



Bank of Russia

FINANCING SUSTAINABLE
DEVELOPMENT

BRICS SEMINAR

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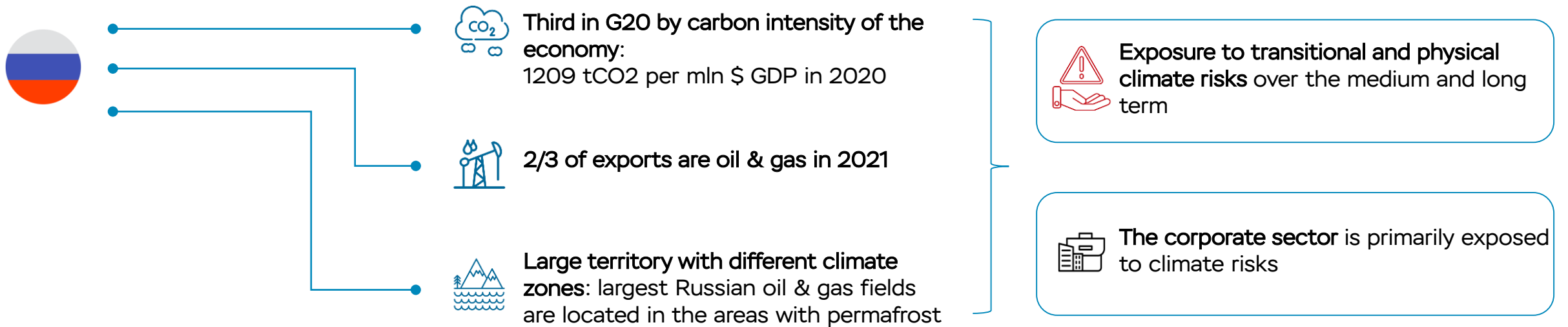
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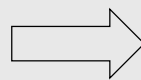
Financing sustainable development
BRICS+ seminar

CLIMATE RISK
MANAGEMENT

Climate risks are relevant for Russian financial institutions



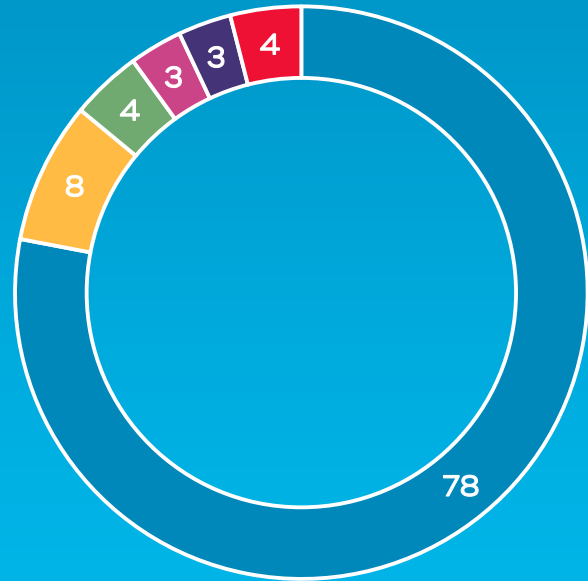
Climate risks in the corporate sector



Systemic risks for the financial system
Risks to the economy, fiscal and financial stability

Banks dominate in the Russian financial sector

Share of assets of financial organizations in the total assets of the financial system, % as of the end December 2022



78%

of total assets of the financial system are **banks' assets**

- Banks
- Brokers
- Investment funds
- Non-state pension funds
- Insurance organizations
- Others

Banks leading, others lagging behind



Stress-testing of the loan portfolio, covering transition and physical risks



Analysis of environmental & social risks when issuing loans



Assisting clients in reducing greenhouse gas emissions



ESG consulting, including climate issues

For example: Support in the development of a decarbonization strategy



Environmental & social assessment of funded projects: integral element of the bank's decision-making process

The Bank of Russia climate risks framework



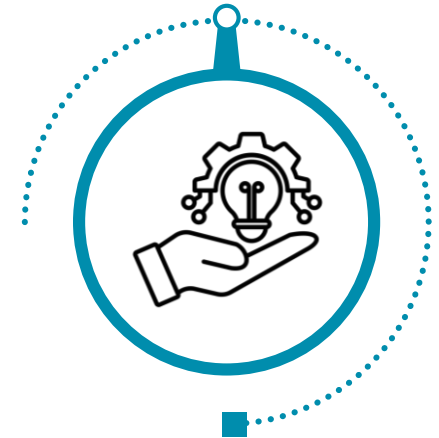
Recommendations on climate risk management for financial institutions

