

Glossary of ESG Terms for the Financial Sector¹

(for prudential supervision purposes)

Carbon footprint is an indicator that measures the total volume of greenhouse gas emissions caused by the direct or indirect activities of an individual, an organization, an enterprise, a country².

Sustainable development goals mean a global set of 17 goals defined in Resolution No. 70/1 *Transforming Our World: the 2030 Agenda for Sustainable Development* (Agenda 2030) adopted by the UN General Assembly on 25 September 2015³. The sustainable development goals (SDGs) aim to end poverty, protect the planet, and ensure peaceful and prosperous lives for all. These goals cover a wide range of social, economic and environmental issues and aim to create a sustainable future.

The 17 sustainable development goals (SDGs) are⁴:

- 1) ending poverty
- 2) ending hunger, achieving food security, improving nutrition, and promoting sustainable agriculture
- 3) ensuring healthy lives and promoting well-being for all at all ages
- 4) ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all
- 5) achieving gender equality, empowering all women and girls
- 6) ensuring availability and sustainable management of water resources and sanitation
- 7) ensuring access to affordable, reliable, sustainable, and modern energy for all
- 8) promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all
- 9) building sustainable infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation
- 10) reducing inequality
- 11) making cities and human settlements inclusive, safe, resilient, and sustainable
- 12) ensuring a transition to rational consumption and production patterns
- 13) taking urgent measures to combat climate change and its impacts
- 14) conservation and rational use of oceans, seas, and marine resources for sustainable development
- 15) protecting and restoring rational use of terrestrial ecosystems, rational forest management, combating desertification, halting and reversing the land degradation, and halting biodiversity loss
- 16) promoting a peaceful and inclusive society for sustainable development, providing access to justice for all and building effective, accountable, and inclusive institutions at all levels
- 17) strengthening the means of implementation and revitalizing the Global Partnership for Sustainable Development.

These goals are integrated and indivisible, meaning that the achievement of each is essential for the successful implementation of the entire sustainable development agenda. They are focused on achieving a balance between economic growth, social justice, and environmental sustainability.

The SDGs of Ukraine for 2030 are benchmarks for developing forecasts, program documents, draft regulations to ensure a balanced economic, social, and environmental dimensions of sustainable development of Ukraine.

¹ According to NBU Ordinance of 09 March 2026 No. 702-ra. The terms in the Glossary are provided for the review and uniform understanding by financial sector participants. The document does not contain regulatory requirements and may be periodically updated.

² As defined by the State Environmental Inspectorate of Ukraine: <https://www.sw.dei.gov.ua/post/2851>.

³ Implemented in Ukraine by Presidential Decree No. 722/2019 *On the Sustainable Development Goals of Ukraine until 2030* dated 30 September 2019: <https://zakon.rada.gov.ua/laws/show/722/2019#Text>.

⁴ <https://www.president.gov.ua/documents/7222019-29825>.

Greenwashing means a practice of misleading customers, counterparties, consumers, investors, or other market participants by unclearly or unfairly reflecting sustainability goals or tasks in statements, declarations, actions, communications, or product/service offerings⁵. Greenwashing can cause reputational and financial risks, including legal risks, for the institutions involved, as well as affect the overall credibility of sustainable finance policies and products and have an adverse impact on the market⁶.

Corporate social responsibility (CSR) of a financial institution refers to a concept of integration of social, ethical and, to a certain extent, environmental principles into the activities of a financial institution on a voluntary basis. It implies that a financial institution assumes responsibility not only for the economic results of its activities, but also for its impact on society and, to some extent, the environment, both through managing its direct impact and through project financing. CSR involves acting not only in the interests of its shareholders, but is also taking into account the interests of all stakeholders, including employees, customers, suppliers, communities, and society as a whole.

Non-financial reporting means reporting that includes information on the non-financial aspects of a company's activities (social, environmental, governance, and ethical indicators). This type of reporting is intended to provide stakeholders (investors, customers, employees, partners, regulators, and society) with a comprehensive view of how the company affects society and the environment, as well as its responsibility to various stakeholders.

