DETERMINATION OF FACTORS AFFECTING THE DECISION OF TRANSNATIONAL BANKS TO REDISTRIBUTE OPERATIONS IN THE FINANCIAL MARKET

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The purpose of the study is to explore the influence of such factors as G7 and EU financial sanctions, institutional pressure, ESG ratings, and asset value of multinational banks in Russia on their decision to redistribute operations in the financial market by divesting from the invading state as a result of unprovoked full-scale armed aggression against Ukraine.

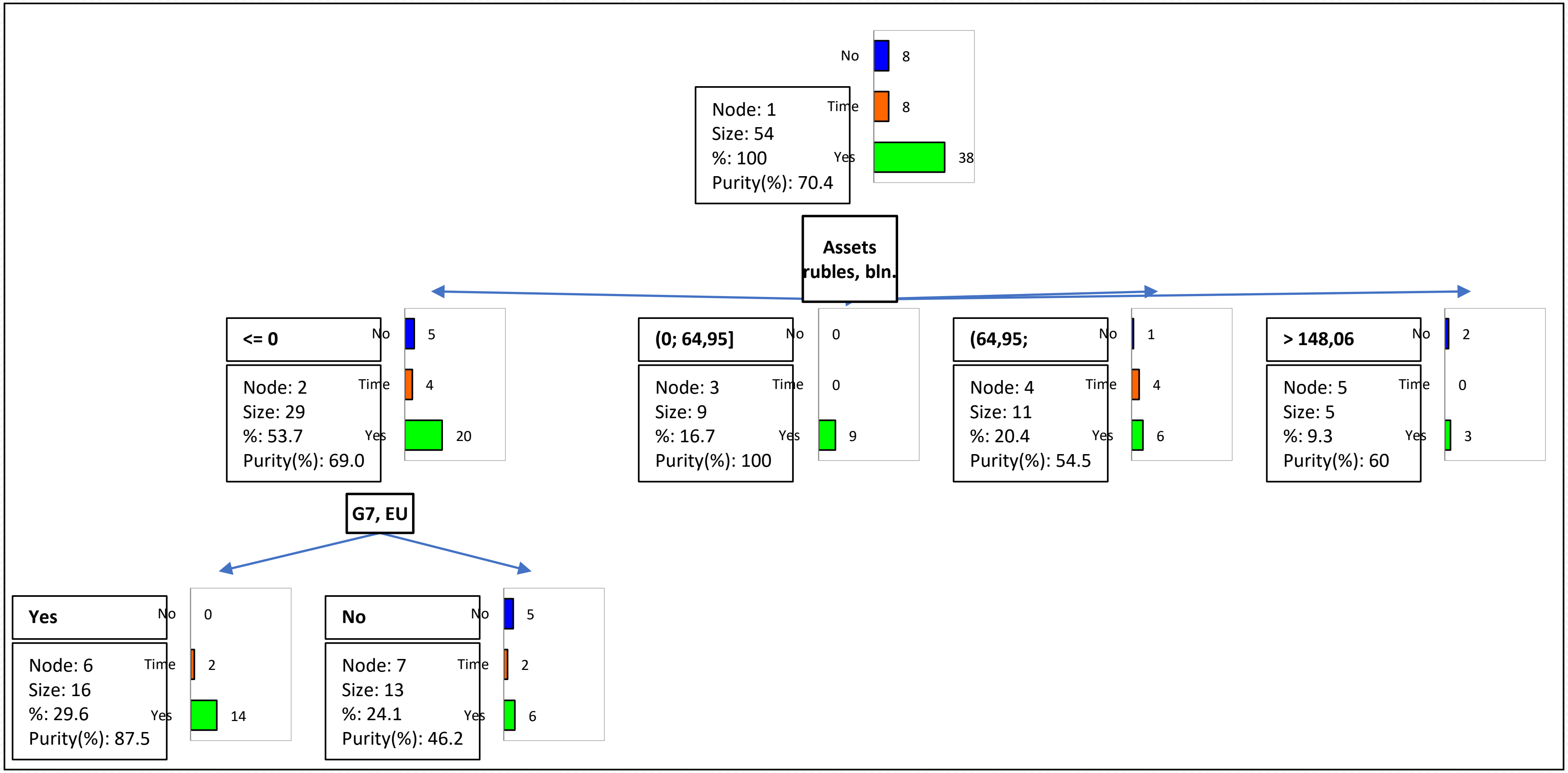
Hypothesis 1: *Banks from the G7 and EU member-states having no Russian-based subsidiaries (assets subject to sales restrictions) don't do business in the aggressor country on a pre-war scale, curtailing operations or even exiting that market.*