Improve the quality of climate risk management in financial institutions



Recommendations on ESG-ratings

Uniform a definition of an ESG rating, identify a minimum set of rating factors, and adopt a single rating scale



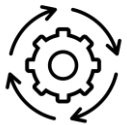
Incentive-based regulation

Preferential lending for projects of technological sovereignty and structural adaptation

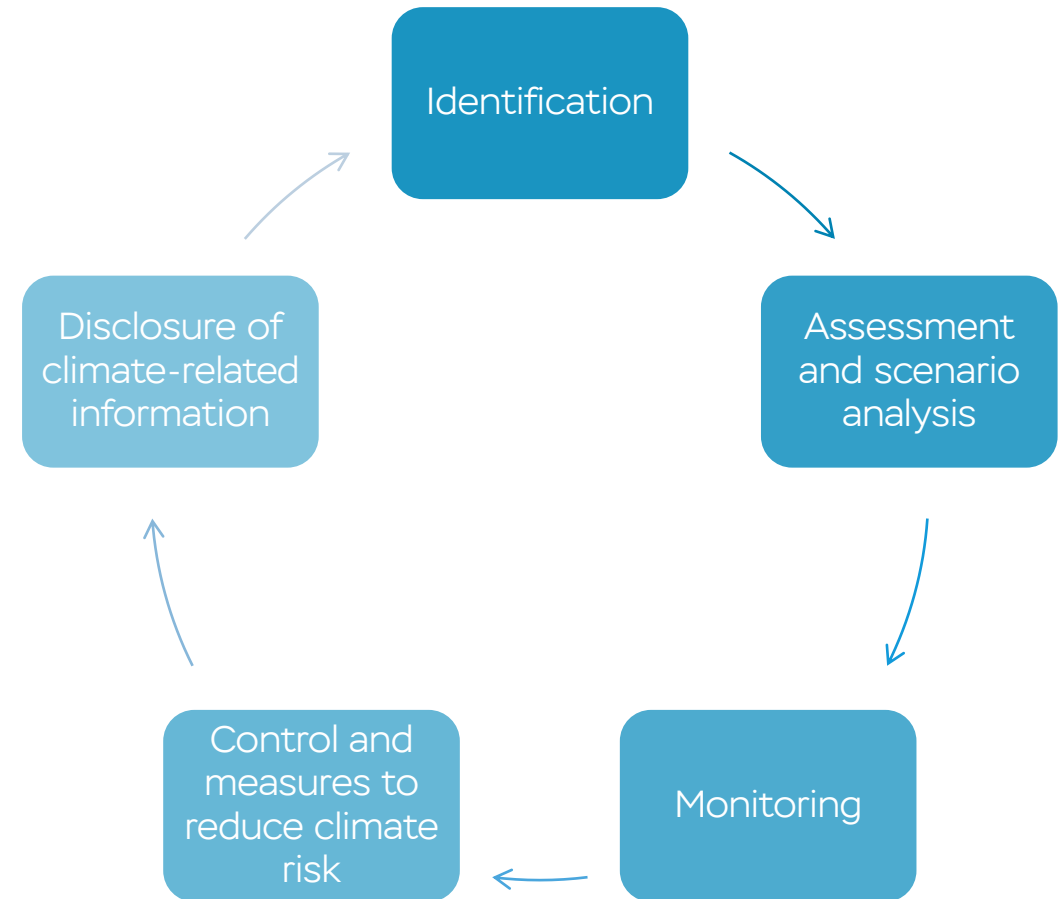
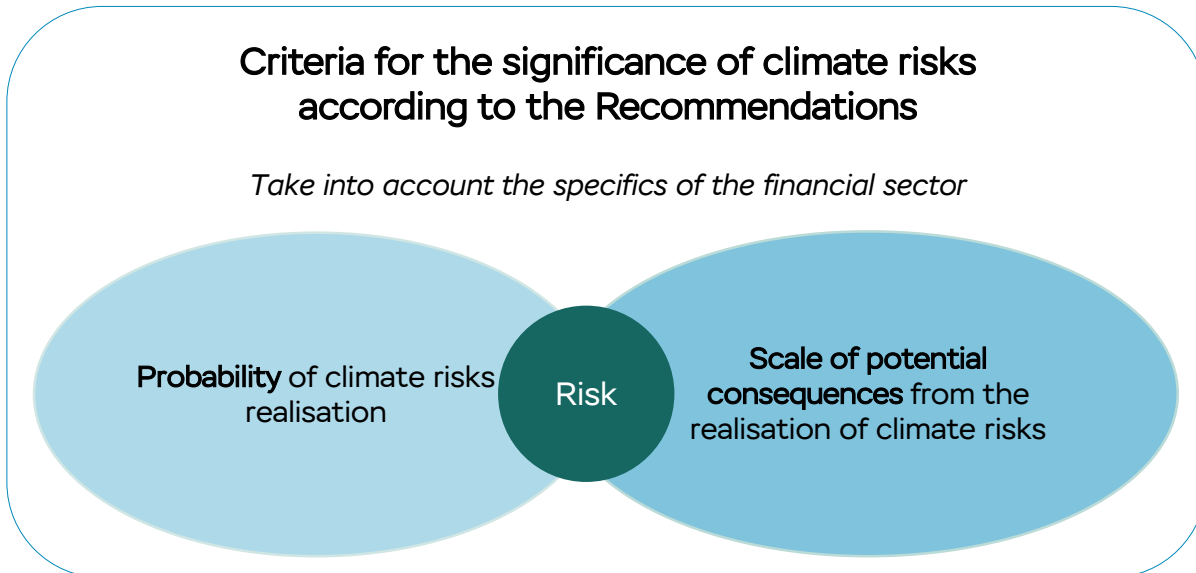
Recommendations contain standard climate risk management cycle