The main components of non-financial reporting

(the following is a generalized, non-exhaustive list that may be applicable to most companies):

1. Environmental indicators:

- 1) greenhouse gas emissions: information on CO₂ and other greenhouse gas emissions, strategies for their reduction, and the company's impact on climate change
- 2) resource consumption: data on the use of natural resources, such as water, energy, materials, and measures to improve the efficiency of their use
- 3) waste management: a description of the company's approaches to waste reduction, recycling and disposal.

2. Social indicators:

- 1) working conditions: information on the level of employment, working conditions, health and safety measures in the workplace
- 2) equality and diversity: description of policies and practices to ensure gender and age equality, combat discrimination, and support social and culture diversity
- 3) community engagement: description of interaction with local communities, charity projects, social initiatives and their impact on society.

3. Governance indicators:

- 1) corporate governance: information on the management structure, composition of the board of directors, approaches to risk management, transparency and accountability
- 2) anti-corruption measures: policies and practices aimed at preventing corruption, fraud, and other unethical practices
- 3) stakeholder engagement: a description of the process of interaction with shareholders, customers, employees, and other stakeholders.

⁵ Pursuant to NBU Board Decision of 3 February 2026 No. 31 On Approval of Amendments to Methodological Recommendations on Organization of Corporate Governance in Banks of Ukraine https://bank.gov.ua/ua/legislation/Decision_03022026_31-rsh.

⁶ https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2023/1055934/EBA%20progress%20report%20on%20greennwashing.pdf.

Examples of non-financial reporting:

- sustainability reporting: reporting that contains information on aspects of sustainable development in accordance with established sustainability reporting standards. According to the European Union (EU) acquis, sustainability reporting is included in the management report as a separate section.
- corporate social responsibility (CSR) report: a document that focuses on the social aspects of a company's activities, including social initiatives, working conditions, community engagement, etc.
- ESG report: a specialized report that focuses on environmental, social, and governance indicators, taking into account the requirements of investors and regulators.

Benefits of non-financial reporting:

- increased transparency: non-financial reporting as a tool for greater transparency to stakeholders, which helps to build trust and improve reputation
- attracting investment: investors and customers are increasingly paying attention to ESG factors, so those who provide complete non-financial reporting can attract more investment
- risk management: non-financial reporting allows for better identification and management of risks related to environmental, social, and governance factors
- competitive advantage: implementation of sustainable development practices and their reflection in non-financial reporting can increase competitiveness in the market.

Sustainable development policy of a financial institution is a document aimed at ensuring the long-term sustainability of the bank, taking into account the principle of double materiality, and establishing principles, as well as adequate and clear specific mechanisms for implementing the SDGs identified by the bank. This policy establishes the rules of the institution's activities regarding the integration of sustainable development principles into specific aspects of its operations and is aimed at ensuring long-term financial sustainability, taking into account environmental, social, and governance (ESG) factors when making decisions. It reflects the institution's commitment to promoting sustainable development through responsible financing, investment, and management of its operations.

Double materiality⁷ is the assessment of the materiality of ESG factors over the short-, medium-, and long-term, carried out in two dimensions:

- assessment of the impact of ESG factors on the financial position of a financial institution/customer/counterparty, their performance, cash flows, access to funding sources, and the economic value of capital [financial materiality]
- assessment of the impact of activities of a financial institution/customer/counterparty on the economy, society, environment, and their customers/counterparties/consumers [impact materiality].

Sustainable finance⁸ refers to the process of making financial decisions on lending/investing and/or raising funds (issuing own debt instruments), taking into account ESG factors and with the aim of contributing to the achievement of the SDGs.

In the context of EU policy, sustainable finance is defined as financing aimed at supporting economic growth while reducing environmental pressure to achieve the climate and environmental goals of the European Green Deal, taking into account social and governance factors.

⁷ Pursuant to NBU Board Decision No. 31 On Approval of Amendments to Methodological Recommendations on Organization of Corporate Governance in Banks of Ukraine dated 3 March 2026 https://bank.gov.ua/ua/legislation/Decision_03022026_31-rsh.

⁸ https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en#the-eu-sustainable-finance-framework.

