Bank of Russia

CLIMATE RISK MANAGEMENT APPROACHES IN FINANCIAL ORGANIZATIONS

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INTRODUCTION

Russia's main trading partners continue the transition to a low-carbon economy, introducing new climate regulation measures that will affect international trade in the future. Concurrently, natural hazards are becoming increasingly frequent and intense. The Russian economy is vulnerable to climate transition risks because of its high carbon intensity and to climate physical risks because of the country's geography.

Although the financial sector is exposed to the direct impacts of climate risks (e.g. loss of property in case of a disaster), their indirect influence arising from the transmission of negative effects through clients is more serious. Realisation of climate risks adversely affects incomes, asset value, and other indicators of non-financial companies and households, which reduces their creditworthiness and entails traditional financial (credit, market and liquidity) risks to their lenders. This contagion effect might undermine overall financial stability.

In December 2023, the Bank of Russia released its recommendations on how to enhance financial institutions' climate risk management practices.[1] The document describes methods that may be used by financial institutions to analyse climate risks, approaches to establishing climate risk monitoring systems, and climate risk mitigation measures.

In 2024 Q3, the Bank of Russia surveyed financial institutions to estimate their exposure to climate risks and compliance with the regulator's recommendations. The survey was conducted to analyse the quality of climate risk management at financial institutions and identify challenges and best practices. The Bank of Russia surveyed 45 financial institutions, specifically 24 credit institutions, including all systemically important ones, nine insurers, nine non-governmental pension funds, two asset management companies, and State Development Corporation VEB.RF (VEB.RF). The findings of the analysis and the statistics related to the surveyed organisations are given below.

[1] Bank of Russia Information Letter No. IN-018-35/60, dated 4 December 2023.

1. TAKING INTO ACCOUNT CLIMATE RISKS IN CORPORATE GOVERNANCE

1.1. Climate risk management responsibilities

Climate risk management issues are the responsibility of **the board of directors (supervisory board)** at nearly **50%** of the surveyed financial institutions (for details, see Table 1). Another 11% of respondents plan to start considering climate risks in the next 12 months. However, some institutions only consider physical risks with regard to business continuity. Half of the surveyed financial institutions see **potential for greater involvement** of the board of directors (supervisory board) in climate risk management. As an example, the board of directors (supervisory board) may review reports on climate risk stress testing in addition to the results of stress testing of material risks.

TAKING INTO ACCOUNT CLIMATE RISKS *Table 1*

Does the board of directors (supervisory board) take into account the need to manage climate risks?					
	Systemically important credit institutions and VEB.RF, %	**Other banks, %**	**All banks in general,%**	**Insurers,%**	**Non-governmental pension funds and asset management companies, %**
Yes, it takes into account climate physical risks	62	58	63	44	18
Yes, it takes into account climate transition risks	62	42	54	22	9
Yes, it takes into account both climate physical and transition risks	62	42	54	22	9
No, but it plans to start taking into account climate risks in the near future (in the next 12 months)	8	25	17	11	0
No, and there are no such plans so far	15	8	8	33	82

Note. The percentage of the total number of the surveyed organisations of a given type.
Source: survey by the Bank of Russia.

In the group of systemically important credit institutions and VEB.RF, 62% of respondents answered that the board of directors (supervisory board) factored in the need to manage both climate physical and transition risks. As to other banks, the percentage of such answers is smaller, namely 42%. As little as 22% of the surveyed insurers believe it necessary to manage climate physical and transition risks, although physical risks are taken into account by a higher percentage of the insurers (44%). Among the surveyed non-governmental pension funds and asset management companies, the figures are two times lower: both climate physical and transition risks are factored in by 9% of respondents and only physical risks – by 18%.

As regards the surveyed banks (systemically important and other credit institutions), 17% of them plan to start taking into account climate risks, whereas 8% have no such plans so far. In the group of the surveyed insurers, 11% answered that their board of directors planned to start using climate risk management practices, whereas 33% said that there were no such plans. The rest of the non-governmental pension funds and asset management companies, who do not factor in climate risks, have no plans to start taking into account climate risks so far.

At 27% of the surveyed financial organisations, climate risk management **principles and approaches are determined** by the board of directors (supervisory board), including through the sustainability, strategic development, audit, risk management and compliance committees under the board of directors

(supervisory board). At 20% of the surveyed institutions, this is the responsibility of the executive body, such as the management board chaired by the chief executive officer or a dedicated committee, e.g. the sustainability or risk management committee.

Over a third of respondents have **a separate structural unit** responsible for climate risk management, e.g. a working group, a committee, or a service responsible for climate risk or sustainability risk management. However, the majority of the surveyed financial institutions either do not have dedicated structural units in charge of climate risk management, as long as they view these risks as non-material, or have **integrated climate risk management into the functions of the existing units**, e.g. the risk management, investor relations, strategic development, marketing or HR units.

1.2. Risk management system

Nearly half of respondents integrate climate-related aspects into **tiered risk management systems**. Most often, they use **the principle of building three lines of defence** where management, control, and audit are the responsibilities of different structural units to mitigate the conflict of interest. The system can have three or four tiers of management (in various combinations):

- the top level – the board of directors (supervisory board) or the sustainability committee that identifies risks and determines strategic priorities, targets, and mitigation measures;
- the executive level – the management board that governs daily operations and ensures the fulfilment of decisions made by the general meeting of shareholders;
- the controlling or consolidated level (the risk management unit or the internal audit service); and
- the operational level (units directly facing climate risks in their operations).

Over a third of respondents have approved climate resilience **policies and procedures** which may be grouped into credit risk management policies incorporating climate risk management elements and dedicated sustainability policies (for details, see Table 2). Almost two-thirds of the surveyed financial institutions have published these policies.

EXAMPLES OF POLICIES AND PROCESSES TAKING CLIMATE RISKS INTO ACCOUNT *Table 2*

Examples of credit risk management policies	Examples of sustainability policies
Basel II Pillar 2-based policy. Risk appetite methodology	Sustainability policy
Credit risk management policy	Climate risk policy
Risk and capital management strategy	Environmental, social and corporate governance and sustainability policy
Guide to integrate climate risk factors into corporate underwriting process	Sustainability strategy
General methodology for assessing physical risk to real estate accepted by a bank as collateral	Responsible financing policy
	Responsible financing and investment policy
	Procedure for managing environmental and social impact in financing
	Environmental protection policy
	Climate change and air pollution mitigation policy
	Policy of integrated management in environmental, social, health and safety protection, energy efficiency, and energy saving

Source: survey by the Bank of Russia.

Nearly half of respondents take into account how climate factors may affect their **core business areas**, including products and services. A number of the surveyed financial institutions signed the Principles for Responsible Banking by the United Nations Environment Programme Finance Initiative (UNEP FI) and conduct regular monitoring of the percentage of green assets,[1] including across business areas.

However, 64% of respondents **have no plans to set a financed emissions**[2] **target**. Nearly a quarter of the surveyed financial institutions (24%) plan to calculate financed emissions, although without setting a target so far. As little as 4% of respondents plan to set a qualitative target.[3] Another 7% have already set a financed emissions target. Thus, one of the surveyed institutions has established a group-level target for the oil and gas, power, and automobile industries.

As reported by respondents, they currently make only approximate estimates of financed emissions. To make the measurements more precise, they need **to enhance their data collection and analysis approaches**, including by increasing the granularity of client data. Another challenge is the lack of legally stipulated methods of financed emission calculations. Moreover, there are no data on emissions generated by particular companies or sources to verify these data.

It is also worth noting that **not all respondents currently consider it necessary** for financial companies to measure Scope 3[4] emissions. As noted by a number of respondents, it is now difficult to link financed emissions to financed companies' creditworthiness / credit risks and the impact on their financial position. Other financial institutions answered that they were already using ESG ratings instead, were unable to measure emissions due to the specifics of their business, and prioritised other objectives.

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1 E.g. one of the criteria in project finance may be the energy efficiency class.

2 Financed emissions are the indirect greenhouse gas emissions of financial institutions associated with their participation in providing capital to or financing companies that emit greenhouse gases. In accordance with the classification of the Greenhouse Gas Protocol (GHG Protocol), such emissions are classified as Scope 3 Category 15: Investment or financed emissions in accordance with the Partnership for Carbon Accounting Financials (PCAF) standard.

3 Respondents refer to a high-level assessment of financed emissions.

4 Scope 3 are other indirect greenhouse gas emissions of the reporting entity (not including indirect energy emissions) that occur in the value chain of the economic entity, including on the side of consumers and suppliers. For example, emissions associated with transportation and processing of products, business travel, franchises, investments, etc.

2. INTEGRATION OF CLIMATE RISKS INTO THE RISK MANAGEMENT SYSTEM

2.1. Mechanisms to factor in climate risks

The most widespread approach to factoring in climate risks is their integration into the risk management system. This method is applied by 56% of respondents. Furthermore, 40% of the surveyed financial institutions have integrated climate risk identification, assessment, and management into the system (26% of them noted both physical and transition risks). In addition to the integration into the risk management system, another 18% of respondents take into account climate risks in their internal control system as well.

However, nearly a third of respondents have not implemented such approaches at all. Some financial institutions have included climate risk management elements in their business processes. A number of respondents apply a practice in which climate risks that are not classified as material may be taken into account in the decision-making process as 'another qualitative factor'. As little as 22% of the surveyed financial institutions provide the information on climate risk management in their risk reporting submitted to the top management.

More than half of respondents experience difficulties when integrating climate risks into the overall risk management system (for details, see Table 3).

CHALLENGES MENTIONED BY FINANCIAL INSTITUTIONS *Table 3*

Challenges mentioned by financial institutions	Approaches to addressing these challenges applied by the Bank of Russia
When combined, climate risks and other risk types (especially operational risks) entail secondary effects, which makes it more complicated to arrange a climate risk management system because this requires a comprehensive approach. Risks may be difficult to identify and assess due to the lack of a unified methodology, common approaches and practice.	The Bank of Russia is developing a detailed methodology to complement the recommendations on climate risk management for financial institutions (Information Letter No. IN 018-35/60, dated 4 December 2023).
Few issuers and counterparties disclose information on arising climate risks and the scope of these disclosures is limited.	The Bank of Russia and the Ministry of Economic Development of the Russian Federation are discussing the issue of mandatory reporting.
There are no unified public data on emissions to be used for building models. There is no unified register of negative climate events (may be potentially created and maintained by government authorities) which could be overlaid on the map with clients' value-added objects. There is no assessment of current losses caused by natural hazards.	The Bank of Russia carries out work jointly with research institutes and the Ministry of Economic Development of the Russian Federation and, among other things, has proposed creating a unified resource for obtaining information and verified data on companies' greenhouse gas (GHG) emissions. Financial institutions are advised to consider the paper prepared by Russian National Reinsurance Company (RNRC) as part of the project for the development of the national risk office. Within the framework of this project, RNRC plans to accumulate data on the past natural hazards, simulate and assess economic implications of disasters, and elaborate risk modelling methods and risk maps for the constituent territories of the Russian Federation, etc. Financial institutions are also recommended to accumulate their own data for analysis using the Bank of Russia's recommendations (Information Letter No. IN-018-35/60, dated 4 December 2023).
There is no regulatory practice, in particular non-governmental pension funds face risks of violation of the principles of fiduciary responsibility to their customers when setting limits on investment in financial instruments of certain companies exposed to climate risks.	The Bank of Russia does not recommend negative screening. The Bank of Russia will continue meetings with credit rating agencies to assess the prospects for developing approaches to integrating climate risks into credit ratings.
There is a shortage of relevant experts in the labour market.	The Bank of Russia has created a free online course ESG, Sustainable Development, and Climate Change and carries out regular training events for students and market participants.

Source: survey by the Bank of Russia.

In addition, financial institutions are interested in assessing the impacts of climate risks on the creditworthiness of rated entities.

2.2. Risk assessment period

Among 47% of the financial institutions who assess the impacts of climate risks, almost all respondents conduct **short-term analysis** (for 1 to 3 years). Slightly less than half of them carry out **medium-term assessments** (for 4 to 10 years), and as little as one-third perform **long-term analysis** for more than 10 years.

Over a **short-term** business planning horizon, 40% of respondents have conducted their climate risk assessments as part of annual **material risk identification**. Some of the surveyed financial institutions report that assessments were previously based on an expert opinion, whereas now, they are switching to a more detailed, comprehensive assessment of the impacts of these risks on the institution's operations. Many financial institutions note that they perform **medium- and long-term assessments as part of the Bank of Russia's bottom-up stress testing of climate risks until 2040**. One of the surveyed financial institutions has built a heat map of the regions for the period until 2050 for the purposes of physical risk analysis.

Nearly a third of respondents assess the materiality of risks taking into account both **the probability** of climate risks realisation and **the scale** of potential consequences from their realisation given the vulnerability and exposure to climate risks of each of the counterparties.

Material and potentially material climate risks **are monitored** by 40% of the surveyed financial institutions, primarily as part of risk identification procedures. Financial institutions conduct identification of material risks once a year to assess the factors of climate physical and transition risks, their influence on realisation of credit and operational risks, and potential losses that might be caused by their realisation. However, following this assessment, respondents may classify climate risks as *non-material* (see Table 4).

The board of directors (supervisory board) of a third of the surveyed financial institutions regularly **reviews** and reassesses the level of potential climate risks that might affect an institution's operations. In the case of banks, 93% of respondents conduct these reviews in the course of annual material risk identification as part of the **internal capital adequacy assessment process (ICAAP)**.

CLASSIFICATION OF CLIMATE RISKS AS MATERIAL BY FINANCIAL INSTITUTIONS *Table 4*

Materiality of risks	Systemically important credit institutions and VEB.RF, %	Other banks, %	Insurers, %	Non-governmental pension funds and asset management companies, %
Climate risks are classified as **non-material**	62	67	11	73
Climate risks are classified as material	15	8	67	18
Risk materiality is not assessed	23	25	22	9

Source: survey by the Bank of Russia.

2.3. Common approaches to risk assessment

The majority of the surveyed institutions consider climate risks through **traditional risk types** classified as material within the annual risk identification procedure (58% of respondents – through operational and credit risks, 31% – through market risk, 29% – through concentration risk, 29% – through reputational risk, 20% – through liquidity risk, 20% – through insurance risk, and 18% – through legal risk). As reported by the surveyed institutions, this **complicates the organisation of the climate risk management system**. Several respondents classify climate risks as a separate risk type.

Assessing climate risks, financial institutions use a combination of approaches:

- **the top-down approach** – designation of risk exposure at an aggregate level using key factors, such as the materiality of the risk by geographic location, economic sector, type of financial product . It is applied by 11% of respondents.
- **the bottom-up approach** – identifying material risks at the asset or counterparty level and then summing up these risks to assess them at the portfolio level. It is applied by 16% of respondents.

Therefore, a top-down approach may be used as part of the ICAAP to conduct a qualitative assessment or estimate the level of climate risks (that may be ultimately classified as non-material), while a bottom-up approach may be applied for risk quantification and climate risk stress testing according to the Bank of Russia's scenarios as well as for evaluating risk events (e.g. frosts or floods that might affect clients).

2.4. Risk assessment methods

Climate risk assessment methods used by financial institutions are as follows:

- assessment (including expert judgement) of the probability of realisation of risks and their financial implications;
- value-at-risk calculation;
- assessment of physical risks to collateral;
- quantification of GHG emissions produced by a financial institution and its large corporate clients (including using internal methods based on PCAF and GHG Protocol principles);
- building heat maps to show exposure of assets in the portfolio using scenarios over a forecast horizon;
- creation of sectoral maps of risk exposure due to changes in ESG factors;
- **scenario analysis and stress testing**, including as part of bottom-up stress testing of climate risks based on the Bank of Russia's scenarios until 2040 (one of the surveyed institutions plans to apply this method at the portfolio level, while another respondent has approved its own method of climate risk stress testing (a method of local scenarios and a fixed ratio of stress losses); and
- estimate of the amount of capital needed to cover climate risks, including given the results of stress testing, and of the capital adequacy ratio taking into account classification of climate risks as material.

When assessing climate risks, half of the surveyed financial institutions factor in **how their clients and counterparties manage** their climate risks. A number of respondents explore climate risk strategies (policies) only when the relevant information is provided by a client or counterparty on a voluntary basis or obtained from open sources. Some financial institutions conduct their **own ESG scoring** (e.g. of compliance with ESG practices) and, among other things, analyse clients' business processes and technologies. In addition, respondents extensively use ESG ratings. **As part of stress testing** (including climate risk stress testing), respondents take into account potential measures mitigating climate risks that are typical of or expected in a particular industry as well as companies' individual plans.

