

Navigating Sustainability Reporting: EU Requirements and Moldovan Integration

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Managing the Transition to Sustainability Reporting and Enhancing Corporate Governance

CFRR 


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▼ Objectives

- Learn about examples of Georgia and Serbia in transition towards sustainability reporting and adoption of the European Sustainability Reporting Standards
- Showcasing Voluntary Sustainability Reporting guidelines that incorporate main features of the new ESRS in advance of the full adoption of the ESRS
- Learn about the role of board of directors and audit committee particularly in sustainability reporting

SUSTAINABILITY REPORTING IN GEORGIA

Sustainability Reporting in Georgia

- » Law on Accounting, Reporting and Auditing (LARA) – based on the EU Non-Financial Reporting Directive (NFRD), adopted in 2016
- » Management report to be prepared by specific categories of enterprises (**PIEs and the first and second category**) and submitted to the Service for Accounting, Reporting and Auditing Supervision (SARAS).
- » Management Report shall include:
 - a) Review of the entity's activities – by PIEs and the first and second category enterprises;
 - b) Corporate Governance report – by reporting enterprise the securities of which are traded at the stock exchange in accordance with the Law of Georgia on Securities Market;**
 - c) Non-financial report - by PIEs, which are the first category enterprise and average number of whose employees during the reporting period is over 500.

Sustainability Reporting in Georgia

Enterprise Categories per LARA

Enterprise Category (to meet at least two out of the three criteria)	Fourth	Third	Second	First	Public Interest Entity (PIE)	A legal entity, which represents:
Total Assets	≥Gel 1 mln	≥Gel 10 mln	≥Gel 50 mln	>Gel 50 mln		<ul style="list-style-type: none"> a reporting enterprise the securities of which are traded at the stock exchange in accordance with the Law of Georgia on Securities Market a commercial bank - in accordance with the Organic Law of Georgia on the National Bank of Georgia a microbank – in accordance with the Law of Georgia on Microbanks a microfinance organization – in accordance with the Law of Georgia on Microfinance Organizations an insurer - in accordance with the Law of Georgia on Insurance a founder of non-state pension scheme – in accordance with the Law of Georgia on Non-State Pension Insurance and Welfare a pension company - in accordance with the Law of Georgia “On Voluntary Private Pension an investment fund - in accordance with the Law of Georgia on Investment Funds a non-bank deposit institution – credit union – in accordance with the Law of Georgia on Non-Bank Deposit Institutions – Credit Union an entity defined as a PIE by the Service for Accounting, Reporting and Auditing Supervision (except the National Bank of Georgia) based on the criteria approved by the Government of Georgia
Revenues	≥Gel 2 mln	≥Gel 20 mln	≥Gel 100 mln	>Gel 100 mln		
Employees	≥10	≥50	≥250	>250		



Sustainability Reporting in Georgia

- » Collaboration with the National Bank of Georgia on the development of the Corporate Governance Codes for Commercial Banks (2018) and for the Issuers of Public Securities (2021)
- » NBG's accession to the Sustainable Banking and Finance Network (2017) and adoption of the first Sustainable Finance Roadmap (2019), where one of the pillars is Transparency and Market Discipline
- » NBG Regulation on Pillar 3 Disclosures (2017) and NBG ESG Reporting and Disclosure Principles (2020) established a framework for sustainability disclosure for commercial banks



Sustainability Reporting in Georgia

NBG ESG Reporting and Disclosure Principles (2020):

- » Target commercial banks and encourage other financial institutions and public companies to use the Principles
- » Non-binding (alternative approach can be used to comply with NBG and LARA requirements), however reporting entities are strongly encouraged to follow the Principles and the NBG disclosure template
- » Applicable from 2021, all operating banks disclose ESG information in line with the Principles, using the NBG disclosure template

Sustainability Reporting in Georgia

https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure

ESG Reporting and Disclosure

Climate Change

Credit Conditions Survey

Stress Testing




























IFRS 9

Resolution

investors and other stakeholders. In addition, the information disclosed will be used to monitor and evaluate sustainable finance performance of financial institutions and therefore, will serve as one of the progress measurement tools for sustainable finance development.

ESG Reporting and Disclosure Principles

ESG Reporting and Disclosure Template

ESG REPORTS	YEARS			
	2024	2023	2022	2021
COMMERCIAL BANKS				
 Paysera Bank Georgia				
 TBC Bank				
 Bank of Georgia				
 Liberty Bank				
 Halyk Bank				
 Cartu Bank				

https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure

https://nbg.gov.ge/supervision/banking-supervision?pageKey=pilar3Annual

Banking supervision

Supervision of commercial banks

Licensed commercial banks

Licensing requirements

Supervisory mode

GRAPES

Capital standards

Liquidity standards

Corporate Governance Standards

Other requirements

Reporting and transparency of commercial banks

Competitive analysis

Supervision of microbanks

Supervisory strategy

International cooperation

Non-bank supervision

Annual financial statements























Pillar 3 Quarterly Reporting

Pillar 3 Annual Report

Financial statements archive

PILLAR 3 ANNUAL REPORT

Annual reports of Pillar 3 of commercial banks established by the "Rules for the Disclosure of Information by Commercial Banks within the Framework of Pillar 3" approved by the Order No. 92/04 of the President of the National Bank of Georgia of June 22, 2017.