The key drivers of sustainable finance are:

[the following is a generalized, non-exhaustive list of decisions that take into account environmental, social, and governance (ESG) factors and are aimed at achieving SDGs.]

1. Environmental:

- 1) investing in projects that contribute to environmental protection, such as renewable energy, cutting greenhouse gas emissions, efficient use of resources, water conservation and biodiversity protection
- 2) avoiding investments in projects that may harm ecosystems or contribute to climate change.

2. Social:

- 1) financial support for projects that improve the quality of life, create jobs, and ensure equal access to resources and services
- 2) taking into account human rights, working conditions, health and safety of employees in the financial decision-making process.

3. Governance:

- 1) responsible corporate governance that takes into account the interests of all stakeholders, including shareholders, employees, customers, and the community
- 2) transparency, ethical standards, and accountability of companies receiving funding.

Sustainable finance is a key element in achieving the Sustainable Development Goals defined in Resolution No. 70/1 Transforming Our World: the 2030 Agenda for Sustainable Development (Agenda 2030) adopted by the UN General Assembly on 25 September 2015, and helps to channel funding to support projects that promote sustainable development.

Sustainable banking is a concept that involves the integration of sustainable development principles into banking. It is an approach that aims to provide financial services in a way that promotes economic growth, social well-being, and environmental protection, while ensuring the long-term stability and sustainability of financial institutions.

Sustainable development is a balanced development of the economic, environmental, and social components that envisages meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. All these components are interconnected and must be considered together to achieve long-term sustainability⁹.

The main components of sustainable development:

(the following is a generalized, non-exhaustive list)

1. Economic development:

- 1) creating conditions for economic growth that ensures a high standard of living for the population
- 2) efficient use of resources to ensure long-term economic progress
- 3) support for innovation and technological development that promotes economic sustainability.

2. Social justice:

- 1) ensuring equal access to resources, services, and opportunities for all segments of the population
- 2) improving the quality of life, healthcare, education, and social security
- 3) respect for human rights, cultural diversity, and social cohesion
- 4) ensuring the use of an effective decision-making system that takes into account historical experience and encourages diversity of opinions and approaches.

3. Environmental protection:

- 1) protecting and preserving natural resources, ecosystems, and biodiversity
- 2) minimizing anthropogenic impact on the environment
- 3) promoting the transition to more environmentally friendly and renewable energy sources.

⁹ The United Nations General Assembly (1987). Report of the World Commission on Environment and Development: Our Common Future. <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>.

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 SDGs.

The main aspects of sustainable development of the financial sector include:

- 1) environmental responsibility: financial institutions finance projects and companies that promote environmental protection, use renewable energy sources, and minimize the impact on ecosystems
- 2) social responsibility: financial institutions support projects that promote social development and social justice, including wider access to financial services for different population segments and age groups, fighting poverty, improving working conditions and human rights, and ensuring inclusiveness
- 3) economic sustainability: financial institutions work to ensure that their operations are economically sustainable and contribute to the long-term growth of the economy, avoiding excessive risk and promoting financial stability
- 4) ESG risk management: the incorporation of environmental, social, and governance risks into financial decision-making, thus enabling financial institutions to avoid investing in projects that could lead to significant adverse impacts
- 5) transparency and accountability: financial institutions should be open in their operations, provide reliable information about their investment strategies and impact on society and the environment, for example, through disclosure in non-financial reports.

The sustainable development of the financial sector is an important component of the overall concept of sustainable development of the country, which facilitates the aligning of economic interests with the environmental and social needs of society.

During martial law, post-war recovery, and the reconstruction of the country, the financial sector's participation in maintaining the country's defense capabilities and energy system resilience, as well as ensuring the continuity of its operations, play a key role in supporting economic growth, safeguarding social rights and freedoms, and providing access to financial services, and align with the principles of sustainable development¹⁰.

Financial institution's sustainability strategy is a document that defines the long-term sustainable development goals and priorities of a financial institution, focused on ensuring social justice, environmental protection, and the achievement of economic growth. This strategy is aimed at creating added value for shareholders, customers, employees, counterparties, and society, taking into account ESG factors.

