



ESG GUIDELINES

THROUGH DOUBLE MATERIALITY PERSPECTIVE

2023



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Through Double Materiality Perspective

2023



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Acronyms and Abbreviations

2DII	2 degrees Celsius Investing Initiative
ADB	Asian Development Bank
BCBS	Basel Committee on Banking Supervision
BFFI	Biodiversity Footprint for Financial Institutions
BIA-GBS	Biodiversity Impact Analytics powered by the Global Biodiversity Score
CBF	Corporate Biodiversity Footprint
CG	Corporate Governance
CISL	Cambridge Institute for Sustainability Leadership
DNB	De Nederlandsche Bank (Dutch Central Bank)
DSIK	German Sparkassenstiftung for International Cooperation
E&S	Environmental and Social
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIA	Environmental Impact Assessment
ENCORE	Exploring Natural Capital Opportunities, Risks and Exposure
ESG	Environmental, Social and Governance
ESG DD	ESG Due Diligence
FMO	Dutch Entrepreneurial Development Bank
FSB	Financial Stability Board
G20	Group of Twenty
GBSFI	Global Biodiversity Score for Financial Institutions
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
IBAT	Integrated Biodiversity Assessment Tool
ICMA	International Capital Market Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IUCN	International Union for the Conservation of Nature
LCA	Life Cycle Assessment
NACE	Statistical classification of economic activities in the European Community
NBG	National Bank of Georgia
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development
PACTA	Paris Agreement Capital Transition Assessment
PBAF	Partnership for Biodiversity Accounting Financials
PCAF	Partnership for Carbon Accounting Financials
PRB	Principles for Responsible Banking



SBFN	Sustainable Finance and Banking Network
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SIDA	Swedish International Development Cooperation Agency
TCFD	Task Force on Climate-Related Financial Disclosures
TNFD	The Taskforce on Nature-related Financial Disclosures
UNEP FI	United Nations Environment Programme Finance Initiative
UNEP-WCMC	United Nations Environment Programme World Conservation Monitoring Centre
WBCSD	World Business Council for Sustainable Development
WDKBA	World Database of Key Biodiversity Areas
WDPA	World Database on Protected Areas
WRI	World Resources Institute
WWF	World Wildlife Fund



Introduction

The National Bank of Georgia (NBG), as the central bank of the country, is committed to promoting the agenda on the role of the financial sector in supporting the sustainable development of the country and for this purpose develops a framework for sustainable finance. The NBG's Sustainable Finance Framework¹ implies consideration of Environmental, Social, and Governance (ESG) issues by the financial sector, managing risks associated with them, and supporting reorienting capital flows towards more green and sustainable activities, which in turn contribute to financial stability and sustainable development of the economy.

Through their financial activities, Georgian financial institutions may face increased exposure to risks and opportunities stemming from policy changes towards the country's greener and more inclusive growth, as well as risks caused by a changing climate and environmental degradation. ESG related risks and opportunities may affect Georgian financial institutions' lending and other financial intermediary activities as well as through their own operations. By acknowledging and addressing these risks and opportunities, Georgian financial institutions can contribute to a greener and more inclusive growth agenda while also safeguarding their own long-term financial stability and reputation.

Given the importance of addressing ESG risks for ensuring financial stability and sustainability of the financial sector, ESG Risk Management is one of the four key pillars of the NBG's Sustainable Finance Framework presented in the Roadmap for Sustainable Finance in Georgia². The development of the ESG Guidelines falls under this pillar among the incorporation of ESG considerations into Corporate Governance (CG) Codes. The latter is already implemented and the CG Code for Commercial Banks³ and the CG Code for Micro Banks⁴ set the mandatory requirements regarding ESG risk management together with other ESG related issues. In particular, Paragraph 13 of Article 17. Risk Management states: 'The **Supervisory Board**, together with financial risks, **shall assess non-financial risks** that contain ESG, including climate-related 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'.

Apart from that, Paragraph 1.q. of Article 4. The Roles and Responsibilities of the Supervisory Board states: 'Ensuring 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**'. These requirements set the legal basis for financial institutions to establish ESG risk management practices and to incorporate double materiality perspective in it.

¹ <https://nbg.gov.ge/en/page/sustainable-finance>

² NBG. The Roadmap for Sustainable Finance in Georgia. 2019: <https://nbg.gov.ge/en/page/sustainable-finance-roadmap>

³ NBG. [Corporate Governance Code for Commercial Banks](#)

⁴ NBG. [Corporate Governance Code for Microbanks](#)

In the light of this background, the NBG developed the ESG Guidelines through Double Materiality Perspective. This work aimed to develop a policy tool for effective management of ESG risks, identifying opportunities and driving markets towards more environmentally and socially friendly behavior. The ESG Guidelines build on both best international practice and the existing initiatives by Georgian financial institutions in the field of ESG integration and risk management. This way the NBG sought to ensure the relevance, usefulness, consistency and comparability of ESG integration and risk management standards and tools while keeping this approach suitable to specific circumstances in Georgia's financial sector. The NBG will continue to monitor future developments in this field so that the NBG may update or revise the ESG Guidelines as needed.

Commercial banks and Microbanks (hereafter, banks) are expected to follow these ESG Guidelines to implement the mandatory requirements regarding ESG considerations set by the CG Codes⁵. The steps, tools, methodologies, models and recommendations presented here are based on best international practice, and the NBG will use these ESG Guidelines as a reference when assessing and monitoring banks' methods and practices for ESG integration and risk management. These ESG Guidelines should not be viewed as restrictive requirements; banks can develop and implement more advanced models and stricter standards for ESG integration and risk management.

The principle of proportionality should also be applied when implementing the ESG Guidelines. It recognizes that different financial institutions have varying business scopes, risk profiles, and capacities, and therefore, the extent of structures, processes, and methods required for managing ESG risks should be proportionate to these factors. For institutions with a more limited business scope or lower risk profile, simpler structures, processes, and methods may be sufficient. On the other hand, supervised entities with more significant sustainability risks require more extensive risk management arrangements. This principle ensures that the burden of implementing ESG risk management frameworks is reasonable and tailored to the specific circumstances of each institution.

It is important to note that the principle of proportionality does not exempt smaller institutions (in terms of market share) from ESG risks. In fact, smaller institutions may be particularly vulnerable to these risks due to factors such as their concentration in a vulnerable sector or geography. They may also face challenges due to limited resources and expertise needed to effectively implement ESG risk management frameworks. To assess an institution's vulnerability to ESG risks, various factors should be considered. These factors include the types of clients, products, and portfolios they deal with, the specific business areas in which the institution is most active, sectoral exposures, the level of concentration risk in sectors or geographies and the communities in which they operate. By taking these criteria into account, institutions can better understand their exposure to ESG risks and implement appropriate risk management measures accordingly. Apart from that, it is essential for institutions to adopt a proactive and forward-looking approach when assessing and managing ESG risks and carefully evaluate and consider the implications of these risks across different time horizons, including the short, medium, and longer term.

⁵ Corresponding amendments have been made to the Paragraph 1.q. of Article 4 and the Paragraph 13 of Article 17 of the CG Codes.

Definition of ESG Factors and Risks

Before describing the scope, methods and tools for identifying, measuring and managing ESG risks and opportunities, it is important to define ESG factors and risks.

ESG Factors are environmental, social and governance matters that may have a positive or negative impact on the financial performance or solvency of households, corporates and financial institutions (EBA, 2021⁶).

More specifically, **environmental factors** include climate change mitigation and adaptation, biodiversity, waste and pollution, energy consumption, conserving natural resources, protecting vital ecosystems as well as the quality and functioning of the natural environment more broadly. **Social factors** refer to issues of inequality, inclusiveness, diversity, labor relations, protection of human rights, ensuring community health and wellbeing, empowering women and girls, reducing poverty, investment in human capital and other factors related to the rights, well-being and interest of people and society. Proper **governance**, which includes management structures, executive remuneration, audits and internal controls, board independence, stakeholder engagement and other governance practices, is vital for ensuring the inclusion of social and environmental considerations in the decision-making process. A non-exhaustive list of ESG factors most commonly used by various international frameworks is provided in Table 1.

Table 1. Examples of ESG factors

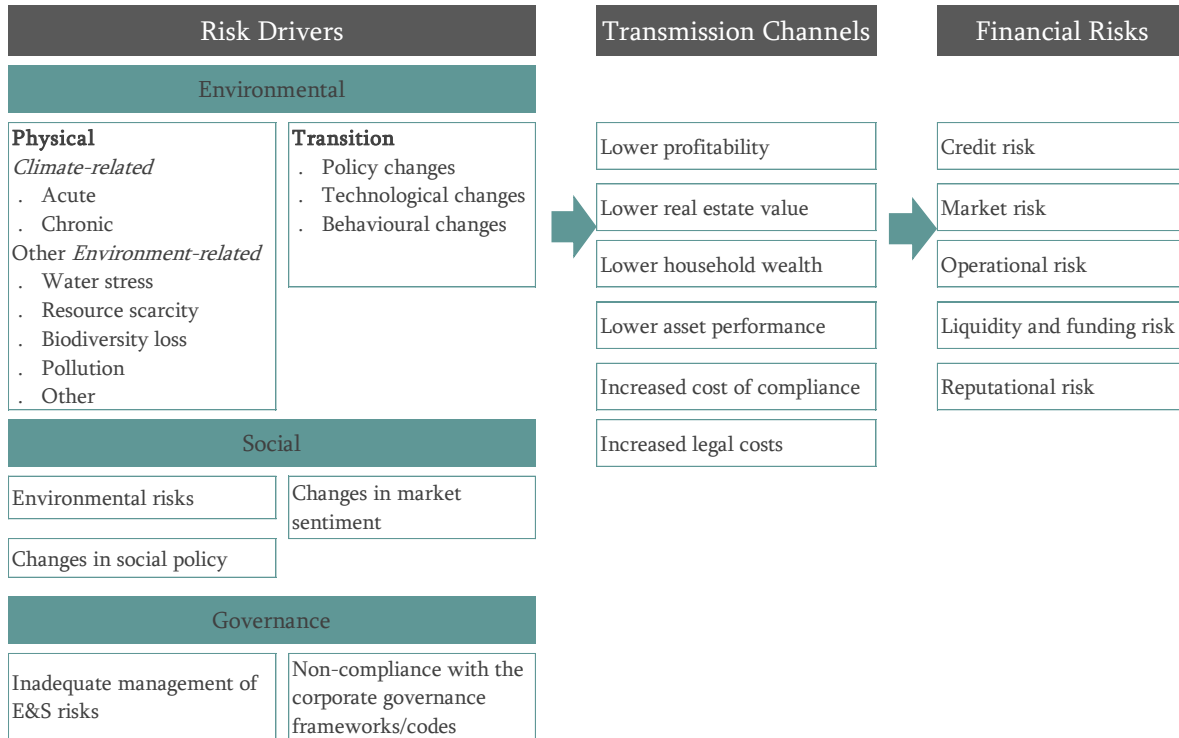
Environmental	Social	Governance
<ul style="list-style-type: none"> ▪ GHG emissions ▪ Financial impacts of the changing physical climate ▪ Energy consumption and efficiency ▪ Water, air, noise and soil pollutants ▪ Water usage, recycling and management ▪ Land degradation, desertification, soil sealing ▪ Waste production and management ▪ Deforestation ▪ Biodiversity and protection of healthy ecosystems ▪ Raw materials consumption ▪ R&D and innovation in environmentally friendly, low-carbon products and services. 	<ul style="list-style-type: none"> ▪ Human rights ▪ Discrimination, diversity, and equal opportunity ▪ Workplace health and safety ▪ Labor relations ▪ Working conditions ▪ Customer health and safety ▪ Customer privacy ▪ Personal data security ▪ Child labor ▪ Forced and compulsory labor ▪ Inclusiveness/Inequality ▪ Community engagement ▪ Supply chain management ▪ Training and education ▪ Poverty and community impact ▪ Investment in human capital and communities ▪ Access to credit and financial inclusion ▪ Land acquisition and involuntary resettlement 	<ul style="list-style-type: none"> ▪ Codes of conduct and business principles ▪ Accountability ▪ Transparency and disclosure ▪ Executive pay ▪ Board diversity and structure ▪ Anti-corruption and anti-bribery policies ▪ Stakeholder engagement ▪ Shareholder rights ▪ Internal audit ▪ Risk governance ▪ Board of directors independence

