



AZƏRBAYCAN RESPUBLİKASININ  
**MƏRKƏZİ BANKI**

# SUSTAINABLE FINANCE ROADMAP

2023-2026



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## **Abbreviations and acronyms**

<b>AAI</b>	<b>Azerbaijan Association of Insurers</b>
<b>ABA</b>	<b>Azerbaijan Banks Association</b>
<b>ASMPA</b>	<b>Azerbaijan Securities Market Participants' Association</b>
<b>BSE</b>	<b>Baku Stock Exchange</b>
<b>CBA</b>	<b>Central Bank of Azerbaijan</b>
<b>ESG</b>	<b>Environmental, social and governance</b>
<b>G20</b>	<b>Group of Twenty</b>
<b>GDP</b>	<b>Gross domestic product</b>
<b>GHG</b>	<b>Greenhouse gas</b>
<b>NBCI</b>	<b>Non-Bank Credit Institutions</b>
<b>MENR</b>	<b>The Ministry of Ecology and Natural Resources</b>
<b>ME</b>	<b>Ministry of Economy of the Republic of Azerbaijan</b>
<b>MF</b>	<b>Ministry of Finance of the Republic of Azerbaijan</b>
<b>ME<sub>n</sub></b>	<b>Ministry of Energy of the Republic of Azerbaijan</b>
<b>NDC</b>	<b>Nationally Determined Contribution Plan</b>
<b>NGFS</b>	<b>Network for Greening the Financial System</b>
<b>SBFN</b>	<b>Sustainable Banking and Finance Network</b>
<b>SDG</b>	<b>Sustainable Development Goals</b>
<b>SFR</b>	<b>Sustainable Finance Roadmap</b>
<b>SSC</b>	<b>State Statistical Committee</b>
<b>UN</b>	<b>United Nations</b>

## Summary

**Holding a right balance between environmental, social and economic aspects will enable economies to follow more sustainable development path.** The Republic of Azerbaijan by taking commitments in international initiatives of decreasing GHG, has integrated the above mentioned factors into economic development strategy of the country. Besides this, “Azerbaijan 2030 - National Priorities of Socio-Economic development” and “Socio-Economic Development Strategy of 2022-2026”, which are aligned with 17 core Sustainable Development Goals, have been adopted. Sustainable development reform agenda has been directed toward the introduction of clean technologies, encouragement of the use of clean energy sources, and recycling and remediation of contaminated areas. Clean environment and country of “green growth” determined in the national strategy consists the essence of the national priorities.

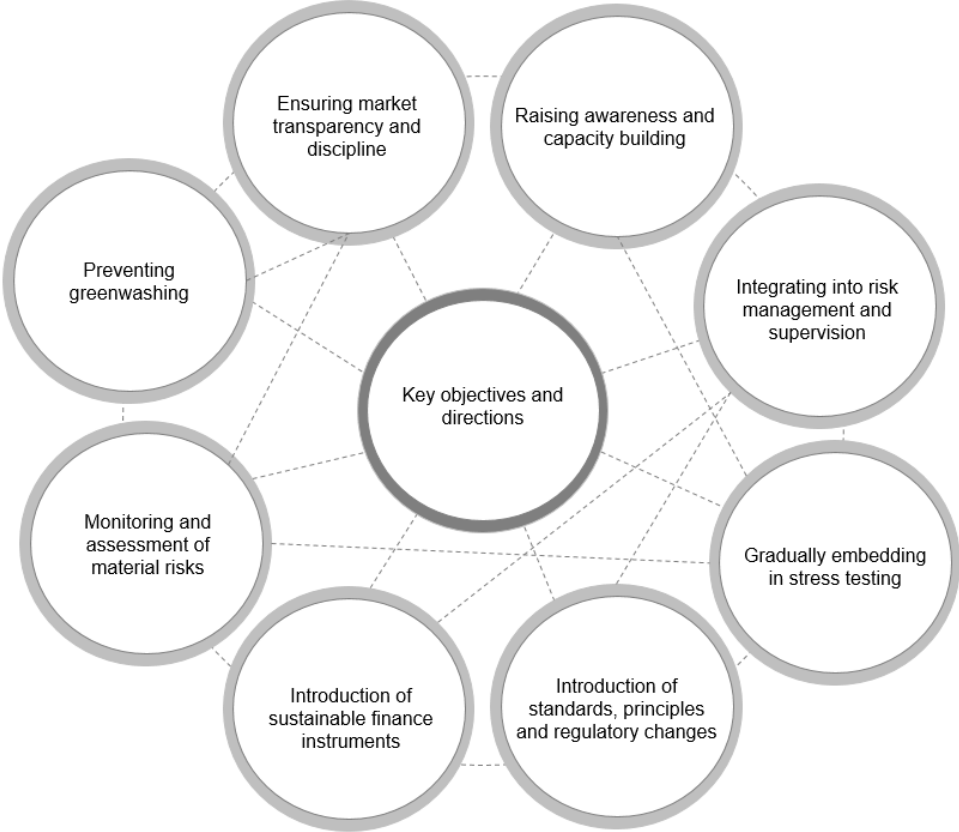
**Implementation of the national sustainable development strategy and realization of the priorities in key economic areas requires ESG relevant financial flows.** Obviously, financial sector has a particular role to fund and support transition to sustainable economy. In this regard, In order to align the financial sector with sustainable development imperatives CB has integrated the successful transition to the sustainable finance to its strategic priorities. It is also vital by relevant public authorities and private players to play a role by adopting measures to promote green projects and making sustainable financial products attractive.

**CBA supports strengthening the role of the financial sector in the sustainable development of the country and for this purpose CBA has developed Sustainable Finance Roadmap.** SFR aims to ensure both sustainability of the financial sector to the ESG risks and realization of green finance opportunities (especially, attracting green investments). Action Plan of the SFR determines pillars and milestones which aligns and coordinates the financial sector with sustainable development goals.

**The ultimate objective of this roadmap is to promote emergence of sustainable finance, which takes into account climate-related and environmental risks, as well as social and governance factors and to ensure financial stability.** SFR has capitalized the best international practices and includes the integration of climate related and ESG factors into the decision-making and risk management processes of financial intermediaries, the development of relevant standards, the building the ecosystem for finance instruments geared towards

sustainable finance (Figure 1). While CBA will encompass all ESG component risks, some actions will be focused on the climate-related and environmental risks. Though the main focus of the roadmap is around the financial stability risks arising from climate change and environmental factors, social and governance factors will be part of the other relevant roadmaps which will be led by CBA. The spectrum of defined actions will cover all segments - banking, insurance and investment - of the financial markets. Several actions determined in the SFR requires coordination, involvement and alignment with respective stakeholders (public authorities, associations, international partners and etc.).

