



National Bank
of Ukraine



WHITE PAPER

on Managing Environmental, Social,
and Governance (ESG) Risks
in the Financial Sector

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Abbreviations

CRD	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
CRR	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012
CSRD	Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 as regards corporate sustainability reporting
CSDDD	Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence
ESRS	European Sustainability Reporting Standards
SFDR	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector
ESG	Environmental, social, and governance
EU	European Union
NBU	National Bank of Ukraine
NSSMC	National Securities and Stock Market Commission
NBFIs	Non-bank financial institutions
GTO	Green Transition Office

SECTION I. Essence of ESG Risks

Global climate and social processes affect all areas of activity of households, businesses, financial institutions, regulators, and the state as a whole. Taking into account the course of these processes and understanding the opportunities they provide and the risks they pose, as well as the impact of businesses, including financial institutions, on households and the environment is essential to ensure sustainable development.

In this document, the National Bank of Ukraine (NBU) outlines its vision of the future state of the financial sector that will promote sustainable development and mitigate the impact of environmental, social, and governance (ESG) risks on the functioning of the financial sector and the economy as a whole in order to maintain financial stability.

In the context of this document, ESG risks are the risks of any adverse financial impact on a financial institution arising from the current or potential impact of ESG factors on the financial institution, its counterparties, or its assets. The peculiarity of financial institutions is the dual impact of ESG risks on their operations. On the one hand, ESG risks can directly affect their operations (e.g., damage to a financial institution's building as a result of war or natural disaster). On the other hand, the risks are also inherent in the activities of the financial institution's clients (changes in the market, interruptions in the provision of banking products or services), which may lead to the materialization of more traditional risks, such as credit and market risks. At the same time, the impact of financial institutions on the development of ESG factors is also twofold: through the business activities of the institution itself and through the activities of its clients. ESG factors are environmental, social, and governance factors that may have a positive or negative impact on the financial performance or solvency of a financial institution and its counterparties, the state, or an individual. While ESG factors can have both positive and negative impacts on institutions, this paper focuses on preventing the negative impacts.

Components of ESG-conscious behavior

E (Environmental)

Environmental awareness, responsible use of resources, protection of the environment to reduce one's climate footprint

S (Social)

Establishing ethical relations with society: employees, customers, business partners, and local communities

Ensuring proper working conditions and fair pay, inclusiveness for employees and clients, interaction with communities, satisfaction of needs and protection of consumer rights, fair competition, and market conduct

Ensuring occupational health and safety

G (Governance)

Ensuring that an adequate and effective management system is in place that, among other things, facilitates components E and S

Ensuring that sustainable development goals are met amid the transition to a low-carbon economy model

Ensuring a proper and transparent governance framework that minimizes bribery, fraud, conflicts of interest, etc.

Most often, ESG risks of financial institutions materialize through the traditional categories of financial risks (credit, market, liquidity, and underwriting risks), as well as operational and reputational risks. For example, the introduction of a higher tax on greenhouse gas emissions could lead to a deterioration in the solvency of polluting companies. This would increase credit risk for lenders and investors. Natural disasters or unforeseen regulatory changes in the field of ESG risk management can also lead to fluctuations in the value of securities and the materialization of market risk for investors. The growing frequency of natural disasters leads to an increase in insurance claim payments, which could threaten the sustainability of insurance companies. Financing activities that lead to land

¹ The SFDR uses a similar but broader concept of "sustainability factors," which covers environmental, social, and labor issues, human rights, anti-corruption, and anti-bribery.

degradation, water pollution, displacement of local communities, or neglect of labor conditions – all of this carries not only reputational risks for the banks, but also financial risks: due to possible subsequent fines, lawsuits, and problems with borrowers' assets. Failure to protect employee rights or comply with inclusion requirements will also result in reputational risks, fines, and lawsuits. So, ultimately, the manifestation of ESG risks will have financial implications. Accordingly, despite the specifics of ESG risks, it is common and natural to take into account their impact in the overall financial and operational risk management system of financial institutions.

Although the size, specificity, and manifestation of risks may vary depending on the type of activity, most financial institutions are exposed to ESG risks in one way or another. Therefore, ESG risk management is important for both the banks and NBFIs.

During the public discussion of the White Paper, the NBU received a number of questions and suggestions for clarifying the document, which demonstrate the financial sector's interest in developing sustainable finance in Ukraine. At the same time, the White Paper, which outlines a general vision of the sector's prospective state, cannot answer all the questions raised or detail future regulatory decisions. The relevant detailed requirements and recommendations will be contained in the regulations that the NBU will develop to implement the White Paper and further discuss with the sector.