Table 5 lists the parameters included by financial institutions in the analysis of the quality of climate risk management by their clients and counterparties.

CLIMATE RISK MANAGEMENT PARAMETERS OF CLIENTS AND COUNTERPARTIES TO BE ANALYSED *Table 5*
(%)

Climate risk management (respondents could choose several options)	
An entity has analysed its exposure to climate risks (including both physical and transition risks)	40
Measures aimed at adaptation to climate physical and transition risks have been developed and are underway	18
Responsibility for climate risk issues is distributed within the corporate governance system	16
An entity has analysed its climate change-related opportunities	13
Climate risks are integrated into an entity's policy as part of its risk management and internal control system	9
An entity has conducted quantification (financial assessment) of climate risks	7
Scenario analysis based on the models of the Intergovernmental Panel on Climate Change (IPCC) is conducted to assess the materiality of climate risks	0
Climate policy / strategy / roadmap / plan (respondents could choose several options)	
Implementation of sustainable (including green) development projects	42
Raising funds and receiving financial services for the purposes of climate transition (including raising funds by issuing green, adaptation, sustainability, sustainability-linked, and climate transition bonds)	24
GHG emission reduction targets, including for the base and target years, and the scope of emissions	22
The list and description of measures aimed at achieving the GHG reduction targets (e.g. upgrade of production facilities, use of renewables, etc.)	22
Targets for climate project development and implementation	13
The list and description of measures aimed at achieving adaptation targets	13
Climate adaptation plan	11
Climate adaptation targets	7
Carbon neutrality targets, including for the base and target years, and the scope of emissions	4
Targets for offsetting GHG emissions with carbon credits from the implementation of climate projects	2

Source: survey by the Bank of Russia.

2.5. Scenario analysis as a key risk assessment method

Currently, as little as 29% of respondents use **scenario analysis** in climate risk assessments and management. Many of them note that they conduct this analysis as part of the Bank of Russia's climate risk stress testing with the scenarios provided by the regulator in advance. Another 22% of the surveyed institutions plan to start using scenario analysis in the next 12 months. As long as the Bank of Russia's bottom-up stress testing of climate risks is conducted until 2040, respondents mostly prefer long-term scenario analysis over a **horizon** of more than 10 years. A number of respondents expect the Bank of Russia to send updated scenarios on a regular basis.

Scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (**NGFS**) are used by 22% of respondents. It should be noted that most of them use **the scenarios sent by the Bank of Russia** as part of climate risk stress testing relying on the NGFS's Below 2°C and Current Policies scenarios. One of the institutions from an international banking group applies its own scenarios based on the NGFS's scenarios provided by Oxford Economics.

Another respondent has started using scenario analysis to assess flood risks. This analysis relies on the scenario forecasts of changes in atmospheric precipitation according to the Climate Centre of the Federal Service for Hydrometeorology and Environmental Monitoring (Rosgidromet).

The answer 'Other' was chosen by 33% of respondents, many of whom do not carry out scenario analysis of climate risks.

One of respondents in this category listed the following sources used in scenario analysis:

- At the macroeconomic level:
  - the influence of a rise in morbidity rates caused by climate risk realisation or comparable events on macroeconomic indicators;[1]
  - the influence of the scenarios of transition risk realisation on macroeconomic indicators;[2] and
  - sensitivity of the institution's financial losses to changes in macroeconomic indicators.
- At the level of regions of operation and the portfolio:
  - the net average amount of corporate clients' claims across regions exposed to climate risks;
  - financial losses from disasters incurred by the Ministry for Civil Defence, Emergencies and Elimination of Consequences of Natural Disasters of the Russian Federation (EMERCOM of Russia) over the past three to five years across Russian regions;
- environmental ranking of Russian regions; and
- other ecological indicators across Russian regions (e.g. the National Ecological Rating of Russian Regions 'Green Patrol').

2.6. Climate risk monitoring

Financial institutions apply various approaches to monitor climate risks (see Table 6). A number of the surveyed institutions chose the option '**Other**' as they consider the questions about climate risks non-applicable to them. Some respondents shared the practices they use. In particular, one of the financial institutions has set thresholds for climate indicators at the consolidated level of the group, while another respondent applies a dashboard with climate indicators which is provided on a quarterly basis to the financial risk committee.

Another financial institution, in accordance with its risk and capital management strategy, integrates sustainability risks into its risk management system through the assessment of the influence of sustainability factors on financial and non-financial risks. It has introduced qualitative risk appetite metrics to limit funding to projects and counterparties that fail to comply with sustainability considerations.

APPROACHES TO MONITOR CLIMATE RISKS *Table 6*
(%)

What approaches does your institution apply to monitor climate risks? (respondents could choose several options)	
Exposure of the institution's facilities / business processes to natural hazards* is taken into account	38
Climate indicators are integrated into the existing system of risk monitoring and reporting and submission of risk information to the management bodies	27
The progress of measures aimed at eliminating the consequences of climate risk realisation and compliance with the financial institution's related policy are under control	27
The required frequency of internal reporting has been approved to provide the board of directors (supervisory board) and other management bodies with up-to-date information on the current state of business processes exposed to climate risks, including ad hoc reports if material risks realise or the permitted risk appetite metrics are exceeded	24
Other	24
The required scope and granularity of data are taken into account, the concentration of climate risks is considered at least at the level of portfolios, industries, geographical locations, and large clients / counterparties	22
Thresholds for climate indicators are set (given the assessment of vulnerability)** and controlled to take timely measures aimed at proactive climate risk management	4

** E.g. data processing centres might be damaged / destroyed as a result of physical risk realisation.*
*** Vulnerability is the propensity or predisposition to be adversely affected, including sensitivity or susceptibility to harm and limited ability to adapt.*
Source: survey by the Bank of Russia.

[1] E.g. data from ACRA (JSC).

[2] E.g. data from the Bank of Russia.

2.7. Interaction with clients in the course of climate risk assessment

As little as 24% of the surveyed financial institutions **request relevant information from their clients** when these data cannot be obtained from open sources. Another 11% plan to begin requesting this information from clients in the next 12 months, while 64% of respondents either view climate risks as non-material or use publicly available data, including clients' and counterparties' disclosures on their websites.

Where a financial institution requests data from its clients and counterparties, this information may cover the following:

- the progress of a company's climate risk assessment;
- the progress of the development of climate risk management approaches, including climate adaptation methods;
- assessment of a client's climate transition plan and progress towards sustainability targets;
- a client's climate risk policies and procedures;
- a client's intentions, actions, and progress in implementing improvements related to climate change and risk management;
- resilience of a client's supply chains to climate risks;
- amounts of Scope 1, 2, and 3 GHG emissions;
- the share of a client's or counterparty's assets and/or activity types exposed to climate physical risks;
- the share of a client's or counterparty's assets and/or activity types exposed to climate transition risks;
- a client's climate risk management system; and
- exposure to climate-related hazards, such as seasonal heavy rains and other precipitation as well as threats of collapses, landslides, ground movements, mudflows, seasonal droughts, floods, river and reservoir overflows, elevated groundwater levels and hurricanes.

Questions about climate risks may be part of questionnaires used to assess the integration of ESG factors into operations of financed entities (large corporate borrowers). Furthermore, financial institutions may use questions from the questionnaire to be filled in following the bottom-up stress testing of climate risks that was sent by the Bank of Russia to a number of financial institutions in 2024. Some financial institutions use the questionnaire of the Association of Banks of Russia or, if they do not have a standard questionnaire form and wish to customise the questions, send non-standardised requests to clients and counterparties.

2.8. Methods to manage climate risks through credit and operational risk management

As mentioned above, many financial institutions take into account the impacts of climate risks **through credit and operational risks and manage climate risks in accordance with the existing risk policies**. Financial institutions apply the following **climate risk management methods to mitigate adverse consequences** of climate risk realisation:

- integration of climate risk analysis into the underwriting process;
- control of basic risk metrics;
- introduction of concentration limits;
- introduction of insurance rates depending on risk levels;
- integration of physical risks into initial risk assessment and reassessment for real estate accepted as collateral;

- early warning and operational risk management systems;
- assistance to clients and counterparties to encourage them to adopt climate risk management practices and enhance their resilience to climate risks; and
- transformation of the loan portfolio by increasing the proportion of clients resilient to climate risks.

The majority of the surveyed institutions (80%) **do not use negative screening**[3] which involves excluding companies working in certain industries from the list of clients who may receive financial services. However, those financial institutions who use negative screening (18%) **interpret it differently**, e.g.:

- qualitative metrics of risk appetite to limit funding to projects and counterparties that fail to comply with sustainability targets;
- business policy, e.g. in relation to the steel, real estate, and construction industries; or
- a limit of no more than 5% of the financial institution's assets on the list of projects and activity types subject to funding restrictions, with the possibility of targeted financing in excess of the said limit to implement projects compliant with the criteria of green, adaptation, and social projects as classified by Russian and international standards.

To mitigate climate risks, many financial institutions decrease the limits and revise the covenants for a number of economic activities in agreements on funding, investment, and insurance (for details, see Table 7).

RISK MITIGATION MEASURES *Table 7*
(%)

What measures aimed at mitigating climate risks and the consequences of their realisation could be adopted by the financial institution as part of its climate risk management approaches? (respondents could choose several options)	
Reductions in limits on funding, investment, and insurance	40
Revision of the covenants in agreements on funding, investment, insurance, and reinsurance	36
Stipulation in agreements of the term obliging a client / counterparty to enhance climate risk management practices within particular deadlines and, if applicable, of related measures as well as maximum permitted levels or targets to be achieved	24
Shorter loan maturities, higher discounts in the course of asset valuation for funding	24
Other	20

Source: survey by the Bank of Russia.

Respondents who, in addition to answering that these practices were not applicable because they viewed climate risk as non-material, also chose the option '**Other**' (20%) commented that:

- the funding interest rate was set depending on a client's ESG rating;
- risk mitigation measures were developed based on comprehensive analysis of the risks associated with a funded project without singling out measures related to climate risks; and
- they were considering the possibility and reasonableness of engaging an external consultant to develop a climate risk management model, including to determine possible climate risk mitigation measures and integrate them into the risk management system.

One-third of respondents **assist** their clients and counterparties in adopting climate risk management practices. However, some respondents report that **not many clients and counterparties are interested in switching to climate risk management practices and increasing their resilience to climate risks**.

[3] According to Bank of Russia Information Letter No. IN-018-35/60, dated 4 December 2023, ' On Recommendations on Climate Risk Management for Financial Institutions', negative screening involves imposing restrictions on accessibility of financial services to clients from certain industries and setting criteria for excluding such clients from the list of those who may receive financial services.

3. CLIMATE RISK-RELATED DISCLOSURES

Half of respondents have no plans to disclose climate risk-related information. It should be noted that a number of financial institutions used to disclose these data before 2022 but then stopped doing this because of the sanctions. More than a third of the surveyed institutions disclose these data either in full (29%) or in part (13%), including at the consolidated level of an international group. Some financial institutions disclose climate risk information in their sustainability reporting, while others – in annual reports. A number of respondents also publish local ESG reporting in the abridged format of an ESG Datasheet. In addition, a number of respondents (7%) plan to begin disclosing this information in the next 12 months.

Nearly half of the surveyed financial institutions that disclose climate risk data follow the approaches described in Bank of Russia Information Letter No. IN-02-28/44, dated 13 June 2023, 'On Recommendations for the Disclosure of Information in the Field of Sustainable Development by Financial Institutions'. Financial institutions also apply the standards developed by the Task Force on Climate-related Financial Disclosures (TCFD) or the Carbon Disclosure Project (CDP).

Most respondents (82%) **have no plans to implement IFRS S2 Climate-related Disclosures**. Financial institutions say that, although IFRS S2 is applicable for annual reporting periods beginning on or after 1 January 2024, companies are allowed to start disclosing these data later when they consider it appropriate, including in connection with changes in external circumstances and regulatory requirements. Currently, credit institutions are entitled not to disclose reporting according to IFRS (including IFRS S2) in full, which is provided for by the Bank of Russia's regulations on anti-sanction measures.

However, respondents note that, **if this standard is integrated into the regulatory framework, they will be ready to implement it**. So far, as little as 7% of the surveyed institutions have implemented this standard and another 11% plan to do this in the next 12 months.

CONCLUSIONS

The results of the survey show that climate risk management practices applied by major financial institutions vary significantly. **Only a small percentage of respondents assess climate risks comprehensively**, effectively integrating them into their corporate governance and risk management system and disclosing related information to internal and external users.

1. Climate risks are primarily **taken into account within traditional risk categories**. Several respondents classify climate risks as a separate risk type.

2. Compared to non-governmental pension funds and insurers, **banks are more involved in the climate agenda**, with some of them already stipulating relevant covenants in loan agreements. Moreover, half of the surveyed insurers view climate risks as material.

3. One-third of the surveyed financial institutions have classified climate risks as non-material **in the course of initial risk identification** (including as part of the ICAAP), as a result of which they neither reassess nor manage these risks, especially over a long-term horizon.

4. **The key problem noted by respondents is the lack of data and methodologies for climate risk assessments.** In the first place, there should be public sources of information to assess companies' exposure to various components of climate risks in the Russian Federation across regions, risk types, and time horizons. Furthermore, there are no historical data on damage caused by natural hazards that are needed for statistical analysis. Secondly, the climate risk management recommendations for financial institutions do not contain detailed risk identification and assessment methodologies.

5. **The bottom-up stress testing of climate risks conducted by the Bank of Russia** in 2024 **has increased financial institutions' involvement in climate risk analysis**. Most respondents using scenario analysis apply this method to conduct the regulator's climate risk stress testing.

6. A number of the surveyed financial institutions note that climate risk management requires additional competences and resources. In this regard, they consider it reasonable to explore the issue of **capturing climate risks in credit ratings**.

Further work is needed to encourage financial institutions **to adopt climate risk management practices**.

Firstly, the Bank of Russia will update the recommendations on climate risk management for financial institutions and prepare a more detailed description of the methods for taking into account climate risks. In particular, it is planned to document the experience accumulated by respondents as part of the bottom-up stress testing of climate risks conducted in 2024. Furthermore, in 2025, the Bank of Russia will continue meetings with financial institutions and non-financial companies regarding climate risk and data integration, developing its own practices and cooperating with the academic community. The Bank of Russia plans to continue the monitoring of financial institutions' approaches to managing climate risks in order to assess progress in this area and identify challenges.

Secondly, the Bank of Russia plans to develop recommendations for credit institutions on climate risk management as part of the ICAAP in order to simplify the implementation of the recommendations issued by the Bank of Russia given the specifics of the banking business and regulation. Thus, it will be easier for credit institutions to properly identify climate risks considering their specifics in the course of initial risk identification, which will make it possible to then conduct financial assessment, including over a long-term horizon.

Thirdly, following the analysis of how financial institutions apply the recommendations, the Bank of Russia will assess whether it is reasonable to integrate the related approaches and their elements into the Bank of Russia's requirements. This objective is already stipulated in the document Promising Areas of Banking Regulation and Supervision Development.[1]

Fourthly, the Bank of Russia plans to carry out relevant work with market participants and competent government agencies aimed at creating a unified portal with climate data for assessing both climate physical and transition risks. In addition, a similar initiative has been proposed by industry associations.

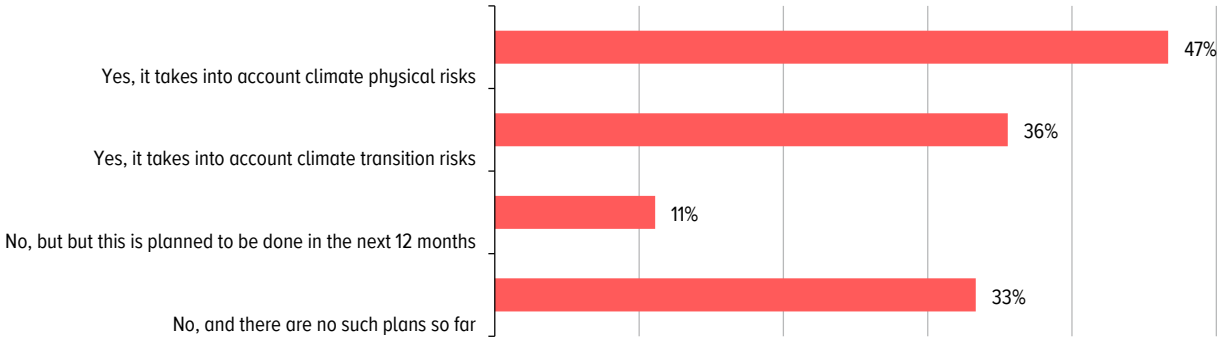
Fifthly, the Bank of Russia will continue to conduct bottom-up stress testing of climate risks and encourage financial institutions to implement their own assessment procedures. Scenarios sent by the Bank of Russia reduce financial institutions' spending on the development of their own scenarios based on the NGFS and IPCC scenarios. It is worth noting that the NGFS presented Phase V scenarios, which implies that **the Bank of Russia needs to develop respective scenarios for the financial sector** taking into account its own up-to-date monetary policy assumptions. The Bank of Russia will closely analyse the results and challenges in the course of the first bottom-up stress testing of climate risks to enhance the practice of this analysis in the financial market.