**Figure 1. Key objectives and main directions of SFR**



Source: Author

## Global trends in sustainable finance

**It is widely acknowledged that climate and environmental change risks pose significant risks over the mid- and long-term by negatively affecting almost every economic sector.**

Continued emission of greenhouse gases will cause to further global warming which may lead to catastrophic economic, financial and social consequences. Climate change stands out among other environmental risks due to its urgency, scope and impact, but also triggers other environmental and social risks. These risks include natural disasters, such as flooding and droughts, which have substantial impact on different sectors of economy. In rural areas, dominated by agriculture, forestry and other relevant sectors of the economy, the impact on this sector of the economy is extremely sensitive due to the direct dependence of the local population on the natural environment and high vulnerability to natural disasters due to global climate change.

**Thus, alongside with climate and financial risks, climate change poses risks for the social welfare.** With increasing temperature and precipitation, public health will be affected. In countries with resource-based economy, the effects of climate change are extremely influential to the society and may trigger factors such as low level of development and education, inequality. Considering the above said, implementing comprehensive and continued actions in order to mitigate and adapt to the climate risks is necessary. The recognition of severity of climate related and environmental risks, nearly 200 countries responded by Paris Agreement in December 2015 which stated “*holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels*”. Another global response to climate change is UN Agenda for Sustainable Development which comprises 17 core Sustainable Development Goals which provide blueprint for ensuring stability, resilient societies and prosperous economies.

**Since the scale of challenge is beyond the public sector alone, collaboration with private sector and also similarly importantly involving financial sector for mobilizing finance to support sustainable growth is crucial.** According to estimates by McKinsey company<sup>1</sup>, transition to sustainable world might cost \$3.5 trillion per year, which is obviously hard to be provided only by public funds. In response to policy signals and regulatory requirements financial

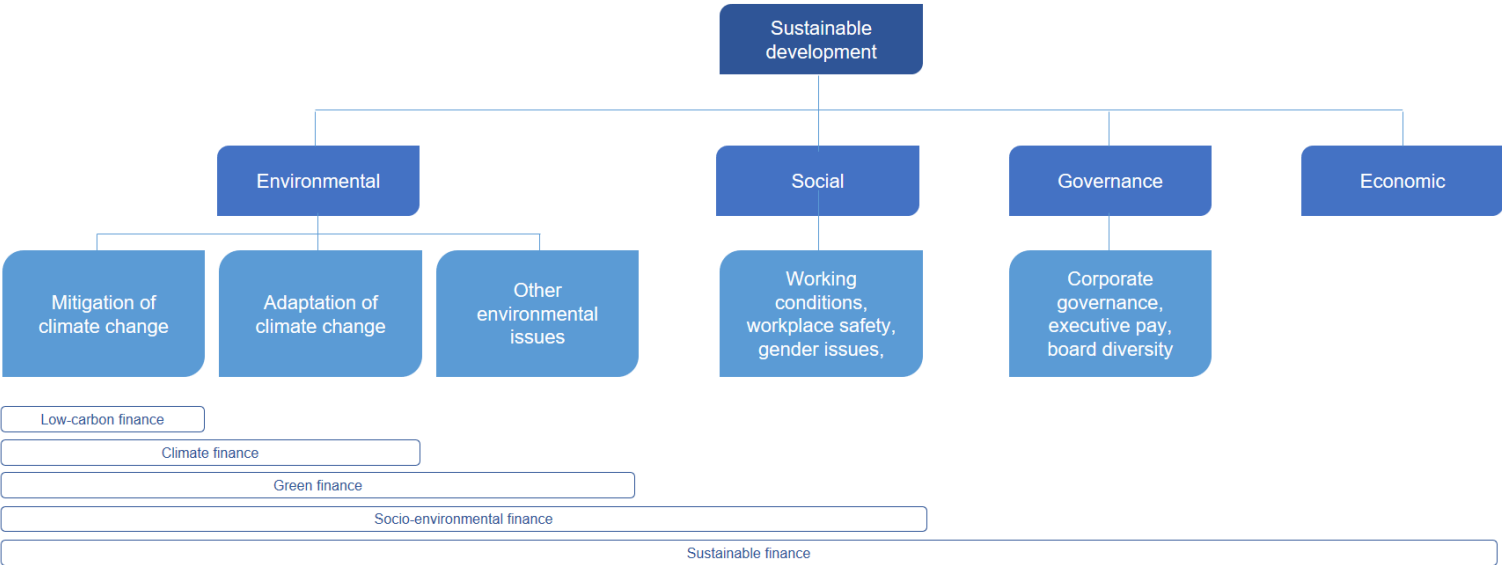
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<sup>1</sup> “The Net-Zero Transition: What it Would Cost, What it Could Bring?”, McKinsey, January 2022

institutions around the world have already started providing sustainable and green financial products.

**Sustainable finance is a new paradigm aimed at adapting the financial sector to the risks associated with ESG factors.** Sustainable finance broadly refers to financing and the associated institutional and market infrastructure that help deliver strong, sustainable and balanced growth aimed at achieving the SDGs (Figure 2). Sustainable finance as a new field focuses on sustainable development goals, including climate change mitigation and adaptation, integrating ESG criteria into financial services. In recent years, a consensus is emerging in the global business and finance community that climate-related and environmental risks may lead to material financial consequences, which is why the incorporation of these factors into the financial and investment decision making process has become necessary.

**Figure 2. Components of sustainable growth and sustainable finance**



Source: UN

**Main goal of the sustainable finance is to improve the contribution of financial resources to sustainable and inclusive growth, and to ensure financial stability in the face of risks arising from climate-related and ESG risks.** *Environmental factors* include mitigation and adaptation to the adverse effects of climate change, pollution, protection of natural resources and biodiversity, and addressing water scarcity. Should be noted that climate-related and

environmental risks are differentiated as well<sup>2</sup>. Climate-related risks refer to financial risks of financial institutions through physical or transition risks caused by extreme weather events or a decline in asset value in carbon-intensive sectors. Environmental risks refer to financial risks arose due to environmental degradation and the loss of ecosystem services. Social factors include sub-factors such as equality, inclusion, data protection and privacy, labor standards, investment in human resources, poverty eradication and social welfare of society, customer satisfaction and so on. Governance factors include sub-factors such as organizational structure, top management compensation policies, audit committee structure, employee relations, diversity and equality and so on.