Illustrating ESG risks through a matrix: the role of the financial sector and regulators*

Entity	Consequences of ESG risks materialization for the entity			Measures to ease the risks and their consequences, and to use opportunities (G)
	Environmental (E)		Social (S)	
	Physical (climate)	Transition (climate)		
Financial institutions	<ul style="list-style-type: none"> ■ Loss of assets due to natural disasters ■ Business continuity disruptions and reputational risks ■ Increased financial risks as adverse events occur for clients ■ Growth in insurance claim payments as insured events materialize (for insurers) ■ Supply chain disruptions 	<ul style="list-style-type: none"> ■ Inability to do business due to failure to adjust to new conditions ■ Loss of income from doing business ■ Deterioration in quality, impairment, and loss of economic benefits due to the inability/decrease in the ability to use the assets ■ Additional costs ■ Changes in supply and demand for financial products ■ Legislative influence within the framework of implementing sustainable development or controlling activities that harm the environment and society 	<ul style="list-style-type: none"> ■ Loss of jobs ■ Loss of revenue or profitability ■ High staff turnover because of inadequate working conditions ■ The creditor's loss of market position/clients and income as a result of inadequate pay and working conditions or non-compliance with service provision inclusiveness (equality of access) principles 	<ul style="list-style-type: none"> ■ Good governance, including internal control and risk management systems, and corporate culture ■ Identification of the target audience for banking products ■ Existence of strategic documents for ESG risk management ■ Implementation of strategic documents in the risk management system, remuneration system, and creation of appropriate conditions for the implementation of strategic tasks, including staff training ■ Proper assessment of ESG risks both in its own operations and that resulting from customer financing ■ Effective information interaction with clients, proper assessment of their ESG profile, and provision of recommendations for compliance with the ESG policy ■ Prevention of greenwashing practices ■ Proper disclosure of information on ESG risks and implementation of strategic ESG goals ■ Anti-corruption and anti-fraud measures
<ul style="list-style-type: none"> ■ Risks of loss of liquidity and capital; threats to solvency and asset quality ■ Reputational losses 				
Financial regulators	<ul style="list-style-type: none"> ■ Loss and of assets and scarcity of resources due to natural disasters ■ Disruption of business continuity ■ Loss of contact with some supervised financial institutions due to disruptions to their activities 	<ul style="list-style-type: none"> ■ Inadequate functioning by regulators due to the financial sector lagging behind the country's green transition ■ Inadequate functioning by the sector because of insufficient control over compliance with ESG risk requirements ■ The sector's inadequate involvement in compliance with the ESG policy 	<ul style="list-style-type: none"> ■ High staff turnover due to the failure to fully ensure proper working conditions, rights and freedoms, and adequate remuneration ■ Impossibility of carrying out activities in line with new conditions 	<ul style="list-style-type: none"> ■ Formulation of the ESG Policy for the Financial Sector in coordination with the plans of other regulators/authorities ■ Setting requirements for the integration of ESG factors into strategic documents, corporate governance and risk assessment systems, and information disclosure ■ Stimulating the sector to create products with better terms – sustainable products – to spur ESG development ■ Developing methodology guidelines for inclusive provision of financial services ■ Implementation of the National Strategy for Financial Literacy Development until 2030 ■ Determination of own ESG risk profile and own ESG risk management policy ■ Drafting documents to support inclusion, in particular an action plan for reintegration, adaptation, and assistance to war veterans, and support of other socially vulnerable groups at the NBU ■ Anti-corruption and anti-fraud measures
<ul style="list-style-type: none"> ■ Risks to financial stability 				

* Each group of entities faces a unique set of ESG risks and must develop specific ESG solutions and policies for sustainable development, which is represented by the ESG risk matrix, which shows the consequences of E and S risks for each category of agents and ways to reduce these risks and open up opportunities through the G-component. Special processes and required documents have already been developed for proper corporate governance (G) at financial institutions. Corporate governance at the NBU is also adequate. So, the main attention has shifted away from analysis of G risks and toward management of other risks through effective corporate governance. For financial institutions and regulators, ESG risks arise both from their activities as standalone economic units and from the presence or absence of their impact on other entities, a feature highlighted in the table.

SECTION II. Preconditions for ESG Risk Management in the Financial Sector of Ukraine

1. Level of ESG Risks in the Financial Sector of Ukraine

Ukrainian financial institutions, especially the banks, are already experiencing the pressure of ESG risks. For example, according to a survey on systemic risks, about a third of financial institutions consider climate threats, which are one of the key components of environmental risks, to be high or medium. Almost three-quarters of large banks surveyed by the NBU in May 2024 said that climate change was already affecting their operations. Two-thirds of the banks surveyed in April 2025 reported about an impact of ESG risks in general. These are just a few examples that undoubtedly demonstrate that financial institutions are aware of the importance of ESG risks and processes. Without a proper response, ESG risks can become systemic.

The financial sector is also just beginning to take these risks into account in its business processes, as evidenced by the results of a survey on ESG risk management in banks conducted in April 2025. Two-thirds of the banks surveyed said that these risks were already having a negative impact on their operations, mainly due to the quality of their corporate loan portfolios and collateral value. So far, the banks have taken only the first steps to manage these risks. In particular, two-thirds of the banks either already have or are developing exclusion lists comprising economic activities that are not subject to lending, either in general or within certain areas or in the case of participation in lending support programs. Half of the banks have developed strategic documents for managing ESG risks, and some have already identified a responsible unit. At the same time, most banks do not yet plan to single out ESG risks in their risk profiles, but consider them solely as drivers of credit or operational risks.