	YEAR SWITCH			
	2023	2022	2021	2020
COMMERCIAL BANKS				
 Paysera Bank Georgia				
 TBC Bank				
 Bank of Georgia				
 Liberty Bank				
 Khaleej Bank				

https://nbg.gov.ge/supervision/banking-supervision?pageKey=pilar3Annual

Sustainability Reporting in Georgia

NBG ESG Reporting and Disclosure Template

AutoSave Off esg-reporting-and-disclosure-template-eng-6389b072.xlsx No Label • Saved to this PC Search

File Home Insert Draw Page Layout Formulas Data Review View Automate Help Comments Share

D4 Note

	A	B	C	D	E	F
1		Disclosure on KPIs				
2		<i>Please provide ESG related information regarding the entity's principal ESG risks and how those risks are managed and mitigated. The form should be filled out in accordance to the <u>NBG ESG Reporting and Disclosure Principles</u>.</i>				
3						
4		KPI	Unit of measure	Note	Answer	Comment
5		Environmental				
6	1	Volume of green loans issued during the reporting year (flow)	currency of issuance	Please, provide the definition of "green" used by the entity; if the entity issues green loans in different currencies, please report them separately for different currencies		
7	2	Share of green loans in the total loans issued during the reporting year	%			
8	3	Total amount of green loans, outstanding as of end of reporting year	currency of issuance	If the entity issues green loans in different currencies, please report them separately for different currencies		
9	4	Share of green loans in the total outstanding portfolio as of end of reporting year	%			
10	5	Volume of green investment securities as of end of reporting year				
11	6	Share of green investment securities in total amount of investment securities as of end of reporting year	%			
	7	Volume of green debt securities issued during the reporting year	currency of issuance	If the entity issues green debt securities in different currencies, please report them separately for different currencies		

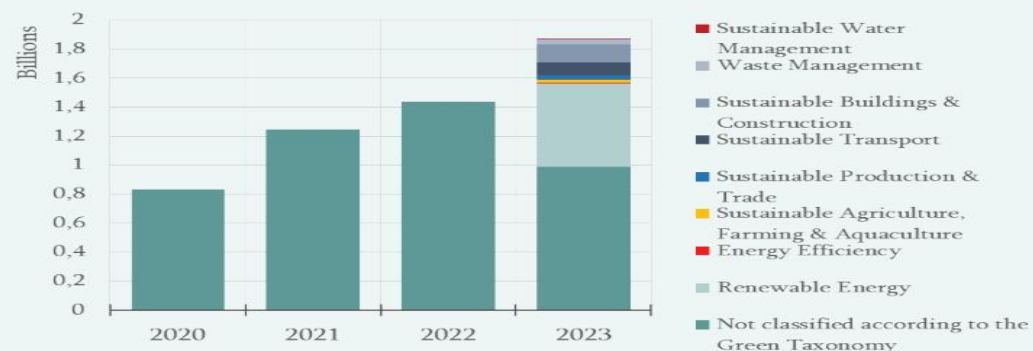
< > ... 2. Policies and Due Diligence 3. Outcomes 4. Risks and Management 5. KPI +

Ready Accessibility: Investigate <https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure> Display Settings 100%

Sustainability Reporting in Georgia

ESG Reporting Practices – NBG Sustainable Finance 2024 Status Report (Environmental):

Diagram 5. Total (Taxonomy-aligned and other green loans) Green Loans Outstanding (excluding exchange rate effect)



Source: NBG

Following the introduction of the Taxonomy Regulation, five banks have initiated the implementation of the Sustainable Finance (SF) Taxonomy. As of December 2023, the SF Taxonomy-aligned green loan portfolio amounted to approximately 932 million GEL, representing around 50% of the total green portfolio and 1.7% of the total lending portfolio (see Diagram 5). For loans disbursed in 2023, Taxonomy-aligned green loans amounted to around 491 million GEL, accounting for approximately 58% of green loans and 1% of the all loans issued that year. These relatively low shares can be partly attributed to the ongoing implementation process by banks and the fact that not all banks have begun adopting the Taxonomy.

In terms of the sectoral breakdown, the majority, accounting for 65%, was directed towards the renewable energy sector, with a notable 57% specifically dedicated to hydropower projects. Additionally, 14% of these loans are channeled into the sustainable buildings and construction sector, while 10% into the green transport sector (see Diagram 5). Overall, as of December 2023, taxonomy-aligned green loans were issued in eight different sectors.

Sustainability Reporting in Georgia

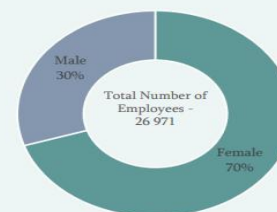
ESG Reporting Practices – NBG Sustainable Finance 2024 Status Report (Social):

In terms of gender diversity, as of the end of 2023, 70% of all employees were women that is one percentage point increase compared to 2022. This result is relatively similar across all commercial banks, with the lowest share being 45% and the highest at 72%. However, the share of females in senior management (board of directors, supervisory board) stands at a lower level and is 30% (compared to 26% in 2022), on average. There have been some changes across commercial banks and there has been more convergence in shares compared to the previous year. As for the gender structure at the middle

In the Georgian banking sector, as of the end of 2023, the highest share of employees are within the age groups of 20-30 and 30-40 with 41.5% and 39.4% shares respectively (see Diagram 10). Age distribution has a similar pattern across commercial banks in Georgia and has remained almost the same compared to the previous year. Regarding the employment of people with disabilities, only four banks, compared to two in the previous year, indicated positive numbers, and the share in the total employment is below 1%. On the other hand, nine banks specified that at least some of their branches are fully or partially adapted and have special facilities and dedicated infrastructure for customers with disabilities. There has not

management level, by the end of 2023, on average, women held 49% (compared to 27% in 2022) of these positions.