**Among environmental, social and governance factors due to the expected scope of the impact and urgency of taking action more, climate-related and environmental risks are expected to become more prominent.** The impact of climate risk on financial institutions is realized through physical risk and transition risk.

**Physical risks** occur as a result of an increase in the frequency and severity of sudden natural events (floods, droughts, forest fires, landslides, storms, etc.) and gradual changes in climate indicators (temperature increase, increase in precipitation, temperature fluctuations, sea level rise). These risks include indirect events such as property damage and reduced productivity as a result of the direct impact of the above events, as well as global supply chain disruptions. Physical risks can potentially result in economic costs and financial losses that can have both micro and broader system-level impacts (Graph 1, (a)).

**Financial institutions can be directly affected by physical risks** as impairment of assets and collateral, increase in losses or business disruption. When assets are insured, this can create risks for the sustainability of insurance companies through higher payouts to the affected parties. When assets are left uninsured, the brunt of the financial burden can fall on households, businesses and governments. Physical risk can divert capital from more productive uses (like innovation and technology) to restoration and construction. In addition, uncertainty about future losses can lead to higher household savings and lower investment. At the same time, the depreciation of the collateral can limit lending and increase banks' losses. These losses can have a negative impact on the financial situation of households and limit their consumption.

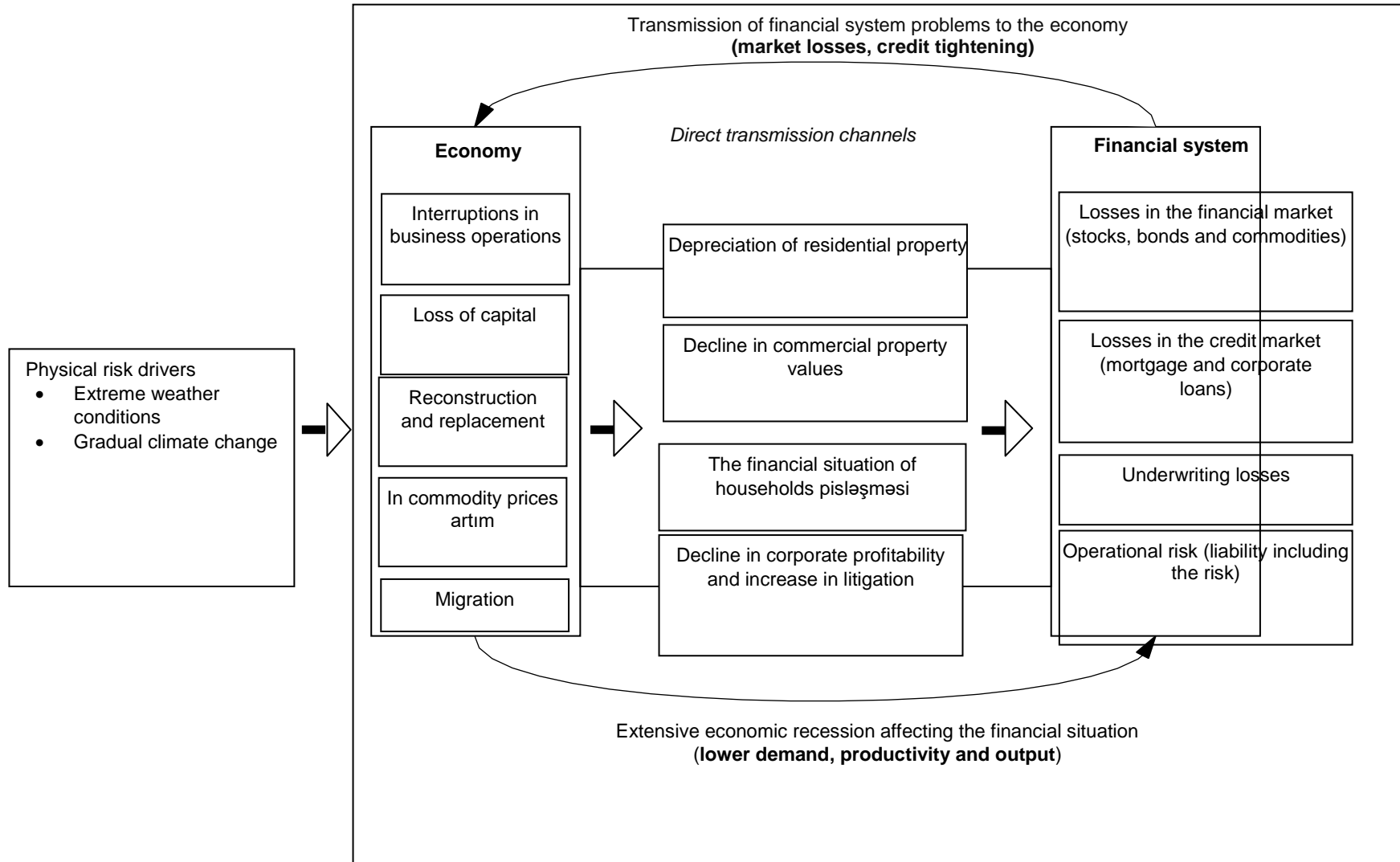
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<sup>2</sup> NGFS