Source: Adapted from EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms, 2021

⁶ EBA. EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms. 2021

ESG factors can materialize into financial risks through various transmission channels (see Diagram 1). Thus, **ESG risks for the financial institutions are risks of negative materialization of ESG factors that affect their clients, borrowers, other counterparties and financial institutions themselves.**

Diagram 1. ESG Transmission Mechanism



Source: Adapted from EBA (2021)

The most common ESG risk is an **environmental risk** - a financial risk stemming from an institution’s exposure to activities that may be affected by or contribute to the negative impacts of environmental factors. Among environmental risks, **climate-related risks** stand out as climate change is a clear and present danger with long-term components and implications that require bold policy action (EBA, 2021; FSB, 2021⁷; FSB, 2022⁸; BCBS, 2021⁹; BCBS, 2022¹⁰; NGFS, 2020¹¹). Apart from that, it is also the most widely studied, researched and recognized environmental risk. However, biodiversity and nature-related risks are gaining more importance and are increasingly recognized as a source of financial risks (CISL, 2021¹²;

⁷ FSB. FSB Roadmap for Addressing Climate-Related Financial Risks. 2021: P070721-2.pdf (fsb.org)

⁸ FSB. Supervisory and Regulatory Approaches to Climate-related Risks: Final report (fsb.org). 2022

⁹ BCBS. Climate-related risk drivers and their transmission channels. 2021: www.bis.org/bcbs/publ/d517.pdf

¹⁰ BCBS. Principles for Effective Management and Supervision of Climate-related Financial Risks. 2022: https://www.bis.org/bcbs/publ/d532.pdf

¹¹ NGFS. Guide for Supervisors - Integrating climate-related and environmental risks into prudential supervision. 2020: ngfs_guide_for_supervisors.pdf

¹² CISL. Handbook for nature-related financial risks: key concepts and a framework for identification. 2021: https://www.cisl.cam.ac.uk/system/files/documents/handbook-for-nature-related-financial.pdf

NGFS, 2021¹³, 2022¹⁴, 2023¹⁵; OECD, 2023¹⁶). These risks are interrelated with other environmental issues as various environmental risks reinforce each other.

Environmental factors can materialize into financial risks through two main risk drivers that are physical risks and transition risks (see Diagram 1).

Physical risks - financial risks stemming from the physical effects of climate change and environmental degradation - are categorized as *acute* when they arise from climate- and weather-related events, such as droughts, floods, and storms, and *chronic* when they arise from progressive shifts in climate and weather patterns such as increasing temperatures, sea level rise, loss of biodiversity. They comprise impacts directly resulting from above listed events, such as damage to infrastructure, property, and assets; reduced productivity or revenue; and/or continuously increasing operating expenses, and those that may arise indirectly through subsequent events, such as the disruption of global supply chains. Physical risks can potentially result in large financial losses that can have micro as well as wider systemic impacts. Where these risks are not identified, assessed for materiality, and managed properly, systemic financial risk can build throughout the financial system. Financial institutions can be affected by physical risk directly, for instance by reduced value of assets and collateral¹⁷, increased insured damages¹⁸, or by disrupting their own business operations¹⁹.

Transition risks - financial risks that can result from the adjustment process towards a lower-carbon and environmentally sustainable economy. Changes in environmental policy, technology breakthrough or change in market sentiment could prompt a reassessment of the value of a large range of assets, as well as the broader capital stock used in an economy, as changing costs and opportunities become apparent. At a corporate level, these risks can manifest as unexpected declines in profitability and/or in the value of assets that are not needed in the future low-carbon economy (e.g., coal-fired power plants, oil reserves, etc.). The speed at which such re-pricing occurs is uncertain but a rapid low-carbon transition, for example due to the introduction of a most cost effective and lower carbon alternative, can result in a significant economic dislocation for companies with no plans to adjust their business models. Understanding this will be essential for financial stability and the safety and soundness of financial firms.

Social risks are financial risks stemming from an institution's exposure to activities that may be affected by or contribute to the negative impacts of social factors.

Social factors can materialize into financial risks through three main risk drivers: environmental risks, changes in social policy and changes in market sentiment regarding social factors (see Diagram 1).

Social factors such as income inequality, demographic changes, and social unrest can be an implications of continuous deterioration of environmental conditions. For example, natural disasters or other climate-

¹³ NGFS. *Biodiversity and financial stability: Exploring the case for action*. 2021

¹⁴ NGFS. *Central banking and supervision in the biosphere: an agenda for action on biodiversity loss, financial risk and system stability*. 2022.

¹⁵ NGFS. *Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors*. 2023

¹⁶ OECD. *A supervisory framework for assessing nature-related financial risks*. 2023

¹⁷ Scott et al., *The Bank of England's response to climate change*. 2017

¹⁸ DNB. *Waterproof?*, 2017; *Finansinspektionen, Climate Change and Financial Stability*. 2016

¹⁹ Stenek et al.. *Climate Risk and Financial Institutions*. 2010

related physical events can affect a geographical area and vulnerable populations and may trigger migration and other social or political unrest. In addition, transition related factors such as changes in regulations to combat climate change may disturb labor markets and create social risks by decreasing demand for non-green jobs.

Social policies, such as regulations on labor standards, consumer protection, and social welfare, can also create financial risks for financial institutions. For example, changes in labor policies or minimum wage laws can increase labor costs for companies and reduce their profitability, leading to credit risks for lenders. Similarly, changes in social welfare policies or healthcare regulations can affect the creditworthiness of borrowers and create market risks for financial institutions. Moreover, social risks can also affect the regulatory environment in which financial institutions operate, as governments and regulators may respond to social pressures by imposing new regulations and standards. For example, regulatory initiatives to address income inequality or promote sustainable investments can create compliance risks and operational costs for financial institutions.

Changes in market sentiment towards social factors, such as investor preference for socially responsible investments or consumer demand for sustainable products, can also create financial risks for financial institutions. For example, if market sentiment shifts towards companies that have more sustainable practices, it can affect the value of assets and lead to market risks for financial institutions that hold assets that are not aligned with such values.

Governance risks are financial risks stemming from an institution's exposure to activities that may be affected by or contribute to the negative impacts of governance factors.

Governance factors can materialize into financial risks through inadequate management of environmental and social issues, and non-compliance with corporate governance frameworks or codes (see Diagram 1). This is because poor governance practices can have significant negative impacts on a company's financial performance and reputation.

Environmental and social issues, such as climate change, water scarcity, human rights abuses, and labor violations, can create financial risks for companies if they are not adequately managed. For example, a company that fails to manage its carbon emissions or to address human rights abuses in its supply chain may face regulatory fines, legal liabilities, reputational damage, and loss of investor confidence. These risks can lead to increased costs, decreased revenue, and reduced profitability, all of which can ultimately affect a company's bottom line and, as a consequence, its ability to repay loans.

Similarly, non-compliance with corporate governance frameworks or codes may also create financial risks for companies. In particular, failure to comply with these regulations may result in legal sanctions, fines, and penalties, as well as reputational damage and loss of investor confidence. Additionally, poor corporate governance practices, such as inadequate board oversight or lack of transparency, can also increase the risk of financial fraud, corruption, and other unethical behavior.

Holistic Approach to ESG Integration and Risk Management

The NBG, when developing sustainable finance framework, adopts a broad perspective according to which sustainable finance is about integrating ESG issues into financial decision making, as well as reorienting financial flows to the projects that have positive environmental and/or social effects. All of these contribute to long-term economic sustainability and financial stability. This definition employed by the NBG is in line with the EU²⁰, ICMA²¹, G20²² and SBFN²³ definitions.

In other words, Sustainable Finance is about risks and opportunities. Financial institutions need to identify, measure, and manage ESG risks, including climate-related risks; and at the same time, financial institutions could identify opportunities and redirect financial resources to more green, social and sustainable activities²⁴ to further support the transition towards a net-zero economy and contribute to achieving Sustainable Development Goals (SDGs). A process for identifying ESG risks will allow the financial sector to discover these opportunities. As such transition can only be achieved by investments on the part of the companies, and for banks these activities present a tangible and strongly pronounced business case. There is a massive need for capital to enable the low-carbon economic transition. Therefore, ESG integration needs to have the following two dimensions – ESG risks and opportunities, whereas opportunities have both intangible, society-goal oriented and a material, financing business-case related components.

The aim of this document is to provide guidelines, methods and tools for financial institutions to help them identify, measure and manage ESG-related risks and provide guidance on how to identify new business opportunities. In doing so, it applies a double materiality perspective meaning that it is crucial to look at the ESG integration issue through the impact materiality and financial materiality lens – how financial institutions influence the society and environment through ESG factors and how ESG factors affect the financial institutions.

The ‘double materiality’ concept, first formally introduced by the European Commission²⁵ in 2019, proposes to address materiality from two perspective: (i) **Financial materiality**: “the extent necessary for an understanding of the company’s development, performance and position” and “in the broad sense of affecting the value of the company”; and (ii) **Impact materiality**: environmental and social “risks and impacts of an entity’s activities” on a broad range of stakeholders, including consumers, employees, communities and civil society organizations. The concept also implies the need to assess the interconnectivity of the two.

²⁰ European Commission, EC. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en;

²¹ ICMA. *Sustainable Finance High-level definitions*. 2020

²² G20. *Sustainable Finance Synthesis Report*. 2018

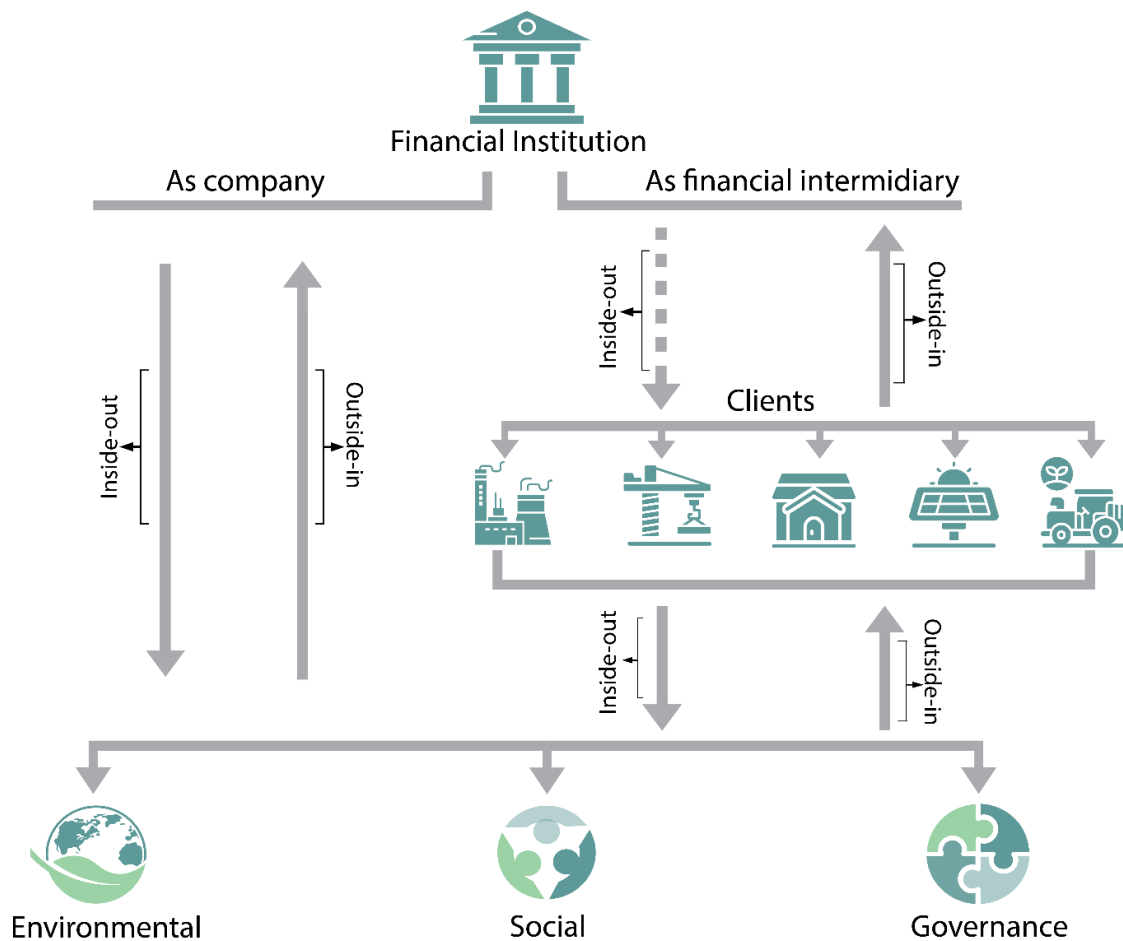
²³ SBFN. *Measurement Framework and Methodology*. 2021.