Finally, the Bank of Russia will continue meetings with credit rating agencies to assess the prospects for developing approaches to capturing climate risks in credit ratings. The first stage may involve scenario analysis of the influence of the negative dynamics of hydrocarbon prices and the introduction of the carbon regulation over a 10–15-year horizon on the forecast financial performance of potentially vulnerable rated entities for the purpose of developing statistically justified approaches.

[1] Promising Areas of Banking Regulation and Supervision Development: Current Status and New Objectives (2024).

ANNEX.
SUMMARY OF SURVEY RESULTS

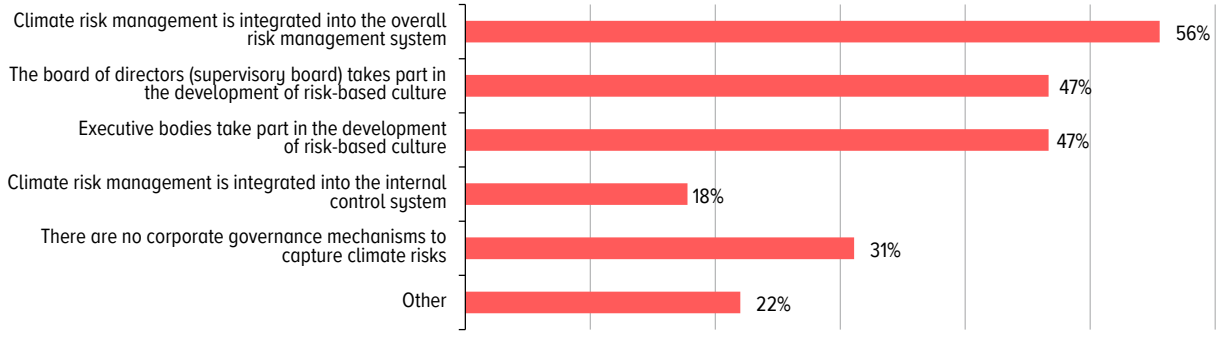
1. Does your institution's board of directors (supervisory board) take into account the need to manage climate risks?



Note: several options may be chosen.

Nearly half of the surveyed financial institutions (47%) take actions to manage climate risks, although some respondents only factor in climate physical risks that might affect the continuity of their operations. A number of respondents (11%) plan to start considering climate risks in the next 12 months. **However, a third of the surveyed institutions have no such plans so far.**

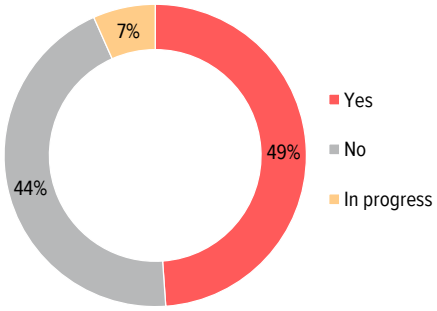
2. What corporate governance mechanisms has your institution integrated to factor in climate risks?



Note: several options may be chosen.

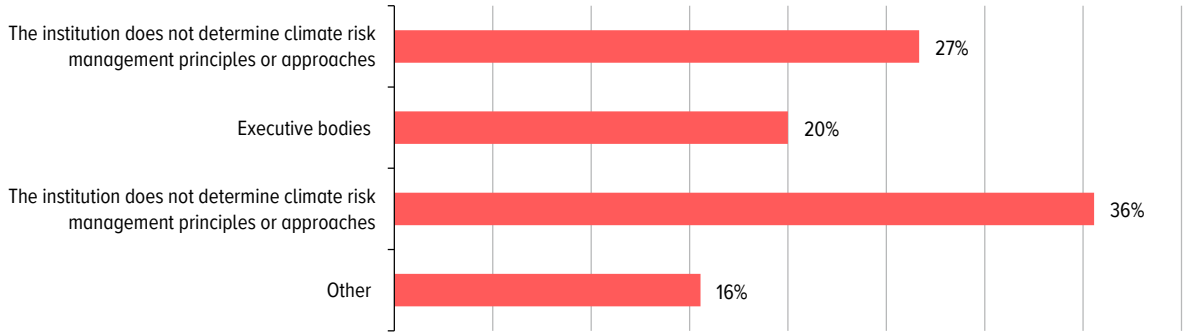
The majority of respondents **(56%)** have integrated climate risk management into **their risk management system**. In addition, the board of directors (supervisory board) and executive bodies of nearly half of the surveyed institutions (47%) take part in the development of risk-based culture. Another 18% of respondents have integrated climate risk management into the internal control system. **A third of the surveyed institutions (31%) have not implemented corporate governance mechanisms to capture climate risks.** A number of respondents also note that climate risk management elements are already incorporated in their business processes. Thus, they may be assessed as part of credit risk management in accordance with the institutions' credit policies. Two respondents consider that this question is non-applicable to them.

3. Has your institution allocated climate risk management duties among members of the board of directors (supervisory board), executive bodies, structural units responsible for accepting and managing climate risks, including to eliminate the conflict of interest?



Nearly half of the surveyed institutions (49%) implement tiered systems for climate risk management. Most often, they use the principle of building three lines of defence where management, control, and audit are the responsibilities of different structural units to mitigate the conflict of interest. The institutions who do not allocate the duties (44%) either have included climate risk management in the functions of the executive bodies only, or do not view climate risks as material so far.

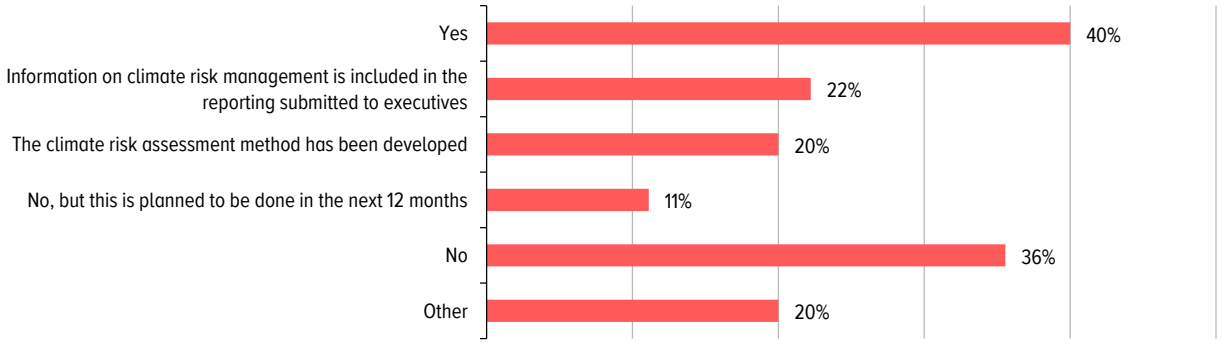
4. What management body in your institution is responsible for determining climate risk management principles and approaches?



The board of directors (supervisory board) is responsible for establishing climate risk management principles and approaches at 27% of the surveyed institutions. Key decisions are approved by executive bodies at 20%[1] of the surveyed institutions. A number of the surveyed non-bank institutions mentioned underwriting units as part of pre-insurance surveys. A third of respondents (36%) who either do not manage climate risks or view them as non-material also said that they had no official climate risk management principles or approaches.

[1] The option 'Other' (16%) includes the answers of those institutions who mentioned both the board of directors (supervisory board) and executive bodies as well as of those respondents who commented that the question was non-applicable to them.

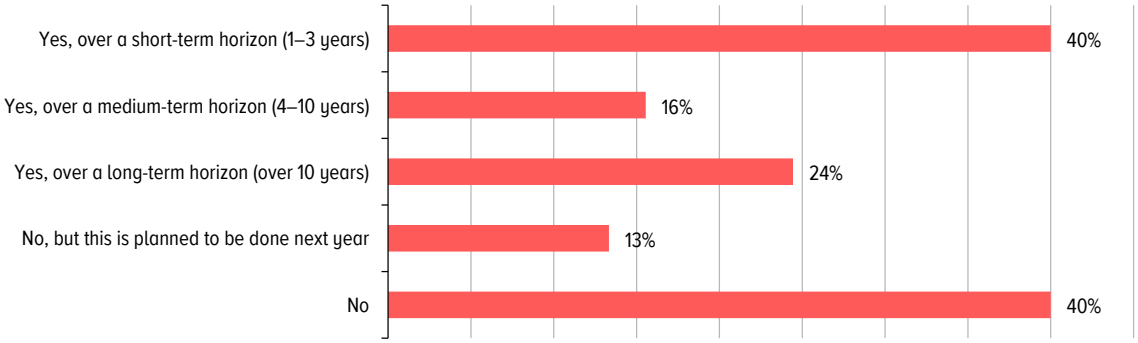
5. Has your institution integrated climate risk identification, assessment, and management processes into the risk management system?



Note: several options may be chosen.

The majority of the surveyed financial institutions (40%) have integrated climate risk identification, assessment and management processes into the risk management system. A number of respondents also have a climate risk assessment method (20%), while others include information on climate risk management in the reporting submitted to executives. Those financial institutions who do not integrate this type of risks into the risk management system (36%) note that their exposure to climate risks is limited because of the specifics of their loan and investment portfolios and its geographical segmentation.

6. Has your institution assessed how climate risks might affect its operations?

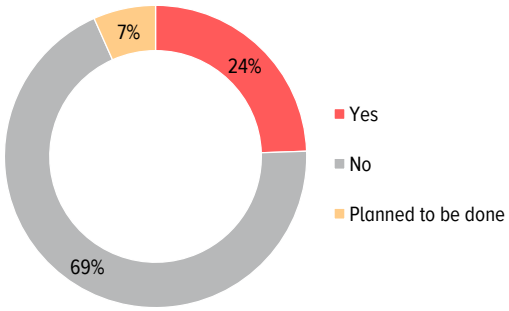


Note: several options may be chosen.

Over a short-term business planning horizon (from 1 to 3 years), 40% of the surveyed financial institutions have conducted their climate risk assessments as part of annual material risk identification. As to medium- and long-term horizons (from 4 to 10 years and over 10 years, respectively), respondents note that they conduct assessments until 2040 as part of climate risk stress testing requested by the Bank of Russia. One respondent has analysed the impacts of hydrological disasters on the financial institution itself and its clients. It has also prepared reports for executives about the influence of overflows on the loan portfolio and the guarantee portfolio and about existing threats to

the continuity of the offices' work due to flood waters in the regions of the institution's operation.[2] Respondents who do not conduct these assessments (40%) note the lack of a unified methodology, common climate and environmental risk management approaches and practices, and experts in the labour market.

7. Does your institution's board of directors (supervisory board) review the results of analysis of the impacts of climate risks on the institution's performance?



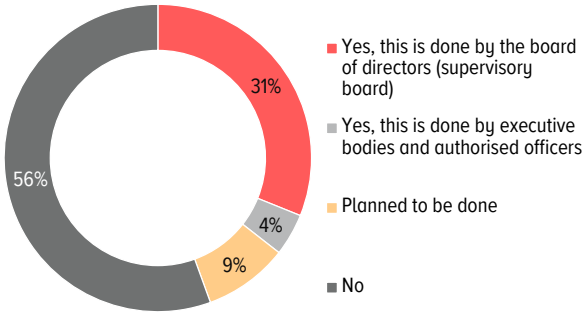
The results of analysis of the impacts of climate risks on the institution's financial performance are reviewed by the board of directors (supervisory board) at 24% of the surveyed institutions. If the influence of climate risks on the institution's financial performance is confirmed, the results may be included in regular reporting on stress testing as part of the ICAAP. According to one of respondents, the management board reviews ESG reporting monthly and includes this information in the management board's report submitted to the board of directors on a quarterly basis.

Most respondents (69%) answered that the results of this analysis were not reviewed by the board of directors (supervisory board) for the following reasons. First, the results may be reviewed by the risk committee and the management board. Second, this category includes respondents who have classified climate risks as non-material following annual risk identification and assessment and/or do not conduct comprehensive analysis.

In addition, 7% of the surveyed financial institutions plan to submit these results to the board of directors (supervisory board) in the future. Specifically, one of respondents will include the results of climate risk stress testing according to the Bank of Russia's scenarios in the risk report submitted to the board of directors.

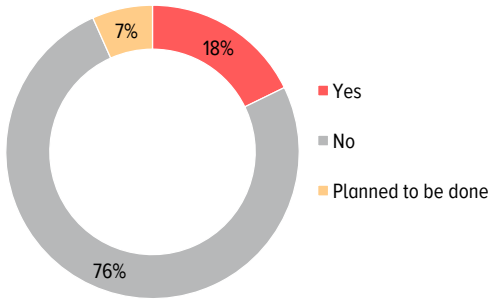
[2] The analysis has been carried out over a short-term (2021–2040), medium-term (2041–2060) and long-term (2061–2080) horizon in accordance with the scenario forecasts of changes in atmospheric precipitation according to Rosgidromet's Climate Centre. The institution's sustainability risk management service will monitor the situation and prepare reports on hydrological risks at least once a year. The plan for 2024 includes analysis of all potential climate disasters in the regions of the institution's and its clients' operations.

8. Does your institution's board of directors (supervisory board) regularly review and reassess the level of potential climate risks that might affect the institution's operations?



The board of directors (supervisory board) of a third of the surveyed financial institutions regularly reviews and reassesses the level of potential climate risks that might affect the institution's operations. In 93% of the cases, these reviews are conducted in the course of annual material risk identification as part of the ICAAP. In many cases, the results of the assessment of the risk level are submitted for consideration to the management board and the supervisory board. However, most respondents (56%) do not reassess potential climate risks or the level of these risks.

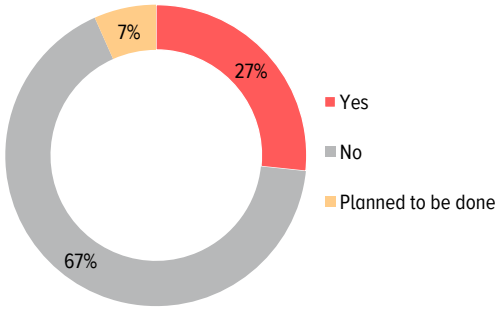
9. Does your institution's board of directors (supervisory board) take measures to mitigate the impacts of physical and transition climate risks on the institution's operations?



The absolute majority of respondents (76%) answered that the board of directors (supervisory board) did not take any measures to mitigate the impact of climate physical and transition risks on the financial institution's operations. The reason is that they view climate risks as non-material. It is worth noting that, in many cases, the influence of climate risks on financial performance has not been assessed.

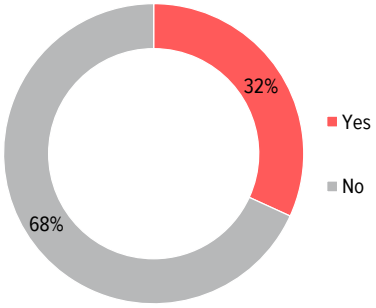
A fourth of respondents answered that they were taking (18%) or planning (7%) measures to mitigate the impacts of climate risks on the institution's operations. In particular, the supervisory board may approve qualitative risk appetite metrics to limit funding to projects / counterparties that fail to comply with sustainability targets. A number of respondents have included mitigation measures in their climate risk policies. Another interesting approach is encouraging entrepreneurs to adopt responsible business practices: one of the surveyed institutions has compiled an ESG rating based on the assessment of borrowers' ESG development which is used in the loyalty system. Thus, a borrower may obtain an overdraft facility at a discount the size of which will depend on the borrower's ESG rating (the higher the rating, the larger the discount).