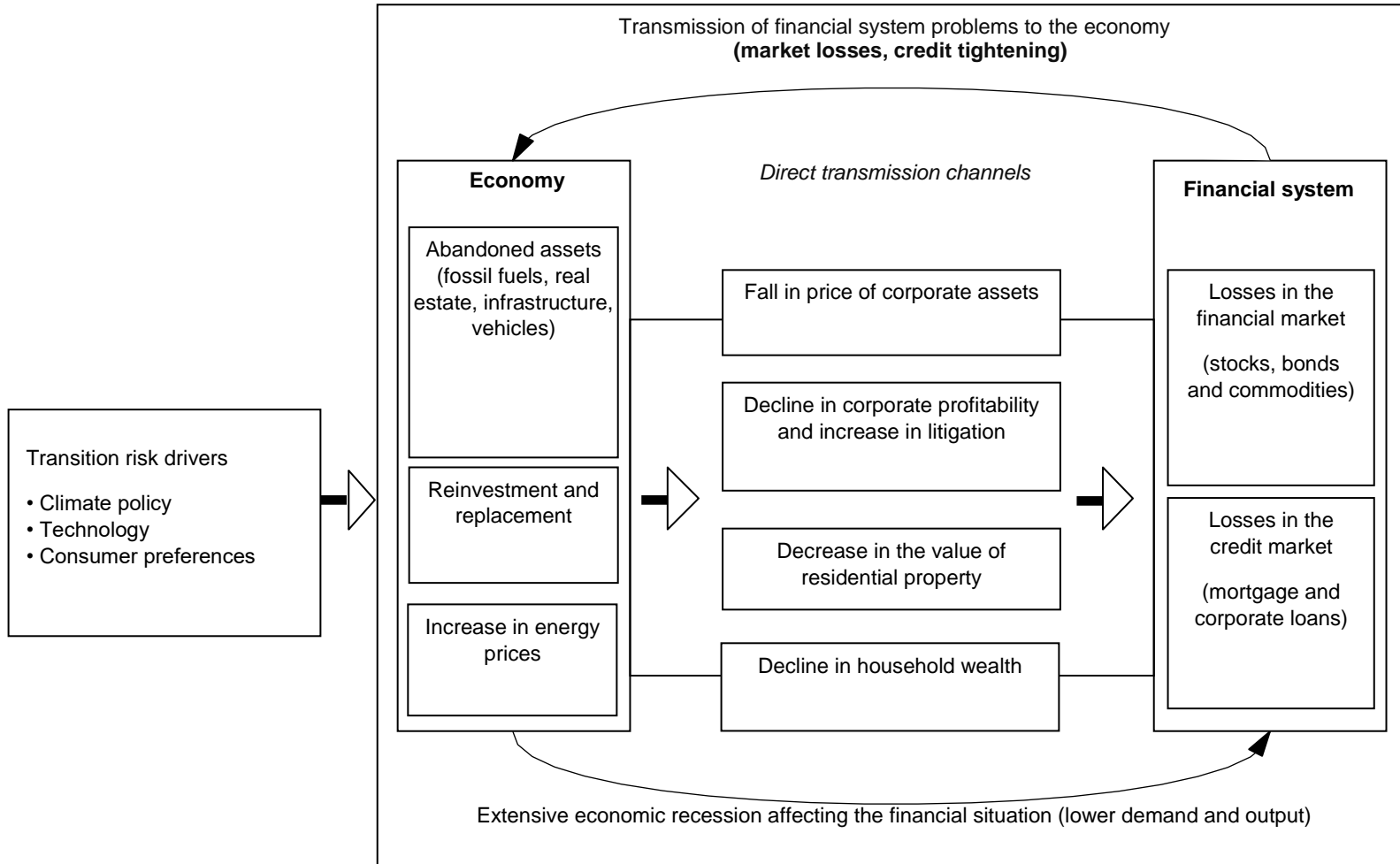


**Graph 1. The impact of physical and transition risks on the financial system**

(a)



b)



Source: Guidance for supervisors on integrating climate and environmental risks into the supervisory framework (2020), Greening the Financial System Network.

**Transition risk** is a financial risk that can arise in the process of adapting to a low-carbon economy (Graph 1, (b)). The transition to a low-carbon economy requires rapid and large-scale transformation of energy, infrastructure and industrial systems. Substantial investments are required to keep the global temperature rise at the desired level. Channeling these investments into building a green economy will lead to structural changes in the economy and faster renewal of the existing capital stock in the future.

**Therefore, changes in environmental policies, technology and market conditions may result in more frequent revaluations of stocks, bonds and financial derivative instruments and the value of common stock.** Also, delaying the transition to a low-carbon economy will require more radical measures, which will lead to a decrease in the value of assets and real estate of companies, a decrease in the profitability of companies and a deterioration in the financial conditions of households, which will affect both the capital market and the credit market.

**International financial institutions, central banks and standard setting bodies are introducing policy reforms and initiatives at global and regional level to create a sustainable financial framework.** Integrating environmental sustainability into analytical and policy frameworks is relevant for central banks and financial regulators. Over the past few years, the intensity of measures taken by regulators and central banks to promote sustainable finance has increased significantly. These organizations are usually considered to be more progressive and proactive institutions from institutional and capacity viewpoint. In addition, expertise of central banks in financial markets and cross-border financial operations can help them promote the best practice reforms in the financial sector.

**The most recent and solid initiatives on encouraging sustainable finance agenda with emphasis on climate-related and environmental risks around the world are listed below:**

- The Working Group on Sustainable Finance was founded by the G20 to achieve the goals of the 2030 Agenda for Sustainable Development;
- The Basel Committee on Banking Supervision has developed a draft policy document on *the effective management and control of climate-related financial risks*;
- A guide to a green financial system was developed by the World Bank for regulators and other policymakers;
- There are a number of regional and international platforms for sharing experiences and providing technical guidance on sustainable finance (SBFN and NGFS).

**Alongside with global initiatives, the number of countries have taken steps to introduce sustainable and green finance practices keep increasing and sustainable finance is becoming one of the top issues of financial stability agendas.** The UK prepared Green Finance Strategy and brought together initiatives across government, regulators and other economic agents. Germany National Development Bank has devoted considerable amount (76.5 billion euro) to climate change lending, renewable energy and low carbon projects. China has developed policies for promoting green finance, bond standards, climate disclosure, pollution insurance. Indonesia has published Green Finance Roadmap. South Africa introduced disclosure requirements for the companies listed in stock exchange.

## **Sustainable development agenda of Azerbaijan**

**Azerbaijan is part of in the UN 2030 Agenda for Sustainable Development and the Paris Agreement initiatives.** According to the NDC document submitted to the UN Framework Convention on Climate Change in 2016, Azerbaijan aims to reduce the amount of GHG by 35% by 2030 compared to the 1990 base year (Graph 1 shows historical data on GHG emissions of Azerbaijan). Also, the National Coordinating Council for Sustainable Development was established by the Decree of the President of the Republic of Azerbaijan in 2016 to implement the commitments stemming from the UN 2030 Agenda for Sustainable Development.

**New targets were set by the UN at the COP26 conference in Glasgow in 2021.** Azerbaijan has therefore set itself the new goal of reducing greenhouse gas emissions by 40% by 2050 and creating a "zero emissions zone" in the areas liberated from occupation. In order to achieve these goals, it is planned to increase the share of renewable energies in total energy production to 30% by 2030.

**Increasing the use of renewable energy sources in Azerbaijan is one of the priority directions.** In 2020, the State Agency for Renewable Energy Sources was established at the Ministry of Energy of the Republic of Azerbaijan. Also, in 2021, the Law of the Republic of Azerbaijan "On the Use of Renewable Energy Sources in Electricity Generation" was adopted. In addition, renewable energy facilities such as bio-energy, solar and wind power (e.g. Nakhchivan Solar Power Station, Pirallahi Solar Power Station, Yeni Yashma Wind Power Park, etc.) have been commissioned and work in this direction is ongoing.