²⁴ For eligible activities, please see *Sustainable Finance Taxonomy for Georgia*

²⁵ EC. *Guidelines on non-financial reporting: Supplement on reporting climate-related information*. 2019

Why double materiality is important for ESG integration and risk management? Institutions can be impacted by (outside-in perspective) or have an impact on (inside-out perspective) ESG factors (EBA, 2021²⁶). In case of financial institutions, each of this perspective has two dimensions (see Diagram 2) – as a company itself it can be impacted by ESG factors: for example, extreme weather events may damage their office buildings (outside-in perspective); and can have an impact on the ESG factors, for example through their own emissions (Scope 1, Scope 2) (inside-out perspective) or when maltreatment of staff results in reputation loss or even in legal claims. On the other hand, financial institutions, through their core business activities, may affect ESG factors by providing loans to an emission intensive sectors, i.e. financed emissions (inside-out perspective), or be impacted by them, for example when their clients face either physical or transition risks (outside-in perspective). For instance, the introduction of a carbon tax may negatively affect the profitability of carbon-intensive businesses or decrease their products’ competitiveness and result in the credit losses.

Diagram 2. Double Materiality and Financial Institutions



Source: Adapted from EBA (2021)

²⁶ EBA. “EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms”. 2021



Apart from that, there are feedback effects on financial institution's risk that come from a bank's contribution to climate change and other environmental factors. This is more prominent in the case of transition risk. These are mainly the risks related to a financial institution's lending to sectors at risk from a low-carbon transition – typically high GHG emission industries or undiversified fossil fuel producers (transition risk). Financial institution activities that are most likely to contribute to climate change, for instance, lending to a high emitter, can then feedback and impact the institution's risk profile. The global low-carbon transition underway involves a massive economic reorganization, and, as such, there will be companies that benefit and companies that deteriorate financially. Identifying and financing the companies that will benefit presents an enormous opportunity for financial institutions due to the capital required. On the other hand, rapid technological change is likely to accelerate the risk for high-emitting companies and may result in declining revenue and demand for their products or even the stranding of some assets.²⁷ In addition, the GHG emissions of a bank borrower, for example, are part of a bank's "financed emissions," which are both one measure of a bank's contributions to climate change and one factor that determines the transition risk that a bank may face (BCBS, 2021²⁸; PCAF, 2022²⁹; Stiroh, 2022³⁰). These financial impacts can also result from policy changes, e.g., the introduction of an emissions cost which lowers a borrower's profitability.

By contrast, a financial institution's exposure to physical risk is unlikely to be a determinant of the impact of a bank's activities on the climate itself. The financial exposure to physical risk is a result of the increasing probability, both frequency and intensity, of acute climate hazards and/or the continuous chronic changes to long-term climate patterns. These can result in unexpected losses of revenue, increases in operating expenses, increased capital expenditure, and potentially default, especially where these risk are not identified as part of the financing approval process.

A holistic approach like the concept at hand is needed to combine the beneficial consequences of ESG integration for the banks (both in terms of the business case and protection) with the beneficial consequences for the Georgian economy: this is achieved through the synergy of a processual perspective (before and after granting a loan, thus covering pre-issuance and post-issuance phases, and both at loan and portfolio levels) with the materiality perspective, that considers not only the impact of ESG related opportunities and risks on the banks (outside-in perspective, financial materiality) but also the impact of the banks' policy on society and the environment (inside-out perspective or impact materiality). It is especially the later that helps to re-align the considerations of ESG management in banks with the concept of sustainability and the goal of a sustainable development of the country.

Thus, when talking about ESG integration and risk management, we need to look at it through double materiality perspective and develop holistic approach that not only looks at how environmental and social

²⁷ E.g., a coal mine may become a "stranded asset" if the exponential decrease in renewable energy technology cost continues or new technology is developed which results in a coal price that is below its marginal cost of extraction.

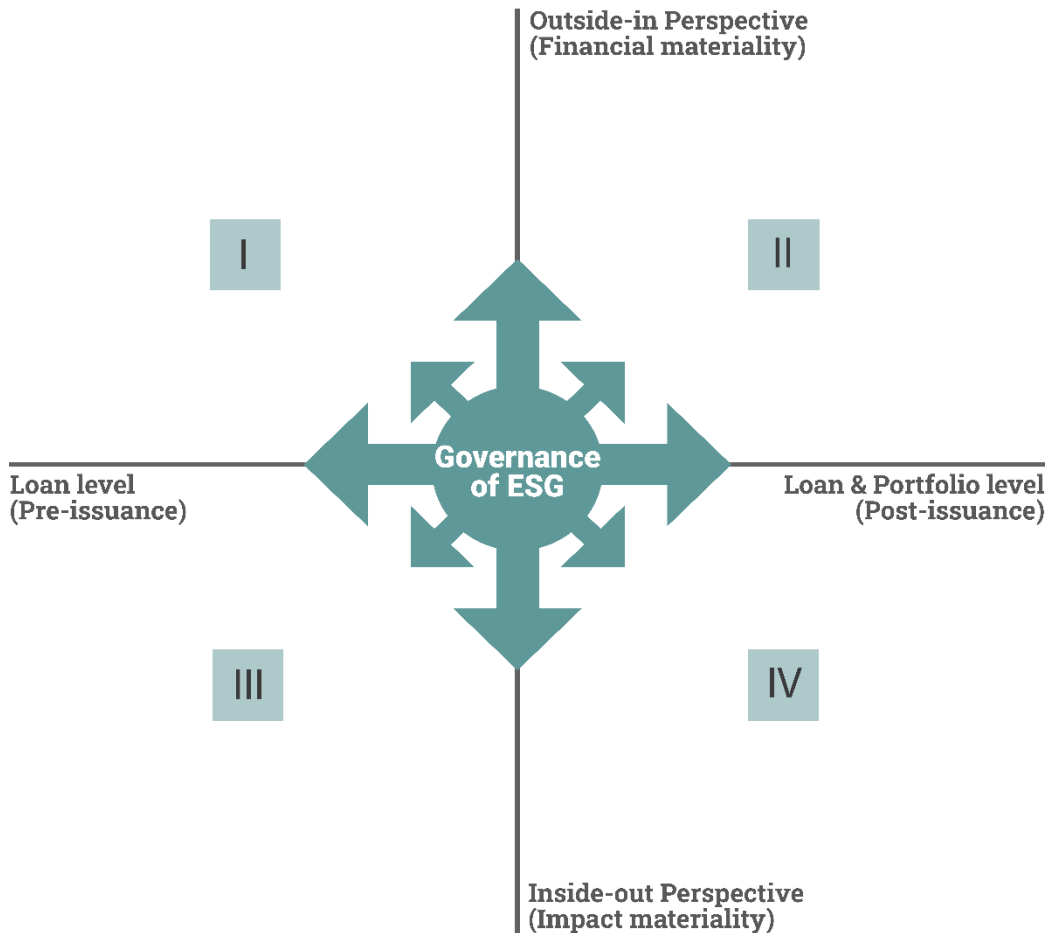
²⁸ BCBS. [Climate-Related Financial Risks – measurement methodologies](#). 2021

²⁹ PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition: [The Global GHG Accounting and Reporting Standard for the Financial Industry \(carbonaccountingfinancials.com\)](#)

³⁰ Stiroh, Kevin J. Climate Change and Double Materiality in a Micro- and Macroprudential Context. 2022. Finance and Economics Discussion Series 2022-066. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2022.066>.

factors affect the financial institution but at the same time, how the financial institution operations, e.g. lending, affect environment and the society. Apart from that, proper ESG risk management practice should ensure that ESG risks are managed not only at the individual client or project level but at the whole portfolio level as well (see Diagram 3).

Diagram 3. Holistic approach to ESG Integration and Risk Management



Management of ESG risks needs to be done in two stages – before issuing a loan and after the issuance (horizontal-axis on Diagram 3). In the first stage, the risk assessment is done at a loan level (with the result of an ESG-rating on loan level). This ensures that when a loan is issued, potential negative consequences for the bank have been considered (e.g. in the pricing of the loan or by designing appropriate covenants). In addition, during this process, negative effects on the environment and society are considered at some extent, and projects that fall into the exclusion list categories are not financed (III quadrant on Diagram 3). This, in turn, also contributes to reducing the portfolio exposure to ESG risks and, thus, reduces the outside-in effects of ESG risks (I quadrant).

At a post-issuance stage, the risk assessment should be performed both at the loan and portfolio levels to ensure that ESG risks are managed not only at the individual client or loan level but also at the whole portfolio level. This is crucial because ESG risk assessment at the pre-issuance level is done at loan level. However, managing ESG risks at a loan level does not guarantee addressing ESG risks at the portfolio level. Due to portfolio-effect and cross-risks, the accumulation of small and medium risks can still lead to risk clusters and thus, can result in material risk at the portfolio level, and potentially at the systemic level of

the Georgian economy. So, at the post-issuance level, it is important, especially from the prudential and financial stability perspective, that the risk assessment is done for the whole portfolio so that all outside-in effects of ESG risks are identified, assessed and managed (II quadrant).

Apart from that processual perspective, at both stages, ESG integration and risk management should follow the double materiality principle, meaning that both financial and impact materiality should be considered. Financial institutions should assess and manage ESG risks that affect them (outside-in perspective) that, in turn, can be a source of financial risks (I and II quadrants). This is especially important from financial stability or prudential perspective. Again, methods used for this at the pre-issuance level (I quadrant) somewhat address the outside-in effects of the ESG risks. At the post-issuance level, more advanced methods are needed to assess ESG risks at the portfolio level, including exposure methods, scenario analysis and stress-testing (II quadrant).

And at the same time, financial institutions should manage ESG risks stemming from their lending activities or their impact on the environment and society, i.e., inside-out perspective (III and IV quadrants). At the post-issuance, portfolio level, one way to measure the inside-out effect is to calculate the GHG emissions financed by loans and investments (financed emissions), i.e., the carbon impact of the portfolio (IV quadrant).

To conclude, ESG risk and opportunity management requires application of various methods and approaches. In addition, proper ESG Governance, which determines ESG policy, targets, integration of ESG into strategy and overall risk management framework, and monitors its implementation, is necessary to ensure that ESG integration and risk management is done properly at all stages and levels.

