



Bank of Russia

REGULATORY MEASURES IN SUPPORT  
OF CORPORATE LENDING AND THEIR  
IMPLICATIONS FOR ENERGY SECTOR

Alexey Lobanov

Banking Regulation Department

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## Backdrop before pandemic

- ➔ After 2014, large non-financial corporates in Russia increasingly rely on funding from the local financial market due to economic sanctions and, starting from 2020, due to global economic downturn
- ➔ Bank lending =  $f$  (*available capital*, risk appetite, *regulatory limits on credit risk*)  
***directly affected by prudential regulation***
- ➔ Total assets of all Russian banks as of 1 May, 2020: RUB 95.1 tn\* (approx. USD 1.3 tn), i. e. about
  - ☹ 60 percent of Citibank total assets\*\*
  - ☹ 79 percent of Deutsche Bank total assets\*\*
- ➔ Total capital of all Russian banks as of 1 May, 2020: RUB 10.2 tn (approx. USD 138 bn)
- ➔ Maximum risk-weighted exposure limit per single borrower (group of connected borrowers) is 25 percent of bank's total capital (N6 ratio)

\* Source: Bank of Russia (2020) ([http://cbr.ru/Collection/Collection/File/27900/razv\\_bs\\_20\\_04.pdf](http://cbr.ru/Collection/Collection/File/27900/razv_bs_20_04.pdf))

\*\* Source: YCharts (<https://ycharts.com/>)

## Regulation of credit concentration risk

- ❖ Before 2020, risk weights for unsecured corporate loans for credit concentration risk limit (N6) were
  - 100 percent (by default)
  - 50 percent for natural monopolies with securities eligible as collateral for borrowing from Bank of Russia
- ❖ Since mid-2018, 50 percent risk weight has been extended to all members of a consolidated group where a parent company is owned by more than 50 percent by the state and its annual revenue on a consolidated basis exceeds 2 percent of Russia's GDP
- ❖ Since 2020, banks that opted for the finalized Basel III standardized approach to credit risk for capital adequacy purposes (N1.x) may apply the risk weight of 65 percent for “investment grade” corporates (*i.e. classified into category I or II for loan loss provisioning purposes and with securities outstanding on a recognized stock exchange*)
- ❖ Same applies to regulatory limit on related party lending (N25 ratio, max 20 percent of bank's total capital)
- ❖ Implementation of the Basel Large Exposure Limit (prospective N30 ratio) for Russian systemically important banks suspended till 2022

## Bank of Russia Information Letter No. NH-01-41/20 dated 20 March, 2020

- ✓ Banks and banking groups are allowed to use FX rates of 6 major currency pairs (RUB/USD, RUB/EUR, RUB/GBP, RUB/CHF, RUB/JPY, RUB/CNY) fixed as of 1 March, 2020, for calculating regulatory capital and required ratios from 1 March through 30 September, 2020

## Bank of Russia Information Letter No. NH-01-41/39 dated 30 March, 2020

- ✓ Banks are allowed not to increase loan loss provisions as of 1 March, 2020 for FX-denominated loans restructured by conversion into Russian rubles

## Bank of Russia Information Letter No. NH-03-41/76 dated 20 April, 2020

- ✓ Banks are allowed not to increase loan loss provisions as of 1 March, 2020 for loans to corporates, whose financial standing or debt service quality has deteriorated due to pandemic, from 1 March through 30 September, 2020 provided that these loans were classified into category I or II for loan loss provisioning purposes as of 1 March, 2020



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## Департамент банковского регулирования

Пункт приема корреспонденции: Москва, Сандуновский пер., д. 3, стр. 1

Почтовый адрес: 107016, Москва, ул. Неглинная, д. 12

Контактный центр: 8 800 300-30-00, +7 499 300-30-00

Факс: +7 495 621-64-65

Сайт: [www.cbr.ru](http://www.cbr.ru)

Электронная почта: [cbr@cbr.ru](mailto:cbr@cbr.ru)