**SDGs are integrated into the country's list of national development priorities until 2030.**

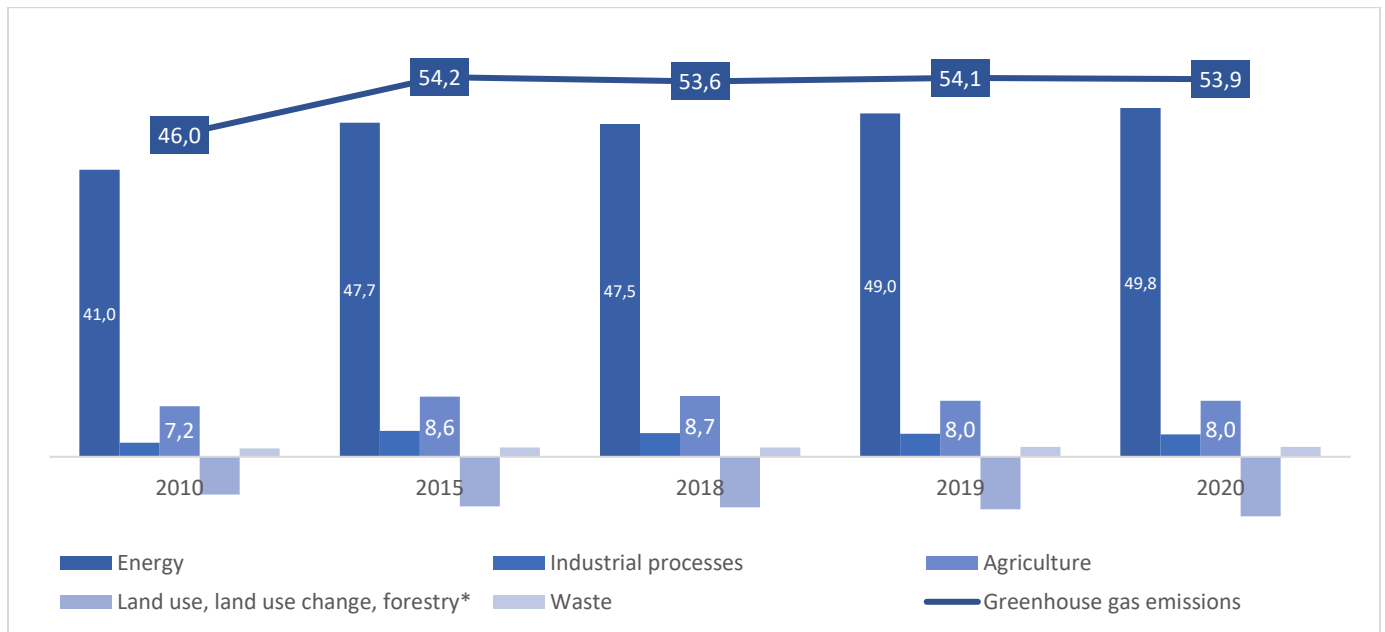
Thus, “Azerbaijan 2030: in the National Priorities for Socio-economic Development” that was approved by the Order of the President of the Republic of Azerbaijan dated February 2021, national priorities to be implemented over the next decade include SDGs. These five priorities to be realized in the next decade include:

- (i) sustainable growing competitive economy,
- (ii) a dynamic, inclusive society based on social justice,
- (iii) competitive human capital and a place for modern innovation,
- (iv) great return to territories liberated from occupation
- (v) a clean environment and becoming a “green growth country”.

The Socio-Economic Development Strategy 2022-2026, which has been approved by the order of the President of the Republic of Azerbaijan No. 3378 dated 22.07.2022 and is being drawn up to implement national priorities, aims to implement the SDGs.

**Becoming a country with sustainable, green and inclusive growth is one of the main objectives of the strategy.** These include promoting green industrialization, protecting biodiversity, developing an efficient waste management system, increasing the use of renewable energy sources, and expanding the use of green vehicles and other green technologies. From this point of view, the formation of a stable financial framework supporting sustainable development is considered a top priority. Thus, achieving all of the stated goals without strong financial system focusing on directing required support to green and social projects cannot be effectively achieved.

**Graph 1. GHG and share by economic sectors in Azerbaijan (CO2 equivalent, million ton)**



\*minus is used for indication of absorption of gas creating heat effect

Source: SSC

## Azerbaijan's financial sector and sustainable finance vision

**Azerbaijan has a bank-based financial system.** Bank assets comprise more than 90% of financial system assets. The ratio of banking sector assets to the GDP comprised 35% in 2022. Amid the uncertainty surrounding the pandemic, simultaneous measures taken by the government and the CB has accelerated the economic recovery in 2022. Conclusions from analytical exercises have shown that correlation between loan portfolio trend and economic activity is high. Despite the complex external environment and conditions, the banking sector maintained its profitability. The sector's capital position is able to absorb potential losses by exceeding prudential requirements.

- The share of non-bank financial intermediaries in the financial sector remains low.
- There is a growth trend in penetration of insurance services. Life insurance and compulsory insurance branches are the main growth drivers in the insurance industry.
- The capital market expanded in parallel with the recovery of the economic growth and domestic demand.

**The Azerbaijan economy and financial sector is assessed to be sensitive to climate and social factors is relevant in both the short and long term.** Climate physical risks as rising temperatures and changing precipitation are associated with increased frequency and intensity of natural disasters such as floods, droughts, landslides and heatwaves and increases vulnerability of economy and population. Those risks affect assets, public and private investments and companies. As a specific example, the negative impact of increasing drought and water scarcity on agriculture can be mentioned which will affect the agriculture loan portfolio of banks. Moreover, transition risk related to the global de-carbonization calls and its impact on the Azerbaijan economy and financial system will be inevitable. Given the global calls on low-carbon development and decarbonization, Azerbaijan's commitment toward achieving GHG reduction goals will both support sustainable development and also pose important shift from dominant oil and gas sector.

**Sustainable and green economic development will have not only economic but also social gains.** Sustainable use of land and water resource for agriculture and forestry alongside with being a path to advancing economic efficiency, climate resilience, and environmental sustainability will provide exposed population with multiple economic and social benefits. Advancements will not only enhance productivity, but will also create job opportunities and will increase quality of life.

**The financial system needs a roadmap to manage the risks posed by climate and other environmental factors and seize the opportunities that arise.** Currently, measures to implement green finance in the financial system of Azerbaijan are fragmented. The financial sector's awareness of sustainable finance is not at adequate level, there is no regulatory framework for sustainable finance, a classification of sustainable activities, sustainable financial instruments and mechanisms to encourage the development of these instruments, and a system of risk management on sustainable finance in financial institutions. From this point of view, it is considered important to create a sustainable finance roadmap to develop sustainable finance.