10. Are climate agenda issues allocated among committees of your institution's board of directors (supervisory board)?



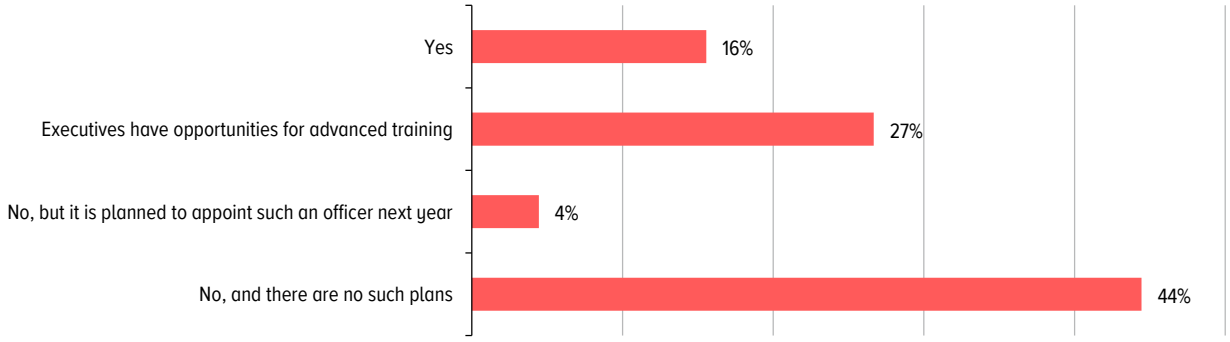
The majority of the surveyed financial institutions have not allocated climate agenda issues among the committees of the board of directors (supervisory board). Two respondents noted that committees in their organisational structures were either established at the executive level or not established at all. At 27% of the surveyed institutions, climate agenda issues are allocated among committees of the board of directors (supervisory board) in accordance with the institution's objectives and business areas entrusted to each of the committees.

11. Does your institution have a dedicated structural unit coordinating the integration of ESG factors and sustainability considerations?



Over a third of respondents have established a dedicated structural unit coordinating the integration of ESG factors and sustainability considerations. The majority of the surveyed financial institutions either do not have a dedicated structural unit in charge of these functions, as long as they view climate risks as non-material, or have included them in the functions of the existing units.

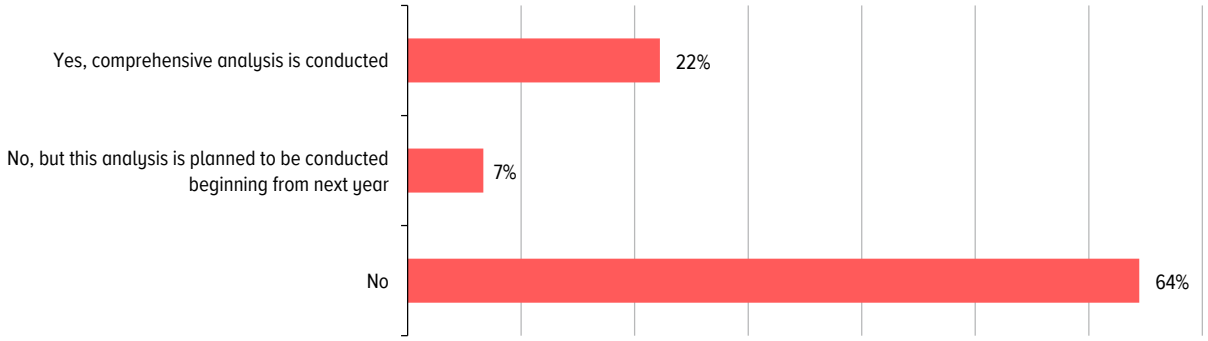
12. Does your institution's board of directors (supervisory board) include an officer having expertise in climate risk management?



Note: some respondents preferred to give a comment instead of choosing one of the options.

Most respondents (44%) do not plan to appoint an officer having expertise in climate risk management to the board of directors (supervisory board). Nevertheless, many institutions (27%) offer advanced training to executives and other employees engaged in climate risk management. One respondent developed and carried out a training course on sustainable development for all employees in 2022. An officer having expertise in climate risk management has been appointed to the board of directors (supervisory board) at 16% of the surveyed financial institutions. Some respondents said that members of their board of directors had broad knowledge allowing them to apply a risk-based approach in decision-making. Nevertheless, 4% of respondents plan to appoint an officer with required knowledge to the board of directors (supervisory board) next year.

13. Does your institution's board of directors (supervisory board) carry out comprehensive analysis of management policies, procedures, practices, and business processes so as to capture climate risks?

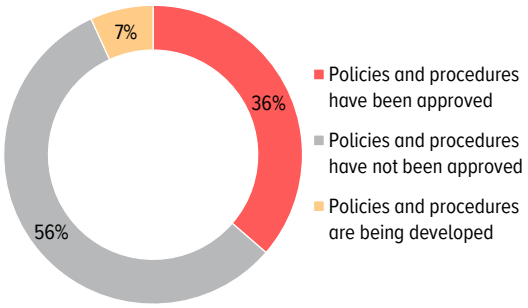


Note: some respondents preferred to give a comment instead of choosing one of the options.

Most respondents (64%) noted that the board of directors (supervisory board) did not conduct comprehensive analysis of management policies, procedures, practices, or business processes in order to capture climate risks. On the one hand, many of the surveyed financial institutions view climate risks as non-material. On the other hand, some respondents analyse climate risks through traditional risk types and they already have policies, procedures, and business processes for the traditional risk types.

Comprehensive analysis is conducted by the board of directors (supervisory board) at 22% of the surveyed institutions. It may be carried out as part of annual risk assessment and preparations of work plans for the next year. Furthermore, respondents note the regulatory requirements obliging them to reassess the need to amend their risk management documents at least once a year. The results of this reassessment are included in the reporting submitted for consideration to the management board or the board of directors (supervisory board). A number of respondents (7%) plan to begin conducting this analysis next year as they develop and upgrade their internal regulations and processes.

14. Has your institution's board of directors (supervisory board) approved climate resilience policies and procedures?



Over a third of respondents have approved climate resilience policies and procedures. Some respondents (7%) are currently developing climate resilience policies and procedures as they still continue the analysis of climate risks. The majority of the surveyed financial institutions (56%) do not have such policies and procedures as long as they see climate risks as non-material. Among other reasons for not approving such policies and procedures, respondents also report that they have only carried out internal assessment (analysis) of this risk type or that the board of directors (supervisory board) does not consider climate risk issues.

15. If there is a threat[3] that a client might exceed the maximum acceptable level of climate risk (risk appetite) or if this risk materialises, a financial institution may take the following measures.

1. The financial institution's executive body shall notify the competent management body thereof for further decision-making pursuant to the institution's policy.
2. In accordance with the effective policy, the executive body shall review the report and the action plan for eliminating the threat submitted by the responsible structural unit, approve this plan or send it back for revision. After the plan is approved, the executive body will monitor its progress and control the deadlines.
3. The institution may implement one of the four response strategies approved by the management board / the board of directors (supervisory board): risk acceptance, risk mitigation, risk transfer, or risk avoidance. It may develop a list of climate adaptation measures as well as measures to mitigate potential damage that might be caused by realisation of material climate risk.
4. With regard to financed entities, in case a risk signal[4] is detected in the course of monitoring, this issue may be considered by the credit committee for the financial institution to make a decision on further cooperation with a particular entity.

In case of realisation of **physical risk** as a natural hazard threatening the continuity of operations, most institutions:

1. Take actions provided for by their business continuity policies in case of an emergency or a similar threat, namely they:
   - implement emergency prevention and recovery measures and fire safety measures;
   - notify executives and employees of the situation;
   - initiate the work of ad hoc coordination bodies;

[3] E.g. an increase in the probability.

[4] One of the surveyed institutions noted that the capital adequacy limits for a particular type of risks (products and/or economic activities) are not deemed to be violated if there is an available buffer for another type of risks (products and/or economic activities), that is, if the capital may be reallocated among products and/or economic activities with different risk levels.

- collaborate with the management bodies and the Unified State System for the Prevention and Elimination of Emergencies; and
- assess the situation and forecast further developments, as well as implement measures of the emergency mode in accordance with action plans for emergency prevention and recovery.

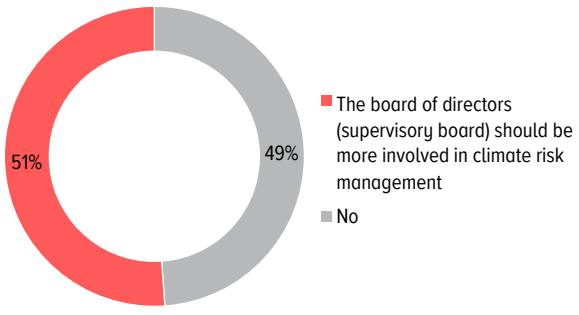
2. Take actions provided for by business continuity and/or recovery plans in abnormal and emergency situations, if there is a threat to the continuity of the institution's operations (its critical processes), in particular they:

- convene and initiate the work of anti-crisis management bodies; and
- implement business recovery measures, e.g. operation at backup facilities, remote operation, or redistribution of the workload to other locations.

Many institutions view climate risks as non-material and, consequently, establish **no risk appetite metrics for them**.

Furthermore, it is worth mentioning **insurers**' actions due to the specifics of their professional risk management activities:
1. An insurer may consider climate risks and analyse the threats of their emergence within the framework of concluded insurance contracts and these issues may be beyond the competence of the insurer's executive body.
2. An insurer may conduct an additional engineering examination in the course of the survey and adjust its underwriting policy.
3. An insurer may analyse insurance payments for products covering climate risks on an ongoing basis. In case of threats and/or a higher probability of realisation of material climate risk exceeding the acceptable risk level or the actual realisation of material climate risks, such as a natural hazard, the director general may take various response measures, including termination of insurance services in a particular territory, reinsurance of part of insured risks, an increase in the acceptable risk level, etc.

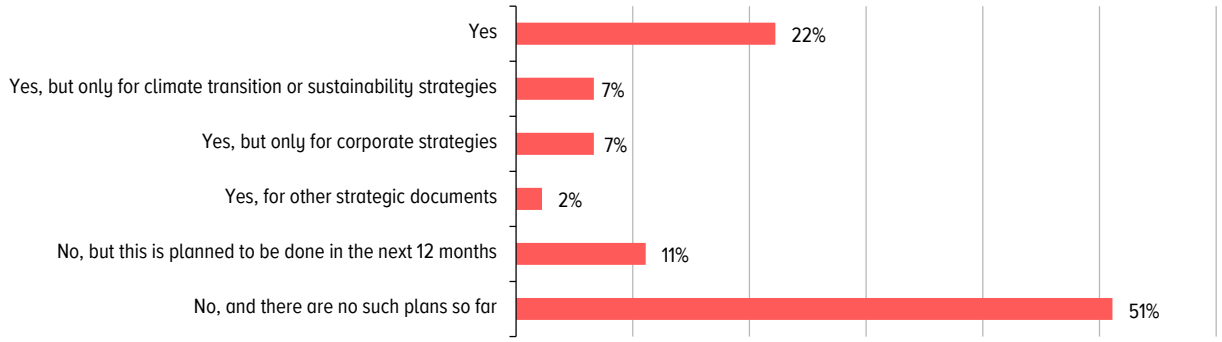
16. Do you see potential for greater involvement of the board of directors (supervisory board) in climate risk management?



More than half of the surveyed financial institutions (51%) do see potential for greater involvement of the board of directors (supervisory board) in climate risk management. Some respondents noted that the issue was being explored at the level of strategic management and, in case of the institution's restructuring, it would need to revise its climate change and risk appetite approaches. The evolution of climate risk management policies and the creation of the relevant regulatory framework make it possible to increase the supervisory board's involvement in climate risk management.

Other respondents do not see potential for this, including because they view climate risks as non-material so far.

17. Does your institution take into account potential impacts of climate risks when developing its corporate, climate transition, or sustainability strategies?

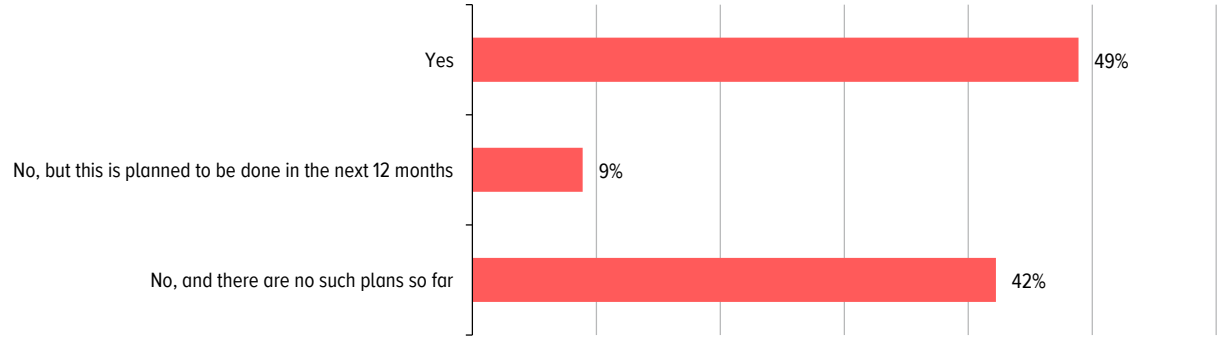


Half of the surveyed institutions (51%) have no plans so far to factor in potential impacts of climate risks when developing their corporate, climate transition, or sustainability strategies. Some respondents note that the impacts of climate risks are not classified as strategic challenges, given their limited influence on the business model as well as the restrictions associated with additional spending on advancing internal expert assessments in this area. Another 11% of the surveyed institutions plan to start doing this in the next 12 months.

A number of respondents (22%) take into account potential impacts of climate risks when developing their corporate (business development) and sustainability strategies. The documents cover, among other issues, the implementation of the package of measures aimed at reducing the institution's direct influence, including at enhancing energy efficiency, optimising the institution's own motor fleet, increasing awareness among employees, and taking into account Scope 1, Scope 2, and Scope 3 emissions. Respondents also mention a green office strategy and sustainability risk management policy.

Other respondents factor in climate risks within the framework of either climate transition or sustainability strategies (7%), or corporate strategies (7%), e.g. risk and capital management strategies or long-term business development strategies.

18. Does your institution take into account how climate factors might affect core business areas, including products and services?

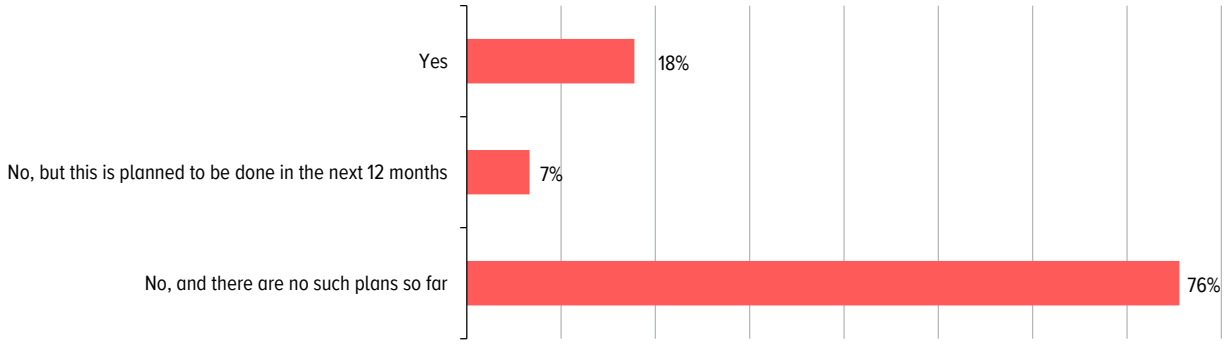


Nearly half of respondents (49%) take into account how climate factors might affect their core business areas, including products and services. In particular, these financial institutions develop financial products having positive social and environmental effects, continuously sharing experience with industry organisations and incorporating best practices as a result of participation in dedicated initiatives. Respondents see that products with ESG specifications are in demand and try to offer such products to their clients.

Some respondents regularly monitor the percentage of green assets, including across business areas, and submit the results of asset tagging to their collective management bodies for consideration. Financial institutions regularly evaluate overall losses in various scenarios of realisation of climate risks across different types: physical or transition risks, direct (on the bank's infrastructure) or indirect (on clients) impacts. Respondents maintain an internal register of climate factors.

A number of the surveyed institutions (9%) plan to start factoring in possible impacts of climate factors on their core business areas, including products and services, in the next 12 months. The rest of respondents (42%) do not have plans so far to conduct this analysis as their exposure to climate factors is low.

