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Valeriy Piven
Director, Financial Institutions Ratings
Group
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Contacts for Media:

Alexey Churilov
Manager, External Communications
+7 (495) 139-0480, ext. 169
media@acra-ratings.ru

Not big enough to do much harm

The situation in Belarus will not significantly affect Russian banks associated with Belarusian credit organizations

ACRA considers the situation unfolding in Belarus in 2020 as a factor deteriorating the financial condition in the country's banking sector.

The population's high demand for cash along with a significant fall in the national currency has led to an increased need for liquidity among Belarusian banks. Since August 19, 2020, the National Bank of the Republic of Belarus (hereinafter, NBRB) has placed over BYN 4 bln (about RUB 145 bln) in domestic credit institutions through credit auctions, which is 5% of all bank assets in Belarus as of July 1, 2020. According to an NBRB auction held on September 9, 2020, the weighted average rate reached 23.49% annually. At the same time, the NBRB suspended the provision of overnight loans to banks to curb the flow of liquidity to the foreign exchange market.

The NBRB's interventions to maintain the exchange rate of the national currency were the main reason for a significant decrease in the country's international reserves in August 2020 (down 15.8% to USD 7.5 bln).

Assessing the ongoing changes, ACRA expects the economic situation in Belarus to worsen in the short term. On August 7, 2020, ACRA confirmed the long-term credit ratings of Belarus on the international scale at [B+](#), [assigning the status "Rating under revision: negative."](#) In particular, ACRA expects the country's GDP to fall to minus 4–6% by the end of 2020, which creates prerequisites for reduced stability in the country's banking system.

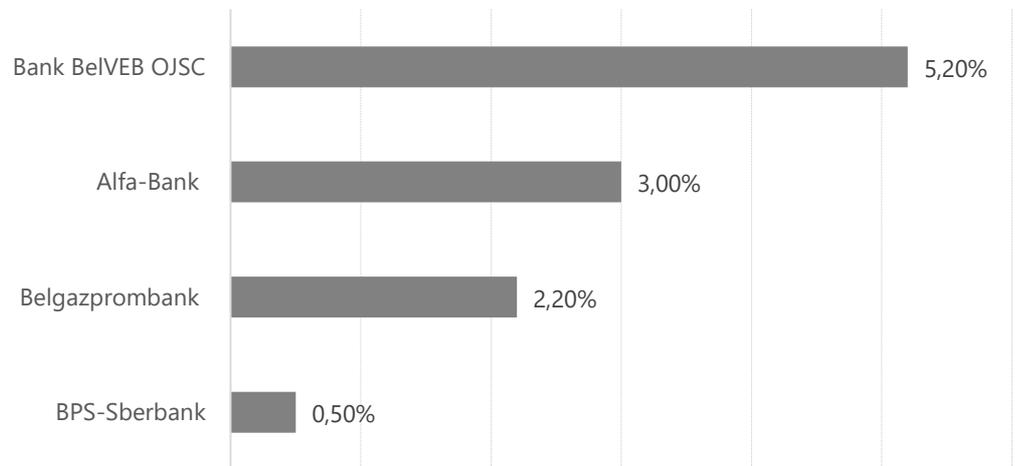
However, ACRA believes the negative impact will be limited on the creditworthiness of Belarusian banks whose controlling or major shareholders are Russian financial companies, as well as on the creditworthiness of the Russian companies themselves.

Currently, there are five credit institutions operating in Belarus that are under the control of Russian financial structures and related companies. The shareholders of four of them are financial institutions that have ACRA credit ratings: BPS-Sberbank (98.43% owned by [Sberbank, AAA\(RU\), outlook Stable](#)), Belgazprombank (49.818% owned by [Bank GPB \(JSC\), AA+\(RU\), outlook Stable](#))¹, Bank BelVEB OJSC (97.52% owned by [VEB.RF, AAA\(RU\), outlook Stable](#)), Alfa-Bank (30.8% owned by [JSC "ALFA-BANK," AA+\(RU\), outlook Stable](#)). The assets of these Belarusian banks account for about 21.5% of the total assets of the banking system in Belarus.

