

VLADIMIR GORCHAKOV
 Head of Sustainability Risks
 Assessment Group

+7 (495) 139 04 80, ext. 132
 vladimir.gorchakov@acra-ratings.ru

Media contact:

SVETLANA PANICHEVA

+7 (495) 139 04 80, ext. 169
 svetlana.panicheva@acra-ratings.ru

SUSTAINABLE DEVELOPMENT | RUSSIA

THE RUSSIAN ESG BOND MARKET IS ALIVE

ESG bond¹ issuance forecast for Russia

ACRA's updated forecast proceeds from the assumption that new ESG bonds worth no less than RUB 70 bln will be placed in 2022 (including previous successful placements).

In 2022, the volume of new exchange placements is expected to be 44.7% lower than in 2021; last year saw records both in terms of the size and number of ESG issues in the Russian market.

A faster and more significant reduction of the key rate by the Bank of Russia, the entry into the market of several large ESG bond issuers with state participation, as well as the relative normalization of the situation in the domestic securities market compared with the spring provide grounds for raising the forecast for the volume of ESG bonds to be issued by the end of 2022 by more than 10 times compared to the forecast as of this spring.

In its forecast published in June, ACRA proceeded from conservative assumptions regarding the development of the ESG agenda in Russia in general and the bond market in this segment in particular. The agency assumed that at least seven ESG bond issuers (including green, adaptation, and sustainable development bonds) with a total volume of at least RUB 6 bln would enter the market in 2022.

In view of the size of placements in the Sustainability Sector of the Moscow Exchange in Q2 2022 (RUB 6.7 bln of social bonds of DOM.RF Mortgage Agent LLC totaling and RUB 50 bln of green bonds of State Development Corporate), as well as the plans of a number of issuers to make further placements, ACRA expects new ESG bonds worth at least RUB 70 bln to be placed this year (including previous successful placements).

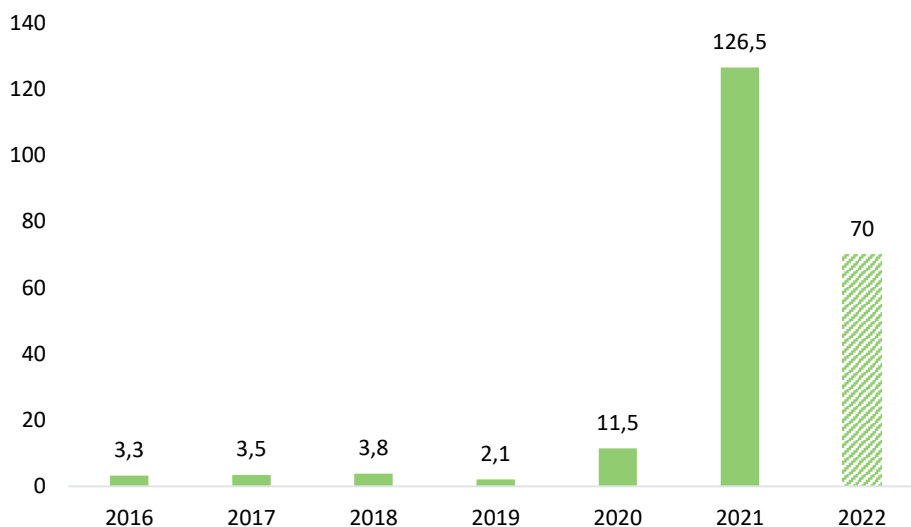
In 2021, placements of green, social, and adaptation bonds by seven issuers in the Sustainability Sector of the Moscow Exchange amounted to RUB 126.5 bln (this indicator does not include RUB 20 bln of bonds placed by Specialized Project Finance Company Infrastructure Bonds which belong to the National Projects Segment; the secondary listing of social bonds of SovCom Capital worth USD 300 mln; and RUB 2 bln of commercial bonds of EcoLine-VtorPlast LLC, which were not placed in the Sustainability Sector).

In 2022, the volume of new exchange placements is expected to be 44.7% lower than in 2021; last year saw records both in terms of the size and number of ESG bond issues in the national market. It should be taken into account that more than half of the bonds placed in 2021 were green bonds of the Moscow Government issued in May 2021 (RUB 70 bln).

ACRA expects the Russian ESG bond market to be dominated by state-owned companies in 2022, including due to the successful issue of green bonds by State Development Corporation VEB.RF. Several more major placements of green bonds by companies with state participation are expected to take place by the end of the year. Placements by private issuers will be much smaller and carried out by banks and companies operating in the real estate industry.

¹ For the purposes of this analytical commentary, ESG bonds are understood as green, social and adaptation bonds, sustainable development bonds, and also sustainability linked bonds.