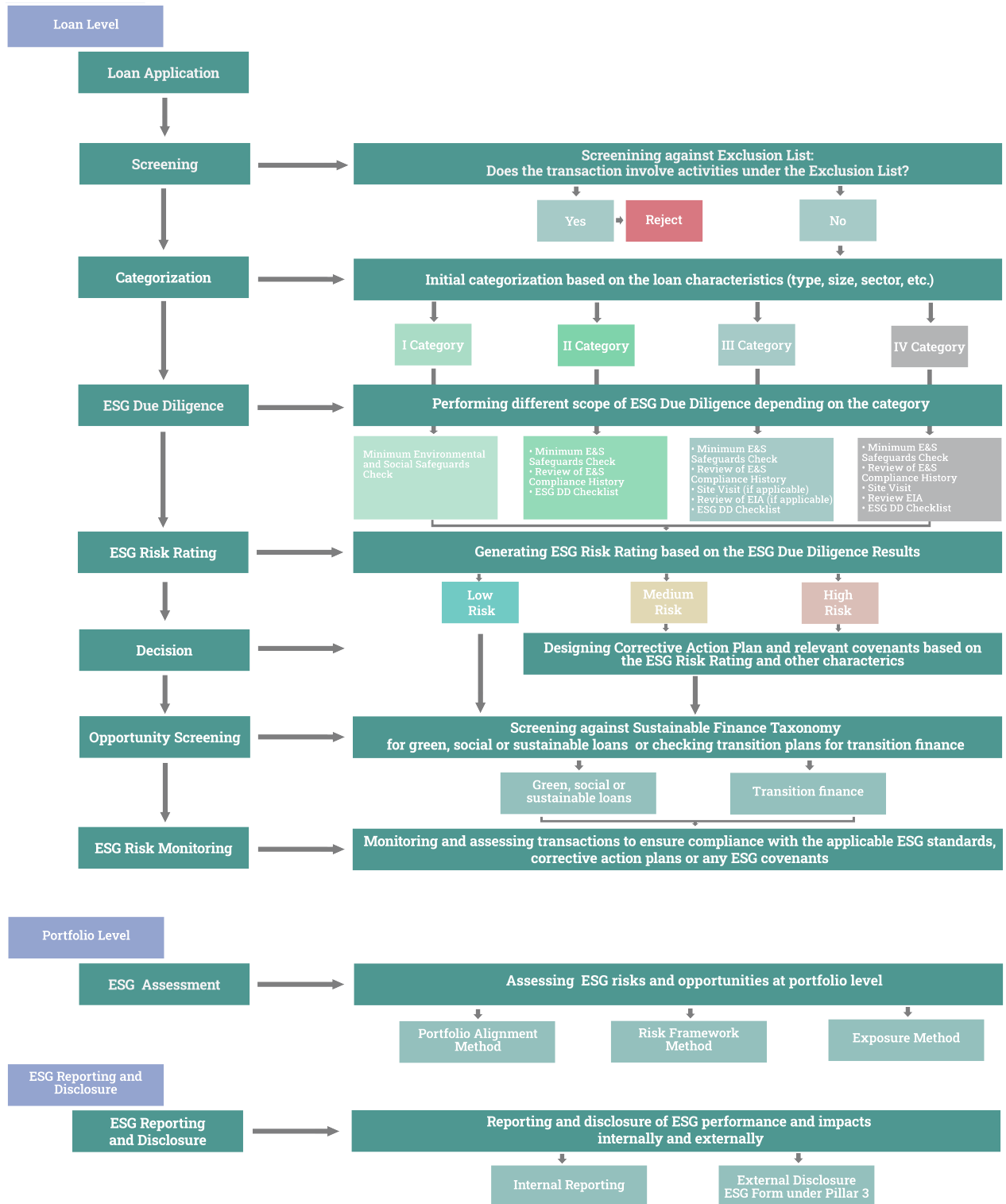
Thus, given the broad spectrum of ESG risks and various transmission channels, proper integration of ESG into decision-making and risk management requires an overarching and holistic approach.

Recognizing the fact that in many aspects methods, tools and approaches are not yet developed, these ESG Guidelines list and describe the most widely used methods and tools. And if the new methods and international standards emerge in various direction, the ESG Guidelines will be updated accordingly.

ESG Integration and Risk Management in Practice

The practical implementation of ESG integration and risk management requires a multifaceted approach that encompasses various aspects, as outlined in the preceding section. Recognizing that the tools and methods employed can vary significantly, this section offers a comprehensive guide that includes steps, methodologies, tools, and recommendations for effective identification, assessment and management of ESG risks and opportunities within loan portfolios at different stages (see Diagram 3).

Diagram 4. Steps for ESG Integration and Risk Management at Loan and Portfolio Levels



ESG Integration and Risk Management at Loan Level

There are several steps for carrying out ESG risk management at the loan level, mainly done at the pre-issuance level. This includes screening against the exclusion list and internal limits, initial categorization, performing ESG due diligence, assigning ESG risk rating, defining correction plans, screening for opportunities, monitoring and reporting (see **Diagram 4**). The following sections provide a description of steps and methods for ensuring that the ESG risks are well-identified, measured and managed at the loan level through a double materiality perspective. Financial institutions can define the precise scope and details of each step, along with their practical implementation. The results of these assessments also contribute to and can be used as input for analysis at the portfolio level.

Screening

Screening for an exclusion list is an important first step of ESG risk management at the pre-issuance level, as it helps financial institutions identify and exclude borrowers or investments that may pose significant ESG risks or are not aligned with their ESG objectives. This can help to reduce ESG risks, protect the institution's reputation, and promote sustainable and responsible banking practices.

The Exclusion List, based on international standards such as developed by IFC³¹, EBRD³², World Bank³³, FMO³⁴, ADB³⁵ and current practices of the Georgian commercial banks, is presented in **Annex 1: Exclusion List**. Banks are expected to follow this list to perform screening at the pre-issuance level for all business loans (including micro, SME and corporate, project finance) to ensure consistent and comparable practices among financial institutions. However, banks can extend the list to include more activities based on their ESG goals and risk appetite.

Categorization

After screening against the Exclusion List, the next step is categorizing transactions. The initial categorization into I, II, III and IV categories is based on the loan characteristics (type, size, sector, etc.) and their inherent environmental and social risks (see **Table 2**). The loan category determines the scope and nature of the ESG Due Diligence, which is the next step.

³¹ IFC Exclusion List: <http://www.ifc.org/exclusionlist>

³² EBRD Environmental and Social Policy (ESP): <https://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html>

³³ WB Environmental and Social Management Framework: <https://documents1.worldbank.org/curated/en/799061615893026696/pdf/Environmental-and-Social-Management-Framework-ESMF-Georgia-Relief-and-Recovery-for-MSMEs-P173975.pdf>

³⁴ FMO Exclusion List: <https://www.fmo-im.nl/en/exclusion-list>

³⁵ ADB Safeguard Policy Statement: <https://www.adb.org/documents/safeguard-policy-statement>

Critical Sectors are sectors that are defined as particularly hazardous activities for the environment by the Annex No2 of the Law of Georgia on Environmental Liability,³⁶ which includes sectors defined by the Annex I of the Law of Georgia on Environmental Assessment Code³⁷. **High Risk Sectors** are defined by the Annex II of the Law of Georgia on Environmental Assessment Code. **Other Sectors** are sectors that are not included in the Critical and High Risk categories.

Table 2. Initial Categorization

	Critical Sectors	High Risk Sectors	Other Sectors
Micro (<€0.5 mln)	II Category	I Category	I Category
SME (€0.5 mln – €6 mln)	III Category	II Category	II Category
Corporate I (€6 mln - €25 mln)	IV Category	III Category	III Category
Corporate II (≥€25 mln)	IV Category	IV Category	III Category

Loans are assigned categories in the following way³⁸:

IV Category – All size corporate loans in the Critical Sectors; and corporate loans that exceed €25 mln in the High Risk Sectors.

III Category – Corporate loans in the range of €6 mln - €25 mln in the non-critical sectors (high risk and other sectors); and SME loans (€0.5 mln – €6 mln) in the critical sectors.

II Category – SME loans (€0.5 mln – €6 mln) in the non-critical sectors; and Micro loans (<€0.5 mln) in the critical sectors.

I Category –Micro loans (<€0.5 mln) in the non-critical sectors.

ESG Due Diligence

ESG Due Diligence (DD) is a critical component of ESG risk management at the loan level. This process helps banks to identify and assess potential environmental and social risks and impacts associated with lending to a particular borrower or financing a particular project. The goal of this process is to ensure that these activities or investments are aligned with ESG standards and to mitigate any negative impacts on the environment, society, and stakeholders.

³⁶ Law of Georgia on Environmental Liability, [ON ENVIRONMENTAL LIABILITY | სსიპ "საქართველოს საკანონმდებლო მაცნე" \(matsne.gov.ge\)](#)

³⁷ Law of Georgia on Environmental Assessment Code, [Environmental Assessment Code | სსიპ "საქართველოს საკანონმდებლო მაცნე" \(matsne.gov.ge\)](#)

³⁸ Please note that categorization and following assessments are done per loan and not per client.

Environmental due diligence focuses on assessing the potential environmental risks and liabilities associated with an activity to be financed by the loan. This may include an assessment of the impact of the activity or investment on air quality, water quality, soil contamination, natural resources, and biodiversity. It also includes an analysis of embedded environmental risks that the activity or corresponding sector may face and the measures in place to mitigate these risks. Environmental due diligence also includes an assessment of the compliance of the activity or investment with environmental regulations and standards.

Social due diligence focuses on assessing the potential social risks and impacts associated with an activity to be financed by the loan. This may include an assessment of the impact of the activity or investment on local communities, human rights, labor practices, and social inclusion. It also includes an analysis of social risks that the activity or corresponding sector may face and the measures in place to mitigate these risks. Social due diligence also includes an assessment of the compliance of the activity or investment with social regulations and standards.

Governance due diligence involves evaluating the governance structures and practices of the borrower or project to be financed. This includes an assessment of the company's leadership, decision-making processes, transparency, and accountability mechanisms. Governance due diligence ensures that the borrower or project is managed in a responsible and ethical manner, aligning with good governance principles and minimizing the risk of misconduct or governance failures that could impact the lender.

The scope and depth of the ESG DD vary based on the initial categorization of the transaction:

I Category: For transactions falling under I Category, the ESG DD includes the following steps:

- *Minimum Environmental and Social Safeguards Check:* Review and verification of national environmental, health, safety and labor regulations and relevant international conventions, i.e. minimum environmental and social safeguards (see [Annex 4: Legislation on Minimum Environmental Safeguards](#); [Annex 5: Legislation on Minimum Social Safeguards](#)), when applicable. Apart from that, a clause signed by the borrower that includes a commitment to adhere to all applicable national laws and regulations and to take corrective measures if any non-compliance with national law is identified within their operations can be added to the loan agreement.

II Category: For transactions falling under II Category, the ESG DD includes the following steps:

- *Minimum Environmental and Social Safeguards Check:* Review and verification of relevant documents to ensure compliance with applicable permissions, laws, and regulations. All national environmental, health, safety and labor regulations and relevant international conventions, i.e. minimum environmental and social safeguards (see [Annex 4: Legislation on Minimum Environmental Safeguards](#); [Annex 5: Legislation on Minimum Social Safeguards](#)), are applicable to all transactions under this category. This involves assessing if all required permits, licenses, and approvals are in place and valid. Apart from that, the loan agreement should include a clause signed by the borrower that includes a commitment to adhere to all applicable national laws and regulations and to take corrective measures if any non-compliance with national law is identified within their operations.
- *Review of ESG Compliance History:* Assessment of the borrower's compliance history with environmental and social regulations and standards. This involves evaluating past records,

incidents, violations, or penalties related to environmental impact, social responsibility, or governance practices.

- *ESG DD Checklist*³⁹: Completion of the corresponding ESG DD Checklist. The Checklist covers specific ESG aspects relevant to the II Category to ensure that all relevant factors are considered and evaluated.

III Category: For transactions falling under III Category, the ESG DD process includes the steps outlined for II Category, along with additional measures:

- *Minimum Environmental and Social Safeguards Check*;
- *Review of ESG Compliance History*;
- *Site Visit*: Conducting a site visit when necessary to assess the transaction's environmental and social conditions firsthand. This may involve evaluating on-site practices, potential environmental risks, social impacts, and stakeholder engagement.
- *Environmental Impact Assessment (EIA)*: Checking the Environmental Impact Assessment, if applicable. An EIA is a comprehensive study that evaluates the potential environmental impacts of a project or activity. The findings and recommendations of the EIA, such as information on land use, biodiversity, air and water quality, and socio-economic impacts, can serve as input within the risk assessment process.
- *ESG DD Checklist*: Completion of the ESG DD Checklist specifically tailored for Category III transactions. This Checklist include additional criteria or indicators relevant to the transaction's governance risks and impacts.