The European Union Taxonomy of Sustainable Economic Activities¹¹ is a classification system developed to determine which economic activities can be considered sustainable in terms of environmental sustainability.

The main objectives and principles of the taxonomy are:

1. **Purpose:** the taxonomy aims to set a common standard for defining what constitutes an environmentally sustainable business, allowing investors to make informed decisions and facilitating the mobilization of capital for sustainable investments.
2. **Principles:**
 - 1) environmental objectives.
Types of activities should be consistent with six environmental objectives:
 - climate change mitigation
 - adaptation to climate change;

¹⁰ During martial law, post-war recovery, and reconstruction of the country, banks shall ensure their participation in maintaining the country's defense capabilities and energy system resilience, as well as ensuring the continuity of their operations, taking into account the principles of sustainable development in accordance with NBU Board Decision No. 31 *On Approval of Amendments to Methodological Recommendations on Organization of Corporate Governance in Banks of Ukraine* dated 3 February 2026.

¹¹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en; <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>.

- sustainable use and protection of water and marine resources
 - transition to a circular economy
 - prevention of pollution
 - protection and restoration of biodiversity and ecosystems.
- 2) Substantial contributions.
Types of activities must make a substantial contribution to at least one of the six objectives.
 - 3) Doing no harm.
Types of activities shall not cause significant harm to any of the other environmental objectives.
 - 4) Fulfillment of minimum social safeguards.
Types of activities must comply with basic social safeguards, including human and worker rights.

The main components of the taxonomy are:

1. Classification of activities:

- the taxonomy defines which economic activities can be considered environmentally sustainable based on defined criteria. These criteria include requirements for technical characteristics and achievements in environmental performance.

2. Technical criteria:

- for each activity, technical criteria are defined that determine how the activity should be implemented to be considered environmentally sustainable.

3. Reporting:

- financial institutions and companies are required to disclose information on how their activities meet the taxonomy's criteria. This includes information on environmental goals, contribution to sustainable development and compliance with social standards.

ESG factors⁵ are non-financial factors that reflect environmental, social, and governance matters, which may affect the activities of a financial institution / client / counterparty, and their long-term financial sustainability. ESG factors in the financial sector help determine how sustainable and responsible financial institutions or their investments are.

The main components of ESG are:

1. Environmental factors:

- 1) climate change: the activities of a financial institution that affect the climate, e.g., the level of greenhouse gas emissions, implementation of measures to reduce the carbon footprint.
- 2) resource use: the design, production, and distribution of materials and products in order to preserve their maximum value during use. Eco-design and design for durability, repair, reuse, repurposing, disassembly, and full refurbishment are examples of tools for optimizing resource use.
- 3) biodiversity conservation: the impact of the financial institution on ecosystems and measures that promote biodiversity conservation.
- 4) waste management: the collection, transport, recovery, and disposal of waste, including the supervision of such operations and the aftercare of disposal sites, as well as activities carried out by dealers or brokers.
- 5) pollution: the direct or indirect release of pollutants into air, water, or soil as a result of human activity, which may be harmful to human health and/or the environment, cause damage to property, or interfere with infrastructure and other lawful uses of natural resources.
- 6) development: promoting innovative approaches to activities to reduce negative environmental impacts.

2. Social factors:

- 1) working conditions: protection of employees' rights, ensuring safe and healthy working conditions, staff development, organization of education and training.

- 2) equality and inclusiveness: policy of equal treatment of employees, regardless of their gender, race, nationality, religion, etc.
- 3) community engagement: the impact of the financial institution's activities on local communities and measures to support their development.
- 4) human rights protection: compliance with international human rights standards in the operations of the financial institution and its counterparties.
- 5) customer responsibility: ensuring the safety of products and services, responsible marketing, and responsible sourcing.
- 6) data protection and privacy: ensuring compliance with the protection of personal rights and confidentiality.
- 7) social finance: projects or institutions that help disadvantaged population segments and communities with low budget revenues.