The impact of climate risks is realised through traditional types of risks: credit, market, insurance risks, etc.



The climate risk management cycle is structured in a similar way to the process of traditional risk management



Specifics of the Bank of Russia's Recommendations

Help clients to transform instead of negative screening

- Financial institutions are strongly discouraged from negative screening
- For clients and counterparties that are not managing climate risks appropriately, a financial institution is advised to assist them in transformation.

More details on how to work with clients

- Financial institutions are encouraged to further consider how clients and counterparties manage their climate risks
- List of factors that can be collected from clients to reduce exposure to climate risks

More details on how to assess its own influence

- Financial institutions are recommended to calculate financed emissions

Key measures to reduce climate risk



Financial organisation



Development of policies to manage climate risks



Assistance to clients and counterparties



Disclosure of material, comparable and reliable information



Greenwashing



Restriction on access to financial services



Negative screening

Possible actions for clients who do not manage climate risks*



Inclusion of obligations in the contract



Review of covenants



Review of rates



Reduction of loan terms



Reduction of limits on financing

*measures are relevant to cases where companies do not manage their climate risks, while having a high degree of exposure to these risks

The Bank of Russia's recommendations on ESG ratings

Guideline on how to assess the portfolio for the ESG rating agencies

ESG ratings help to accumulate climate data for banks

Banks may stimulate companies to get ESG ratings



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CLIMATE STRESS-TESTING

International experience in climate stress-testing



Over 30 completed top-down climate stress-tests were analysed

Australia, Austria, Brazil, Hungary, Germany, Georgia, Denmark, Egypt, EU, Indonesia, Spain, Italy, Canada, China, Colombia, Mauritius, Malta, Mexico, Netherlands, Norway, Portugal, Republic of Korea, Finland

Balance sheet assumption

Mostly – **static** (more than 75%)

Over the past year the **dynamic** balance sheet assumption has been actively used (ECB, Spain, Colombia, Canada, Norway)

Dynamic balance sheet assumption is mainly used for **bottom-up testing** with the participation of banks

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Scope of risk analysis

Climate:

Only transition / transition + physical ≈ 40%

Assessments of physical risks are usually carried out after a comprehensive assessment of transition risk

Financial:

Credit, market – more detailed
+ liquidity risks, sovereign risks

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Level of detail

based on the NGFS survey (June, 2023)