Russia's full-scale war against Ukraine has only exacerbated ESG risks. In particular, the state of the environment has deteriorated as a result of pollution and destruction, primarily of energy infrastructure, and mining of the land fund of Ukraine that was under temporary occupation. The war has also aggravated social challenges such as migration (internal displacement and massive migration abroad) and increased the need to make financial services more inclusive, particularly for military personnel and veterans. In view of this, the development of policies and procedures for managing ESG risks in financial institutions has become an urgent need. At the same time, further strengthening of Ukraine's defense capabilities remains a priority, which leads to a number of restrictions on the activities of financial institutions, including the implementation of ESG standards. Accordingly, further measures to introduce an ESG risk management system in the financial sector should be based on a balance between achieving sustainable development and the priority of strengthening the country's defense capabilities.

2. State of ESG Regulation in Ukraine

Ukraine is only at the initial stage of implementing elements of sustainable development in the economic sphere. In 2024, the government approved the National Energy and Climate Plan for the period up to 2030. In 2024, the Strategy for the Implementation of Sustainability Reporting by Enterprises was also adopted, and will also apply to financial institutions. These documents provide an impetus for further implementation of more concrete steps. In February–March 2025, the Ministry of Finance of Ukraine published for public discussion the draft Law of Ukraine On Amendments to the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” with Regard to the Introduction of Sustainability Reporting and the draft Law of Ukraine On Amendments to the Law of Ukraine “On Audit of Financial Statements and Auditing” and to Certain Laws of Ukraine with Regard to Improving Legislation in the Field of Auditing to regulate the provision of assurance on sustainable development.

Another key development should be the introduction of a framework for classifying activities in accordance with ESG standards – the Taxonomy for Sustainable Activities with relevant technical criteria. According to the course toward European integration, the basis for this Taxonomy should be the relevant EU document (see the next section for more details). Pursuant to these documents, Ukraine is to integrate environmental elements into reforms in energy, agriculture, and SME business, and take other actions for green transition. Implementation of these measures will require concerted action by a number of institutions implementing policies in the relevant areas. In 2024, the Green Transition Office was established under the Ministry of Economy to create conditions for the growth of Ukraine's economy through a green transformation without compromising businesses' competitiveness.

² Available at: <https://me.gov.ua/view/bb0b9ef5-ea96-4b8a-8f2f-471faf32c9df>

³ Available at: <https://zakon.rada.gov.ua/laws/show/1015-2024-%D1%80#Text>

The absence of documents that define a nationwide framework for the implementation of cross-sectoral ESG risk management standards slows this process for the financial sector. Therefore, there are currently no regulatory requirements for the management of ESG risks by financial institutions. However, the dynamics of reforms at the country level creates prerequisites for faster and more effective development of ESG risk management in the financial sector.

Ukraine's international cooperation encourages further implementation of ESG standards, particularly in the financial sector. Ukraine Facility – the EU's financial support program for Ukraine – contains a number of tasks and deadlines that correspond to strategic tasks in the area of ESG. Implementation of these reforms will unlock significant amounts of financial support and help bring Ukrainian production and ESG risk management practices closer to the best European standards.

One of the important aspects of implementing ESG risk management systems is the integration of social and environmental standards (ESMS) into lending support programs implemented by the Business Development Fund and the Partial Credit Guarantee Fund in Agriculture (hereinafter referred to as the "Funds"). Starting from December 2024, the banks wishing to lend to agricultural enterprises under these support programs will need to develop and implement an Environmental and Social Management System to ensure the identification, assessment, management, monitoring, and reporting of environmental and social risks. Such a system involves the development of a strategic document, clearly defined procedures for conducting a comprehensive environmental and social assessment of projects and clients' activities, and mechanisms for external communications when considering complaints from stakeholders or interested parties. The standards according to which the Funds assess the compliance of banks and clients with environmental and social risk management requirements were developed with the assistance of the World Bank based on its own set of 10 environmental and social standards. Almost all banks participating in the programs have adopted and published exclusion lists of economic activities that they do not finance as part of their participation in the respective programs. This approach sets a consistent background for the gradual practical implementation of ESG standards in general for financial institutions and their clients. After all, compliance with environmental and social standards at this stage provides benefits of access to cheaper financing and risk coverage instruments, but non-compliance with the relevant standards does not result in a restriction of access to financing in general. At the same time, this first important step should be supported by a systemic regulatory policy.

The NBU prepared the first version of the Sustainable Finance Development Policy back in 2021. However, due to the full-scale war, the implementation of the measures envisaged in this document was suspended, and a number of planned steps became irrelevant. At the same time, regulation in the European Union continued to evolve. With this in mind, in September 2024, the NBU presented an updated concept and stages of development and implementation of the Sustainable Development Policy for the Financial Sector. This White Paper is one of the stages of implementing the concept, offering a vision of the state of ESG risk management in financial institutions over the course of the next five years, as well as further regulatory approaches to the ESG policy in the financial sector. The updated sustainable development policy for the financial sector, which the NBU plans to develop in early 2026, will be based on this White Paper.

3. NBU Mandate and Interaction with Other Bodies

The Law defines promoting financial stability among the functions of the NBU defined. Considering this goal, the NBU sets requirements for banks and non-bank financial institutions (NBFIs), and regulates and supervises them. Additionally, the NBU is a leading participant in Ukraine's integration into the EU in the financial sector. Taking into account the role of ESG risks for the activities of financial institutions, the NBU, following the example of other European regulators, will set requirements for ESG risk management in financial institutions and supervise them considering the ESG aspect. The NBU will continue to analyze the impact of these risks on the financial sector's activities.

