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Regarding the Bank of Russia's methodology and models to operating the national countercyclical capital buffer

The Bank of Russia hereby advises credit institutions of its methods and models used to operate the national countercyclical capital buffer (further referred to as the national countercyclical buffer), which is meant to limit cumulated systemic risk in the banking sector at the time of rapidly expanding supply of credit.

Pursuant to Bank of Russia Instruction, dated 3 December 2012, No139-I 'On Banks' Required Ratios', the national countercyclical buffer is a component in a bank's countercyclical buffer to be generated out of a bank's common equity tier 1 capital and shall be in excess of the amount under capital adequacy requirements; this shall be determined as an average weighted amount of all national countercyclical buffers in all countries (including the Russian Federation) with residents whereof the bank has entered into transactions.

The Bank of Russia intends to treat credit gap as the key indicator to quantify the national countercyclical buffer, the latter being the difference between the total credit supply to GDP and the long-term trend in this ratio as suggested by the Basel Committee on Banking Supervision (further referred to as the Basel Committee) - see Section II, 'Guidance for national authorities operating the countercyclical capital buffer'.¹

To evaluate the long-term trend in credit gap, the Bank of Russia intends, beyond the Basel Committee approach, to use the following auxiliary models: the model of long-term equilibrium lending level; the model to evaluate a credit cycle length; the demand and supply drivers model which includes such variables as loans and other domestic borrowings of the private sector; external debt of the

¹ Guidance for national authorities operating the countercyclical capital buffer. Basel Committee on Banking Supervision. Bank for International Settlements. December 2010. E-resource: www.bis.org/publ/bcbs187.pdf.

private sector; nominal and real GDP; household and nonfinancial institutions' deposits; the overdue debt of the private sector; real expenditures of the private sector; interest rates on loans to private sector, and the correlation between the amount of ruble loans and the private sector's deposits.

As the Bank of Russia determines the capital surplus, it will take into account the credit gap by reference to the following:

a) The credit gap's lower limit which triggers a national countercyclical buffer to be set above zero, shall be as suggested by the Basel Committee and totals 2 pp.

b) The credit gap's upper limit, which triggers a maximum national countercyclical buffer to amount to 2.5% of the risk-weighted assets (further referred to as RWA), shall be as suggested by the Basel Committee and totals 10 pp.

c) In the range between the lower (2 pp.) and the upper (10 pp.) boundaries of the credit gap, the national countercyclical buffer shall change in a linear way from 0% to 2.5% of RWA.

d) When the credit gap is lower than the threshold level set at 2 pp., no decision to set the national countercyclical buffer above zero will be made.

In making this decision, the Bank of Russia plans to take into account, beyond the credit gap, the banking sector's performance indications, credit terms, banks' profit trends, the provisions to debt on loans ratio and other indicators.

The Bank of Russia plans to fix the date for the national countercyclical buffer to be determined based on the econometric forecasting model employing the following leading indicators of a credit cycle (with lags factored in): commodity price index, MICEX Index, lending rates to corporates and households and the banking sector's profitability ratio.

As the indicators change or put under review, along with their thresholds, methodology and models the Bank of Russia employs in quantifying the countercyclical buffer, the Bank of Russia will publish these data on its official website (the BoR website).

The determination on the national countercyclical buffer will be published by the Bank of Russia on its website (as Bank of Russia information) in 6 to 12

months before the size of the national countercyclical buffer is put into effect, subject to the performance of indicators taken into account for buffer setting.

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