Macroeconomic – 37%

Sectoral – 22%

Industry + counterparty – 21%

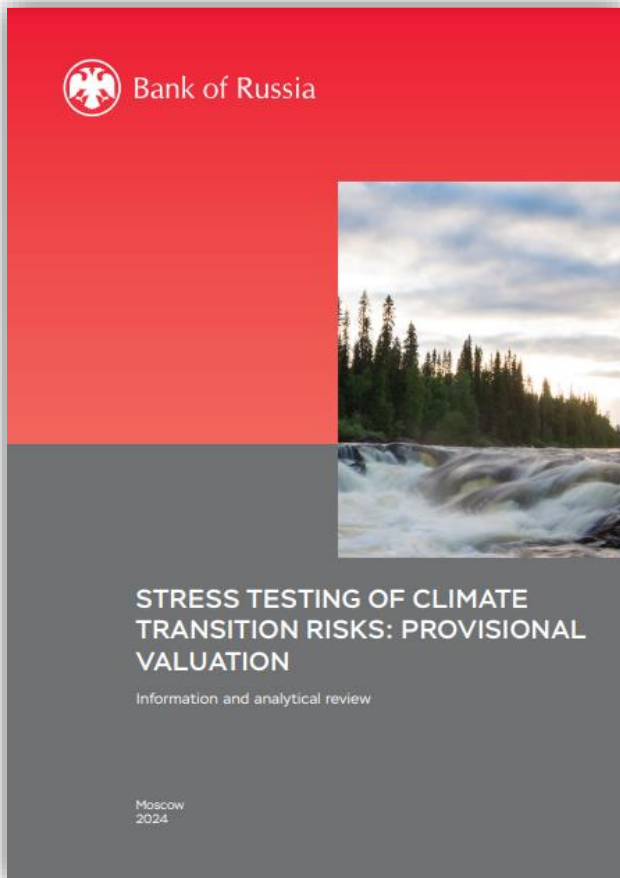
Counterparty – 13%

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Examples of static climate stress-tests

	Approach	Level of detail	Risks type
Bank of Canada и OSFI	hybrid	industry counterparty	transition
People's Bank of China	hybrid	counterparty	transition
Danmarks Nationalbank	top-down	counterparty	transition
Danmarks Nationalbank	top-down	counterparty	physical (acute)
Central Bank of Egypt	top-down	industry	physical (acute) transition
European Central Bank	bottom-up	counterparty	physical (acute / chronic) transition
Bank of Finland	top-down	counterparty	transition
Hong Kong Monetary Authority (HKMA)	bottom-up	industry counterparty	physical (acute / chronic) transition
Norges Bank	top-down	industry counterparty	physical (acute) transition
Bank of England	bottom-up	macroeconomic industry counterparty	physical (acute / chronic) transition

Concept of the Bank of Russia climate stress-test



Goal

Assessing the resilience of the economy and financial sector to structural changes in the global economy:

- Structural changes as a result of the energy transition
- Reduction in global hydrocarbon consumption
- Introduction of carbon regulation in the world and in Russia