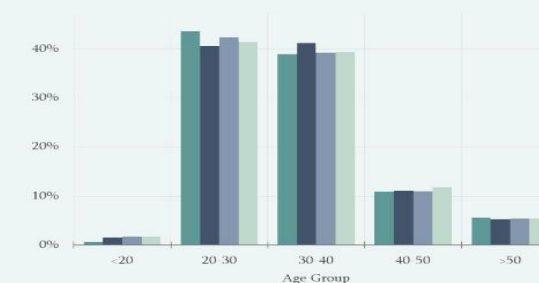
Diagram 9. Gender Diversity in the Georgian Banking Sector, Dec. 2023



Source: NBG

been any significant improvement in this regard since 2022.

Diagram 10. Age Structure of Employees in the Georgian Banking Sector, Dec. 2023



Source: NBG

Sustainability Reporting in Georgia

ESG Reporting Practices – NBG Sustainable Finance 2024 Status Report (Governance):

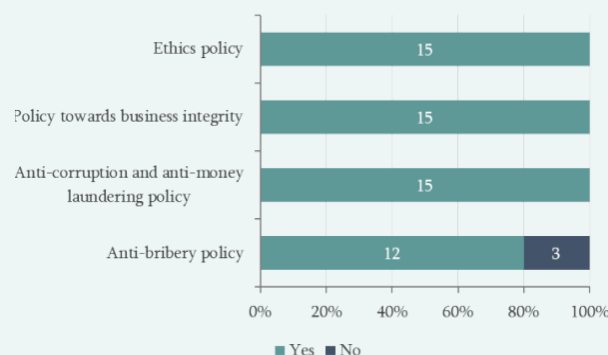
G – Governance

The information provided in the ESG reporting forms indicates that ten out of fifteen commercial banks have a designated officer or body responsible for overseeing environmental and social policies and practices. Apart from that, with only a couple of exceptions, almost all banks reported having some ESG policies and procedures.

In most cases, it is related to ESG risk management practices. However, some banks have also incorporated ESG consideration into their strategy. Moreover, results show that if there is an ESG policy in a bank, the supervisory board or board of directors approves it. Some banks have also established processes for consultation between stakeholders and the board of directors or supervisory board on environmental and social topics.

Besides the ESG risk management policies, almost all the banks have also established policies related to ethics, business integrity, anti-bribery, etc. (see [Diagram 11](#)).

Diagram 11. Number of Commercial Banks with Corresponding Policies in place, Dec. 2023



Source: NBG



Sustainability Reporting – Georgia

SARAS Management Reporting Guide (2018):

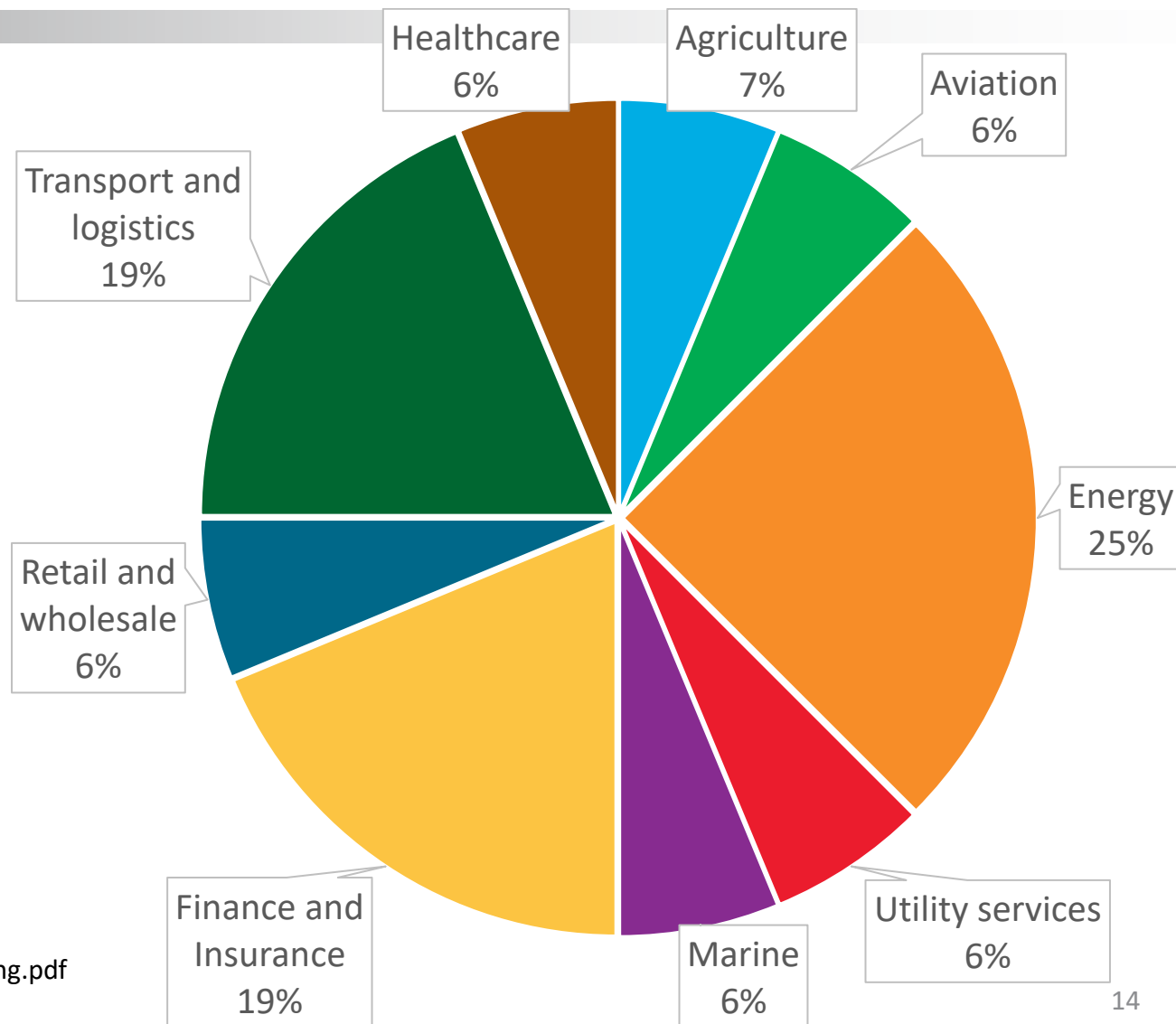
- » Recommendatory guidance to implement the LARA requirements
- » Provides guidance and examples on all three components of Management Report: **Review of the entity activities, Corporate governance report and Non-financial report**
- » Reporting practices vary and many corporates still need to improve them
- » Active awareness raising and capacity building campaign by SARAS in collaboration with different international institutions, including World Bank and IFC