IV Category: For transactions falling under IV Category, the ESG DD process includes the steps outlined for Category III, with further requirements:

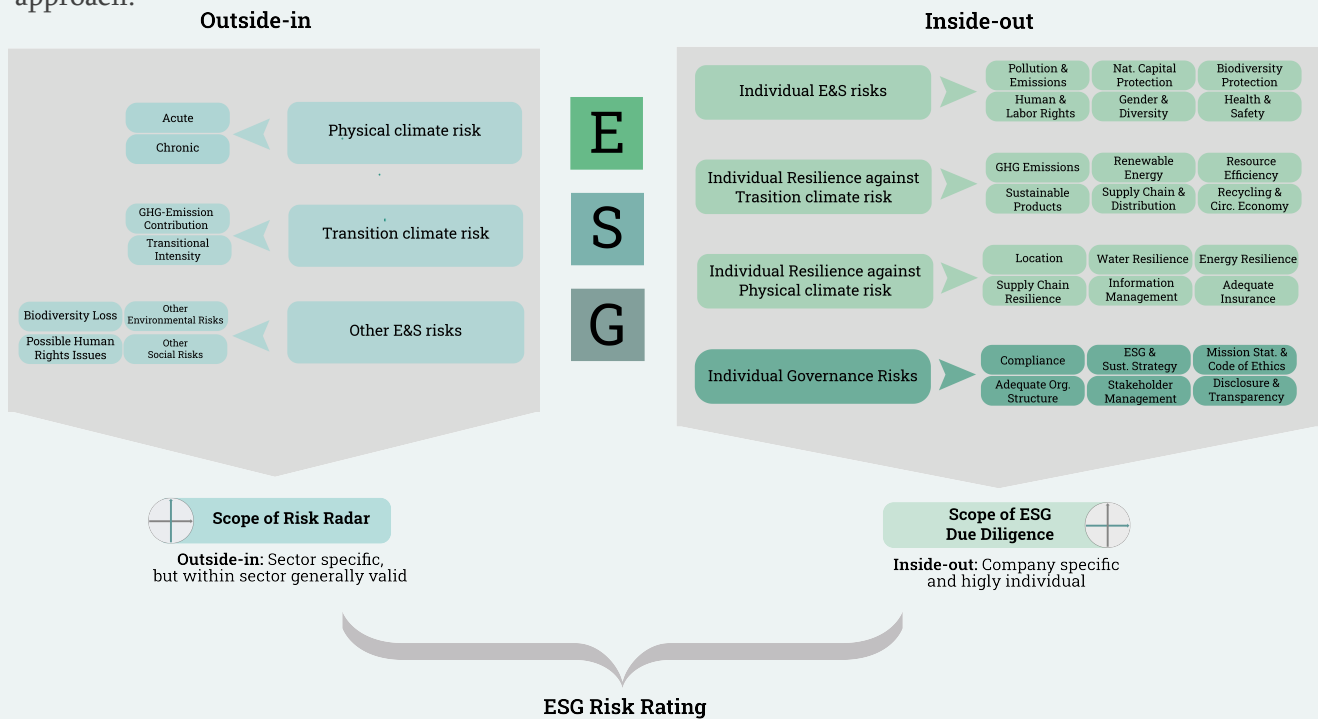
- *Minimum Environmental and Social Safeguards Check*;
- *Review of ESG Compliance History*;
- *Site Visit*: Conducting a site visit to assess environmental conditions, social impacts, stakeholder engagement, and other factors. The site visit allows for a detailed evaluation of the project's compliance with sustainability standards and the identification of potential risks or issues.
- *Environmental Impact Assessment*: Checking of the Environmental Impact Assessment, considering its findings, recommendations, and any mitigation measures proposed.
- *ESG DD Checklist*: Completion of the ESG DD Checklist specifically designed for IV Category transactions. This checklist encompasses the most comprehensive set of criteria and indicators to assess the transaction's environmental, social and governance performance and ensure compliance with sustainability requirements.

By conducting thorough ESG due diligence, financial organizations can identify and mitigate potential risks and impacts, make informed decisions, and take appropriate measures to enhance sustainability and manage ESG risks throughout the transaction life cycle.

³⁹ Separate Excel-based ESG DD Checklist Tool will be provided to the banks. For the overview of the Tool please see the [Box: ESG Due Diligence Checklist Tool](#).

Box: ESG Due Diligence Checklist Tool

The ESG DD Checklist Tool, developed as part of the ESG Guidelines, follows the same double materiality approach:



Outside-in: the outside-in ESG risk score is assigned based on the Risk Radar⁴⁰. The Risk Radar assesses physical and transition climate risks and other E&S risks and provides the corresponding ESG risk score at the sectoral level.

Inside-out: for the inside-out risk assessment, ESG DD, there are four main thematic chapters based on which the analysis is performed: *Individual Resilience towards Physical Climate Risk*, *Individual Resilience towards Transition Risk*, *Individual Environmental and Social Risks*, and *Individual Governance Risks* (see Diagram above). Each of these four chapters has 6 indicators that are relevant to the assessment. The indicators are the same for all categories, but they are translated into a different set of questions depending on the initial categorization of loans. It should also be noted that the Tool does not cover the I Category, as the completion of the ESG DD Checklist is not within the scope of the ESG DD for this category transactions, and the Individual Governance Risks are assessed only for the III and IV Category loans.

Category-Specific Assessment Approach:

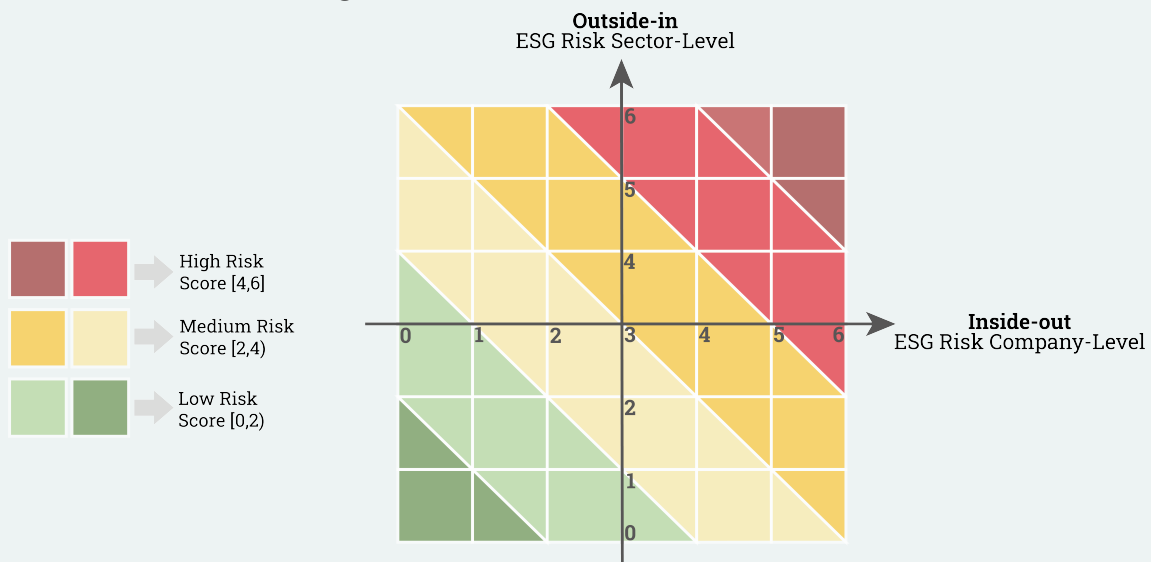
- **II Category:** for II Category transactions, there are 18 questions distributed across three thematic chapters (one question per indicator). The focus remains on basic inquiries tailored to the company's size and risk exposure. Thus, the questions are kept rather basic to the extent that they can be enough to find “something” in order to reduce the individual ESG risk. The risk starts at 6 in each of the chapters and is reduced by -1 for each question with satisfactory responses.

⁴⁰ NBG, Climate-related Risk Radar for Georgian Economic Sectors and its Possible Application for the Financial Sector. 2022: <https://nbg.gov.ge/en/page/climate-risk-radar>. For the description please also see the section ESG Scorecard.

- **III Category:** for III Category transactions, the assessment is extended to encompass governance risks, totaling 24 questions (again, one question per indicator), acknowledging the significance of organizational structure, strategies, and stakeholder management, particularly for larger companies. Additionally, a heightened emphasis is put on individual transition risk by counting the chapter on individual transition risk twice to underscore the importance of adaptation efforts within this category.
- **IV Category:** for IV Category transactions, the number of questions is doubled to 48 (two questions per indicator), resulting in a more comprehensive evaluation framework. Now, for each indicator, questions are designed to address both strategic considerations and practical implementation, necessitating both aspects for effective risk mitigation. Similar to the III Category, the transition risk in this case also has a double weight.

The overall result of the ESG DD assessment is the inside-out risk score. By averaging it with the outside-in score, which is mapped from the Risk Radar, the final ESG Risk Rating score is calculated comprising both perspectives and, as such, the individual and the sector perspective.

Both the outside-in and the inside-out risk scores are defined on a level between 1 (lowest risk) and 6 (highest risk). Thus, the final outcome of the ESG DD Checklist Tool, the ESG Risk Rating scores, are also in the same range and are translated into the High, Medium and Low-Risk categories in the following way: transactions with ESG Risk Rating 4 and above will fall under the High Risk category; transactions with risk rating from 2 up to 4 will be in the Medium Risk category; and ones with risk ratings below 2 will fall under the Low Risk categories:



This tiered approach ensures a nuanced and tailored evaluation aligned with the specific characteristics and risk exposure of different transaction categories, offering a holistic perspective on their ESG performance and risk profiles.

The ESG Risk Ratings and corresponding allocation to risk categories are further used in the ESG risk management process.

ESG Risk Rating

This step involves assessing the likelihood and potential impact of environmental and social risks on the institution's operations, finances, and reputation and then assigning each transaction an ESG risk rating based on its severity. In particular, based on the results of the previous step, the ESG Due Diligence process, the ESG risk rating of the transactions is automatically determined.

Based on ESG Risk Rating, each transaction will fall under one of these categories:

Low Risk: Transactions with a low ESG risk rating indicate minimal or negligible potential impact on environmental, social, and governance factors. It suggests that the business activities associated with the transactions align well with sustainability goals and are unlikely to pose significant risks or negative consequences in these areas. Also, these activities are not materially exposed to ESG risks. Low-risk transactions involve businesses compliant with good governance practices where ESG-related issues are well managed and there are no compliance issues.

Medium Risk: Transactions with a medium ESG risk rating imply a moderate level of potential impact on ESG factors. It suggests that the business activities associated with the transactions may have certain risks or concerns related to sustainability but do not pose severe threats or breaches and their exposure to ESG risks are not significant. Medium-risk transactions may involve activities or investments that have some room for improvement in terms of their environmental impact, social responsibility, or governance practices. It indicates that there may be potential issues to address or manage.

High Risk: Transactions with a high ESG risk rating involve a significant potential impact on ESG factors and may pose substantial risks or concerns related to sustainability but do not pose severe threats. These activities can be also materially exposed to ESG, including climate, risks. High-risk transactions may include activities or investments that have adverse effects on the environment, society, or governance practices. It indicates the need to evaluate, monitor, and mitigate the associated risks carefully. Such transactions require additional measures to improve sustainability performance or can be subject to regulatory scrutiny or reputational damage.

Categorizing ESG risks into low, medium, and high-risk categories help financial institutions prioritize their ESG risk management efforts and allocate resources accordingly. All low-risk transactions do not require further actions and can be approved. All medium and high-risk transactions require additional measures to mitigate identified risks.