ACRA notes that the assets of the abovementioned banks make up 0.5–5.2% of all assets of the Russian financial institutions they are associated with. Low operation volumes protect Russian financial companies from the risks associated with the current situation in Belarus while allowing them to provide support to subsidiaries and related entities without significant damage to their own operations.

¹ In June 2020, the NBRB introduced a temporary administration for Belgazprombank, but legal control remains with the former shareholders.

Figure 1. Ratio of Belarusian bank assets to assets of related Russian financial companies



Source: ACRA

As of June 30, 2020, the coverage of clients' funds by highly liquid assets in these Belarusian banks, including foreign currency obligations of the Republic of Belarus, stood at 38–70%, including the share of cash and funds placed in the NBRB, which amounted to from 16% to 37% of clients' funds.

ACRA notes that irrevocable deposits accounted for a major share of retail deposits (66.5% as of July 1, 2020) in credit organizations of the Belarusian banking system as a whole. Despite the fact that a considerable share of these deposits are short-term, the limits on early withdrawal of funds are an element that supports the stability of balances of client liabilities. In addition, at the start of September 2020, some of the Belarusian banks controlled by Russian companies hiked interest rates considerably in order to increase the stability of their resource base. Moreover, banks have started suspending the provision of loans (mainly retail loans) in order to support their liquidity positions.

At the same time, the presence of foreign currency continues to be a risk factor for the Belarusian banking system. Around 70% of all terms deposits held by non-corporate residents were denominated in foreign currency, which subjects banks to additional refinancing risks, and also exchange rate fluctuation risks. These risks are amplified amid reduced foreign currency revenues of export-oriented companies and also on the back of growing demand for foreign currency among the population.

In the current conditions, the ability of parent entities to render support to subsidiary banks plays a key role. In ACRA's opinion, Russian financial institutions that are linked with Belarusian banks possess sufficient capabilities to provide them with additional liquidity.

The deteriorating economic situation in the Republic of Belarus is likely to become a factor in the decline in the quality of the loan portfolio. Given the fact that ACRA's approach to rating activity in the banking sector is based on using consolidated IFRS reporting, growth in the volume of troubled loans provided to

Belarusian borrowers will impact the quality parameters of the portfolio of Russian financial groups².

Nevertheless, ACRA believes that this risk will not bear major consequences for them. The total volume of the credit portfolio of Belarusian banks is insignificant compared to the overall scope of business of their shareholders. According to ACRA's assessment, as of June 30, 2020, only Bank BelVEB OJSC's share of loans exceeded 5% of the total volume of loans of its parent bank, VEB.RF. As for other Belarusian banks, this indicator did not exceed 2.5%. Due to this, even a large-scale transition of loans issued by Belarusian banks to Stage 3 under IFRS 9 will not lead to a significant decline in the quality of the loan portfolio of Russian banks.

In terms of assessing how a potential worsening in the quality of assets of Belarusian banks would impact the capital adequacy of the Russian financial companies related to them, ACRA notes that in most cases potential losses can be covered at the expense of operating profit. Limited impact of the deterioration in the quality of the assets of Belarusian banks on the capitalization of Russian financial companies would be the consequence of this.

Therefore, according to ACRA, the Belarusian banks under consideration, with the support of the Russian structures that are associated with, will be able to get through this period of instability without a significant increase in the risk of insolvency. However, the financial results of Belarusian banks in 2020 will have a limited impact on the creditworthiness assessments of Russian financial institutions associated with them.

ACRA continues to monitor the situation in the banking system of Belarus and assess the impact of changes on the financial stability of Russian credit institutions.

² Bank GPB (JSC) includes investments in the capital of Belgazprombank in the item "Investments in dependent enterprises" and does not include the loans of its Belarusian bank in its own portfolio.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

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