3. Governance factors:

- 1) corporate governance: the management of the financial institution, including the powers of the supervisory board, which has an appropriate structure to oversee the institution's strategy; independence of board members; competence of the financial institution's management.
- 2) ethics and anti-corruption measures: anti-corruption policy, ethical standards in business, avoidance of conflicts of interest, and zero tolerance to tax evasion.
- 3) accountability: transparency, reliability and timeliness in the financial institution's reporting, including financial performance and non-financial indicators.
- 4) risk management: the processes for identifying, measuring, monitoring, reporting, controlling, and mitigating risks, including ESG risks and other risks whose measurement may be material.
- 5) control system: internal control, internal audit function, risk assessment and management system (including ESG risks) and compliance function ensure reliable management of the financial institution's assets, operational efficiency, accuracy of reporting and compliance with policies, procedures, laws, and regulations.
- 6) interaction with all stakeholders.

ESG risks refer to the potential for losses, additional costs, or shortfalls in expected income arising from materialization of environmental, social, or governance risks. They stem from current or prospective adverse impacts of ESG considerations and may materialize through traditional risk categories, including credit, market, operational, liquidity, reputational, and concentration risks¹².

ESG risks in a financial institution's operations may affect the financial stability, reputation and long-term success of the financial institution.

Components of ESG risks¹³

1. **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 on the institution's decisions on lending / investment, or fundraising by 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 Council¹⁴; environmental risk¹⁵, includes both physical risk and transition risk:

¹² Pursuant to NBU Board Decision No. 31 *On Approval of Amendments to Methodological Recommendations on Organization of Corporate Governance in Banks of Ukraine* dated 3 February 2026 https://bank.gov.ua/ua/legislation/Decision_03022026_31-rsh.

¹³ Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 on requirements for credit risk, credit valuation adjustment risk, operational risk, market risk, and minimum issuance amounts: <https://eur-lex.europa.eu/eli/reg/2024/1623/oj/eng>.

¹⁴ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 and Regulation (EU) 2019/2088 on establishing a framework to promote sustainable investment and amending EU regulations: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>.

¹⁵ Article 1 paragraph xiv [on adding paragraph 52(e) to Article 4 of Regulation (EU) No 575/2013] of Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 on requirements for credit risk, credit valuation adjustment risk, operational risk, market risk, and minimum issuance amounts: <https://eur-lex.europa.eu/eli/reg/2024/1623/oj/eng>.

- 1) Physical risk, 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. Extreme weather events associated with climate change (e.g., hurricanes, floods, droughts, soil degradation and erosion, etc.) can damage infrastructure, disrupt supply chains, cause crop losses, and lead to production interruptions.

Physical risks, in turn, can be classified as acute or chronic.

Acute physical risks arise from specific weather-related hazards, such as storms, floods, fires, or heatwaves.

Chronic physical risks result from long-term climate changes, such as temperature shifts, and their impacts on sea-level rise, water availability, biodiversity loss, and soil fertility¹⁶;

- 2) transition risks,¹⁷ as part of environmental risk (for prudential purposes) 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 its counterparties, or on the institution's lending, investment, or funding decisions. Future legislative amendments, for example, related to greenhouse gas emissions regulation, unified environmental permits, and new environmental standards, may result in increased compliance costs for both financial institutions and their customers and even fines for non-compliance.

The type of environmental risk that is most widely studied and recognized is the risk associated with climate change (hereinafter referred to as climate risks). Climate risks are financial risks associated with the dependence of institutions on 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 taxation¹⁸.

2. **Social risks** are the risks of any adverse financial impact on an institution arising from the current or potential effects of social factors on its counterparties or on the institution's lending, investment, or funding decisions.
3. **Governance risks** are the risks of any adverse financial impact on an institution arising from the current or potential effects of social factors on its counterparties or on the institution's lending, investment, or funding decisions.

Consequences of ESG risks materialization:

- 1) financial losses: improper management of ESG risks can lead to significant financial losses due to fines, reduced shareholder value, or loss of profits.
- 2) reputational losses: ignoring ESG risks can have a negative impact such as loss of trust of customers, investors and partners, which can have long-term negative consequences for a financial institution.
- 3) legal: failure to comply with environmental, social or governance standards may result in lawsuits or regulator's sanctions, etc.
- 4) lower competitiveness: ignoring ESG risks can have an adverse impact, such as a loss of competitive advantage in the market as investors and consumers are increasingly aware of sustainable development.
- 5) staff turnover: ignoring ESG risks can lead to staff turnover and loss of qualified personnel.