The ESG policy for the financial sector is closely intertwined with a number of other strategic documents and plans of the NBU, including the National Financial Literacy Development Strategy until 2030, the NBU's recommendations on inclusive financial service provision in Ukrainian institutions, and recommendations for financial institutions as employers for developing financial inclusion and reintegrating war veterans in Ukraine. Given that these plans are regulated by other documents, this White Paper focuses on ESG risk management.

⁴In accordance with the Resolution of the Cabinet of Ministers of Ukraine No. 28 On Provision of State Financial Assistance dated 24 January 2020 (as amended).

⁵The World Bank's standards are available at: <https://thedocs.worldbank.org/en/doc/837721522762050108-0290022018/original/ESFFramework.pdf>

At the same time, considering the distribution of regulatory powers in Ukraine, a part of European standards in the ESG area in the financial sector should be established by the NSSMC (National Securities and Stock Market Commission) and other state institutions. The NBU will cooperate with relevant institutions for the coherent implementation of ESG risk management requirements by financial institutions.

SECTION III. ESG Policy in the EU – A Direction for Regulatory Development in Ukraine

Various countries and organizations propose their own approaches to ESG risk management systems. For Ukraine, given its integration into the European Union, European rules serve as a guide. Despite significant and long-standing attention to adherence to ESG principles and management of related risks, particularly in the financial sector, the regulatory and supervisory system in this area in the EU is still in its stage of formation. Currently, the focus of European regulators is on the environmental component, primarily climate risks, while the social component is still under development. For example, in the European Union, the European Green Deal was announced back in 2019, which envisions a transition to a climate-neutral Europe by 2050.

To better structure the requirements defined in the ESG area, they should be divided into three main components:

1. Requirements for products and activities. This component includes a set of approaches and requirements for assessing the activities of economic agents and financial products created to finance them, in the context of adhering to sustainable development principles and the level of ESG risks. As mentioned above, various ESG components are elaborated to different extents in the EU. Given the leading role of the environmental component, the key element of this component is the European green taxonomy, approved in 2020. It establishes clear technical criteria for activities that can be considered environmentally sustainable across various economic sectors. However, uncertainty still prevails in the EU regarding the social taxonomy, the development of which has been postponed.

The EU has also created tools for identifying green companies and financing products for green activities:

- a system of benchmarks (transition benchmark and Paris-aligned benchmark) establishes criteria for financial products to meet sustainable development goals. Investors can use this system to identify investment targets .
 - the Regulation on transparency and integrity of ESG rating activities . It defines rules for assigning ESG ratings to companies, giving investors and partners confidence in a company's adherence to sustainable development standards.
 - a standard for European green bonds and a regulation for the green bond market for investors interested in investing in green bonds
 - the Green Claims Directive , currently under development, which will allow financial products to be labeled green to combat greenwashing.
 - Most of the documents mentioned in this section are framework ones, covering a wider range of economic entities and instruments than financial institution instruments. That is why the European Commission and the European Securities and Markets Authority (ESMA) are responsible for their development.
2. Requirements for building a corporate governance and risk management framework. The Basel Committee on Banking Supervision was one of the first to develop its guidelines on managing climate (an ESG component) risks. In this area, the EU also already has specific requirements that directly concern the activities of financial institutions, primarily banks. Therefore, banking regulators developed those requirements. Key documents in this area are the European Central Bank (ECB) guidelines on climate risks and the European Banking Authority (EBA) guidelines on ESG risks. The ECB issued its guidelines in 2020 and has since assessed the quality of their implementation by banks twice.

CRD VI and CRR III contain additional requirements, which came into effect in mid-2024. In particular, banks must account for ESG factors in their internal stress tests, and timely revalue collateral in response to climate change. They are also required to disclose information about ESG risks under Pillar III. The updated CRD VI also requires considering ESG risks in the short, medium, and long term within the internal capital adequacy assessment process (ICAAP), and covering these risks by capital. Furthermore, from 2026, banks in the EU will be obliged to submit climate neutrality transition plans to the regulator for approval. In fact, these plans will become full-fledged elements of the supervisory process.

⁶ Available at: <https://eur-lex.europa.eu/eli/reg/2016/1011/oj/eng>

⁷ Available at: <https://eur-lex.europa.eu/eli/reg/2024/3005/oj/eng>

⁸ Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32023R2631>

⁹ Available at: https://environment.ec.europa.eu/publications/proposal-directive-green-claims_en