Hypothesis 2: *The decisions of banks headquartered in states that are not members of the G7 and the EU to curtail operations in the Russian banking market are not significantly affected by the assets of their branches in Russia.*

Hypothesis 3: *The higher the ESG rating and Sustainable Development Goals (SDG) Impact rating, the more likely the bank's decision to cease operations in the market of the aggressor country.*

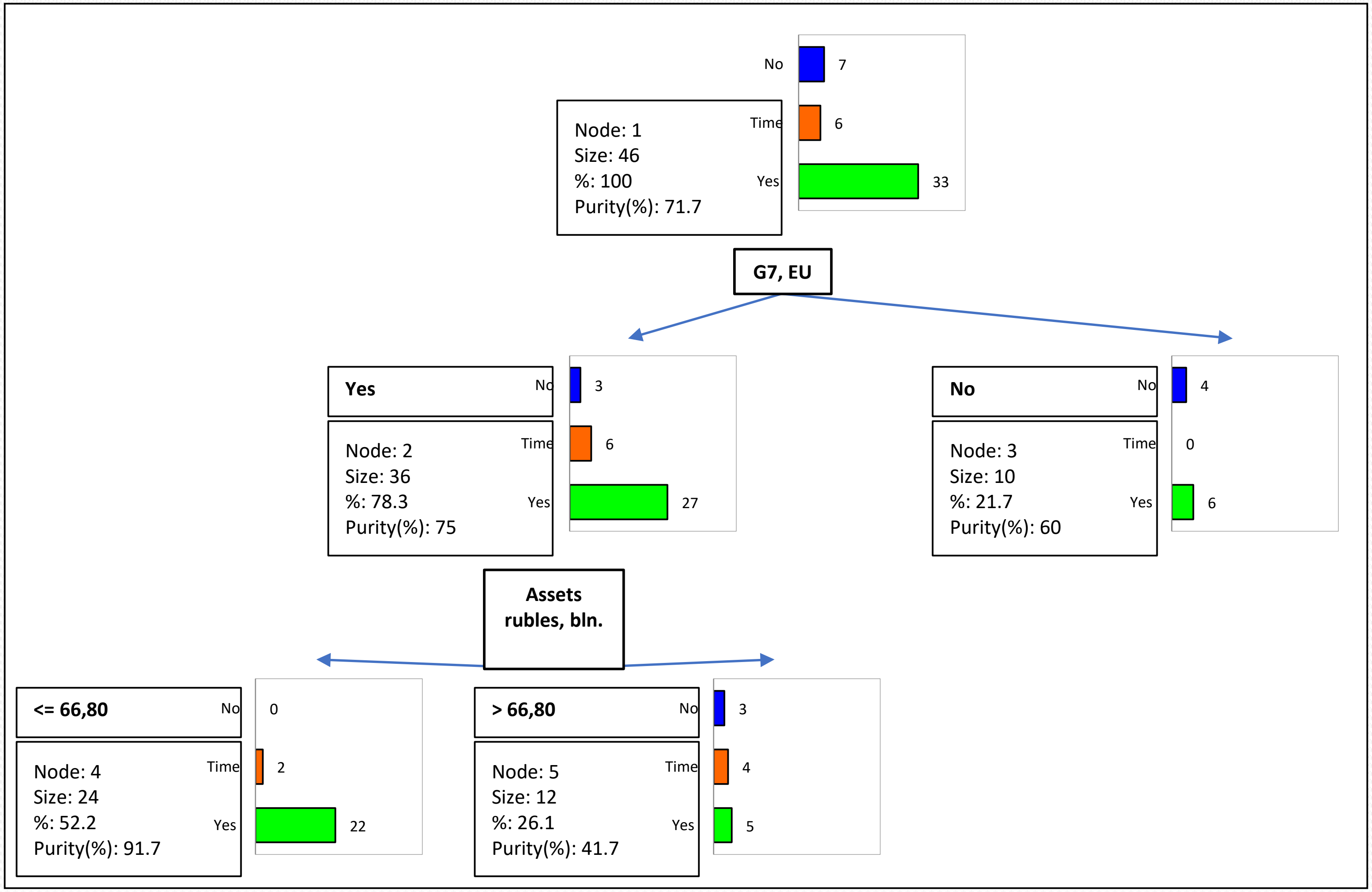
Research methods: Chi-squared Automatic Interaction Detector (CHAID) and Exhaustive CHAID.