¹⁶ The distinction between acute and chronic physical risks is mainly based on the 2017 final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It is also reflected in other key guidance on the financial impact of climate risks, such as the NGFS (2020) "Guide for Supervisors – Integrating Climate and Environmental Risks into Prudential Supervision" and the Basel Committee on Banking Supervision report "Climate-related Risk Drivers and Transmission Channels," available at: <https://www.bis.org/bcbs/publ/d517.htm>, and is also used in the "European Commission Non-Financial Reporting Guidelines": Annex on Reporting Climate-related Information" (OJ C 209, 20 June 2019, pp. 1–30).

¹⁷ At the same time, the European Sustainability Reporting Standards (ESRS, under Delegated Regulation (EU) 2023/2772) provide a slightly different classification of these risks.

¹⁸ EBA Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18) https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf.

Managing ESG risks requires integrating ESG factors into the corporate strategy, assessing potential threats and opportunities, and regularly monitoring and reporting on ESG indicators. This helps mitigate negative impacts, enhance reputation, and ensure long-term resilience.

ESG risk management:

- 1. Assessment and monitoring:** regular assessment of ESG-related risks helps to identify potential threats and develop strategies to manage them.
- 2. Integration into strategy:** integration of ESG matters into corporate strategy and operations contributes to more effective risk management and mitigation of adverse impacts.
- 3. Reporting and transparency:** regular reporting on ESG indicators increases transparency and trust, and shows commitment to sustainable development.
- 4. Stakeholder engagement:** a continuous process of engagement and dialogue between a business entity and its stakeholders, enabling the entity to hear, understand, and respond to their interests and concerns.

Assessing ESG risks when lending to customers is an important element of risk management and ensuring the sustainable development of a financial institution. This approach allows financial institutions to reduce possible financial risks, but also to contribute to the sustainable development of the economy and society.

Key stages of ESG risk assessment in lending

- 1. Identification of ESG risks.**
- 2. Preliminary risk analysis:**
 - 1) at the initial stage of the lending process, the bank assesses whether the client falls into a high-risk category in terms of ESG factors. This may include an analysis of the client's industry, region of operation, and the nature of its projects. For example, projects in the mining, chemicals, or large infrastructure sectors may carry increased environmental, social, and governance risks.
- 3. In-depth risk assessment:**
 - 1) for clients and projects that are preliminarily classified as having high ESG risks, the bank may conduct a detailed analysis. This may include ESG audit, check whether the borrower has necessary permits and licenses, and assessment of compliance with international standards and regulatory requirements.
 - 2) the bank may also request documents confirming the ESG impact of the client's activities, such as environmental impact assessment (EIA) reports or non-financial reports.
- 4. Making lending decisions:**
 - 1) if the assessment reveals significant ESG risks, the bank may either refuse to lend or offer conditions for risk mitigation.
 - 2) the bank may also take into account the client's ESG risk management framework and assess its effectiveness.
- 5. Monitoring and reporting:**
 - 1) after the loan disbursement, the bank regularly monitors the client's compliance with ESG requirements. This may include checking compliance with the terms of the loan agreement, periodic auditing, or analyzing client reports.
 - 2) if non-compliance is detected, the bank may take corrective action, including possible termination of funding.

The importance of ESG risk assessment:

- mitigation of financial risks: ignoring ESG risks can lead to significant financial losses for a financial institution due to possible fines, lawsuits or a decrease in the value of client assets.
- reputational benefits: responsible attitude to ESG factors boosts the reputation of a financial institution among clients, investors and the public.
- promoting sustainable development: assessing and managing ESG risks helps a financial institution promote sustainable development by supporting projects that have a positive impact on the environment and society.

Assessing ESG risks in lending is an important component of modern financial institution practice, which helps ensure sustainability and responsibility in financial activities.