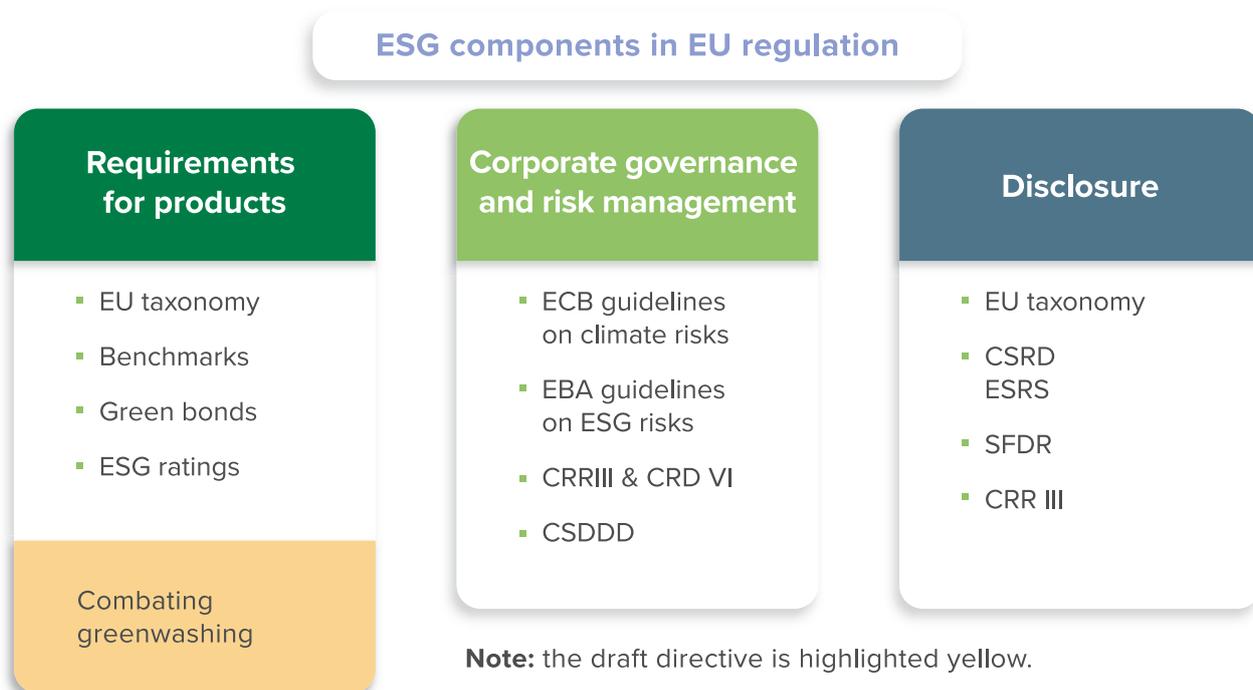
The EU also has the CSDDD Directive, which introduces due diligence procedures for companies to identify actual or potential risks and harm to human rights and the environment. It also regulates processes and standards for reducing these risks.

As for insurers, Directive (EU) 2025/2 of the European Parliament and of the Council, which, among other things, addresses the assessment of climate risk as a component of ESG risks, came into force in January 2025.

3. Disclosure requirements. Such requirements are established in EU acquis not only for financial institutions but also for other economic entities:
 - The CSRD Directive applies to the entire corporate sector, including the financial sector. Companies to which the CSRD applies must report in accordance with the European Sustainability Reporting Standards (ESRS). These standards cover reporting for all large and, subsequently, medium-sized companies on ESG risks and opportunities. The CSRD establishes the principle of double materiality – an institution reports on both the impact of ESG factors on the business and the impact of the business on the environment and society.

An alternative to the CSRD is the standards developed under the auspices of the International Sustainability Standards Board – IFRS S1 and S2. They are used in such countries as Canada, Japan, and Singapore. However, their use in the EU and possible convergence with the CSRD remains a subject of discussion.

- The SFDR, since 2021, has additionally regulated requirements for the environmental and financial disclosure by financial market participants. This regulation requires financial institutions to classify assets by their level of compliance with the green taxonomy. Furthermore, Articles 8 and 9 of the regulation define the degree of the environmental friendliness of products. The SFDR also allows investors to properly assess how ESG risks are integrated into the investment decision-making process.
- 3) For the financial sector, the CRR also contains separate disclosure requirements. In addition, the EBA has developed taxonomy reporting templates adapted for banks.



In the European Union, the updating and improvement of ESG regulation is a continuous process. For example, in February 2025, draft amendments to the CSRD and CSDDD (the Omnibus project) was presented, aiming to reduce the administrative burden on economic entities, primarily small and medium-sized businesses (increasing the number of criteria by which companies fall into the list of companies that must submit sustainable development reports). The NBU continues to monitor changes in EU regulations and will be guided by updated standards for financial sector regulation.

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¹³ Available at: <https://eur-lex.europa.eu/eli/reg/2019/2088/oj/eng>

SECTION IV. Prospective Vision for ESG Risk Management in the Financial Sector of Ukraine

Given the existing benchmark regulatory requirements and the practice of their implementation in the EU, to build an effective ESG risk management system at the financial sector level, it is necessary to ensure the presence of all key elements of such a system in financial institutions that are most exposed to ESG risks or make the largest contribution to financing the economy. The key elements of an effective ESG risk management system include:

1. Existence of strategic documents on ESG risk management
2. Integration of ESG risk management into corporate governance and internal control systems
3. Ensuring proper assessment and management of ESG risks
4. Putting into place optimal processes for interaction with clients and
5. Proper disclosure on ESG risk management.

The following describes the vision of the prospective state of the financial sector in five years for all these five elements and the steps necessary to achieve it.

This prospective vision is based on the assumption that military and security risks are under control. If the situation changes, the NBU reserves the right to revise these plans and their timelines.