<https://saras.gov.ge/Content/files/MANAGEMENT%20REPORTING%20GUIDE.pdf>

Sustainability Reporting in Georgia

Survey of Management Reports by PMO Business Consulting, partner of the IFC ESG Program in Georgia (2020 data):

- » Reports of 272 companies reviewed (out of 973 companies)
- » The PMO survey covered all three elements of the management report
- » This presentation reflects findings of **non-financial reporting practices of 21 companies** from different sectors (except commercial banks)



Sustainability Reporting in Georgia

LARA Requirements towards Non-financial Report

Non-financial Report

Non-financial Report shall include at least information necessary to determine the impact of the development, results and status of the entity's activities on environmental, social, employment, human rights and anti-corruption issues, including:

- A brief review of the entity's business model
- Description of the policy applied against the issues provided for in this paragraph, including implemented complex procedures and outcome of the policy. If an entity does not use the similar policy, the respective explanation shall be provided in this regard in the statement
- Risk analysis of the entity's activities, which includes but is not limited to the entity's business relations, potential negative impact of products or services on issues specified in this paragraph and risk management methods applied by the entity
- Non-financial KPIs of entity's specific activity
- Whenever necessary, non-financial statement includes reference to amounts in the annual financial statements and additional explanations with respect to them



Sustainability Reporting in Georgia

Survey by PMO Business Consulting (non-financial reporting practices) – key findings:

- » In most cases, the presented non-financial reports include information on environmental protection, social, employment and human rights protection, but do not include anti-corruption policies and mechanisms
- » In some cases, the presented business models do not fully describe how the entity creates and maintains value in the long-term perspective and in many cases the entity describes its business model and main trends without using key performance indicators
- » In many cases, the entities disclose and analyze key performance indicators without considering the data collection process and structure. e.g. They do not explain why the main activity indicators increased or decreased in the reporting period and how these indicators can change in the future



Sustainability Reporting in Georgia

Survey by PMO Business Consulting (non-financial reporting practices) – key findings:

- » In most cases, information about the main risks, their management and mitigation is disclosed, but it is not explained how the main risks can affect their business model, operations, financial results, etc.
- » In some cases, entities do not disclose information on the current or possible future impact on the environment, when relevant due to their activities
- » In many cases the non-financial reports do not include a description of the implemented policies related to non-financial issues (eg ESG) and if the entity does not have the mentioned policy, there is no clear and reasonable explanation about it

SUSTAINABILITY REPORTING IN SERBIA



Main features of the current framework

Republic of Serbia has introduced ESG non-financial reporting through Law on Accounting from 2019 which reflects main features of the EU Non-Financial Reporting Directive (NFRD) which was in force at that time.

Public Interest Entities with 500+ employees are required to report certain non-financial information, at least the following thematic areas: environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.