Decision and Designing Corrective Action Plan

After assigning ESG risk ratings to transactions, the next step in ESG risk management involves making decisions based on these ratings:

Transactions with a **low ESG risk rating** are acceptable and align well with sustainability goals and are not materially exposed to ESG risks. These transactions can be approved for further processing without additional scrutiny or corrective actions. They can proceed through the typical workflow, subject to regular monitoring and reporting to ensure ongoing compliance with ESG standards.



Transactions with a **medium ESG risk rating** typically require a corrective action plan. This plan aims to address the identified ESG risks or concerns associated with the transaction. The specific actions may vary depending on the nature of the risks, but they involve implementing measures to improve the transaction's sustainability performance. This may include setting targets, implementing monitoring systems, enhancing environmental practices, enhancing social responsibility initiatives, or strengthening governance practices. The corrective action plan outlines clear steps, responsibilities, timelines, and performance indicators to track progress and ensure effective risk mitigation. Specific milestones/covenants related to loan disbursements can be also developed when needed.

High-risk transactions require more comprehensive measures to manage the identified ESG risks. In addition to developing a corrective action plan, additional steps may include conducting further due diligence, engaging in more in-depth analysis, and seeking expert advice or external audits. High-risk transactions may also require additional levels of approval or review from senior management, specialized ESG committees or other relevant body within the financial institution. The goal is to thoroughly assess and address the risks, potentially exploring alternative approaches or mitigating actions. In some cases, banks may decide to decline high-risk transactions altogether if the risks are deemed too significant or cannot be adequately mitigated.

Corrective action plan and relevant covenants⁴¹ are included in the loan documentation.

Opportunity Screening

The opportunity screening is an additional step in the ESG assessment that banks can undertake before loan agreement and disbursement. This step focuses on evaluating whether transactions align with specific sustainability criteria, such as the Sustainable Finance Taxonomy.

Using the Sustainable Finance Taxonomy⁴² as a reference, the bank can assess whether the transaction aligns with the defined categories. This assessment involves evaluating the project's activities, objectives, and expected outcomes to determine if they meet the taxonomy's technical criteria for green, social, or sustainable loans. For example, a green loan may be applicable to renewable energy projects, while a social loan could support affordable housing initiatives.

If the transaction is not aligned with the green, social, or sustainable loan categories, the bank may evaluate it for transition finance⁴³. Transition finance is typically associated with projects that aim to reduce today's high greenhouse gas emissions or other environmental impacts and transition to a climate neutral and sustainable economy. These investments might encompass adopting green production methods or minimizing environmental footprints in cases where green technologies aren't yet accessible. Eligible projects should have the corresponding transition plan associated with the transaction. The transition plan outlines the steps and actions that will be taken to shift the project or business activity

⁴¹ For the example of a corrective action plan, please see [Annex 6: Corrective Action Plan Template](#)

⁴² NBG. Sustainable Finance Taxonomy. 2022: <https://nbg.gov.ge/en/page/sustainable-finance-taxonomy>

⁴³ OECD (2022), OECD Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans, Green Finance and Investment, OECD Publishing, Paris, <https://doi.org/10.1787/7c68a1ee-en>.

toward more sustainable practices over time. It may include specific targets, milestones, or strategies to reduce carbon emissions, improve resource efficiency, or enhance social and governance performance that, in turn, contributes to ESG risk mitigation.

Based on the assessment results, the bank may incorporate the findings into the loan terms. This step ensures that the transaction's sustainability characteristics and alignment with the Sustainable Finance Taxonomy or transition finance are explicitly stated in the documentation. The loan terms may include specific clauses or covenants related to sustainability performance, reporting requirements, or use of proceeds as well as some preferable terms.

By incorporating the results of the opportunity screening into loan terms and disbursement agreements, banks ensure transparency and accountability in the financing process. This allows stakeholders, including borrowers, investors, and regulators, to understand the sustainability profile of the transaction and track its progress over time.

ESG Risk Monitoring

The monitoring phase of ESG risk management involves the periodic review and assessment of transactions to ensure compliance with the applicable ESG standards, corrective action plans or any ESG covenants that have been established. The process typically includes the following steps:

Establish Monitoring Schedule: A monitoring schedule need to be established to determine the frequency and timing of the assessments. The schedule will depend on the nature of the transaction, its risk profile, and the agreed-upon timeline for implementing the corrective actions. Monitoring may be conducted on a monthly, quarterly, or annual basis, depending on the project's duration and complexity.

Collect Data and Information: Data and information relevant to the transaction's ESG performance and compliance are collected. This may include reports, documents, site visits, stakeholder feedback, third-party audits, or any other relevant sources. The data collected should cover the ESG indicators and metrics outlined in the corrective action plan or ESG covenants.

Assess Compliance: The collected data and information are analyzed to evaluate the transaction's compliance with the corrective action plan or ESG covenants. This assessment compares the actual performance against the agreed-upon targets, milestones, or requirements. Key areas of focus include environmental impact, social responsibility, and governance practices.

Identify Non-compliance: If non-compliance is identified during the assessment, it needs to be documented and analyzed. This may involve determining the root causes of non-compliance, evaluating the severity of the issue, and assessing any potential risks or impacts associated with the non-compliant actions or practices.

Take Corresponding Measures: Once non-compliance is identified, corresponding measures need to be taken to address the issue. The specific actions may depend on the severity of non-compliance and the nature of the transaction. They may include corrective actions, specific monetary or interest rate penalties,

remediation efforts, additional training or capacity building, policy revisions, or engagement with stakeholders to rectify the situation.

Update Corrective Action Plan: If necessary, the corrective action plan is updated based on the findings from the monitoring process. Adjustments may be made to the targets, milestones, or requirements to align them with the transaction's current status and address any identified non-compliance. The updated plan will include revised actions, responsibilities, timelines, and performance indicators.

Documentation and Reporting: Monitoring results, including any identified non-compliance and corresponding measures, need to be documented and reported to relevant stakeholders. This may include internal teams, management, regulators, investors, and other parties with an interest in the project's ESG performance.

Repeat Monitoring Process: The monitoring process is repeated according to the established schedule to ensure ongoing compliance and performance tracking throughout the project's life cycle. Regular monitoring and reporting allow for timely identification of any emerging risks or non-compliance, enabling proactive measures to mitigate them.

By conducting regular monitoring and taking appropriate actions for non-compliance, banks can effectively manage ESG risks, track progress, and maintain alignment with sustainability objectives throughout the life cycle of transactions.

ESG Integration and Risk Management at Portfolio Level

The assessment of ESG risks at portfolio level is an area that is still in the process of development. While some methods have been established, the focus has largely been on evaluating climate-related risks. Even though climate and environmental risks have been given prominence so far, institutions should not overlook the potential impacts of social and governance risks. These risks can also have far-reaching consequences on the institution's operations, reputation, and stakeholder relationships. Considering the potentially significant impact of these risks, proactive measures may be needed to address them alongside environmental risks, ensuring a comprehensive and robust ESG risk management framework.

This section aims to shed light on various methods that banks can utilize to assess ESG risks within their portfolios. All the approaches discussed in this section aim to provide valuable insights into the risks associated with exposures to specific sectors, such as climate-relevant sectors, and assess the alignment of institutions' portfolios with global or country climate or sustainability goals. There are three established methods for assessing ESG risks in the post-issuance stage can be grouped under three main category⁴⁴:

⁴⁴ For a more detailed description of each method, please refer to European Banking Authority, “EBA Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms,” EBA/REP/2021/18, June 2021

- I. **Portfolio Alignment Method:** This method focuses on evaluating the alignment of financial institutions' portfolios with sustainability goals or climate targets⁴⁵. It examines the extent to which investments and exposures within the portfolio contribute to or detract from those objectives. Some frameworks that apply the alignment method include: 2DII PACTA Tool⁴⁶, SBTi⁴⁷, PCAF⁴⁸, GHG Protocol⁴⁹, UNEP FI PRB⁵⁰.
- II. **Risk Framework Method:** The risk framework method incorporates a comprehensive framework for assessing ESG risks. It involves the application of various risk assessment tools, including climate stress tests, to identify and evaluate potential risks related to ESG, especially climate-related, factors. Unlike the portfolio alignment method, the risk framework method takes a different approach by focusing primarily on a risk-side. Some examples of the risk framework method include Scenario Analysis, Climate Stress Test, and Climate Sensitivity Analysis.
- III. **Exposure Method:** The exposure method centers on analyzing the extent of an institution's exposure to ESG risks. It assesses the nature and scale of risks associated with specific sectors, allowing financial institutions to gauge their vulnerability to ESG-related factors. The core principle of the exposure method is to assess the performance of an exposure directly based on its ESG attributes. Additionally, unlike other approaches that primarily concentrate on climate risk, this method encompasses all three dimensions of ESG factors. Most applied methodologies under this approach include ESG Ratings and ESG Scorecards.

These three groups of methods provide financial institutions with valuable tools to analyze and manage ESG risks effectively. By leveraging these approaches, institutions can enhance their decision-making processes, mitigate potential risks, and align their portfolios with sustainable goals on a global or country scale.

It is worth noting that different methods can be employed simultaneously, and this section specifically emphasizes the methods and tools for which the NBG has provided additional guidance and tools. While supervised entities are encouraged to adopt the principles and processes outlined in this section, they are free to choose their own approaches and methods. Consequently, alternative or supplementary approaches may be implemented as long as they align with the principles set forth here. Given the rapidly evolving nature of these practices, new methods and models are continually being developed. Consequently, this section will be updated to reflect emerging approaches.

⁴⁵ TCFD. Measuring Portfolio Alignment – Technical Consideration. 2021: https://www.tcfhub.org/wp-content/uploads/2021/10/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf

⁴⁶ 2° Investing Initiative: <https://2degrees-investing.org/resource/pacta/>

⁴⁷ Science Based Targets initiative: <https://sciencebasedtargets.org/>

⁴⁸ PCAF: Enabling financial institutions to assess greenhouse gas emissions | PCAF (carbonaccountingfinancials.com)

⁴⁹ Greenhouse Gas Protocol: www.ghgprotocol.org

⁵⁰ UNEP FI Principles for Responsible Banking: <https://www.unepfi.org/banking/bankingprinciples/>

Financed Emissions

The holistic approach to ESG integration and risk management requires financial institutions to manage effect that they may have on the environment as a company (inside-out perspective). One of the ways to measure financial institutions' impact on the environment is to calculate their own GHG emissions. Calculating GHG emissions is a critical component of ESG risk management for financial institutions. It can help ensure regulatory compliance, enhance reputation and brand image, manage financial risks, meet investors and other stakeholders demand.

The widely recognized international standard for calculating GHG emissions is GHG Protocol⁵¹. It was developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) in collaboration with governments, NGOs, and industry experts. The GHG Protocol provides guidance and standardized methodologies for measuring and reporting GHG emissions from a variety of sources.

The GHG Protocol distinguishes between three scopes of emissions: Scope 1 (direct emissions from owned or controlled sources), Scope 2 (indirect emissions from purchased electricity, heat, or steam), and Scope 3 (indirect emissions from sources outside the organization's control, such as supply chains and employee commuting). The GHG Protocol also provides guidelines for reporting emissions, including how to document data sources, methodologies, and assumptions used in the calculations.

In the case of financial institutions, the main source of Greenhouse Gas (GHG) emissions is not the emissions produced directly by financial institutions via operating their business processes or their energy consumption, but GHG emissions produced by other sectors that are financed by the financial institutions. These type of emissions are known as Financed Emissions. Therefore, systemic assessment of financed emissions is of significant importance for the financial sector in environmental risk management processes.

Measuring financed emissions is one of the methods to measure financial institutions' impact on the environment through their core business activities. Measuring financed emissions allows financial institutions to identify climate-related transition risks and opportunities, make transparent climate disclosures on their GHG emissions exposure, and set the baseline emissions for target setting in alignment with the Paris Agreement.