Main assumptions

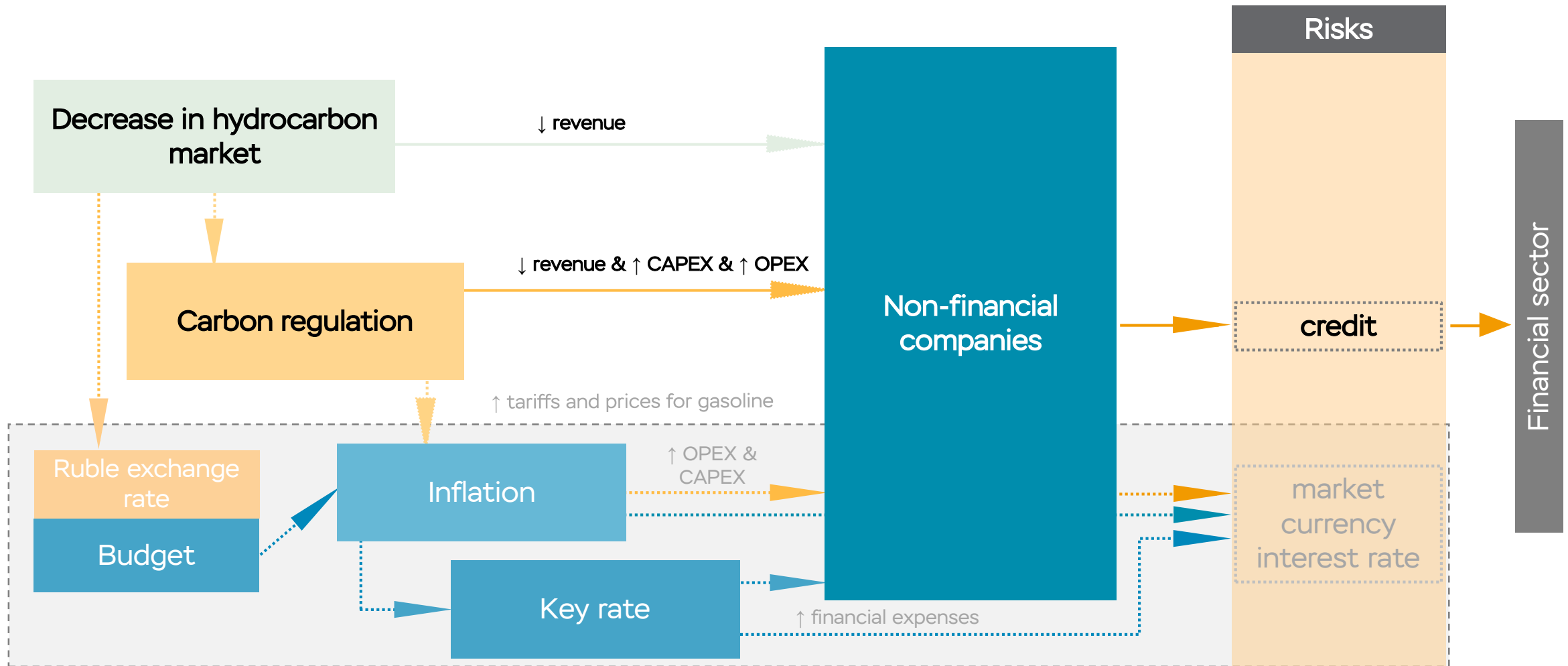
- Adaptation of economy as a whole
- No proactive adaptation of “brown” companies
- Sanctions remain, but exports continue to partner countries



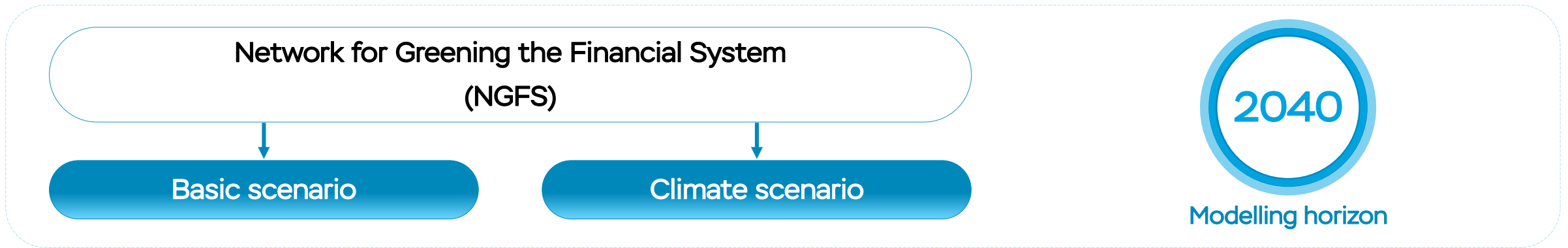
What are the main research questions?

- Over what time horizon will “brown” industries remain resilient while maintaining their current business model?
- To what extent and when should financial institutions **shift portfolio composition** towards “green” industries?
- What should be the **tax policy** of the Russian authorities?

Key transmission channels



Main results of climate stress-testing



Results under the climate scenario

- 1 **1/3** of the largest non-financial companies and industries will face significant financial deterioration in the 2030s - 2040s
- 2 Banks can minimize capital losses only if they **reduce the share of “brown” companies from 34% to 6,7%** in the loan portfolio
- 3 **Capital adequacy N1.0 may decrease by 0.7-3.0 %pt.** depending on the scenario
- 4 **Banks have ~10 years to help their clients adapt to these risks and thereby transform their portfolio**

Further plans of the Bank of Russia for climate risk management



**Conducting a bottom-up
stress test
together with the largest financial
organisations**

**Conducting a survey of financial
organisations
on the implementation of recommendations**





Q&A session