Relevance with the EU directives

▼ *Non-financial reports included the following structure (model):*

- » Company's Business Model;
- » Policy and Due Diligence;
- » Outcomes;
- » Principal Risks; and KPIs

▼ *This structure is also basis for the four-pillar structure adopted from the CSRD:*

- » Governance (GOV);
- » Strategy and Business Model (SBM);
- » Impact, Risk, and Opportunity Management (IRO); and
- » Metrics and targets (MT)



Challenges in capturing ESG non-financial information - Serbia

WBG team conducted an analysis on non-financial reporting practices in Serbia, using a representative sample of 100 reports, from various industry sectors, uncovering the following findings:

- » Non-financial reporting process and the quality of reports is influenced by the state of corporate governance practices and risk management processes;
- » Focus on disclosure, not underlying substantive ESG practices and procedures;
- » Internal controls over non-financial reporting is problematic which compromises the accuracy and completeness of data;
- » Challenging role of independent assurance service providers;
- » Unclear reporting format and lack of clear reporting framework

TRANSITION TO CSRD/ESRS IN SERBIA



Challenges in Serbia for immediate transposition of ESRS

ESRS standards are very complex and contain large number of datapoints

Without proper governance structures and policies and procedures difficult to produce a comprehensive non-financial report

The EU has recently opted for a softer approach with the Omnibus package reducing the number of data point and the scope of reporting companies



Gradual transition to CSRD/ESRS – Serbian example

The Guidelines transpose main features of the ESRS (including voluntary standards for SMEs) including the four pillar reporting structure: GOV, SBM, IRO, and MT;



They explain the concept of double materiality for sustainability information and provide tool for materiality assessment;



Provide guidance on general sustainability issues likely to be material for Serbian companies and sector-specific issues and metrics for the main industries in Serbia;



Provide guidance on the presentation of sustainability information in annual reports through the reporting template;



Capacity Building is key during gradual transition

TRANSITION TO CSRD/ESRS IN GEORGIA



Transition to CSRD/ESRS in Georgia

Upgrade of the SARAS Management Reporting Guide (2024):

- » To make the Guide more CSRD/ESRS aligned for those companies who are willing to go beyond the regulatory requirements
- » Voluntary in nature, giving entities time to prepare for new norms and start disclosing information without excessive burden
- » Also, opportunity for the regulator to monitor disclosure practices, identify deficiencies and support the sector with targeted awareness raising and capacity building activities
- » Lessons learned when developing the CSRD/ESRS related amendments to LARA

Transition to CSRD/ESRS in Georgia



EXAMPLE

An entity may reflect in its management report the total confirmed and estimated reserves as one of the main business indicators. In addition, across this information, it may use a reference to another document or another section of the same report, in which the noted information is presented in more detail.

MATERIALITY

INFORMATION IS MATERIAL IF ITS OMISSION FROM OR MISREPRESENTATION IN THE MANAGEMENT REPORT IS GOING TO AFFECT ECONOMIC DECISIONS MADE BY SHAREHOLDERS

CONCEPT OF DOUBLE MATERIALITY

INFORMATION IS FINANCIALLY MATERIAL IF ITS OMISSION FROM OR MISREPRESENTATION IN THE MANAGEMENT REPORT IS GOING TO AFFECT ECONOMIC DECISIONS MADE BY SHAREHOLDERS

INFORMATION IS MATERIAL FROM AN IMPACT PERSPECTIVE IF IT PERTAINS TO ACTUAL OR POTENTIAL IMPACTS ON PEOPLE OR THE ENVIRONMENT, WHETHER POSITIVE, OR NEGATIVE, AND OVER THE SHORT-, MEDIUM- OR LONG-TERM.

07

It is recommended that management report only includes such information that would be material to its users. Both financial and non-financial information can be material. The report shall not reflect immaterial information in order not to lose key messages and avoid ambiguity of the document.

Materiality is an individual characteristic for each entity, which depends on the nature and significance of the existing or expected results. The entity evaluates materiality of the information according to how much it is relevant for understanding the entity's development, results and condition. When assessing material information, the internal and external factors should be taken into account.

Entities looking to implement the EU CSRD and ESRS should apply the concept of double materiality. This entails looking at the relevance of sustainability information not only to understand the entity's development, results and condition (financial materiality), but also to understand the entity's impact on people and the environment (impact materiality). Entities should also disclose their process to determine materiality.

It should also be noted that:

- Qualitative indicators, in many cases, in the context of management report have a greater impact on determining the materiality of information than in the context of financial statements.
- Determining the materiality of information in financial statements, as a rule, depends on the relative amount /importance of each item in the reporting period. In case of management report, when determining materiality of information, entity's activity, condition, development and prospects may be taken into account.

Transition to CSRD/ESRS in Georgia



EXAMPLE

The environment in which the entity operates and which is sensitive to consumer sentiment, may change rapidly as a result of any unforeseen incident or media interest. It is not necessary that the above-mentioned incident or feedback is directly related to the entity or has an impact on the results of the current year in order to give rise to new risks or opportunities that will have a significant impact on the future prospects of the entity.

The report should include an explanation of significant changes in the main risks (risk volume, probability of occurrence, timing and possible effects or new risks), which will be compared with the last reporting period. The description of risks should include possible negative consequences and possibilities of future events that accompany these risks. The risk assessment should also include an evaluation of the insolvency and liquidation risks.

In order to fully understand the development, state or future plans of the entity, the main risks are to be disclosed and described regardless of their classification and also regardless of whether they arise from the entity's strategic, operational, organizational decisions or external factors over which management may have little or no control.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

Corporate Sustainability Reporting Directive (CSRD). Article 19a. Sustainability Reporting

1. Large undertakings, and small and medium-sized undertakings, [...] shall include in the management report [...].

(g). a description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks;

Note: Guidance is also available in European Sustainability Reporting Standards (ESRS) 2 General Disclosure:

- IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities
- SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)

European Sustainability Reporting Standard (ESRS) 2. General Disclosures provides guidance on identification of material information to be included in the sustainability statements. See Appendix F.