To calculate financed emissions it is recommended to use the Global GHG Accounting and Reporting Standard for the Financial Industry⁵² (Financed Emissions Standard), developed by an industry-led initiative the Partnership for Carbon Accounting Financials (PCAF⁵³). It is a harmonized methodology to measure financed emissions, i.e. GHG emission of loans and investments, and is specifically developed for financial institutions. This standard is also approved by the GHG Protocol and is aligned with the requirements of the GHG Protocol Corporate Value Chain (Scope 3). By following the Financed Emissions

⁵¹ Greenhouse Gas Protocol: www.ghgprotocol.org

⁵² PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition: [The Global GHG Accounting and Reporting Standard for the Financial Industry \(carbonaccountingfinancials.com\)](http://TheGlobalGHGAccountingandReportingStandardfortheFinancialIndustry(carbonaccountingfinancials.com))

⁵³ PCAF: [Enabling financial institutions to assess greenhouse gas emissions | PCAF \(carbonaccountingfinancials.com\)](http://Enablingfinancialinstitutions assess greenhouse gas emissions | PCAF(carbonaccountingfinancials.com))

Standard, financial institutions can measure GHG emissions for each asset class and produce disclosures that are consistent, comparable, reliable, and clear.

The NBG, in cooperation with DSIK, has developed the tool and methodology for calculating financed emissions for the Georgian financial sector. The **Financed Emissions Tool**⁵⁴, which is based on the PCAF methodology, is used to calculate financed emissions throughout the lending activities of commercial banks.

The NBG Financed Emissions tool is a pragmatic tool that bridges the lack of data, offers the possibility of calculating financed emissions for each customer and additionally provides a benchmarking tool. Similar to other NBG tools, it applies a top-down approach and looks at the sectoral level. For benchmarking reasons, the calculation has also been done on the country level. Nevertheless, if individual emission values are available for a customer, these should be used instead. It is planned to update the tool when new information is available, and also it is planned to extend the calculation to other sub-portfolios.

ESG Scorecard

The Exposure Method presents a scoring methodology used to evaluate the significant impact of risk factors on counterparties and assess the potential adverse consequences for banks, such as credit defaults. Risk screening and assessment methodologies generally follow one of two approaches: a bottom-up approach, which involves gathering relevant client data, commonly used in credit risk management to evaluate creditworthiness, or a top-down approach. However, in the context of ESG and climate risk assessment, obtaining client-specific information is often unavailable at present.

Therefore, the NBG's recommended approach is to begin with a top-down approach and gradually introduce bottom-up approaches. The former is a useful first step to run a high-level assessment of a financial institution's exposure to ESG and climate risks through its clients. The bottom-up approach will be necessary to more fully understand the financial risk, assess that risk for materiality to debt service (or other expected financial return), and properly manage material climate-related financial risks.

For the top-down screening approach, the NBG, in partnership with DSIK, has developed the **Risk Radar**⁵⁵, a top-down approach utilizing available data to evaluate the potential climate risk within a sector, resolving data challenges at the loan-level. By identifying and assessing sector-level risks, only a few simple questions are necessary to extrapolate from the industry level to the client/counterparty level. The Risk Radar methodology encompasses acute and chronic physical climate risks, as well as transition risks. Other ESG risks are considered from a broader perspective.

The scoring system of the Risk Radar has been applied to all main sectors in Georgia, classified according to the NACE sector codes. With access to this sector data, it is now possible to screen individual banks' loan portfolios in order to identify clients for further analysis on the financial impact and materiality of physical climate risks and transition risks on loan performance as well as the financial sector as a whole.

⁵⁴ NBG. Financed Emissions Methodological Note and Tool. 2023: <https://nbg.gov.ge/en/page/financed-emissions>

⁵⁵ NBG. Climate-related Risk Radar for Georgian Economic Sectors and its Possible Application for the Financial Sector. 2022: <https://nbg.gov.ge/en/page/climate-risk-radar>



This analysis, referred to as the Heat Map, utilizes sector-specific loan portfolio shares. The Heat Map is independent of portfolio size and can be applied to both small and large institutions by utilizing risk sector scores. It provides an initial overview and understanding of the potential climate-related financial risks to which a bank is exposed.

For a more detailed risk assessment at the counterparty level, the first step should be to consider clients that are potentially more at risk from either or both physical and transition climate risks. The type of climate risk to which the borrower is exposed should be considered along with an assessment of the materiality of that risk to its financial performance during the loan tenor or financial exposure. Financial institutions should then consider any mitigants to those impacts (e.g., a water recycling investment made by a client to reduce a water-intensive client's financial exposure to increased water stress, ability to pass through increased costs to customers). For example, for physical risk (either acute or chronic), the impacts of climate-related hazards can impact the borrower's:

- i. Revenue (e.g., continuously declining production from agri-business due to declining availability of water resources),
- ii. Operating expenses (e.g., continuously increasing expenditure on maintenance caused by the increased frequency and intensity of floods), and/or
- iii. Capital expenditure (e.g., more frequent expenditure to replace damaged or destroyed capital goods due to an increased frequency of wildfire).

It should be noted that this analysis is meant to uncover *unexpected* fluctuations or deteriorations in financial performance based on climate-related impacts. Where these financial impacts of physical climate change have been adequately incorporated into the financial projections of the borrower, and thus the financial decision-making of the lender, then the risk will already be incorporated into that financial decision and loan structure. Note also, though, that it is prudent to consider sensitivity to more rapid physical climate change scenarios as part of the overall risk assessment.

For transition risk, banks should consider the source of the risk for the borrower and assess the potential financial impacts. As some industries tend to be more at risk from the low-carbon transition, a sector-based sensitivity to transition risk can be a useful input in initial screening. Although emissions reduction policy, typically through putting a cost on emissions, is the most predictable source of transition risk impact, consideration should be given to changes in consumer behavior impacting the borrower's supply chain and the potential for rapid disruption to their business model due to new, low/no-carbon technology that produces a more cost-effective or practical alternative low-carbon product. From an emissions reduction policy perspective, lenders should consider emissions cost impacts in a few different ways:

- i. Borrowers with high Scope 1 (direct) emissions are at risk from the imposition of an emissions cost and a resulting increase in their cost of goods sold;
- ii. Borrowers with high Scope 2 (from purchased electricity) are at risk from the imposition of an emission cost on electricity producers and a pass-through of this cost resulting in higher electricity prices;
- iii. Borrowers with high upstream Scope 3 (supply chain) emissions are at risk from the emissions cost on other inputs being passed through to them; and/or



- iv. Borrowers with high downstream scope 3 (supply chain) emissions are at risk from decreased demand due to the imposition of emissions cost further down the supply chain.

Again, the lender should consider the materiality any cost increase and any mitigants to these including emissions reduction plans, ability to pass through costs, emissions intensity of production comparison relative to peers, etc.

Individual scoring modifiers for each sector need to be defined based on the above considerations for physical and/or transition climate risks. This allows for the use of a concise checklist to analyze the extent to which a specific company shares the same risk as its sector and identify areas where mitigating this risk score is appropriate (often considering a "worst-case" scenario within the sector for cautious evaluation). Mitigants for climate-related financial risk include a changing risk profile over time (e.g., a client's emissions reduction plan, physical hazard protection investment, changes to/diversification of their business model), transfer of the risk (e.g., insurance coverage for business interruption and physical assets), acceptance of the risk (e.g., understanding the potential financial risk and accepting it where not material), or a combination of these approaches. Based on this analysis, limits at the counterparty level, pricing implications, tenor considerations, monitoring plans, and/or collateral requirements can be formulated, thereby enhancing the comprehensiveness of the ESG risk management process.

It is anticipated that, over time, the financial sector will adopt a more bottom-up approach to better identify and quantify climate-related financial risk for risk management purposes. This bottom-up approach can build on the deeper assessment outlined above. For a comprehensive understanding of the methodology and results, please refer to the report titled "Climate-related Risk Radar for Georgian Economic Sectors and its Possible Application for the Financial Sector."⁵⁶

Climate-related Scenario Analysis and Stress-testing

Climate-related scenario analysis and stress testing are essential components of ESG risk management, specifically in assessing and managing climate-related risks^{57,58}. These tools help financial institutions evaluate the potential impacts of climate change on their portfolios, understand vulnerabilities, and enhance their resilience.

Climate-related scenario analysis involves modeling and analyzing different future scenarios to assess the potential implications of climate-related risks on portfolios. It helps financial institutions understand how various climate scenarios, such as different levels of global warming or policy changes, could affect their investments. By considering a range of potential climate outcomes, institutions can gain insights into the risks and opportunities associated with climate change and understand financial performance in both expected and stress scenarios.

Climate stress testing goes a step further by subjecting portfolios to severe climate-related scenarios to assess their resilience. It involves assessing the potential impacts of climate-related risks on portfolios, such

⁵⁶ NBG. [Climate-related Risk Radar for Georgian Economic Sectors and its Possible Application for the Financial Sector](#). 2022

⁵⁷ [NGFS Scenarios Portal](#)

⁵⁸ [ECB report on good practices for climate stress testing \(europa.eu\)](#)



as physical risks (e.g., the changing frequency of extreme weather events) and transition risks (e.g., policy changes, market shifts, and technological disruption). It evaluates how portfolios would perform under adverse climate conditions and identifies potential vulnerabilities.

The NBG is currently developing a climate scenario analysis and stress testing framework. The Framework adopts a top-down approach and uses the NGFS scenarios as reference scenarios to perform the analysis. Various satellite models and tools are being developed within this Framework, outcomes of which, together with the results of top-down stress testing, could be further utilized by financial institutions to perform more in-depth, bottom-up stress testing exercises.

Biodiversity and Nature-related Financial Risks Assessment

Nature-related risks, including those associated with biodiversity loss, could have severe socio-economic and financial consequences, at least as large as those imposed by climate change, in addition to interacting with them and failure to account for, mitigate, and adapt to these implications could become a source of risks relevant for financial stability (CISL, 2021⁵⁹; NGFS, 2021⁶⁰, 2022⁶¹, 2023⁶²; OECD, 2023⁶³).

While the assessment of biodiversity and nature-related financial risks is a relatively new dimension of ESG risk management, there are several emerging methods and initiatives that financial institutions can leverage to enhance their understanding and management of these risks. Some of these tools and initiatives are presented in the Table 3.

The central banks are increasingly recognizing their role in assessing biodiversity and nature-related financial risks, and among others, the NBG also performed an assessment of biodiversity-related financial risks in Georgia and provided quantitative estimates of potential dependencies and impacts of the financial system ecosystem services and biodiversity⁶⁴.

This paper represents the first assessment of biodiversity-related financial risks for the Georgian banking sector, examining their lending exposure to economic sectors which depend on ecosystem services. Based on the loans to legal entities, Georgian commercial banks are exposed to a broad range of biodiversity-related physical and transition risks. The methodology utilized the ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) assessment tool, which maps financial dependencies and impacts on biodiversity and ecosystem services. The economic sectors are classified according to the two-digit NACE codes, which were matched with ecosystem dependency risk materiality ratings extracted from the ENCORE database. The findings represent an estimation in GEL of the potential financial exposure to moderate, high and very high dependencies upon ecosystem services and negative impacts on biodiversity within the Georgian commercial bank's business loan portfolio. The results obtained should be seen as

⁵⁹ CISL. [Handbook for nature-related financial risks: key concepts and a framework for identification](#). 2021

⁶⁰ NGFS. [Biodiversity and financial stability: Exploring the case for action](#). 2021

⁶¹ NGFS. [Central banking and supervision in the biosphere: an agenda for action on biodiversity loss, financial risk and system stability](#). 2022.

⁶² NGFS. [Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors](#). 2023

⁶³ OECD. [A supervisory framework for assessing nature-related financial risks](#). 2023

⁶⁴ NBG. [Biodiversity-related Financial Risks –why it matters and how can we measure them? Case study of Georgia](#). 2023

potential risks rather than definitive conclusions, given certain challenges such as data availability and broad materiality scores/ratings. In order to obtain more accurate and concrete results, further analysis and more detailed data are required.

It provides an initial overview and understanding of the potential biodiversity-related financial risks to which the banks are exposed. Financial institutions can utilize the results further to perform biodiversity-related risks assessments at the client/loan level. For a comprehensive understanding of the methodology and results, please refer to the paper.

