The Moscow Times
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European Banks Battle to Keep Russian Clients Amid Sanction Lending Freeze

By The Moscow Times

August 10, 2014



Raiffeisen Bank is one of a group of European Banks trying to stop Western Sanctions from eroding its Russian client base.

LONDON — In the face of sanctions that have frozen international lending to Russia, a small group of European banks are trying to refinance existing loans to big companies there in order to protect their business.

They have their work cut out. Washington and Brussels have excluded Russia's state banks and top energy firms from capital markets as punishment for the country's support for separatist rebels in Ukraine and their action — unprecedented in the post-Cold war era — means even companies not on the blacklist will struggle to raise large loans outside their domestic market.

Nonetheless, banks such as Raiffeisen and UniCredit are attempting to refinance existing debt to preserve their relations with clients and with that, their sizable business in the country.

Bank Austria, the central and eastern Europe [CEE] arm of Italian bank UniCredit, said this week it expects to keep making solid profits in Russia.

"It is a compliance complexity for sure, a very significant effort, but I think it is our approach and culture that any requirement from the sanctions we respect to the extreme detail," said Chief Financial Officer Francesco Giordano.

Bankers working on a syndicated loan of up to $900 million for Russian steel company Evraz — led by Dutch bank ING and Germany's Deutsche Bank — say they hope it will be signed as soon as this week, though they will have jumped through many hoops to get it over the line.

"I think the deal will get done, but it is more difficult at the moment. People are asking a lot of questions around the new sanctions," one banker told Thomson Reuters Loan Pricing Corp, or LPC.

The loan, a refinancing for Evraz's export business, was first launched in May, after economic sanctions were initially imposed on Russia, but before last month's escalation of the prohibitions.

Deutsche and ING declined to comment. Evraz did not respond to requests for comment.

Persevering

British, U.S and Japanese banks do not want the legal hassle of getting involved in syndicated loans for companies in Russia: The economic warfare between Russia and the west has created a bureaucratic nightmare, forcing banks to scrutinize every single payment made through their Russian subsidiaries to ensure they are in compliance.

Nonetheless some European bankers are persevering, trying to convince their banks' credit committees to give them the green light for loans to help their customers refinance their debts.

"We would potentially look at doing deals with unsanctioned companies," a second banker at one European lender told Thomson Reuters LPC. "But uncertainty around further sanctions is a big problem."

Demonstrating this uncertainty, Russia's syndicated debt market, worth $47.2 billion last year, has dried up since hostilities broke out over the Ukraine. Just two corporate loans have been signed since March — a $1.15 billion pre-export loan for Russian iron ore company Metalloinvest and a $450 million unsecured loan for potash producer Uralkali.

In both cases, European banks dominated the group of banks that made the deals.

More recently, Russian oil and gas company Slavneft mandated Austria's Raiffeisen Bank International, or RBI, to co-ordinate a $500 million unsecured syndicated loan in July, which has yet to be signed.

Raffeisen, estimated to be the bank most exposed to Russia with revenues there making up 8 percent of its group assets, said it was committed to its Russian businesses.

"RBI is happy to support its good clients in difficult times, of course being fully in line with all compliance rules," a spokeswoman said.

Complex Compliance

Put off not only by the prospect of a bureaucratic headache, banks have also been spooked by U.S. authorities' recent record fine against BNP Paribas — $8.9 billion for breaching sanctions against Iran.

U.S. and British banks with less of a presence in Russia and tougher sanction laws back home are in particular more reticent.

"From a legal perspective, US and UK operators, banks and other companies, are going to be particularly cautious," said Jonathan Fisher, a barrister specializing in financial services at Devereux Chambers in London.

One British banker said the different approaches taken by the United States and Europe was complicating matters.

"We are in a hiatus at the moment as we work through what can and can't be done," he said. "Frankly I wish policy makers would be clearer on the direction sanctions will take."

Faced with such attitudes, some companies looking to raise hundreds of millions of dollars in debt are likely to try alternatives alongside syndicated loans.

Russia's second-largest oil producer LUKoil said Thursday it might issue an international bond in the autumn, breaking the drought that has existed in that market since July.

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