The study sample: 54 banks from the list of companies leaving and staying in Russia, updated continuously by Yale Chief Executive Leadership Institute.


Node: 1
Size: 54
%: 100
Purity(%): 70.4
No 8
Time 8
Yes 38
Assets rubles, bln.
<= 0
Node: 2
Size: 29
%: 53.7
Purity(%): 69.0
No 5
Time 4
Yes 20
(0; 64,95]
Node: 3
Size: 9
%: 16.7
Purity(%): 100
No 0
Time 0
Yes 9
(64,95;
Node: 4
Size: 11
%: 20.4
Purity(%): 54.5
No 1
Time 4
Yes 6
> 148,06
Node: 5
Size: 5
%: 9.3
Purity(%): 60
No 2
Time 0
Yes 3
G7, EU
Yes
Node: 6
Size: 16
%: 29.6
Purity(%): 87.5
No 0
Time 2
Yes 14
No
Node: 7
Size: 13
%: 24.1
Purity(%): 46.2
No 5
Time 2
Yes 6

Among banks headquartered in G7 and EU member-states and having no Russian-based subsidiaries (Node 6), not a single bank has carried out business as usual in Russia after the beginning of the full-scale military aggression against Ukraine. Two banks in this node held off new investments and development, although continuing substantive business, while all the others curtailed significant banking operations or completely exited the Russian financial market. It should be noted that banks with assets in Russia of up to 64.95 billion rubles (Node 3), equivalent to approximately $1 billion as of the January 2022 exchange rate, are from G7 and EU member-states like banks in Node 6. All of them are also curtailing operations or have already left the Russian market. The above indicates that hypothesis 1 is true.

The classification tree shows no correlation between the size of Russian assets held by banks headquartered in non-G7 or EU states and the dependent variable. Even among those having no subsidiaries in Russia (Node 7), more than a third are doing business as usual there. This supports Hypothesis 2. The size of assets and sale restrictions become a factor in deciding whether to exit the market of the aggressor country, usually where the banking sector is encouraged to make such a decision by the institutional environment. In this context, the results obtained from testing Hypothesis 1 and Hypothesis 2 are logically interrelated.



Node: 1
Size: 46
%: 100
Purity(%): 71.7
No 7
Time 6
Yes 33
G7, EU
Yes
Node: 2
Size: 36
%: 78.3
Purity(%): 75
No 3
Time 6
Yes 27
No
Node: 3
Size: 10
%: 21.7
Purity(%): 60
No 4
Time 0
Yes 6
Assets rubles, bln.
<= 66,80
Node: 4
Size: 24
%: 52.2
Purity(%): 91.7
No 0
Time 2
Yes 22
> 66,80
Node: 5
Size: 12
%: 26.1
Purity(%): 41.7
No 3
Time 4
Yes 5

The following ESG and SDG indicators provided by seven leading rating agencies were analyzed in the study as independent variables: S&P Global ESG Score, its Social component, Moody's Investors Service ESG Credit Impact Score (CIS), Social CIS, MSCI ESG Rating and ESG Controversies indicators, Sustainalytics ESG Risk Rating, ISS ESG Corporate Rating, ISS SDG Impact Rating, Refinitiv ESG Score, its Human Rights component, and CSRHUB ESG Ranking.

As can be seen from Figure 2, not a single ESG and SDG assessment affects the distribution of banks into classification groups, which contradicts Hypothesis 3.

The study's results prove the effectiveness of sanctions policies and institutional pressure on banks headquartered in G7 and EU member states that were not affected by Russia sell restrictions or had relatively small assets in that country. This underlines the need for increased financial sanctions, concerted action by central banks, and public pressure on the banking sector to stop financing the war. An unambiguous definition and proper measurement of a socially responsible business reaction to armed aggression and war crimes in the methodologies of ESG providers will increase the financial attractiveness of the strategy of withdrawing from markets in invading countries.

THANK YOU FOR YOUR ATTENTION