When establishing requirements, the NBU will be guided by the principle of proportionality, introducing higher requirements for those financial sector participants that have a greater impact on economic development and bear higher risks. Given the complexity of the challenges facing the sector, the process of integrating ESG risks into the financial sector's management systems will be phased. At the first stage, approximately during 2025–2026, the main steps, recommendations, and requirements will be addressed to banks; at the second stage, from 2026 to 2030, they will concern other socially important financial institutions that have a significant impact on sustainable development and higher exposure to ESG risks.

Financial institutions have developed and published strategic documents on ESG risk management

For proper ESG risk management, a financial institution must adopt and publish a strategic document on ESG risk management. This document may have different names (strategy, policy, and so on), but it must contain the following elements:

1. An assessment of the business environment and the structural changes it will undergo in the short, medium, and long term as a result of ESG factors
2. Disclosure of the dual role of the financial institution as a separate legal entity that has a direct ESG impact through its operations and as a provider of financing that influences the ESG area through client activities
3. An assessment of the impact of ESG risks on the viability of the financial institution's business model, including profitability and revenue sources, in the short, medium, and long term
4. An understanding of what opportunities ESG processes create for the institution and its clients
5. An understanding of how, as a result of ESG processes, the activities of financial institutions affect society and the environment throughout the entire value chain
6. Quantitative and qualitative ESG commitments of the institution, metrics, targets, and key performance indicators applied to individual business processes and portfolios, as well as rules for monitoring their implementation
7. Exclusion lists – types of activities that financial institutions do not finance in general, within specific activities, or when participating in certain lending support programs. These lists correspond to the economic and security situation in the country, as well as to defense needs. In particular, the exclusion list prohibits financing companies that finance terrorism, violate human rights, employees' rights, and moral and ethical standards, and so on, but does not limit the financing of industries critical to national defense and security.
8. Methodologies and results of calculating emissions scopes (1 and 2, 3 – in the medium term). Scope 1 emissions

include greenhouse gas emissions from sources controlled or owned by the institution; Scope 2 emissions include indirect greenhouse gas emissions from the use of purchased electricity, steam, heat, cooling, or other utilities consumed by the financial institution; Scope 3 emissions include all other indirect greenhouse gas emissions, including those resulting from loans granted.

NBU Plans:

1. Providing recommendations to banks on corporate governance, including the preparation of strategic documents on ESG risk management – Q4 2025
2. Preparation and discussion with market participants of draft regulations on ESG risk management:
 - Banking market – Q1 2026
 - Non-banking market – Q1 2027
3. Providing recommendations to non-bank financial institutions on the preparation of strategic documents – throughout 2026.

2. Financial institutions have implemented ESG risk management into their corporate governance and internal control systems

Financial institutions must define the place of ESG risks in the corporate governance system and appropriately integrate ESG risk management into their corporate governance and internal control systems.

At the highest level, the governing bodies of the financial institution (management board and supervisory board) must take ESG risks into account when designing the institution's overall business strategy and business goals, guided by the strategic document on ESG risk management.

ESG risk management must be incorporated into the internal control system and the financial institution's risk management process. For this purpose, institutions must identify persons responsible for the analysis and monitoring of these risks, and if necessary, establish separate units. The integration of ESG risks must be built on the best practices of the corporate governance system: the organizational structure of the ESG risk management system ensures a clear distribution of functions, duties, and powers for risk management among all entities of the risk management system, as well as among the institution's employees, and also provides for their responsibility in accordance with such distribution. Financial institutions must make sure they have qualified personnel to ensure effective ESG risk management, and that they train and educate specialists in this area.

Financial institutions have an internal reporting and escalation system for ESG risks, including reporting to senior management.

The institution's remuneration system ensures effective corporate governance and risk management, takes into account the institution's strategic goals, and promotes adherence to corporate values in the ESG area. The remuneration of members of the institution's governing bodies responsible for integrating ESG risks into the corporate governance system depends on the achievement of the institution's ESG goals. The remuneration policy encourages employees to act in the financial institution's best interests and not take excessive ESG risks.

Financial institutions must integrate management of ESG risks (those arising from interaction with clients and those arising from their economic activities) into all three lines of defense. The three lines of defense must be provided with all necessary human and funding to effectively perform their functions, taking into account ESG risk management.

The first line of defense (business units and support units) is responsible for establishing a dialogue with clients about their ESG profile and assessing the consistency of credit projects with the financial institution's ESG goals. The institution must put into place procedures for proper communication with clients, collect and conduct initial analysis of information regarding clients' ESG profiles. In addition to interacting with clients, business units must also adhere to the procedures developed within the financial institution to minimize environmental impact and properly manage the social and governance aspects of the financial institution's activities as a separate legal entity.

The second line of defense (risk management unit and compliance unit) must ensure that the risk limits established in the relevant documents are consistent with all aspects of the institution's risk appetite and business plan. Relevant personnel, including an ESG risk officer, if such a role is distinguished, must have sufficient experience

and skills to assess the ESG risks of clients and the financial institution itself.

The third line of defense (internal audit unit) must ensure the effectiveness of the internal control system and compliance with the requirements established for ESG components. The internal audit unit must ensure that the procedures defined in the second line of defense are sufficient to achieve the institution's goals and properly manage ESG risks, and that responsible persons adhere to these procedures.

