barriers: regulation, tariffs & sanctions
- Diplomatic disruptions
- Cyber-attacks, mal-influence campaigns

Different types of geopolitical events

- A. Sudden adverse events: territorial disputes, local impact
- B. Events with market & economic spill-over: i.e. new trade barriers, oil & gas disruption, destruction of infrastructure
- C. Structural shifts in global political institutions or economy: i.e., rise of anti-globalist forces, alternative currencies



Key channels of transmission, market/economic impact:

- **A. Supply side chocks**
 - Reduced availability of goods, commodities
 - Damage of trade infrastructure
 - Price increase on transport, energy, inflation
- **B. Financial markets and corporate sector impacts**
 - Imposition of sanctions, regulation, trade barriers
 - FDI or banking flows reduced
- **C. Uncertainty:** lower investments / growth



Credit Analysis: specific client & sector risk assessments

Increased monitoring, integration of geopolitical risk dimension in credit reviews of key SEB clients

1. Quarterly risk reports CRO/RCC/Board

- External & internal sources, leveraging SEB's global network; i.e. presence in Asia, Baltics

2. Specific client, sector reviews

- Integration of geopolitical risk in credit analysis of SEB clients (i.e. framework)
- Review of clients/segments in SEB's credit portfolio more exposed to geopolitical risks
 - Sales exposure to China, U.S., Russia
 - Thematic reviews (energy, technology)

3. Scenario analysis (China, Baltic region*)

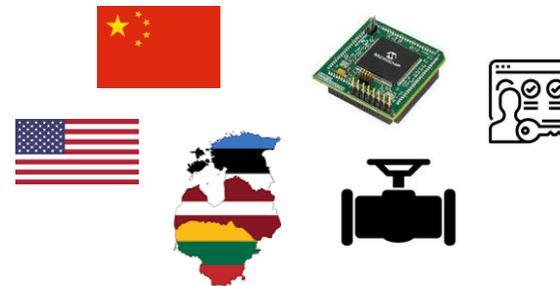
- Input to larger credit reviews/stress testing

Geopolitical risk: top risks & potential impact for SEB and/or clients

Geopolitical risk: period of confrontation likely to persist
Rivalry between key global actors risk to fuel more conflicts, protectionism. US elections 2024 is pivotal moment.

- Russia: long term confrontation with West**
 - anti-West sentiment, committed to war, no domestic triggers for regime change
 - ideologic & geostrategic motives to act aggressively against neighbours
 - Democratic Ukraine = regime threat
 - Some geographic zones vital to control for exports & navy, Russia 'landlocked'
- China: seeking 'great power' status**
 - Ambitious goals: self-sufficiency, growth, 'national rejuvenation' by 2049
 - Challenges current global order, rules with its economic heft (Russia junior partner)
 - Geostrategic ambitions in South China sea, growing assertiveness under Xi
- US: preserve current order, supremacy role**
 - Military edge, dominant role in global financial system and as security provider
 - Strategic rivalry with China, tech focus: semiconductor, AI, quantum
 - Flashpoints: South/East China sea, Korean p, Prevent a Taiwan unification (geostrategy)

SEB



Scenario A: Hybrid escalation

Russia escalates hybrid warfare towards the Baltics in pursuit to split NATO
A deteriorating security and investment climate start to hamper SEB's operational ability and business opportunities in the region

Escalation scenario: Russia steps up hybrid actions towards perceived NATO allies (Lithuania, Latvia, Estonia) - target \$100+ billion

Potential impacts on SEB in the Baltic region:

- Regional political operations/business environment
- Trigger of military support to Ukraine

Triggers (potential):

- Escalation of military support to Ukraine

B. Low probability (high impact) tail risk of oil supply disruption from a geographic escalation of conflict to the Persian Gulf.

Escalation scenario: **with** oil supply disruption

Triggers:

- Direct Israeli strikes on Iranian oil assets/linked infrastructure
- New US sanctions/measures curtailing Iranian oil export capacity
- Iran blocks Hormuz Strait: vital oil transit, main export route for key producers Iran, Saudi, UAE, Kuwait, Iraq (+ Qatari LNG) (unlikely)
 - Iran held back by recent normalization with Saudi Arabia and unwillingness to lose recently regained oil export capacity
 - OPEC+ joint action/embargo (lower leverage vs. 1973) (unlikely)
 - Huge oil price implication in case of regional supply disruption:
 - Oil price surge >\$250/b, deflated US oil reserves amplify risk ¹⁾
 - Upward inflation pressure, delayed QE, rate hikes, global recession, debt distress, industry specific operational disruptions
 - Gas price surge (Qatari LNG disruption)
 - Increased risk of a direct US/Iran confrontation
 - US would likely intervene to dissolve an Iranian Hormuz blockade
 - Geopolitical implications: as scenario A

Key producers. 22% of global oil supply sourced from region

SEB

4. Knowledge-sharing within the bank and increased engagement with SEB clients around geopolitical risks and mitigating strategies

Key conclusions



High awareness - *Banks do not stand alone*, as Baltic governmental institutions, corporates and society have high level of awareness of geopolitical realities, hence supporting in mitigation of hybrid and cyber threats



Experience - *Top management* is able to act swiftly and decisively during incidents and threats, as most members have extensive crisis management experience from the past, especially in Baltics



Resilience - *Energy dependency* (incl. physical security of infrastructure) and energy market has been closely monitored by top management, while **Cyber** threats are everyday business, normally neutralized by combined efforts of us and **ISPs**



Vigilance – SEB employs of **variety of tools**, such as trigger, incident or event monitoring, sensitivity and scenario analysis, regular reporting, in-depth situation descriptions helping to follow up the risk profile



Cooperation - SEB is helped by specialized 3rd party **think tank** on the **military** monitoring side

Do not permit
sabotage within!

Office of Strategic Services

Washington, D. C.

17 January 1944



William J. Donovan

Director

SECRET
LEAVENWORTH KAN

B 25 1963

DECLASSIFIED

SIMPLE SABOTAGE
FIELD MANUAL

Strategic Services
(Provisional)

REGRADED

Declassified by...
July 2008...
...

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(11) *General Interference with Organizations and Production*

(a) Organizations and Conferences

(1) Insist on doing everything through "channels." Never permit short-cuts to be taken in order to expedite decisions.

(2) Make "speeches." Talk as frequently as possible and at great length. Illustrate your "points" by long anecdotes and accounts of personal experiences. Never hesitate to make a few appropriate "patriotic" comments.

(3) When possible, refer all matters to committees, for "further study and consideration." Attempt to make the committees as large as possible — never less than five.

(4) Bring up irrelevant issues as frequently as possible.

(5) Haggle over precise wordings of communications, minutes, resolutions.

(6) Refer back to matters decided upon at the last meeting and attempt to re-open the question of the advisability of that decision.

(7) Advocate "caution." Be "reasonable"

(b) Managers and Supervisors

(1) Demand written orders.

(2) "Misunderstand" orders. Ask endless questions or engage in long correspondence about such orders. Quibble over them when you can.

(3) Do everything possible to delay the delivery of orders. Even though parts of an order

(6) In making work assignments, always sign out the unimportant jobs first. See that the important jobs are assigned to inefficient workers of poor machines.

(7) Insist on perfect work in relatively unimportant products; send back for refinishing those which have the least flaw. Approve other defective parts whose flaws are not visible to the naked eye.

(12) Multiply paper work in plausible ways. Start duplicate files.

(13) Multiply the procedures and clearances involved in issuing instructions, pay checks, and so on. See that three people have to approve everything where one would do.

(14) Apply all regulations to the last letter.



Questions?