Transition to CSRD/ESRS in Georgia

The entity shall disclose to the public a description of the systems and processes related to financial reporting, the purpose of which will be the introduction, maintenance, and monitoring of internal control and risk management systems. This process can be presented as a reference to the performance review to avoid repetition if this part of the management report presents detailed information about the systems and processes related to financial reporting. At the same time, the presented information, in addition to the above-mentioned issues, may include information about already existing internal controls and procedures in the following areas:

- a) risk identification and assessment regarding the reliability of financial statements;
- b) financial planning and monitoring;
- c) the role of the entity's officials and their responsibility;
- d) closing the reporting period including the consolidation process (for example, documented procedures, Guides, access rights, confirmation, verification/ reconciliation of information, etc.)
- e) general controls of information technologies (ITGCs), which ensure the completeness and accuracy of financial information received through the entity's systems and programs.

Entities looking to implement the EU CSRD and ESRS must also disclose information on the systems and processes related to sustainability reporting, including internal control and risk management systems used to ensure the reliability of sustainability reporting.

EU SUSTAINABILITY REPORTING REQUIREMENTS AND STANDARDS

European Sustainability Reporting Standards (ESRS).

ESRS 2. Disclosure Requirement GOV-5 - Risk management and internal controls over sustainability reporting

32. The undertaking shall disclose the main features of its risk management and internal control system in relation to the sustainability reporting process(es).

33. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's risk management and internal control processes(es) in relation to sustainability reporting.

34. The undertaking shall disclose the following information:

- a) the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting;
- b) the risk assessment approach followed, including the risk prioritisation methodology;
- c) the main risks identified, actual and potential, and their mitigation strategies including related controls;
- d) a description of how the undertaking integrates the findings of its risk assessment and internal controls as regards the sustainability reporting process into relevant internal functions and processes; and
- e) a description of the periodic reporting of the findings to the administrative, management and supervisory bodies.

The background is a solid orange color with a complex, low-poly geometric pattern. The pattern consists of numerous irregular polygons of varying sizes and shades of orange, creating a textured, crystalline effect. The colors range from a light, pale orange to a deep, dark burnt orange, with the darker tones often forming the outlines and larger facets of the geometric shapes.

ROLE OF THE BOARD OF DIRECTORS IN SUSTAINABILITY REPORTING



Board of Directors and Sustainability Disclosure

G20/OECD Principles of Corporate Governance (2023):

- » **The corporate governance framework** should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, **sustainability**, ownership, and governance of the company (Principle IV, Disclosure and Transparency)
- » **The board's oversight provides crucial guidance to management in handling risks to meet the company's desired risk profile.** When fulfilling these key functions, the board should ensure that material sustainability matters are considered. **The functions and responsibilities of the board and management with respect to disclosure and communication need to be clearly established by the board.** (Principle V, the Responsibilities of the Board)
- » The corporate governance framework should provide incentives for companies and their investors to make decisions and manage their risks, **in a way that contributes to the sustainability and resilience of the corporation.** (Principle VI, Sustainability and Resilience)











Board of Directors and Sustainability Disclosure

G20/OECD Principles of Corporate Governance (2023):

- » **The corporate governance framework should ensure that boards adequately consider material sustainability risks and opportunities** when fulfilling their key functions in reviewing, monitoring and guiding governance practices, **disclosure**, strategy, risk management and internal control systems, including with respect to climate-related physical and transition risks. When fulfilling their key functions, boards are increasingly ensuring that material sustainability matters are also considered. **Notably, the board has a role in ensuring that effective governance and internal controls are in place to improve the reliability and credibility of sustainability-related disclosure.**
- » **Boards may assess if and how sustainability matters affect companies' risk profiles.** Such assessments may also relate to key executive remuneration and nomination or how sustainability is approached by the board and its committees.
- » **Boards should ensure that companies' lobbying activities are coherent with their sustainability-related goals and targets.** Boards should effectively oversee the lobbying activities management conducts and finances on behalf of the company, in order to ensure that management gives due regard to the long-term strategy for sustainability adopted by the board. (Principle VI, Sustainability and Resilience)

Board of Directors and Sustainability Disclosure

Climate Governance Initiative – the Principles for Effective Climate Governance

 Principle 1 Climate accountability on boards The board should take responsibility for ensuring the organisation's long-term resilience to climate risks.	 Principle 2 Command of the subject The board should be properly informed about climate-related risks and opportunities and able to make relevant decisions.
 Principle 3 Board structure The board should implement the right board and committee structures to ensure that climate risks and opportunities are understood, managed and reported.	 Principle 4 Material risk and opportunity assessment The board should ensure that management fully identifies climate-related risks in the short, medium and long-term, assess their materiality, and takes appropriate action according to the materiality of the risks.
 Principle 5 Strategic integration The board should ensure that management factors material climate-related risks and opportunities into the organisation's strategy, risk management process and investment decisions.	 Principle 6 Incentivization The board should align executives' incentives with the long-term success of the organisation. This may include climate-related targets in executive incentive schemes.
 Principle 7 Reporting and disclosure The board should ensure that the organisation discloses its material climate-related risks, opportunities and strategic decisions to all stakeholders – especially investors and regulators. These disclosures should be included in financial reporting.	 Principle 8 Exchange The board should stay informed on current best practice in climate governance by maintaining dialogue with peers, policy-makers, investors and others.