The NBU's plans:

1. approving a draft regulation on ESG risk management at the banks – Q4 2026. The draft regulation will establish requirements for:
 - preparation of strategic documents
 - organizational structure of ESG risk management within the risk management system
 - assessment of significance of ESG risks
2. making recommendations to NBFIs on how to build a corporate ESG risk management system – during 2026
3. setting requirements for NBFIs to take ESG risks into account in the corporate governance system – Q1 2027.

3. Financial institutions properly assess ESG risks

Financial institutions should properly assess the level and extent of ESG risks in their operations. Based on such assessments, financial institutions should appropriately adjust and determine their risk appetite and risk profile and establish ESG risk limits. Performance targets embedded in the business model and business plans of financial institutions should reflect the results of risk assessments, including ESG risks.

If a specific ESG risk is material, it may be identified as a separate risk. However, within the framework of emerging international consensus, ESG risks are assessed through conventional types of risk. Financial institutions should therefore integrate ESG risks into their risk management system, especially into that of credit risk. At the decision-making stage and during the annual credit review, this should become an integral process, particularly for large clients.

If the banks recognize ESG risks as material, they are included in the internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP, respectively). As per EBA recommendations, the methodology for integrating ESG risks into ICAAP and ILAAP should take into account the size and complexity of the financial institution's operations. For insurers, significant ESG risks should be considered when assessing underwriting and operational risks, as well as liabilities and capital. NBFIs that are socially significant set limits on ESG risks and properly identify, assess, measure, and take action to minimize the impact of ESG risks.

Financial institutions should regularly assess ESG risks and make respective adjustments to their risk management system. Institutions should establish early-warning indicators for ESG risks and have procedures in place to take corrective and/or mitigating actions if limits are exceeded, including by adjusting the business strategy and risk management tools.

The NBU's plans:

1. include in the banks' Supervisory Review and Evaluation Process (SREP) the issue of whether they meet ESG risk management requirements – 2027
2. develop guidelines for ESG risk assessment by NBFIs (at the risk management level) – 2026
3. impose requirements for ESG risk assessment by NBFIs – 2027.

4. Financial institutions have implemented optimal processes for collecting, systematizing, and processing customer information

Financial institutions should actively communicate with clients about their ESG risks and develop questionnaires to assess these risks and support communication. Such questionnaires should be adapted to clients of different sizes and to specifics of their activities in order to have sufficient content to properly assess clients' ESG risks. Financial institutions should unify the core elements of the questionnaires and prepare guidelines to make it easier for clients to fill the questionnaires out.

Assessing the ESG risks of a client through questionnaires and other data collection methods should become a routine process that is carried out not only when onboarding clients, but also on a regular basis thereafter. To this end, financial institutions should compile a client reporting form that covers all ESG aspects of the client's activities in the reporting period. Submission of such reports must be included into the terms of loan agreements. The frequency of assessments is determined by the client's risk level. Financial institutions are actively involved in advising clients on how to achieve climate neutrality and in helping them do it. Financial institutions must monitor and control clients' compliance with established terms of financing.

At the same time, financial institutions must implement procedures for handling data necessary to monitor clients' compliance with financing terms and to manage ESG risks going forward. Specifically, procedures are expected to be designed in such a way that information is accumulated, systematized, and supplemented with available public data to support risk management processes, and that methodological documents on ESG risk management and control are developed. Data storage and processing systems must be integrated into the financial institution's overall data management system and IT infrastructure. Institutions should have mechanisms to verify data quality. Subsequently, information received by financial institutions from clients may be transferred to the regulator for risk analysis at the level of the financial institution and the financial system as a whole.

The NBU's plans:

1. participate in further processes to unify and simplify financial institutions' approaches to collecting data and surveying clients about ESG risks – during 2025
2. determine, together with the financial sector, a list of data to be provided to the NBU for assessing ESG risks at the sector level – Q1 2026
3. give recommendations to financial institutions on how to gather qualitative and quantitative data on ESG risks and mechanisms to verify data quality – during 2026–2027
4. participate in processes to unify NBFIs' approaches to collecting data and surveying clients about ESG risks – during 2025–2026
5. analyze how banks interact with counterparties as part of the supervisory process, in particular with regard to monitoring loans and investments for compliance with ESG criteria and preparing reporting in line with requirements and recommendations – 2027
6. provide recommendations to the Green Transition Office to take into account the specifics of the activities of banks and NBFIs when developing the Green Taxonomy – TBD.

5. Financial institutions disclose ESG risks

Financial institutions must report and publicly disclose the ESG risk profiles of their activities and those of their clients at least once a year. If a financial institution recognizes ESG risks as immaterial, then substantiated information regarding such a decision is disclosed.

Disclosure of the ESG profile is accompanied by the use of quantitative metrics, targets, key performance indicators, and other gauges outlined in the strategic documents of institutions. The institution should also disclose the methods and criteria used for assessing ESG risks.

Financial institutions publish sustainability reporting within the prescribed timeframes after the introduction of

such reporting at the legislative level. Financial institutions can use ESRS standards when designing an ESG risk management policy, collecting relevant data, and surveying clients, in order to reduce the need to overhaul their systems after the requirements for sustainable-development reporting are established at the legislative level.