## **Sustainable Finance Roadmap**

**CBA supports strengthening the role of the financial sector in the sustainable development of the country.** For this purpose CBA has developed a roadmap for sustainable

finance for 2023-2026. SFR has capitalized the best international practices and includes the integration of climate-related and ESG factors into the decision-making and risk management processes of financial intermediaries, the development of relevant standards and the building the ecosystem for finance instruments geared towards sustainable finance.

**The ultimate objective of this roadmap is to promote emergence of sustainable finance, which takes into account climate-related and environmental risks, as well as social and governance factors and to ensure financial stability.** In the respective roadmaps and strategies, ensuring equitable financial access of various social groups of the population (gender, age, persons with physical or mental disabilities, etc.), improving financing options for micro, small and medium enterprises, increasing the possibilities of digital financial services, developing microfinancing, deepening financial inclusion, improvement of corporate management in banks, etc. appropriate measures will be taken into account.

**SFR determines actions necessary to ensure coordinated and progressive alignment of Azerbaijan financial sector, including banking, insurance and capital markets, with the challenges of national sustainable development goals.** This alignment will be ensured by carrying out systematic assessment of environmental impact of financing and investment decisions, enabling ecosystem for financial intermediaries to translate climate-related and environmental risks into opportunities, promoting financial transparency and market discipline and capacity building through both cross-sectoral and sector specific actions..

**Considering the market structure the actions will be implemented in a phased approach through financial segments.** Raising awareness and capacity building will cover all financial sectors, but climate-related and environmental risk assessment will be carried out in banking sector, then will be expanded to the capital markets and insurance sector. Integration of climate-related and ESG factors into investing and financing decisions of financial intermediaries will be first based on voluntary basis which will be supported by issuance of guidance and standards, and then will be incorporated into the regulatory framework.

**CBA will follow the best practice and will first introduce voluntary and then mandatory disclosure requirements.** SFR comprises 4 pillars and respective actions under each pillar which are summarized briefly through the financial segments are given in [Figure 4](#). Relevant actions set out in the SFR requires coordination, involvement and alignment with respective



public authorities, state agencies and associations as well. Strategic priorities are discussed in more detail in the next following sections.

## **Pillar 1. Raising awareness and capacity building in sustainable finance**

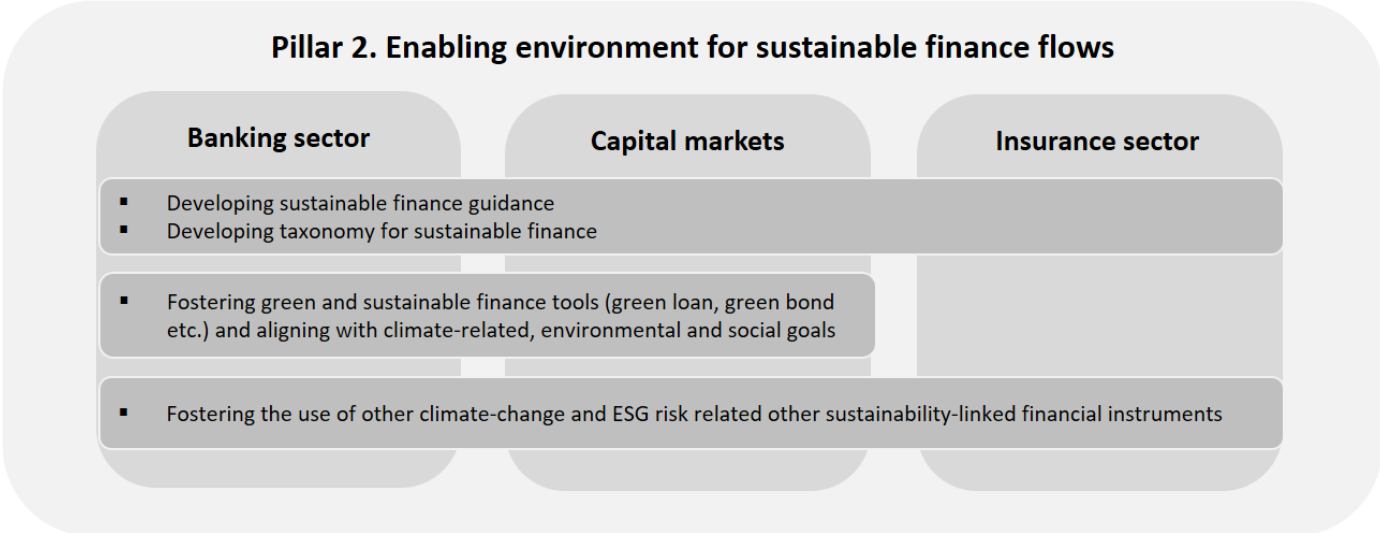
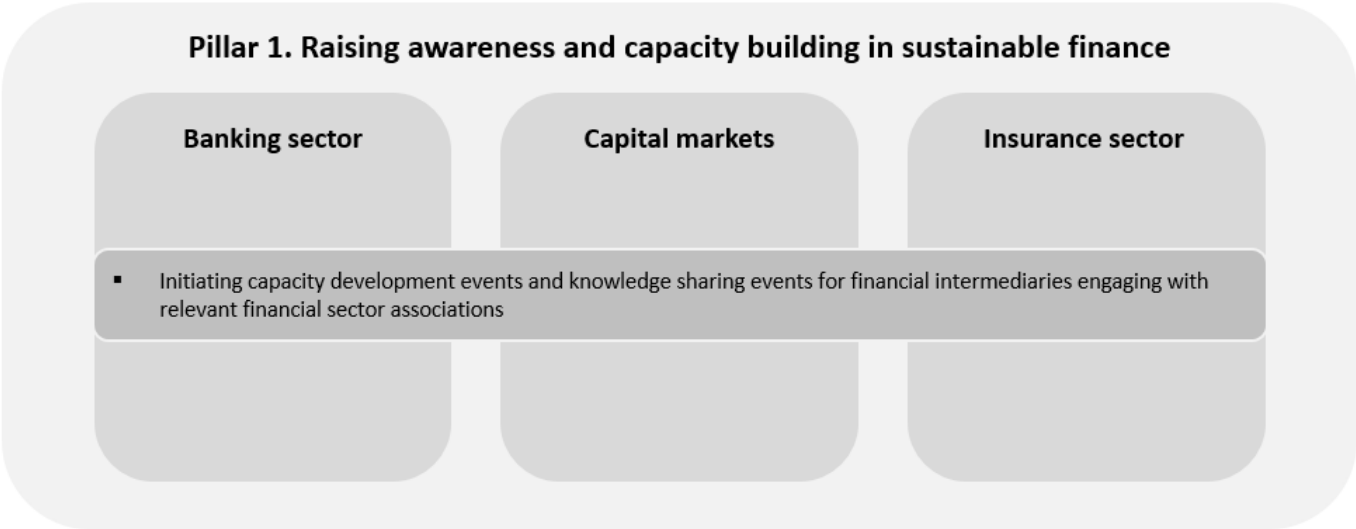
**Limited awareness about the climate related and ESG risks necessitates building capacity building first for ensuring effective realization of the SFR.** Raising awareness will be focused on both internally and externally across both financial intermediaries and the population. Particular attention will be devoted to the capacity building of the staff, where supervisors will be equipped with necessary practical skills tools and materials to assess relevant risks.