19. Does your institution's strategy stipulate climate targets (measurable long-term commitments to mitigate climate change)?



long-term commitments to mitigate climate change. Those financial institutions that have climate targets (18%) have specified them in their sustainability policies / strategies, ESG strategies, or development strategies for the next year. These targets may also be set at the consolidated level.

Another 7% of respondents plan to stipulate climate targets in the near future. Some of the surveyed institutions are developing climate transition strategies or preparing new short-term strategies. They are going to rely on the Strategy of socio-economic development of the Russian Federation with low greenhouse gas emissions until 2050, among other things.

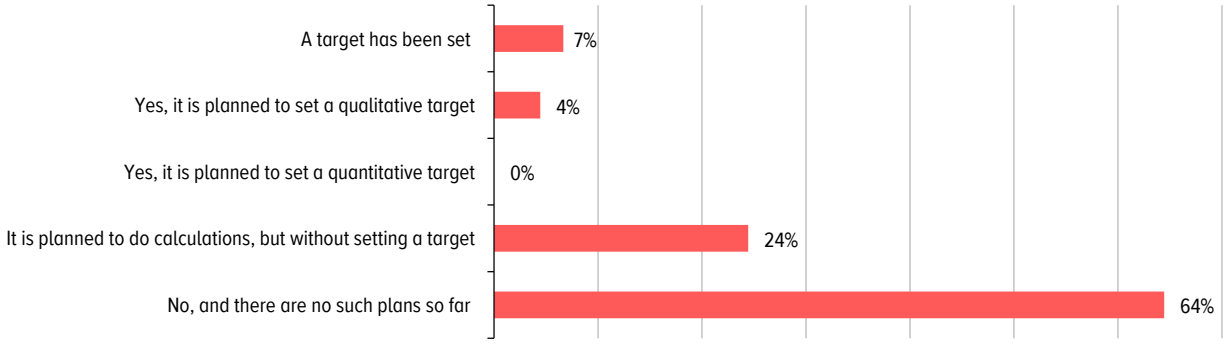
Respondents refer to the following **factors** that they take into account when setting climate targets. First, these are climate risks. Transition risks remain elevated considering the challenges related to gradual decarbonisation with the threat of lagging behind in adaptation. Physical risks are also high amid increasingly frequent and severe climate phenomena. In addition, financial institutions might face growing litigation and reputational risks (with a focus on greenwashing). Second, this is the combined influence of climate change scenarios of the IPCC and the NGFS, the institution's own strategy, as well as the current economic and political environment. When examining a client, some institutions pay attention to its geographical location, industry, GHG emission amounts, and market trends.

EXAMPLES OF CLIMATE TARGETS STIPULATED IN FINANCIAL INSTITUTIONS' STRATEGIES

Qualitative targets	Quantitative targets
Energy efficiency and green energy targets	Physical risks (damage as % of the total fair value of collateral)
Financed emission (Scope 3) reduction target	Transition risk (% of exposure at default (EAD) with high transition risk in total EAD)
Funding to projects facilitating climate transition	Net zero (financed emissions and physical intensity)
A reduction in the institution's own carbon footprint and achievement of carbon neutrality (Scope 1 and Scope 2) by the end of 2026	A 30% reduction in Scope 1 GHG emissions by 2026 vs the base year 2019
Decarbonisation before 2050	A 40% reduction in Scope 2 GHG emissions by 2026 vs the base year 2019
Development of a medium-term strategy given the scenario of global warming of 1.5°C above pre-industrial levels	Scope 1 and Scope 2 carbon neutrality before 2030
Implementation of the system of clients' internal ratings based on ESG metrics	A 30% reduction in Scope 1 GHG emissions by 2025 vs 2019
Obtaining the institution's own ESG rating	A 30% reduction in Scope 2 GHG emissions by 2025 vs 2019
Independent verification of the sustainability report	A 30% reduction in Scope 3 Category 5 GHG emissions: Waste generated in operations according to the GHG Protocol by 2025 vs 2019
Development and approval of a carbon neutrality strategy	Scope 1 and Scope 2 carbon neutrality before 2025
Transition to coverage of up to 100% of internal power consumption with green certificates or equivalent mechanisms	The target confirmed by the Science Based Targets initiative (SBTi) – a 25% reduction in Scope 1 and Scope 2 GHG emissions by 2030 vs 2020
Development of a range of new green credit products (mortgages, consumer and car loans, loans and guarantees for SMEs)	
Offerings of listed social and sustainability bonds	
Replacement of one internal combustion engine vehicle with an electric / hybrid vehicle (if economically feasible)	

It is critical for financial institutions to decrease the carbon footprint of the institution itself and its loan portfolio and the share of assets of the counterparties exposed to climate physical and transition risks. Respondents also pay attention to the amount of funds allocated by a client to upgrade its production facilities using the best available technologies, official orders issued to the client, its fines and breaches of law, as well as the quality of the implementation of regional climate adaptation plans.

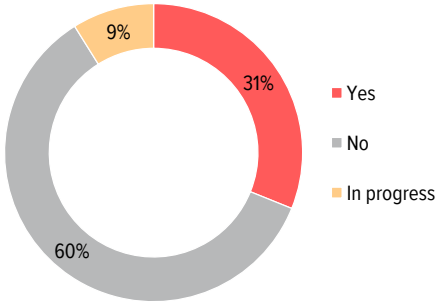
20. Does your institution have plans to set a financed emissions target?



Note: several options may be chosen.

The majority of respondents (64%) have no plans to set a financed emissions target so far. Over a third of respondents do pay attention to these issues. Nearly a quarter of the surveyed financial institutions (24%) plan to calculate financed emissions, although without setting any target so far. Thus, establishing a financed emissions target may depend on the results of the initial assessment as well as the implementation of a new strategy incorporating climate considerations (e.g. sustainability aspects). One respondent is going to achieve net-zero Scope 3 GHG emissions by 2050. Another 7% have already set a financed emissions target. As little as 4% of respondents plan to set a qualitative target.

21. Does your institution factor in the unique characteristics of climate risks when determining climate risk management approaches?



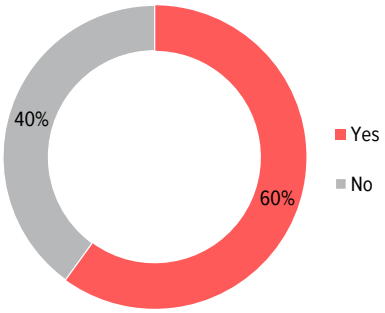
Nearly a third of the surveyed institutions (31%) factor in the unique characteristics of climate risks when determining climate risk management approaches. Respondents refer to such parameters as:

- time horizons of climate risk realisation (acute and chronic physical risks and long-term transition risks) and their asynchronism with traditional investment and business planning cycles;
- heterogeneity of the distribution and scale of climate risks across regions and industries;
- the dynamics and links between climate risks and other types of risks; and
- the lack of historical data for statistical analysis.

Some insurers capture the unique characteristics of climate risks when developing approaches to climate risk management to the extent applicable to certain areas of insurance business. In particular, in the underwriting of industrial commercial enterprises' property, insurers take into account such factors as seasonal heavy rains and other precipitation as well as threats of collapses, landslides, ground movements, mudflows, seasonal droughts, floods, river and reservoir overflows, elevated groundwater levels and hurricanes. When evaluating reinsurance contracts, only risks of severe natural disasters (floods, droughts, frosts, permafrost thaw) are factored in, while the evaluation data are considered as part of insured risk.

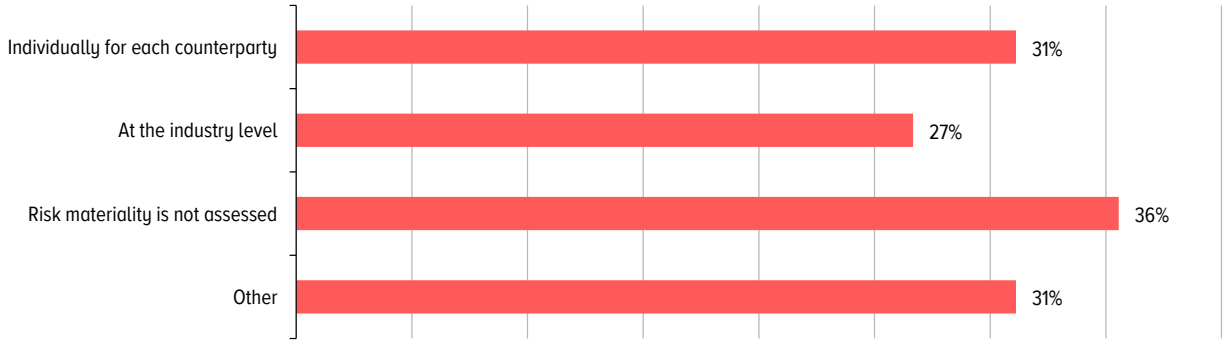
Another 9% of the surveyed financial institutions are currently developing their climate risk management approaches. Most respondents (60%) consider this issue irrelevant. They also note that, given the current external conditions, geopolitical, country and sanction risks are more urgent.

22. Does your institution face any challenges when integrating climate risks into the corporate risk management system?



Most respondents (60%) do face challenges when integrating climate risks into the corporate risk management system.

23. How does your institution assess the materiality of risks?



Note: several options may be chosen.

More than a fourth of the surveyed financial institutions (27%) assess the materiality of risks taking into account both the probability of realisation of climate risks and the scale of potential consequences of their realisation *at the sectoral level.*

In addition, nearly a third of respondents (31%) assess the materiality of risks taking into account the probability of realisation of climate risks and the scale of potential consequences of their realisation given the vulnerability and exposure of *each of the counterparties* to climate risks.

Some of the surveyed financial institutions classify industries by exposure to sustainability factors. When assessing credit risks at the level of a client, respondents analyse various aspects of the influence of each of the sustainability pillars (E, S, G) on the client's core business, potential creditworthiness, and probability of default. If their influence is assessed as substantial, the assessment may be taken into account in expert adjustments of the counterparty's internal rating.

Furthermore, a number of the surveyed financial institutions (31%) assess the materiality of risks in a different way, e.g. by comparing the metric of risk materiality (the amount of economic capital or the size of maximum possible losses) against the established threshold of materiality calculated as a percentage of disposable capital.

- If the threshold is exceeded, an institution classifies risk as material.
- An institution may conduct an expert assessment based on external statistics and forecasts.
- An institution may use ESG ratings.

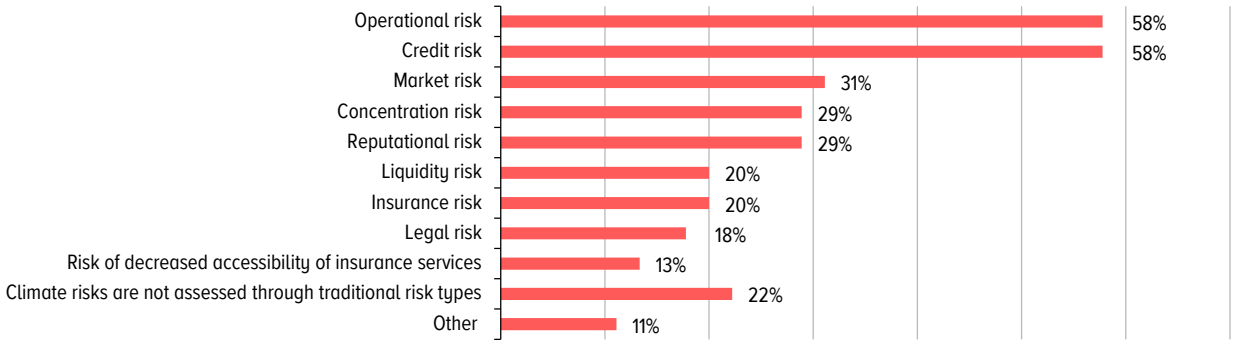
24. What data does your institution use to assess the materiality of risks?

Note: several options may be chosen.

The financial institutions who assess the materiality of climate risks equally rely on both quantitative data (33%) and qualitative scales (33%) of the level of risks to assets and/or activity types exposed to (low / medium / high) climate physical / transition risks. Specifically, some respondents note that, when applying a combined approach, they may use quantitative data to conduct climate risk stress testing and calculate the percentage of carbon-intensive industries in their portfolio, while qualitative scales may be used at the final stage to identify risks and assess their materiality within the ICAAP.

Another 18% of the surveyed institutions also apply other approaches to assessing the materiality of climate risks, e.g. an expert assessment based on available quantitative and/or qualitative data, such as external statistics and forecasts, ESG ratings, and issuers' disclosures about ESG factors.

25. What are the traditional risk types through which your institution assesses the impacts of climate risks?



Note: several options may be chosen.

The majority of the surveyed financial institutions assess climate risks through traditional risk types assessed as material in the course of annual risk identification. A small percentage of respondents classify climate risks as a separate risk type.

Credit risk (58%): indirect impacts through borrowers' or issuers' financial standing and business risks, as well as worsening of the credit quality of securities due to realisation of climate risk factors.

Some respondents also include ESG risks in this risk type. Climate risks can be managed through limit policies.

Thus, in case of realisation of climate risks, a number of borrowers might face a worsening of their financial position, which might adversely affect their loan repayment capacity, as well as a reduction in the value of collateral, which might increase the financial institution's losses if a borrower defaults.

Operational risk (58%): direct impacts of natural disaster factors, disruptions in the work of front offices located in the regions affected by unfavourable climate conditions. In particular, realisation of climate risks might disrupt power supply, telecommunication services, and information systems as well as cause the loss of fixed assets and employees' inability to work.

Market risk (31%): climate risks might affect the value of investments in securities and other financial instruments of the trading book. In view of this, financial institutions analyse each issuer individually to assess its exposure to these risks and compliance with sustainability principles. Specifically, respondents take into account ESG ratings and rankings.

Thus, a financial institution might face a surge in volatility or a reduction in the value of securities and derivatives portfolios. Natural disasters, climate policies, innovative technologies and energy transition, a rise in risks to budget stability, and negative sentiment among investors, clients and consumers might cause a considerable revaluation of financial assets. In particular, changes in payment terms by foreign states within the framework of climate regulation might significantly affect the value of Russian issuers–exporters' securities in portfolios of financial market participants and their clients.

With regard to investment activity, a financial institution might face the risk of a change in portfolio returns if it has investments in assets of carbon-intensive industries or assets exposed to climate physical risks. Thus, investors might increase the demand for securities of those borrowers whom they consider to be greener and more sustainable in terms of climate. Contrastingly, the demand for financial instruments of companies exposed to climate risks might decline, which will cause revaluation of their shares and bonds in the financial sector's portfolios.

Concentration risk (29%): correlated negative impacts on clients in a number of carbon-intensive industries (or territories highly exposed to physical or transition risks). An institution may limit the concentration of climate risks in territories exposed to these impacts (floods, droughts, hurricanes, etc.). Thus, concentration risk might arise if climate risk materialises for several similar companies simultaneously, which might entail substantial losses that could threaten a financial institution's solvency and ability to continue its operations. Companies (clients and counterparties) may be similar in terms of their overall exposure to physical risk (e.g. permafrost thaw) or transition risk (e.g. a sustained decline in energy commodity prices).

Reputational risk (29%): failure to achieve climate targets set in corporate strategies, which might also adversely affect a financial institution. One of the factors of reputational risk is greenwashing (e.g. reporting false or misleading information on compliance of a product with the criteria of sustainable finance products aimed at financing green projects).

Liquidity risk (20%): a reduction in liquidity in case of realisation of climate risk. Thus, it might be very difficult to raise funds against assets of carbon-intensive industries or sell these assets in case of an increase in transition risks, which might adversely affect a financial institution if it has significant investments in carbon-intensive industries. Realisation of physical risks might provoke a surge in the demand for liquidity: affected economic agents might withdraw deposits, increase the demand for loans and microloans, and draw down funds under credit lines approved earlier.

Insurance risk (20%): climate risks are taken into account for certain areas of insurance business.

26. A number of respondents single out the following channels of the transmission of climate risks:

1. **Indirect** transmission channels of the impacts of climate factors: credit risk, market risk, and liquidity risk.