The board ultimately has a fiduciary duty to be accountable to shareholders for the company's long-term results. **Thus, the board shall be responsible for the company's long-term resilience to potential changes in the business landscape arising from climate change.** Failure to comply with this responsibility may constitute a breach of the duties of board members

Board of Directors and Sustainability Disclosure

IFC Climate Governance Matrix

B. Structure and Functioning of Board of Directors

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Committees ⁴			<ol style="list-style-type: none"> 1. Informal or <i>ad hoc</i> advisory committee of internal and external experts on climate change established or climate-related factors incorporated into responsibilities of established committees. 2. Board and committees leverage internal functions (notably internal audit and risk) and specialists to incorporate climate-related risks and opportunities. 				<ol style="list-style-type: none"> 1. Board committee charged with overseeing climate-related risks and opportunities (composed of a majority of nonexecutive directors, including Chair).

⁴ Recognition of leadership is based on Company's overall climate change action record and objectives, which go beyond climate governance standards.

³ Such methodologies include but are not limited to [Greenhouse Gas Protocol](#) and [Science-based Target Initiative](#) (SBTi). See TCFD Implementation Strategy.

⁴ Committee practices as related to specific roles in climate are detailed in the Control Environment section of the matrix.

IFC Climate Governance. Progression Matrix

	1. Basic Practices	+	2. Intermediate Practices	+	3. Good International Practices	+	4. Leadership
Oversight of Climate-related Mitigation and Adaptation	<ol style="list-style-type: none"> 1. Board oversees that climate-related risks and opportunities have been identified and assessed. 2. Board is trained on general E&S and climate-related risks and opportunities. 		<ol style="list-style-type: none"> 3. Board monitors whether or not Company engages in lobbying activities—directly or via industry associations—that deny climate change or subvert the fight against climate change. 4. Board oversees that management: (a) develops management systems, (b) assigns required resources, and (c) establishes that budget are in place to identify and manage climate-related risks and opportunities, including reduction of GHG emissions. 5. Board engages an expert advisor on climate-related risks and opportunities. 		<ol style="list-style-type: none"> 1. Climate-related risks and opportunities are recurring board agenda items.⁵ 2. Board is regularly trained on sector-specific climate-related risks and opportunities. 3. Board monitors that company strategy, business model, and financial planning in short, medium, and long term include broad, integrated consideration of environmental, social, and governance (ESG); including climate-related risks and opportunities.⁶ 4. At least one director has experience overseeing climate-related risks and opportunities. 		<ol style="list-style-type: none"> 2. Board monitors that advancing to net-zero climate targets is part of Company strategy. 3. Board monitors and oversees progress against goals and science-based targets for addressing climate-related issues including climate-related adaptation and mitigation.⁷ 4. Board oversees that management has set an internal price on carbon to understand how climate change affects Company now and in the future.⁸
Evaluation and Performance					<ol style="list-style-type: none"> 5. Board evaluation includes consideration of climate-related risks and opportunities. 		<ol style="list-style-type: none"> 5. Board and executive incentives are aligned to promote the purpose, strategy, and long-term prosperity of Company and include climate-related targets and indicators in remuneration policies and executive incentive schemes to achieve net zero.



Board of Directors and Sustainability Disclosure

CSRD and Board of Directors

- » CSRD extends the collective responsibility of the administrative, managerial, and supervisory bodies regarding financial statements and management reports to the ESG information contained therein and derived from the concept of double materiality.
- » The identification of **themes produced by double materiality** allows the company – including the board of directors – to understand ESG issues that may affect the conduct of its business and asset protection (financial materiality) as well as to understand ESG issues for which business conduct may impact society at large (impact materiality).
- » All of these themes should constitute **the foundation** on which the entity shall organize **the strategy, action plans, and ESG reporting accordingly**.

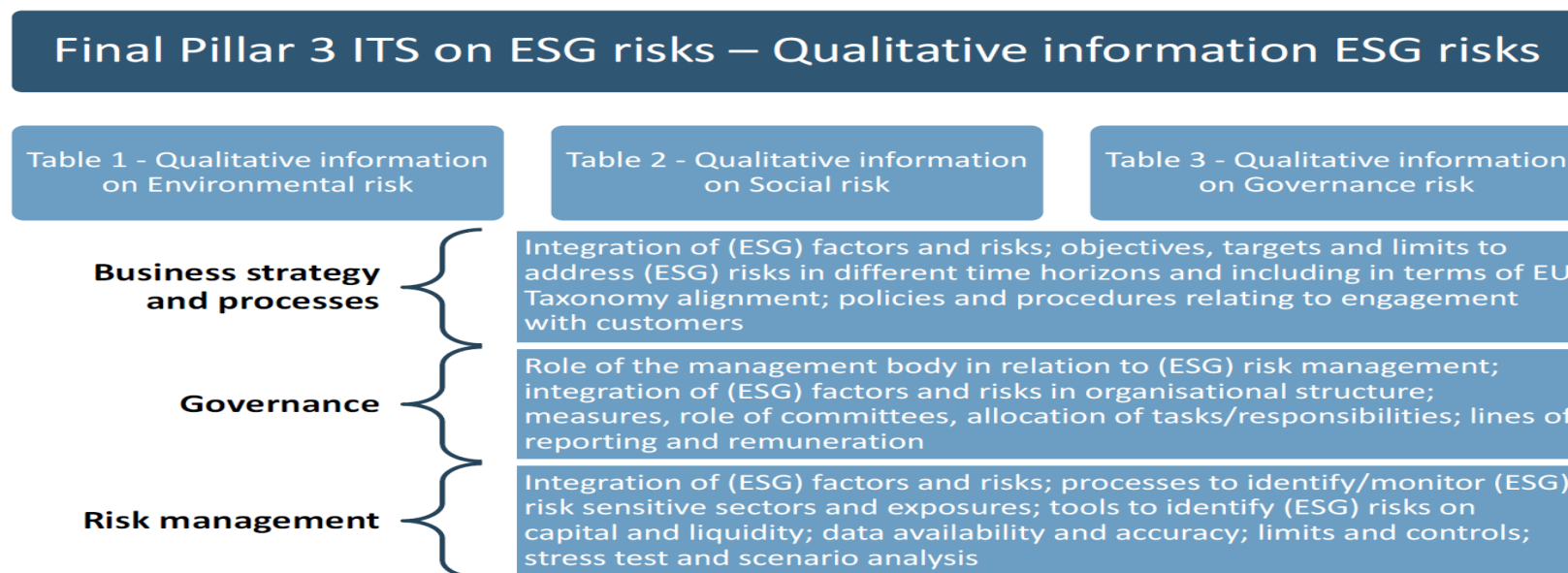
Board of Directors and Sustainability Disclosure