Another attention will be given to **raising awareness and encouraging dialogue of climate-related and ESG risks with and within the financial sector.** These dialogues will be a platform to discuss topics as governance, risk appetite, key strategies in managing climate-related and environmental risks, initiatives to build capacity, market disclosures, quantitative and qualitative data collection, risk analysis tools and other relevant areas. CBA will both lead on capacity building initiatives to the financial sector and contribute to industry-led initiatives as well.

**Knowledge and experience sharing** and keeping knowledge up-to-date with international developments is another priority area of capacity building. Thus, participation in the international platforms will help to increase local capacities and also bring sustainable financial policies aligned with international standards.

Last component will be supporting **raising awareness among the wider public** through reports and other publications, speeches, interviews, industry developments and placing all relevant content.

**Figure 4. Summary of SFR actions grouped through financial market segments**



### **Pillar 3. Integrating climate-related and environmental factors into risk management**

#### **Banking sector**

- Integration of climate related and environmental considerations in business strategy, governance arrangements and risk management
- Determining indicators, metrics and methods to evaluate climate related and environmental risks
- Conducting climate related and environmental risk assessment

#### **Capital markets**

#### **Insurance sector**

### **Pillar 4. Ensuring market transparency and discipline**

#### **Banking sector**

- Determining key metrics and data (both qualitative and quantitative) for climate related and environmental risks disclosure purposes
- Introducing and incorporating climate related and environmental risk disclosure requirements into the regulatory framework

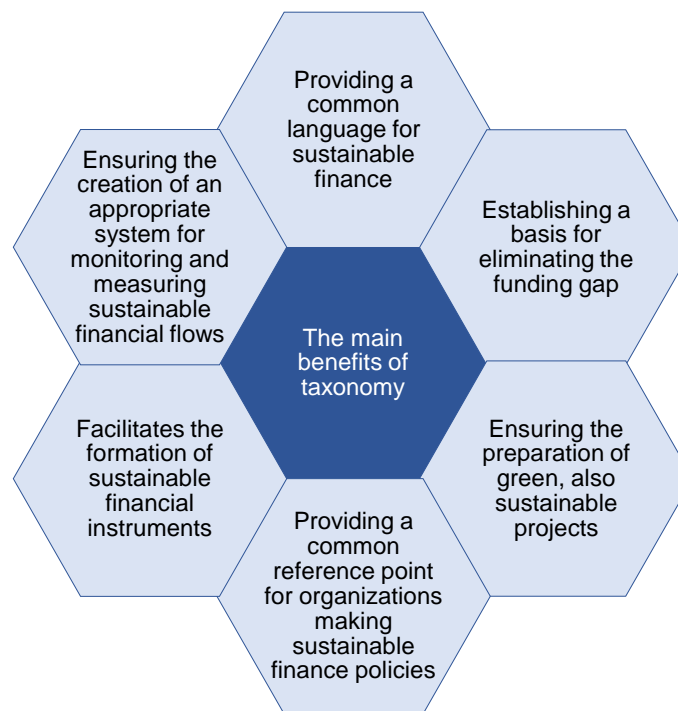
#### **Capital markets**

#### **Insurance sector**

## Pillar 2. Enabling environment for sustainable finance flows

**There is a wide range of leading international practices, guidelines and standards that CBA will foster implementation by financial intermediaries.** Though many actions have been taken to integrate climate change and sustainability concerns into financial and investment decision making, there is a need for more certainty on the environmental sustainability of different types of economic, financial and investment activities. This necessitates to adoption of taxonomy. The sustainable finance taxonomy will be developed by the relevant government agencies and stakeholders under CBA's championship and will be a single and harmonized document to define economic activities that are considered sustainable.

The main benefits of taxonomy are:



**The development of green bond markets to expand private sector financing of climate and environmental projects is seen as one of the top priorities.** Funds attracted from the issue placement of green bonds will be used for financing projects related to climate change, environmental protection. The regulatory framework will cover fundamental concepts, the scope of projects financed through the issuance of green bonds and the criteria for those projects, the requirements for the issuance of green bonds, the use and management of funds obtained from

the placement of green bonds, the reporting and disclosure requirements and other necessary areas. The inclusion of the assets and activities classified as green finance in the taxonomy will support the development of the green bond market. The promotion of demand factors for the development of the green bond market will be examined as well. Regarding incentivizing mechanisms the green bond market the CBA with relevant stakeholders and also international partners will hold discussions.

**Introducing and promoting green loans will be another necessary financial tool of ecosystem enabling sustainable finance flows.** Regulatory framework encompassing defining green loans, determining criteria for green loan, integrating green loan into the credit policy (loan granting, underwriting and monitoring procedures), tackling with greenwashing will be developed. The promotion of demand factors for the development of the green loan will be examined as well. One of the important mechanisms for the development of green lending may necessitate state support. Thus regarding incentivizing mechanisms the green loans the CBA with relevant stakeholders and also international partners will hold discussions. Alongside green loans development of other sustainable financial tools will be discussed with relevant stakeholders.

**Alongside with green loans and bonds, implementation of sustainability linked financial instruments will be explored too.** Though sustainability-linked loans and bonds are relatively new, they are gaining popularity. In comparison with green loans and bonds, sustainability-linked financial products are “performance-linked” instrument rather than a “use-of-proceeds” instrument.