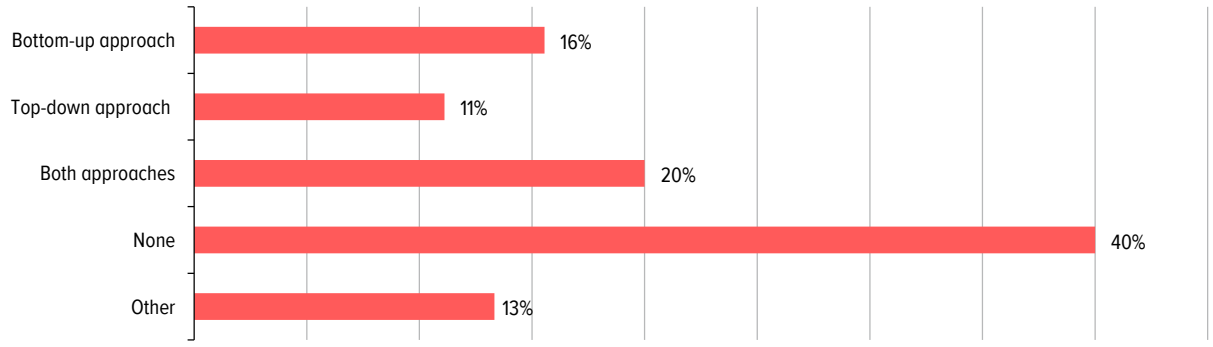
For **transition** risks, these channels include:
- introduction of carbon regulation for borrowers;
- the need to rearrange production processes for borrowers' low-carbon transition; and
- impairment of counterparties' assets due to their carbon intensity and growth in the demand for products generating lower GHG emissions.

For **physical** risks, these channels include:
- disruptions in counterparties' operations and supply chains due to weather phenomena affecting the value of these counterparties' financial instruments;
- a decline in financed companies' operating profit;
- occurrence of such events as global sea level rise, and a reduction in fresh water availability and soil fertility pushing up operating expenses;
- impairment of counterparties' assets and collaterals in regions exposed to physical risks, suspension of operations;
- an increase in financed companies' operating and capital expenses; and
- the need to cover emergency expenses on recovery and resumption of operations.

2. . **Direct** transmission channels of the impacts of climate factors: operational risk and reputational risk. Specifically, **transition** risks may have a direct negative impact on a financial institution's reputation in case of publications in mass media about funding to companies and/or projects adversely affecting climate as well as about facts of greenwashing of products offered by the institution. Furthermore, respondents report an increase in operating expenses on disclosures.

Direct channels of the impacts of **physical** risks:
- operating risks arising due to weather phenomena which might damage or destruct an institution's real estate (head offices, branches, and other facilities) or fixed assets (equipment, telecommunication infrastructure, self-service terminals, and various computer systems); and
- weather phenomena might also damage third-party services influencing an institution's processes as well as negatively affect employees (workplace safety hazards, diseases, injuries, etc.).

27. What approaches does your institution apply to identify and gauge climate risks?



A top-down approach is used by 11% of respondents.

A bottom-up approach is applied by 16% of respondents.

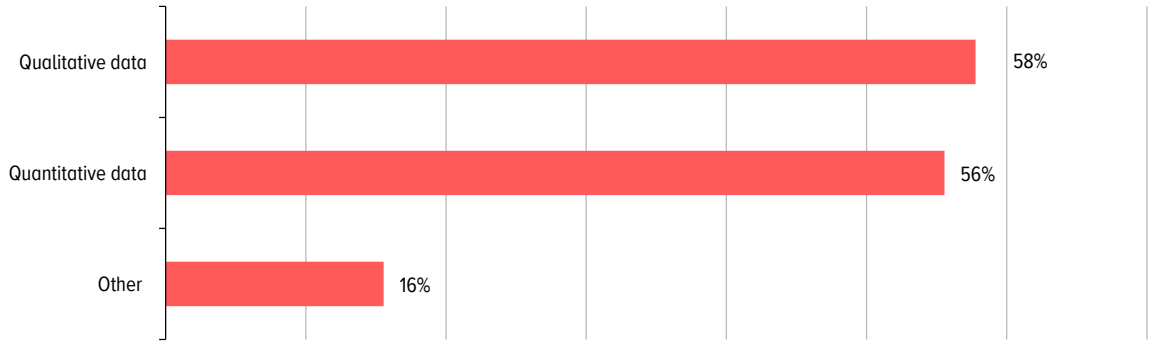
Another 20% prefer to **combine the two approaches**.

The option '**Other**' was chosen by 13% of the surveyed financial institutions (e.g. an expert method).

28. Financial institutions apply such climate risk assessment methods as climate models predicting climate physical risks, scenario analysis, stress testing, etc.

Another approach used by respondents is expert evaluation of the probability of risk realisation and potential losses in case of risk realisation, e.g. assessment of the probability of realisation of climate physical risks which may capture climatic features of particular regions and such factors as (1) changes in terrain relief and phreatic surface, (2) precipitation and flooding, (3) wind load and storms, (4) temperature extremes, (5) permafrost thaw and global sea level rise, and (6) fires, droughts, and water availability. When analysing climate transition risks, respondents take into account regulatory factors (carbon pricing, fines, and legal action), technological factors (spending on the best available technologies), market factors (changes in the demand for products), and reputational factors (increased requirements from stakeholders, e.g. buyers).

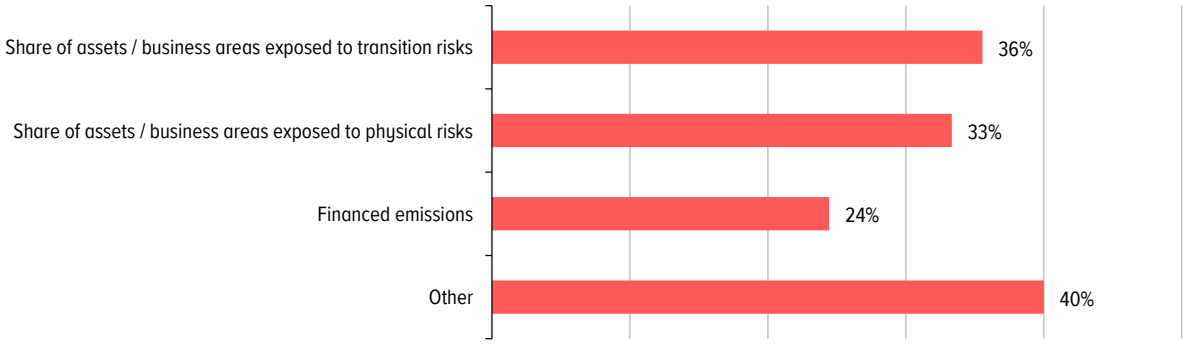
29. What data does your institution use to identify, analyse, and assess climate risks?



Note: several options may be chosen.

The financial institutions who identify material climate risks use qualitative and quantitative data almost equally (58% and 56%, respectively).

30. What climate indicators does your institution use to promptly identify current and potential climate risks?



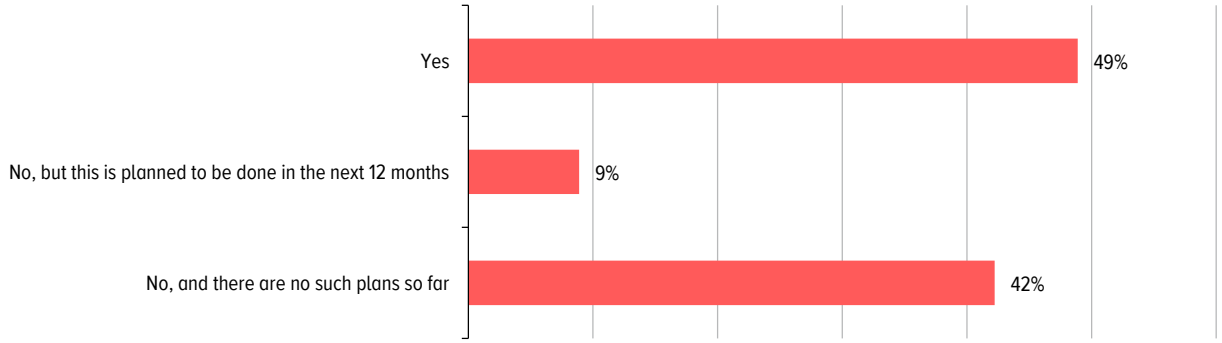
Note: several options may be chosen.

Nearly equal percentages of respondents use the percentage of assets / business areas exposed to transition risks (36%) and physical risks (33%) to promptly identify current and potential climate risks. One-fourth of the surveyed institutions calculate financed emissions.

Other quantitative indicators mentioned by respondents (40%) include:

- ESG rankings and ratings;
- the share of financial assets from the segment of sustainability bonds / green bonds;
- the net average amount of corporate clients' claims across regions exposed to climate risks;
- financial losses from disasters over the past three to five years across Russian regions;
- indicators characterising air pollution, energy and water resources management, hazardous waste disposal, deforestation, impacts on soil and biodiversity, control of the physical impact on climate change, and emergency response measures; and
- exposure to physical and transition risks at the sectoral level.

31. Does your institution's climate risk assessment procedure capture how clients and counterparties manage their climate risks?



When assessing climate risks, nearly half of the surveyed financial institutions factor in how their clients and counterparties manage their climate risks. However, 42% of respondents ignore this factor. Another 9% of respondents plan to begin taking into account their clients' and counterparties' climate risk management approaches in the next 12 months.

32. A number of respondents have created a special questionnaire (e.g. an ESG or environmental questionnaire) for financed entities to fill it in, after which a financial institution will be able to calculate an ESG score or carry out analysis according to the assessment framework proposed by the UNEP FI. In addition, a number of respondents have developed a questionnaire for climate risk stress testing.

One respondent uses the method proposed by PCAF to measure financed emissions.[5] With regard to clients disclosing GHG emission amounts, financial institutions use publicly available data. In other cases, clients are to fill in the questionnaire according to the form developed by the Association of Banks of Russia. Financial institutions request the following data:

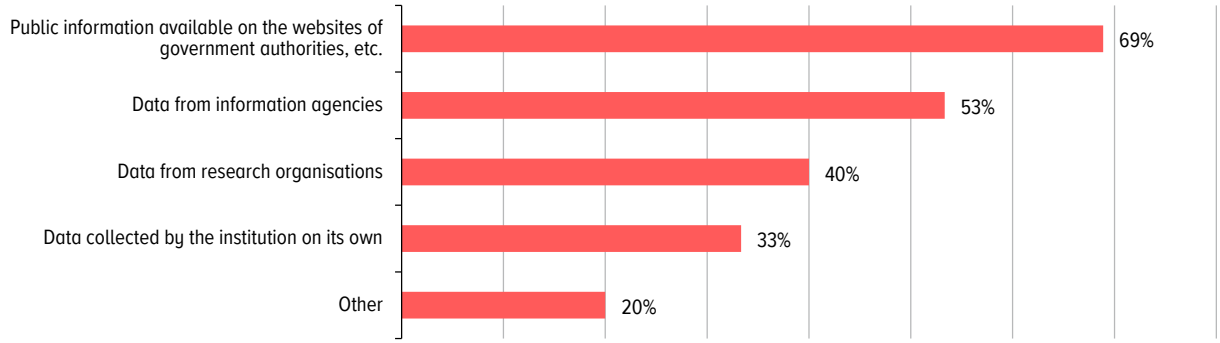
- climate risk assessment results;
- total GHG emissions and GHG emission intensity; and
- the list of GHG emission reduction and carbon neutrality targets, etc.

If there is no calculation of the carbon footprint, CO_2 emissions are simulated based on industrial levels.

In the course of preparations for making a decision on funding, financial institutions assess their clients for exposure to climate physical and transition risks. They may also conduct an expert examination of a client's failure to fulfil obligations because of an accident or a man-made disaster, fines and sanctions imposed by regulators for environmental breaches based on the information provided by the client as part of the credit process and data available in public sources and information systems (e.g. SPARK-Interfax, etc.).

Some respondents adhere to responsible financing principles and invest in promising environmental projects aimed at reducing GHG emissions and implementing advanced technological solutions. A number of the surveyed institutions assess clients only in terms of an ESG rating or sustainability bond offerings.

33. What data sources does your institution use to identify, analyse, and assess climate risks?



Note: several options may be chosen

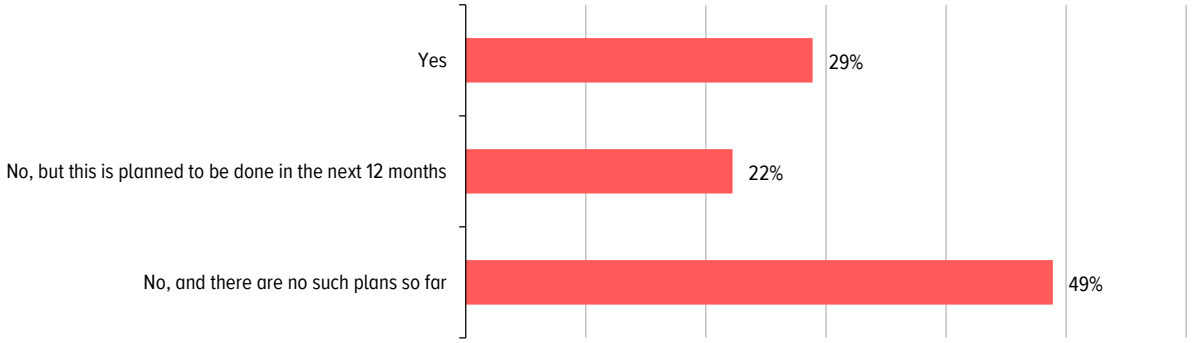
[5] PCAF: The Global GHG Accounting and Reporting Standard Part A: Financed Emissions (2022).

Most respondents (69%) use public information available on the websites of the government authorities, local governments, and the Bank of Russia.

Data from information agencies and research organisations are used by 53% and 40% of the surveyed institutions, respectively. Some respondents cite the recommendations of the Ministry of Economic Development of the Russian Federation and relevant reports by Rosgidromet. Another 33% of the surveyed institutions collect information on their own.

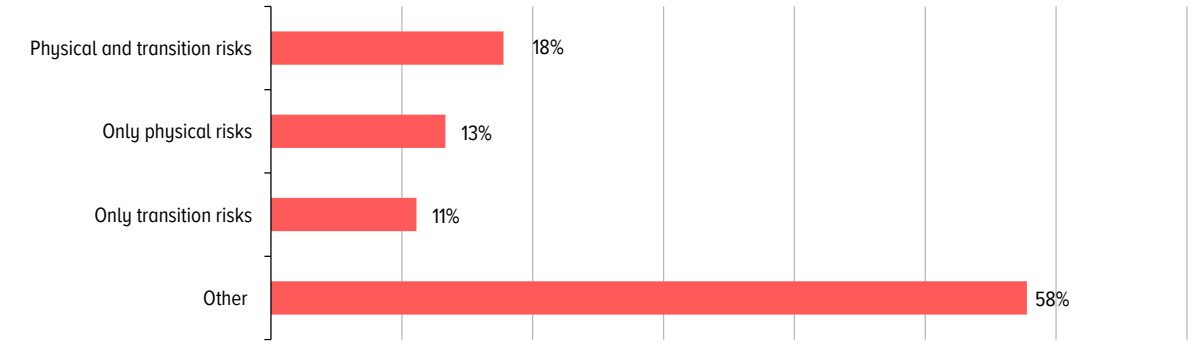
Respondents who answered 'Other' (20%)[6] listed the following sources of information: data on the loan portfolio, public sources, Russian credit rating agencies, and clients' websites and sustainability reports.

34. Does your institution use scenario analysis in climate risk assessment and management?



As little as 29% of the surveyed institutions already use scenario analysis in climate risk assessment and management, including as part of the Bank of Russia's climate risk stress testing using the scenarios provided by the regulator in advance. One respondent has started using scenario analysis to assess the risk of floods relying on the scenario forecasts of changes in atmospheric precipitation according to Rosgidromet's Climate Centre. Another 22% of respondents plan to begin using scenario analysis in the next 12 months, including as part of bottom-up stress testing. The remaining 29% of the surveyed institutions have no plans to use scenario analysis so far.