- » **Basel Committee Corporate Governance Principles (2015)** - in general, the bank should apply the disclosure and transparency section of the OECD principles
- » **Basel Committee Pillar 3 Disclosure Requirements – EBA Guidance (2022)**

FINAL REPORT DRAFT ITS ON PRUDENTIAL DISCLOSURES ON ESG RISKS



Figure 5: Tables on qualitative information proposed





Board of Directors and Sustainability Disclosure

CG Code for Commercial Banks (Georgia)

- » **The supervisory board to ensure that ESG issues are properly reflected in the Bank's strategy and monitor their effective implementation.** This includes considering and assessing not only the financial results of the Bank's operations but also the potential environmental and social effects of the Bank's operations. To perform the function provided for in this Subparagraph, the Supervisory Board shall have the appropriate knowledge and receive relevant information on ESG matters.
- » **The Supervisory Board, together with financial risks, shall assess non-financial risks that contain ESG, including climate change risks.** The Supervisory Board shall ensure the full integration of the ESG risks into the Bank's risk management framework. As part of the risk management system oversight, the Supervisory Board shall regularly assess ESG risks and verify that these risks are identified, measured, monitored, and their impacts are mitigated appropriately.
- » **Audit or Risk Committee** to monitor the Pillar 3 reporting process, **including the reporting of ESG issues**, and approve the annual Pillar 3 reporting to be published if it is the function of the respective Committee following the Bank's internal policies.



Board of Directors and Sustainability Disclosure

CG Code for Issuers of Public Securities (Georgia)

- » **The supervisory Board to be responsible determining and approval of the Risk Management Framework of the Company**, during developing of which specific environment, possible future regulations, **environmental, social and governance issues**, long-term interests of the Company, efficient risk management, functions of monitoring and internal control shall be considered.
- » **The Supervisory Board in the annual report shall describe its activity during the financial year**, which shall also include information regarding the fulfillment of the provisions set by this Code, as well as the issues of **sustainable development, environmental, social and governance**.
- » **Supervisory Board shall be well aware** of the financial reporting situation, risks, **including environmental and social risks** of the Company, as well as risks on the level of group and business activity, which include analysis of ongoing/current risks as well as issues on identification new and future risks.

The background is a solid orange color with a complex, low-poly geometric pattern. The pattern consists of numerous irregular triangles and polygons of varying sizes, creating a textured, crystalline effect. The colors range from a light, pale orange to a deeper, more saturated orange, with some areas appearing slightly darker due to the overlapping shapes.

ROLE OF THE AUDIT COMMITTEE IN SUSTAINABILITY REPORTING

Audit Committees – current situation in the region



In emerging markets such as the Western Balkans, typically audit committees are fully operational in companies with a board structure (either supervisory boards or board of directors) and these are predominantly publicly traded companies.



In other companies where there is no real board structure, audit committees are usually comprised of non-board members



Audit Committees need to be fully institutionalized first so that a competent authority can meaningfully assess their performance



Independence is important, even at the EU level there is no absolute guidance what independence of audit committee members means, especially if the audit committee is comprised of non-board members (as guidance, refer to IFC definition of independent board member)

Audit Committees – Non-financial reporting



- As sustainability or ESG matters become an integral part of company strategy and its governance processes, they will be more integrated in traditional areas of competence of an audit committee
- Especially with respect to the reporting to include the oversight over non-financial aspects
- Integration of ESG in risk management is crucial, as well as the role of the audit committee in identification of risks
- Same as financial reporting, board will ultimately bear the responsibility for accurate non-financial reporting, especially with a view of monitoring assurance process

SUSTAINABILITY WORK IN MOLDOVA



Sustainability Work in Moldova

- » The National Bank of Moldova (NBM) joined SBFN in November 2023
- » NBM adopted Sustainable Finance (SF) Roadmap in May 2024
- » The Association of Moldovan Banks joined SBFN in May 2025 – the 100th member of the network. **Congratulations!**
- » Ongoing activities on the implementation of the SF Roadmap (Green Taxonomy and ESG Regulations)
- » Planned capacity building and awareness raising events on ESG and SF

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Thank you!