### **Pillar 3. Integrating climate-related risks and ESG factors into risk management**

**CBA will identify exposures of supervised entities that are vulnerable to climate-related and environmental risks and will assess the potential losses that could be materialized.**

In order to identify exposures that are vulnerable to climate-related and environmental risks CBA will determine quantitative and qualitative indicators of physical risk and transition risk. For this purpose, CBA will first identify data gaps and determine approach for gathering quantitative and qualitative data. In the next step to measure magnitude of the exposure to climate-related and environmental risks, CBA will conduct scenario analysis and stress testing. CBA will also

develop key risk indicators to monitor climate-related and environmental risks. CBA will act on preventing greenwashing activities. **Climate-related and environmental risk assessment will be conducted in three phases by CBA:**

- 1) preparation phase, where dedicated project team will be established, quantitative and qualitative data will be collected through interviews and surveys;
- 2) analytical phase, where collected information and data will be assessed and exposures will be determined, scenario analysis and stress test will be run;
- 3) concluding phase, CBA will draw main conclusions and will determine supervisory response, including recommendations and will share with relevant stakeholders.

**CBA will encourage financial intermediaries to incorporate climate-related risks and ESG factors into their business strategy, corporate governance, risk management, scenario analysis and stress testing.** Changes in the regulatory framework mainly concern the following directions:

Corporate governance	<ul style="list-style-type: none"> <li>- The governing bodies, including the Supervisory Board and the Management Board, are aware of the impact of climate and ESG risks on the long-term business model of the financial institution and managing these risks accordingly</li> <li>- Defining powers and responsibilities for managing climate and ESG risks</li> <li>- Ensuring effective monitoring when addressing climate and ESG risks</li> </ul>
Business strategy	<ul style="list-style-type: none"> <li>- Defining a strategic vision to determine the long-term impact of climate and ESG risks on the business model of financial institutions</li> <li>- Determination of the implementation mechanisms of the strategy for climate and ESG risks, integration into companies and products</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>- The risk identification process should cover short and long-term risks and be future oriented</li> <li>- Identifying the current and potential impacts of physical and transition risks on customers, partners and investors in the risk assessment process</li> <li>- Using quantitative and qualitative tools to monitor sensitivity to climate and ESG risks and establish an appropriate accountability system</li> <li>- Prepare a risk mitigation plan for the risks with high potential impact</li> </ul>
Stress test and scenario analysis	<ul style="list-style-type: none"> <li>- Conducting scenario analyzes (quantitative and qualitative) to verify the long-term stability of the business model and capitalization in the event of possible drastic changes</li> <li>- Determination of the sensitivity to climate risks and their impact on the capital</li> </ul>

## Pillar 4. Ensuring market transparency and discipline

**Disclosures are important to ensure market transparency and discipline about climate related and ESG risks.** From this perspective, CBA will define quantitative and qualitative metrics to be disclosed about the climate related and ESG risks. Provision of common and consistent information on determined climate related and ESG metrics will make aware the financial intermediaries aware of the risks and also will allow peer benchmarking in terms of risk management. CBA will encourage banks and other financial intermediaries on climate and climate related and environmental risks disclosure considering best practice in this area, especially TCFD principles ([Figure 5](#)). To contribute market transparency and discipline CBA will publish implementation status of this roadmap as well on a periodic basis.

**Figure 5. Recommended disclosures by TCFD**

Governance	
Disclose the organization's governance around climate-related risks and opportunities	<ul style="list-style-type: none"> <li>Describe the board's oversight of climate-related risks and opportunities</li> <li>Describe management's role in assessing and managing climate-related risks and opportunities.</li> </ul>
Strategy	
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material	<ul style="list-style-type: none"> <li>Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</li> <li>Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</li> </ul>
Risk management	
Disclose how the organization identifies, assesses, and manages climate-related risks	<ul style="list-style-type: none"> <li>Describe the organization's processes for identifying and assessing climate-related risks.</li> <li>Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management</li> </ul>





## Action Plan for Sustainable Finance Roadmap

N	Actions/ Milestones	2023				2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Pillar 1. Raising awareness and capacity building in sustainable finance</b>																	
1.1.	Establishing Expert Group with the participation of relevant stakeholders, to coordinate and ensure implementation of the actions and milestones determined in the Roadmap																
1.2.	Participating in the international initiatives and collaborating with other central banks or financial supervisors on sustainable finance	<i>On an ongoing basis</i>															
1.3.	Raising awareness within all staff and capacity building of supervisors	<i>On an ongoing basis</i>															
1.4.	Initiating capacity development and knowledge sharing events for financial intermediaries engaging with relevant financial sector associations	<i>On an ongoing basis</i>															
1.5.	Building knowledge hub about sustainable finance on CBA's website																
<b>Pillar 2. Enabling environment for sustainable finance flows</b>																	

2.1.	Developing sustainable finance guidance and publishing for financial intermediaries																
2.2.	Developing taxonomy for sustainable finance and consulting with key stakeholders																
2.3.	Fostering green and sustainable finance ecosystem (green bonds, green loans and other sustainability linked financial instruments) and developing relevant regulatory framework																
2.4.	Conducting research and impact analysis of greening CBA's activities																
2.5.	Exploring issuing green sovereign bonds with relevant government agency																
<b>Pillar 3. Integrating climate-related and ESG factors into risk management</b>																	
3.1.	Conducting climate related and environmental risk assessment, including stress testing and scenario analysis	<i>On an ongoing basis</i>															
3.2.	Incorporating climate and ESG risks into the CBA's supervisory framework																
3.3.	Integration of climate related and ESG considerations into financial intermediaries' business strategy, governance arrangements and risk management and also make the arrangements, processes, mechanisms and strategies to be implemented by the financial institutions to identify, assess and manage climate related and ESG risks																

Pillar 4. Ensuring market transparency and discipline																
4.1.	Communicating climate-related and environmental risk related disclosure expectations with financial intermediaries															
4.2.	Determining key metrics and data (both qualitative and quantitative) for climate related and ESG risks disclosure purposes and incorporating into the regulatory framework															
4.3.	Publishing progress status of the implementation of this Roadmap (on a periodic basis)															
4.4.	Disclosure of climate related and ESG risk metrics by banks and other financial institutions															

**Notes:**

- 1) In the first half of 2027, the results of implementation of the Roadmap will be evaluated and a new strategy will be developed.
- 2) Action 1.1. will be implemented in cooperation with ME, MEn, MF, MENR, ABA, AAI, ASMPA and other respective agencies.
- 3) Action 1.4. will be implemented in cooperation with international partners and associations.
- 4) Action 2.2. will be implemented in cooperation with ME, MENR, MEn, ABA, AAI, ASMPA.
- 5) Action 2.5. will be implemented in cooperation with respective government agencies.