35. What climate risks does your institution assess using scenario analysis?



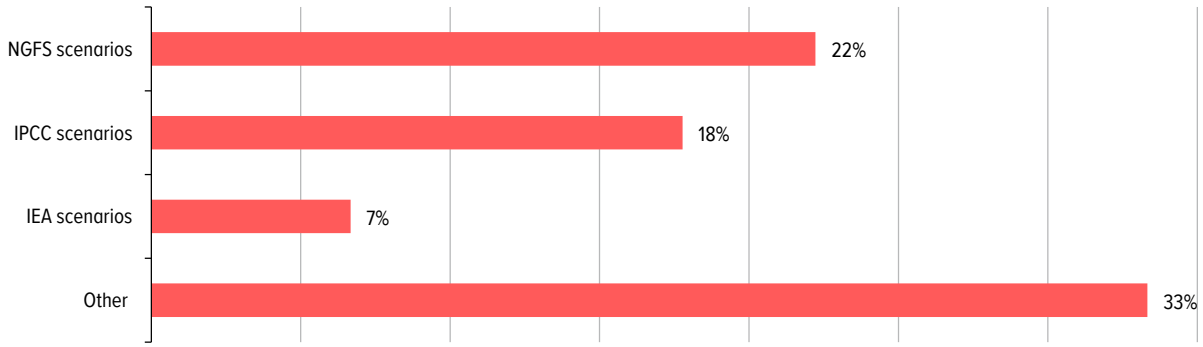
[6] Excluding those who do not assess climate risks.

Only 18% of the surveyed institutions use scenario analysis to assess both climate physical and transition risks. Another 13% carry out scenario analysis to assess only physical risks, and 11% – only transition risks.

36. Few respondents answered the question whether their institution had a standard instrument and/or procedure for scenario analysis of climate risks. The following was mentioned, among other things:

- An institution may use an Excel template to carry out stress testing of the impacts of climate physical and transition risks on its capital adequacy.
- An institution has created a heat map of regions based on the IPCC's climate projections: it has chosen the highest GHG emissions scenario (SSP5–8.5) which implies the lack of any climate regulation and doubling of CO_2 emissions from current levels.
- An institution carries out scenario analysis to assess standard risk types. At the first stage of the annual identification of material risks, an institution averages its scenario losses caused by potential climate risk-related events that are the most serious for the institution and compares the amount of these losses against its equity, after which it makes the final conclusion regarding the materiality of climate risks. At the next stage of annual stress testing as part of the ICAAP, the following is done:
  - if climate risks are classified as material in the course of identification, the most serious potential climate risk-related events are put on the longlist of possible scenarios of non-financial risks along with operational, business, and other risks;
  - after the comparison of potential climate risk-related events, put on the longlist, based on the probability of their realisation and the scale of possible consequences, these events are included in the shortlist of scenarios; and
  - possible losses from the shortlisted scenarios are averaged and reduce the institution's equity in case of a stress event, which influences the risk appetite limits established by the institution.

37. What science-based scenarios does your institution use in scenario analysis?



Note: several options may be chosen. Some respondents preferred to give a comment instead of choosing one of the options.

Scenarios developed by the NGFS are used by 22% of respondents. It should be noted that most of them use the scenarios sent by the Bank of Russia as part of bottom-up stress testing of climate risks which rely on the NGFS's Below 2°C and Current Policies scenarios.

Another 18% rely on the IPCC's scenarios, e.g. when using the scenario forecasts of Rosgidromet's Climate Centre based on CMIP6 climate models (which take into account the IPCC's scenarios) to assess climate physical risks. Scenarios proposed by the International Energy Agency (IEA) are used by 7% of respondents. The answer 'Other' was chosen by 33% of respondents, many of whom do not carry out scenario analysis of climate risks. Among other things, it is worth noting the following: one respondent expects a methodology from the Association of Banks of Russia which is currently being elaborated and has no final scenario so far, while another respondent believes it reasonable to rely on information from domestic organisations.

38. How many scenarios does your institution use in scenario analysis?

Note: several options may be chosen. Some respondents preferred to give a comment instead of choosing one of the options.

Respondents using scenario analysis mostly prefer two scenarios provided by the Bank of Russia as part of bottom-up stress testing of climate risks (47%).

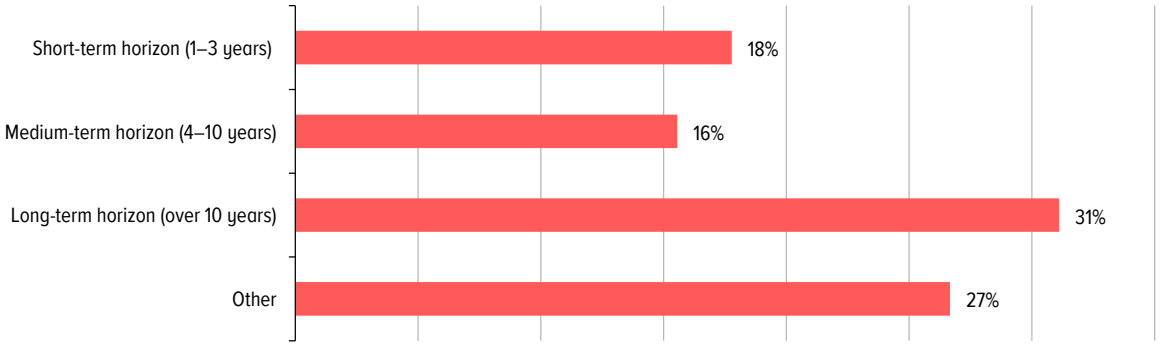
Other institutions use the highest GHG emissions scenario (SSP5–8.5), which implies the lack of any climate regulation and doubling of CO_2 emissions from current levels.

Another 20% of the surveyed institutions use three scenarios, including, among other things:

- Disorderly scenarios (delayed or divergent climate policies) according to the NGFS;
- Hot house world scenarios according to the NGFS;
- NGFS Below 2°C and NGFS Current policies scenarios, adapted by the Bank of Russia, to assess transition risks, and the forecast of Rosgidromet's Climate Centre based on CMIP6 climate models to assess physical risks.

Those respondents who use four scenarios rely on the IPCC's SSP1–2.6, SSP5–8.5, NGFS Below 2°C, and Current policies scenarios.

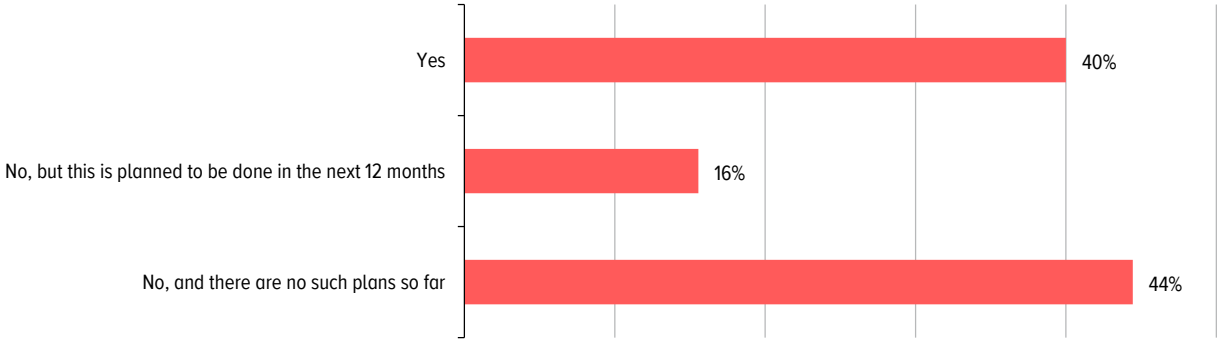
39. What are the time horizons of your institution's scenario analysis?



Note: several options may be chosen. Some respondents preferred to give a comment instead of choosing one of the options.

As long as the Bank of Russia's bottom-up stress testing of climate risks is conducted until 2040 with a five-year lag, respondents mostly prefer long-term scenario analysis over a horizon of more than 10 years. The option 'Other' was chosen by respondents who considered this question inapplicable to them or whose methodology was under development. A number of respondents expect to receive scenarios from the Bank of Russia.

40. Does your institution monitor material and potentially material climate risks?

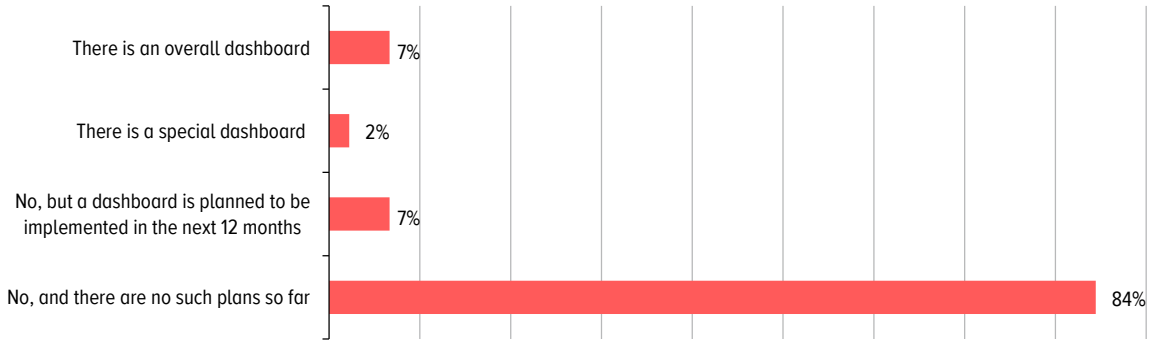


Many of the surveyed financial institutions (40%) monitor material and potentially material climate risks. Most respondents do this as part of risk identification. One respondent monitors the SME loan portfolio for exposure to climate risks. One of the surveyed institutions tracks material and potentially material climate risks through operational and credit risks based on actual historical data. Another respondent only monitors physical risks of natural calamities.

One of the surveyed insurers tracks material and potentially material climate risks on an individual basis (in accordance with its internal regulations). For example, in the case of property insurance, third party liability insurance, and business interruption insurance, a client fills in a questionnaire, ticking off the natural, climate, and geophysical factors that might lead to destruction (damage) of insurance objects, among other things.

However, most of the surveyed institutions (44%) do not monitor climate risks as long as they do not view them as material. A number of respondents note that, if climate risks are classified as material, they will determine general principles for their monitoring relying on the ICAAP. Another 16% of the surveyed institutions plan to start tracking material and potentially material climate risks during the next 12 months.

41. Does your institution have a climate indicators dashboard?



As little as 2% of respondents use a special dashboard to track climate indicators separately. The dashboard covers the following:

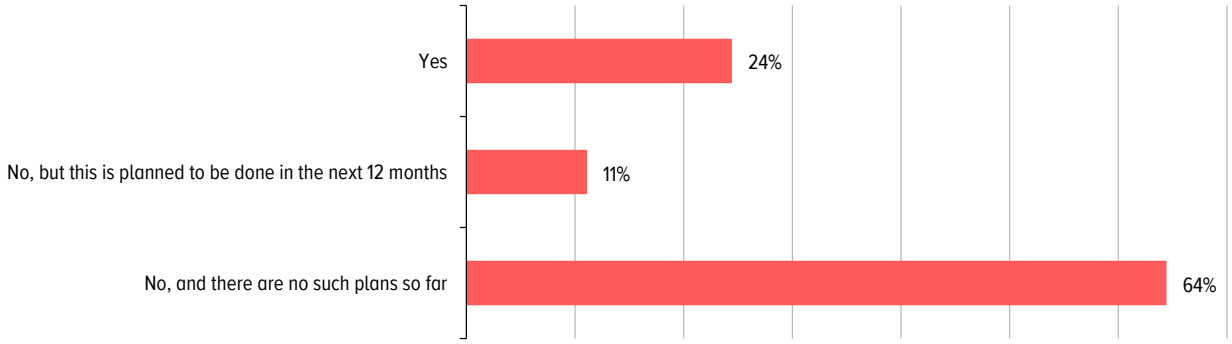
- climate physical risks (damage as % of the total fair value);
- high transition risk (% of EAD with high transition risk in total EAD); and
- net zero (financed emissions and physical intensity) across industries: oil and gas production, electricity generation, and automobile manufacturing.

Another 7% of the surveyed financial institutions included climate indicators in the overall dashboard which covers, among other metrics:

- qualitative and quantitative characteristics of natural hazards;
- the existence of natural hazards;
- permafrost monitoring data;
- fires, floods, hail, and storm winds; and
- exposure of the institution's own assets to climate risks.

In addition, 7% of respondents plan to implement a special dashboard in the next 12 months. One of the surveyed institutions will finalise its plans for implementing this dashboard after completing comprehensive stage-by-stage analysis of climate risks and approving its climate risk assessment method.

42. When it is impossible to obtain public information about factors characterising exposure to climate risks, does your institution request relevant data from its clients and counterparties?



Most respondents have no plans so far to request these data from their clients and counterparties when it is impossible to obtain public information on exposure to climate risks. Thus, a number of the surveyed institutions do not view climate risks as material, which is why this question is inapplicable to them. Others use only data from public sources, including clients' websites, to assess each component of sustainability risks.

Those financial institutions who request these data from their clients and counterparties (24%) can request this information as part of ESG evaluation within the credit process of setting limits on corporate clients (or to assign internal ESG ratings). Otherwise, the required information is requested in the course of the underwriting procedure, including using external sources, such as international maps of natural hazards, statistics on exposure to natural and climate factors, and models used to create a system of reinsurance protection against natural risks. Furthermore, in certain areas of insurance business, before the underwriting of assets, clients are requested to provide data on natural, climate, and geophysical factors that might lead to destruction (damage) of insurance objects.

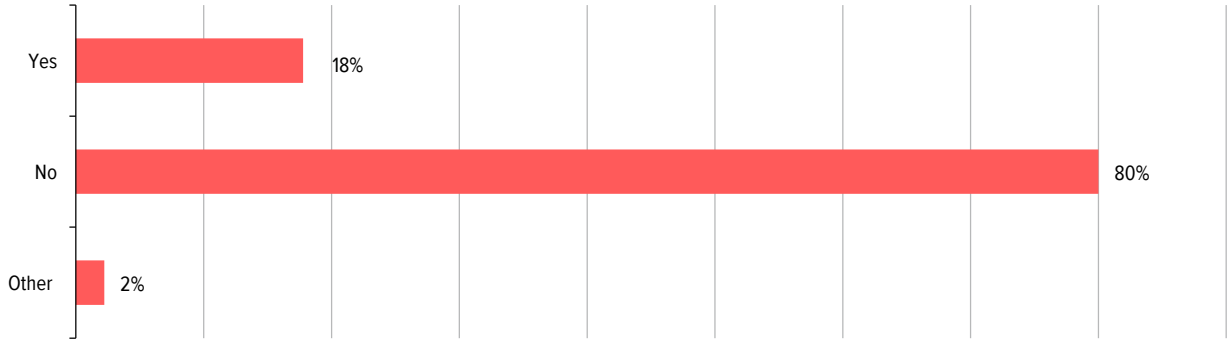
The remaining 11% of respondents plan to start requesting relevant information in the next 12 moths since they are considering such an opportunity but are facing difficulties in obtaining the data from clients. Besides, they need to take into account an increase in operating expenses and the period for consideration of applications.

43. There is a number of difficulties facing respondents in the course of climate risk monitoring, including the lack of:

- **public sources of information to assess companies' exposure to various components of climate risks in the Russian Federation** across regions, risk types, and time horizons; and
- **historical data** needed for statistical analysis.

Respondents also mentioned the interconnectedness between climate-related risk factors and other root factors and the difficulty in attributing certain natural hazards to climate change factors.

44. Does your institution use climate risk management policies providing for negative screening, that is, setting restrictions on access to financial services and criteria for excluding clients from certain industries from the list of those who may receive financial services?



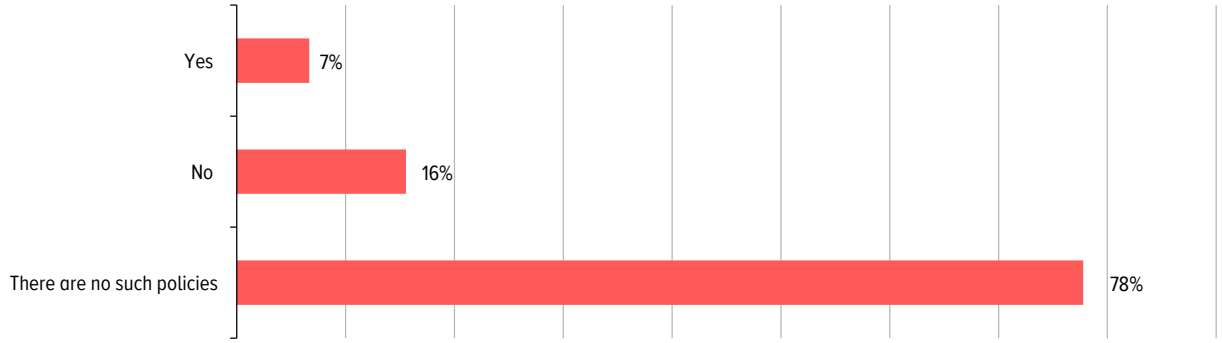
The majority of the surveyed institutions (80%) do not use policies providing for negative screening, that is, setting restrictions on access to financial services and criteria for excluding clients from certain industries from the list of those who may receive financial services. Respondents take into account how clients manage their climate risks but do not apply any policies or measures to restrict clients' access to financial services.