Figure 1. Volume of placements in the Sustainable Development Sector of the Moscow Exchange², RUB bln



Sources: Moscow Exchange, ACRA

With regard to types of ESG bonds, about two-thirds of the issue volume this year, according to ACRA's projections, will fall on green bonds in the national definition (in accordance with the criteria set forth by Decree of the Government of the Russian Federation No. 1587). The remaining portion will be social bonds and, new to the Russian market, sustainable development bonds. At the same time, the high concentration of the market will remain, since 70% of new bonds will be issued by one or two issuers.

Further development of the ESG market will largely depend on the conditions in the bond market as a whole, the stance of the state and key stakeholders with regard to the ESG agenda, and potential regulatory easing for issuers of ESG bonds. An additional incentive for the development of the ESG bond market may be provided by amendments to the national taxonomy for green and adaptation projects, as well as the adoption of the national taxonomy for social projects in 2022.

In H1 2022, the volume of new issuances in the global GSS+ market dropped by 27% y-o-y, and by the end of the year, its growth rates are likely to be close to zero.

On the back of increasing geopolitical tensions and interest rate hikes by central banks in various countries, the global ESG bond market **also dropped in the first half of 2022, and by the end of the year, its growth rates are likely to be close to zero.**

According to the Climate Bond Initiative (CBI), globally, the volume of new issuances of GSS+³ bonds decreased in H1 2022 by 27% y-o-y (Fig. 2) and amounted to USD 417.8 bln. The largest issue was completed in January 2022, when the International Bank for Reconstruction and Development issued a USD 7.2 bln sustainable development bond.

² Only ruble-denominated green, social and adaptation bonds included in the Sustainability Sector of the Moscow Exchange were taken into account (the bonds of the Transport Concession Company were included in this sector after their placement on the exchange). Placement volumes are displayed in accordance with the dates of placement of bonds on the exchange, and not in accordance with the dates of their inclusion in the Sustainability Sector of the Moscow Exchange. RUB 20 bln of bonds of SPFC Infrastructure Bonds, which belong to the segment of national projects, and USD 300 mln of social Eurobonds of SovCom Capital were not taken into account.

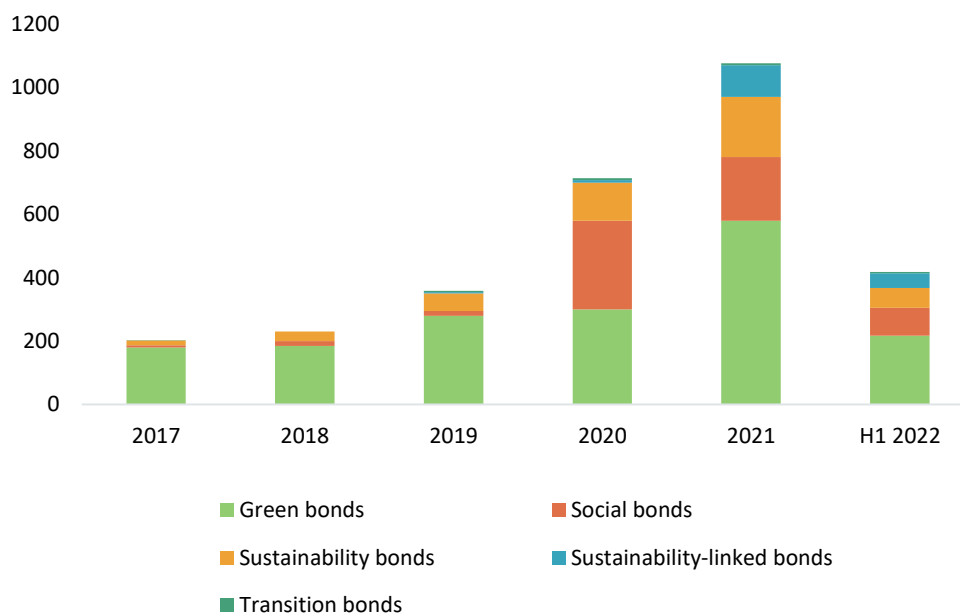
³ According to the CBI's definition, GSS+ bonds include the following bond types: green bonds, social bonds, sustainability bonds, sustainability-linked bonds (SLB), and transition bonds.

As in all previous periods shown in *Fig. 2*, the bulk of GSS+ bonds issued in the first half of this year were green bonds, which accounted for 52% of new issues. They were followed by social bonds and sustainable development bonds at 21% and 15%, respectively. 11% of the issues were sustainability-linked bonds, and less than 1% were transition bonds, which is a new type of instrument.

Issue volumes declined not only in H1 2022, but over the past two quarters of this year as well, with the total volume of new issues in Q2 2022 amounting to USD 192.4 bln compared to USD 225.5 bln in Q1. Note that green bonds were the only instrument whose issue volume increased in the second quarter.

Given the continuing volatility in financial markets, the expected continuation of the rate growth cycle, and the likely recession in a number of developed economies, the total issue volume of GSS+ bonds this year is expected to be at or slightly lower than the 2021 level.

Figure 2. Issue volume of GSS+ bonds certified by the CBI, USD bln



Source: CBI

(C) 2022

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website — www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website — www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.