In addition, financial institutions should disclose the ESG risks of projects that may potentially interest stakeholders and projects that have been found to have significant adverse ESG risks.

The NBU's plans:

1. provide clarifications about the publication by banks of their own strategic documents on ESG risks on their websites – Q4 2025
2. establish disclosure requirements for banks and NBFIs in accordance with the Strategy for the Introduction of Sustainable Development Reporting by Enterprises approved by Cabinet of Ministers of Ukraine Resolution No. 1015 dated 18 October 2024 – Q1 2026
3. develop a format for disclosure about the ESG risk profile of a financial institution – Q2 2026 (in line with government strategy)
4. introduce requirements for disclosure about the ESG risk profile of a financial institution in an established format – 2027.

Along with the imposition of ESG risk management requirements for financial institutions, the regulator will start assessing the implementation of relevant requirements and practices by banks. Going forward, evaluation of ESG risk management practices will become an integral element of the supervisory process.

The NBU, for its part, is in constant dialogue with the financial sector, authorities, international partners, and other stakeholders about the impact of ESG risks on the financial sector. The central bank analyzes them and publishes its assessments. There is an increasingly constructive dialogue with the ECB and other EU institutions regarding ESG requirements, standards, and best practices in the financial sector of the EU and Ukraine.

Glossary

Sustainable development of the financial sector is a concept that envisages the integration of economic, social, and environmental factors into the activities of financial institutions to establish financial prerequisites and investment decisions in order to achieve sustainable development goals.

Environmental, social, and governance (ESG) factors are environmental, social and governance matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual. ESG factors in the financial sector help determine how sustainable and responsible financial institutions or their investments are.

Environmental, social, and governance (ESG) risks are the risks of any negative financial impact on a financial institution arising from the current or potential impact of ESG factors on its counterparties or invested assets. ESG risks materialize through the traditional categories of risks of financial institutions (credit risk, market risk, operational and reputational risks, liquidity and funding risks). ESG risks in a financial institution's operations may affect the financial stability, reputation, and long-term success of the financial institution. In addition, ESG risks arise from the activities of financial institutions themselves as business entities.

Components of ESG risks:

environmental risks are the risks of any negative financial impact on the institution arising from the current or prospective impact of environmental factors on the counterparties or invested assets of such an institution, including factors related to the transition to the objectives set out in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council. Environmental risk includes both physical risk and transition risk.

climate risks (environmental risks component) are financial risks associated with the exposure of institutions to counterparties that may potentially contribute to or be affected by climate change. This could, for example, take the form of physical damage caused by extreme weather events or a decline in the value of the assets of a counterparty operating in carbon-intensive sectors subject to carbon taxation.

physical risks (climate risks component), as part of environmental risk, means the risk of any adverse financial impact on an institution as a result of current or prospective physical impacts of the environment on counterparties or the institution's invested assets. Physical risks can be classified as acute, if they arise as a result of climate and weather events and acute environmental destruction, or chronic, if they arise as a result of gradual changes in climate and weather conditions or gradual loss of ecosystem services.

transition risks (climate risks component), as part of environmental risk, means the risk of any negative financial impact on an institution as a result of the current or prospective impact of the transition to a sustainable economy on the institution's counterparties or invested assets.

social risks the risk of any adverse financial impact on the institution resulting from the current or prospective impact of social factors on its counterparties or invested assets.

governance risks – the risk of any adverse financial impact on the institution resulting from the current or prospective impact of management factors on counterparties or invested assets.

Sustainability report: a comprehensive document that covers all aspects of sustainable development (economic, environmental, social, governance) and describes achievements in these areas. It contains information necessary to understand the impact of a financial institution on sustainable development issues (how these issues affect the development, performance, and position of the financial institution).

Greenwashing is a practice whereby statements, declarations, actions or communications related to sustainable development do not clearly and fairly reflect the underlying sustainability profile of an institution, financial product or financial services. This practice may be misleading to consumers, investors or other market participants.

The EU Corporate Sustainability Reporting Directive (CSRD) is a directive that requires companies to disclose a certain amount of detailed information about their sustainability performance and related strategic implications. Disclosure requirements are set by the European Sustainability Reporting Standards (ESRS). Companies must assess material sustainability topics along the entire value chain and identify, from over 1,000 indicators, those that should be disclosed. Other disclosures consist of qualitative information, including how the company's corporate strategy takes into account opportunities and risks related to sustainable development.

The European Sustainability Reporting Standards (ESRS) are the EU's sustainability reporting standards covering a range of environmental, social, and governance (ESG) issues, including climate change, biodiversity, human rights, and more. The main purpose of the ESRS is to provide simple and intelligible information about sustainable development. The ESRS are an integral part of the CSRD. A package of 12 of these standards is currently in effect, with several additional ones currently under development and expected to be adopted. Five standards are dedicated to the environment, four to social issues, one to corporate governance, and two to general requirements.

The Sustainable Financial Services Disclosure Regulation (SFDR) sets out requirements for financial market participants to disclose information on sustainable development. The SFDR is also designed to enable investors to properly assess how sustainability risks are integrated into the investment decision-making process.