A number of the surveyed financial institutions rely on internal principles of responsible investment when analysing ESG factors for making investment decisions at the levels of an issuer, securities, and the investment portfolio. When analytical reports are prepared, environmental and social aspects of a company's activity are analysed in addition to classical financial analysis. This approach makes it possible to assess risks associated with investment as well as the company's long-term prospects.

Negative screening is used by 18% of the surveyed financial institutions. One respondent applies negative screening in relation to fundamentally negative activity types without any prospects for transformation. In this case, negative screening is used not in relation to a client itself but in relation to a particular project.

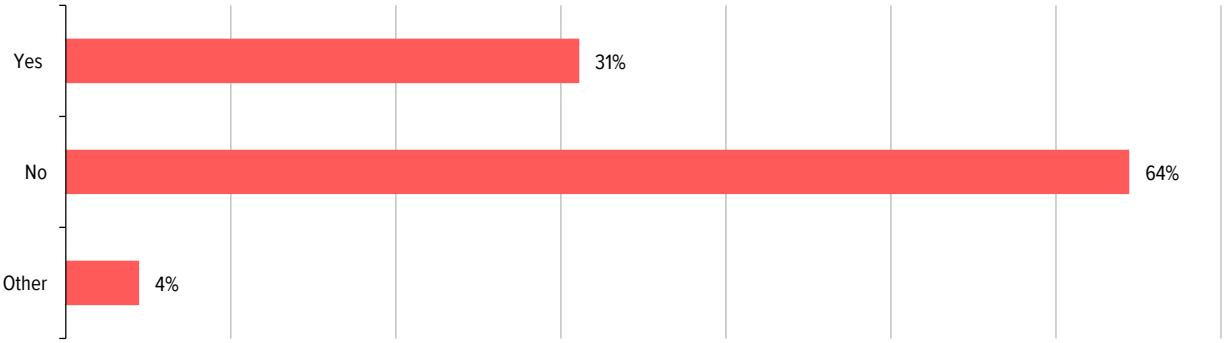
The option 'Other' was chosen by 2% of respondents, including in the situation where a financial institution may apply environmental and social risk management policy in the area of corporate business. This policy contains a wide list of environmental, including climate-related, and social aspects of economic activity and also specifies prohibitive criteria – these are the most sensitive environmental, including climate-related, and social criteria that the institution classifies as negative within its environmental and social risk assessment. If a client breaches these criteria, the institution may take appropriate measures, namely refuse to supply new products and services to the client if the latter does not demonstrate adequate progress towards improving the environmental and social aspects of its activity.

45. Has your institution published such climate risk management policies that provide for negative screening, that is, set restrictions on access to financial services and criteria for excluding clients from certain industries from the list of those who may receive financial services?



As little as 7% of the financial institutions who apply negative screening policies (that set restrictions on access to financial services and criteria for excluding clients from certain industries from the list of those who may receive financial services) have published these documents. In all other cases (16%), these policies are confidential.

46. Does your institution provide assistance to clients and counterparties to encourage them to adopt climate risk management practices and enhance their resilience to climate risks?

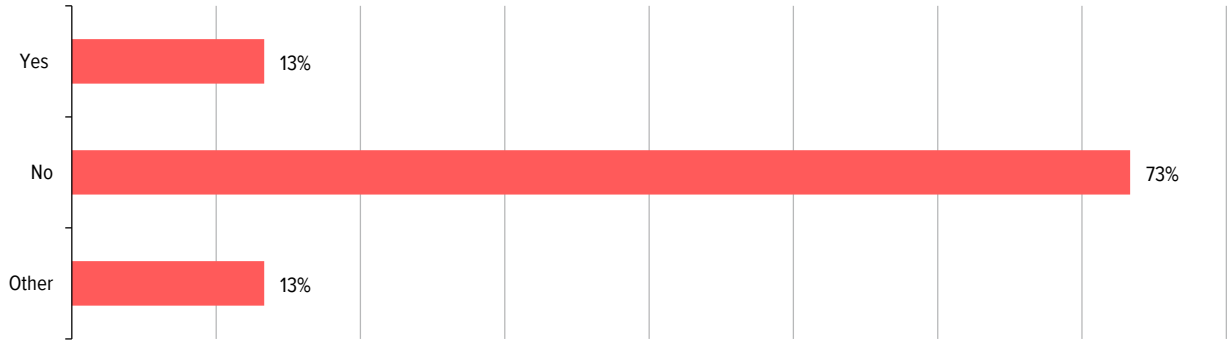


Most respondents (64%) do not provide assistance to their clients and counterparties to encourage them to adopt climate risk management practices and enhance their resilience to climate risks. Assistance in this area is provided by 31% of the surveyed institutions. These institutions:

- organise bond offerings in responsible financing formats in CIS countries;
- offer consulting services in the area of sustainable development, including with regard to obtaining ESG ratings, subsidies for transition to the best available technologies, and complex environmental permits;

- offer consulting services in the area of carbon footprint management (assessment of the carbon intensity of a client's operations and products; development of recommendations on reducing a client's carbon footprint; creation of a system of monitoring of and reporting on GHG emissions; etc.);
- offer consulting services in the area of climate risk management services (assessment of a client's climate risks; development of recommendations on mitigating climate physical and transition risks; creation of an efficient system of monitoring and management of and reporting on climate risks; assistance in receiving government support for climate adaptation);
- work on creating non-financial instruments for implementing clients' climate-related strategies, including those related to the carbon market;
- take into account a counterparty's climate risks (where they are classified as material) when deciding on the terms of funding;
- offer financial products with ESG covenants that allow a client to receive borrowings at a lower interest rate provided that the client complies with the stipulated ESG covenants; and
- finance green and adaptation projects addressing certain environmental and climate change-related objectives.

47. Does your institution factor in greenwashing risks associated with possible reporting by clients or counterparties of false, misleading, or incomplete information on how climate risks are taken into account in their operations?



The majority of the surveyed financial institutions (73%) do not factor in greenwashing risks associated with possible reporting by their clients or counterparties of false, misleading, or incomplete information on how climate risks are taken into account in their operations. Respondents explain this by difficulties in verifying the information.

Greenwashing risks are factored in by 13% of the surveyed institutions. To this end, respondents may do the following:

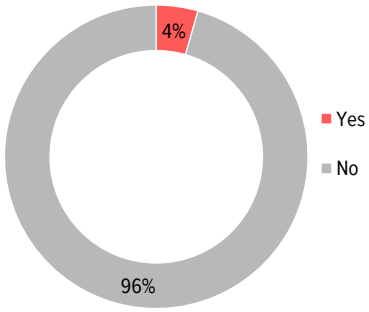
- make their own assessment or rely on a third party's judgement, as well as conduct regular checks to update the information;
- use ESG ratings;
- rely on the assessment of a client's reputational risk class; and
- forward the information for mandatory verification by an independent verifier included in the list of the methodological centre for financial instruments for sustainable development.

In addition, as part of the standard process of credit analysis, a credit expert checks each transaction for possible prohibitive criteria (e.g. implementation of projects that have acute impacts on climate change or cause loss of biodiversity / use sensitive ecosystems, etc.). If these criteria are identified,

an ESG expert carries out further analysis of the company's operations in terms of sustainable development practices, including taking into account whether the company has climate targets and strategies. Based on the analysis, the financial institution builds an ESG Impact Matrix and makes a decision on funding.

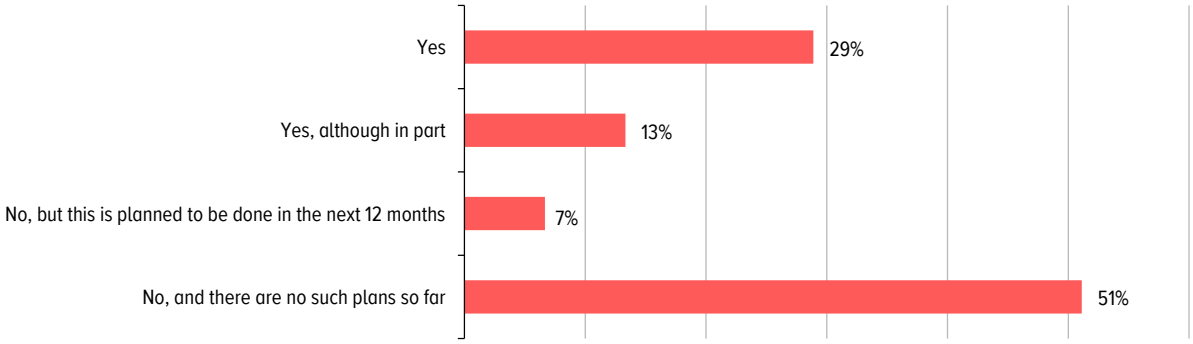
Respondents who chose the option 'Other' (13%) explain that, due to the limited scope of information received from counterparties, their opportunities to assess and take into account this risk are also restricted.

48. Has your institution ever had to apply climate risk mitigation measures?



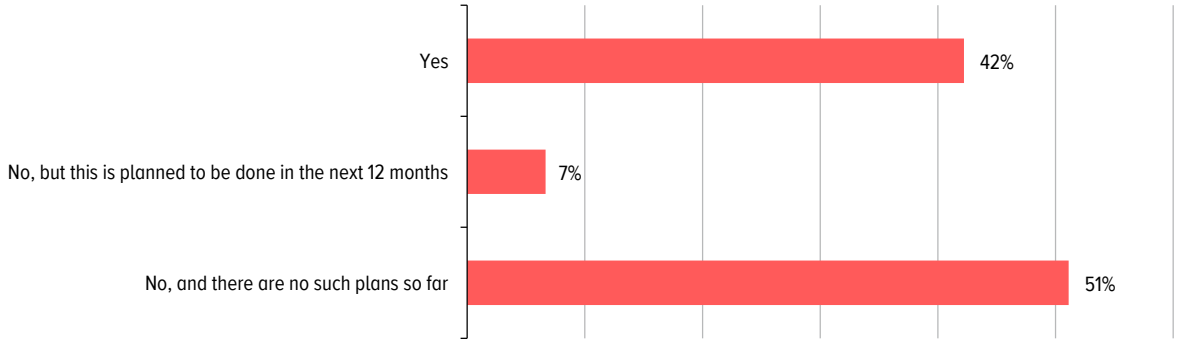
The absolute majority of respondents (96%) have never had to apply climate risk mitigation measures. As little as 4% of the surveyed financial institutions report difficulties associated with forecasting climate risks and arranging the risk management system.

49. Does your institution disclose climate risk information?



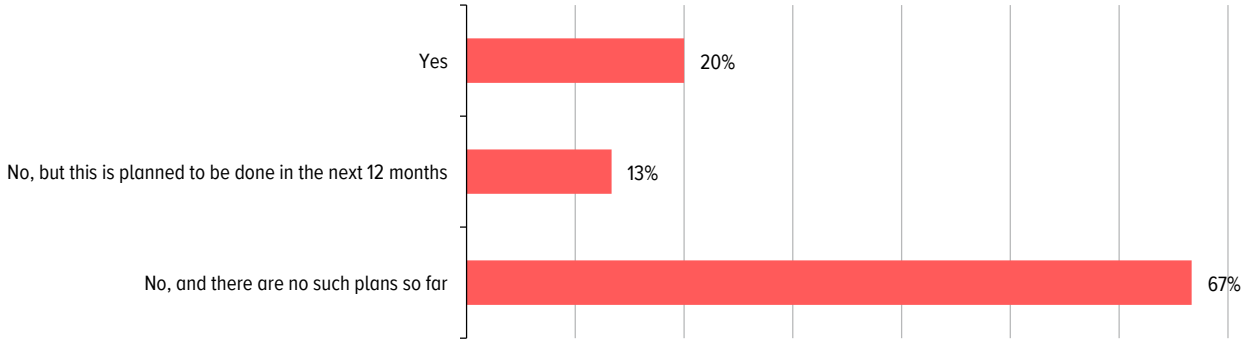
Half of respondents (51%) have no plans to disclose climate risk information. Over a third of the surveyed financial institutions disclose these data either in full (29%) or in part (13%). In addition, a number of respondents (7%) plan to begin disclosing this information in the next 12 months.

50. When disclosing climate risk information, does your institution follow the approaches described in Bank of Russia Information Letter No. IN-02-28/44, dated 13 June 2023?



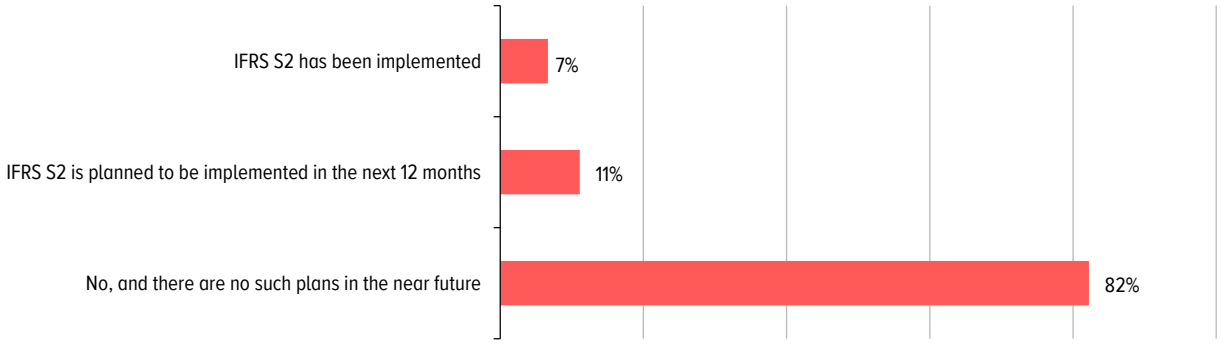
Respondents who disclose climate risk data rely on the approaches described in Bank of Russia Information Letter No. IN-02-28/44, dated 13 June 2023, 'On Recommendations for the Disclosure of Information in the Field of Sustainable Development by Financial Institutions'. Another 7% of the surveyed institutions plan to start using these recommendations in the next 12 months.

51. Has your institution revised its disclosure policy to provide more complete and relevant information?



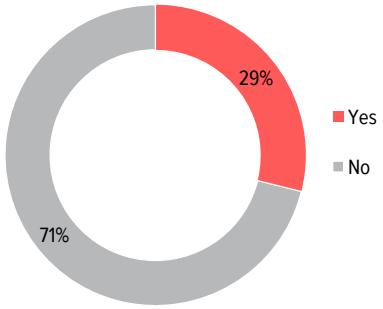
Some respondents (20%) have revised their disclosure policies to provide more complete and relevant information. In particular, the amendments have been made pursuant to the recommendations of the Bank of Russia, the Ministry of Economic Development of the Russian Federation, and the new standard IFRS S2 Climate-related Disclosures. The surveyed institutions who are members of international groups have updated their policies in accordance with local standards (e.g. applicable in the European Union) as well as the requirements for the transparency of ESG rating agencies. The information disclosed is assessed for compliance with the applicable standards, credit rating agencies' requirements, and stakeholders' expectations (stakeholders are surveyed to identify material issues). Another 13% of respondents, including those who are currently limiting their disclosures, plan to revise their policies in the next 12 months. The majority of the surveyed financial institutions (67%) have no plans to revise their disclosure policies.

52. Does your institution plan to implement or has it already implemented IFRS S2 Climate-related Disclosures?



Most respondents (82%) have no plans so far to implement IFRS S2 Climate-related Disclosures. Financial institutions say that, although IFRS S2 is applicable for annual reporting periods beginning on or after 1 January 2024, companies are allowed to start disclosing these data later when they consider it appropriate, including in connection with changes in external circumstances and regulatory requirements. As little as 7% of respondents have already implemented this standard and another 11% plan to do this in the next 12 months.

53. Are there any difficulties related to disclosing climate risk information?



Most respondents (73%) have no difficulties when disclosing climate risk information. As some of the surveyed institutions do not disclose these data, this question is inapplicable to them. A number of respondents disclose these data at the consolidated level of an international group. However, nearly a third of respondents (27%) do face difficulties in disclosing climate risk information, such as:

- the lack of a unified disclosure methodology;
- the need for complete, relevant, and reliable sources of climate risk information;
- data confidentiality; and
- risks of additional sanction pressure as non-financial disclosures make it possible to analyse the client base, current projects, and sectoral trends and make related conclusions.