Table 3. Tools and Frameworks for Biodiversity and Nature-related Risks Assessment

Tool/ Framework	Organisation	Description	Link
Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE)	Natural Capital Finance Alliance (Global Canopy, UNEP FI and UNEP-WCMC)	The ENCORE represents an analytical tool that uses qualitative methods to map economic sectors and sub-industries with their corresponding dependencies on ecosystem services and impacts on biodiversity via assigning materiality ratings. Financial institutions can use data from ENCORE to identify nature-related risks they are exposed to through their lending, underwriting and investment in high-risk industries and sub-industries.	https://encorenature.org/en
Integrated Biodiversity Assessment Tool (IBAT)	IBAT Alliance	IBAT is a tool that offers open access to biodiversity-related data originating from across the globe. Its primary objective is to empower decision-makers with essential information for shaping national and/or regional development strategies, conducting risk assessments, and effectively executing environmental policies, among other choices that impact vital biodiversity assets. The tool is underpinned by three of the world's most authoritative global biodiversity datasets: IUCN Red List of Threatened Species, the World Database on Protected Areas (WDPA) and the World Database of Key Biodiversity Areas (WDKBA).	https://www.ibat-alliance.org/
Biodiversity Footprint Financial Institutions (BFFI)	PRé Sustainability, CREM and ASN Bank	BFFI provides a biodiversity footprint of the economic activities in which a financial institution invests. The methodology allows calculation of the environmental pressures and the biodiversity impact of investments within an investment portfolio, at the level of a portfolio, an asset class, a company, or a project. The tool is based on a life cycle assessment (LCA) approach, using an already existing pressure-impact model (ReCiPe) and environmental data from LCA databases like EXIOBASE or ecoinvent.	https://pre-sustainability.com/customer-cases/biodiversity-footprints-in-the-banking-sector/
Biodiversity Impact Analytics powered by the Global Biodiversity Score (BIA-GBS)	Carbone 4 Finance and CDC Biodiversité	The BIA-GBS measures the biodiversity impact of companies. Investors can identify biodiversity hotspots in their portfolios and use biodiversity impact data for decision-making and to engage with key stakeholders. It uses the GBS and links economic activity to pressures on biodiversity and translates these pressures into biodiversity impacts, using scientific knowledge. The BIA-GBS supports the transition of the financial sector to align with international targets and reduce the impact from multiple pressures on biodiversity.	https://www.carbon4finance.com/product/biodiversity-impacts
Corporate Biodiversity Footprint (GBF)	Iceberg Data Lab	The tool is designed to assess the annual impact of activities of financial institutions on global and local biodiversity. The methodology is based on the impact generated from the products purchased or sold by companies calculated throughout their value chain.	https://icebergdatalab.com/
Global Biodiversity Score for Financial Institutions (GBSFI)	CDC Biodiversité	The Global Biodiversity Score for Financial Institutions (GBSFI) is based on the GBS®, a tool which provides an overall and synthetic vision of the biodiversity footprint of economic activities. It is measured by the Mean Species Abundance (ratio between the observed biodiversity and the biodiversity in its pristine state). Footprints are estimated in a two-step process. First, pressures caused by specific economic activities on biodiversity are quantitatively assessed. Then, the impacts of these pressures on ecosystems are estimated. This last step relies on the GLOBIO model which is based on pressure-impact relationships.	https://www.cdc-biodiversite.fr/publications/global-biodiversity-score-update2021-cahier18/
World Wild Fund (WWF) Biodiversity Risk Filter (BRF)	World Wild Fund	BRF is a corporate and portfolio-level screening tool for companies and investors to prioritise action on what and where it matters the most to address biodiversity risks for enhancing business resilience and contributing to a sustainable future. It helps companies and financial institutions identify biodiversity-related risks across their operations, value chains, portfolios and investments.	https://riskfilter.org/biodiversity/home
Task-force on Nature-related Financial Disclosures (TNFD) Recommendations	Taskforce on Nature-Related Financial Disclosures (TNFD)	The TNFD recommendations provide financial institutions with a risk management and disclosure framework to identify, assess, manage, and, where appropriate, disclose nature-related issues. The framework provides recommendations for improving nature-related risk management through four widely adoptable pillars: (i) governance, (ii) strategy, (iii) risk and impact management, (iv) metrics and targets. Additionally, these pillars are complemented with guidance on technical aspects of the framework, including scenario analysis and additional guidance for specific sectors, including financial institutions. The Framework is consistent with the recommendations of the TCFD, the ISSB and GRI Standards and the global policy goals and targets in the Global Biodiversity Framework (GBF).	https://tnfd.global/
PBAF Standard	Partnership for Biodiversity Accounting Financials (PBAF)	The PBAF Standard enables financial institutions to assess and disclose impact and dependencies on biodiversity of loans and investments. The Standard provides guidance on the steps in a dependency and impact assessment and includes PBAF requirements and recommendations for financial institutions. The results of a dependency assessment can feed into the 'Evaluate' step of TNFD's LEAP approach (Locate-Evaluate-Assess-Prepare) and into CSRD (Corporate Sustainability Reporting Directive) and GRI (Global Reporting Initiative) disclosures.	https://www.pbaglobal.com/standard

ESG Reporting and Disclosure

Reporting and disclosure is a final step and integral component of ESG integration and risk management. It involves the systematic and transparent disclosure of bank's ESG performance and impacts. As part of ESG integration, ESG reporting serves several key purposes. ESG reporting provides stakeholders, such as investors, customers, employees, and regulators, with relevant information about an organization's ESG performance. It enables transparency and accountability, allowing stakeholders to assess a company's sustainability practices, ethical standards, impact on society and the environment and long-term viability. By demonstrating strong ESG performance, banks can attract socially responsible investors and access capital more easily. ESG reporting encourages banks to set goals, measure performance, and track progress over time. By collecting relevant data and metrics, banks can identify areas for improvement and implement strategies to enhance their ESG performance.

Disclosure on the ESG integration and risk management policies and practices are done both internally and externally. Internal reporting frequency, content and reporting form are usually determined and outlined within the bank's ESG Policy (see [Governance of ESG Integration](#)). Externally, banks are required to report regarding their ESG integration policies, processes, targets and outcomes under Pillar 3 annual reports within Basel III framework by Basel Committee on Banking Supervision. The NBG's Regulation on Disclosure Requirements for Commercial Banks/Microbanks within Pillar 3⁶⁵ defines the ESG Reporting and Disclosure Form⁶⁶ and related requirements. Banks should follow the ESG Reporting and Disclosure Principles⁶⁷ to fill out this annual form and submit to the NBG⁶⁸ and publish on their web pages according to the requirements set out in the Regulation. The Form includes both qualitative and quantitative information regarding banks' business model, policies and due diligence, outcomes, ESG risk management as well as key performing indicators.

Apart from that, banks can follow internationally recognized frameworks such as the IFRS Sustainability Disclosure Standards⁶⁹, Global Reporting Initiative⁷⁰ (GRI), the Task Force on Climate-related Financial Disclosures⁷¹ (TCFD), recommendations to prepare internal or other external reports to communicate ESG risks and opportunities, impacts on the environment and society, governance arrangements, and performance metrics.

⁶⁵ NBG. Regulation on Disclosure Requirements for Commercial Banks within Pillar 3. Regulation on Disclosure Requirements for Microbanks within Pillar 3.

⁶⁶ NBG. ESG Reporting and Disclosure Form: <https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure>

⁶⁷ NBG. ESG Reporting and Disclosure Principles. 2020: <https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure>

⁶⁸ ESG Reports from previous years are available here: <https://nbg.gov.ge/en/financial-stability/esg-reporting-and-disclosure>

⁶⁹ IFRS. www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/#sustainability-standards

⁷⁰ GRI. <https://www.globalreporting.org/>

⁷¹ TCFD. www.fsb-tcfd.org

Governance of ESG Integration and Risk Management

The Corporate Governance (CG) Codes for Commercial Banks⁷² and Microbanks⁷³ are the main binding regulations that define the core principles of effective and sound corporate governance and set mandatory requirements in that regard to ensure effective functioning and stability of the financial sector.

CG Codes include ESG considerations and related requirements regarding business strategy, internal governance and risks management. This section provides recommendations on implementing these requirements based on international standards and best practices (EBA, 2021; BCBS, 2022⁷⁴; NGFS, 2020⁷⁵; ECB, 2020⁷⁶).

Business Model and Strategy

Paragraph 7 of Article 3. Core Principles of Corporate Governance of the CG Code states: **‘A bank shall incorporate environmental, social, and governance (ESG) considerations into the bank’s strategy in order to support its long-term sustainability. ESG considerations include those issues that can materially affect the bank’s operations, for example, the gender diversity of employees. ESG considerations also include issues, such as climate change risk, that can materially affect the performance of a bank’s investments, loans, and other lending activity’.**

Recommended actions for integrating ESG into the institution’s business model and strategy include:

- **Developing a clear ESG strategy:** defining a comprehensive strategy that outlines bank’s commitment to ESG principles, including specific goals, targets and KPIs (such as emission reduction targets, share of green loans, etc.). This strategy should clearly articulate the institution's ESG integration goals within its business model and strategy. This involves identifying the strategic relevance of ESG factors to the institution's activities, markets, and customers, and aligning them with broader sustainability objectives. While setting, approving and overseeing the ESG strategy, it is essential to consider the short-, medium-, and long-term effects of ESG factors.
- **Identifying ESG risks and opportunities:** conducting thorough assessments to identify and understand material ESG-related risks and opportunities relevant to the institution's activities. This includes analyzing climate-related risks, such as physical and transition risks, and identifying areas where the institution can contribute to sustainable development.
- **Integrating ESG in Business Decisions:** incorporating ESG factors into the institution's decision-making processes across all business lines. ESG factors should be considered when making business

⁷² NBG. [Corporate Governance Code for Commercial Banks](#)

⁷³ NBG. [Corporate Governance Code for Microbanks](#)

⁷⁴ BCBS. [Principles for Effective Management and Supervision of Climate-related Financial Risks](#). 2022

⁷⁵ NGFS. [Guide for Supervisors Integrating - climate-related and environmental risks into prudential supervision](#). 2020

⁷⁶ ECB. [Guide on Climate-related and Environmental Risks](#). 2020:



decisions, including lending decisions, investment choices, product development, and client relationships. The potential environmental and social impacts of activities should be assessed and managed to ensure they align with the institution's ESG goals and contribute to sustainable outcomes.

- **Developing ESG product and service offerings:** innovating and developing ESG-focused products, services, and investment solutions to contribute to sustainable development, capture market opportunities, and meet evolving regulatory actions and customer demands. When integrating ESG considerations into investment decision-making processes and developing sustainable finance products, it should be aligned with available standards and labels, notably the NBG Sustainable Finance Taxonomy⁷⁷ and other relevant international standards.

Policies and Internal Governance

Paragraph 1.q of Article 4. The Roles and Responsibilities of the Supervisory Board of the CG Code states: **'In addition to other functions, the members of the Supervisory Board are individually and collectively responsible for performing the following functions: q. Ensuring that ESG considerations are adequately integrated into the bank's strategy and monitoring its effective implementation. This includes considering and assessing not only the financial performance but also the potential environmental and social impact of the bank's activities. In order to perform the function provided in this subsection, the Supervisory Board must have the appropriate knowledge and receive relevant information on ESG issues. The bank shall allocate adequate human and financial resources, which may include activities that aim to ensure participation of the Supervisory Board members in programs that will enhance their knowledge of environmental, social, and governance issues.'**

Recommended actions for integrating ESG into the institution's policies and internal governance include:

- **Establishing an ESG governance framework:** developing a robust governance structure that clearly assigns roles and responsibilities for managing ESG risks and opportunities. This structure should be comprised of two key components: board-level oversight and management-level functions. ESG oversight responsibilities can be assigned to a standalone ESG committee or can be integrated into the scope of one of the existing committees at the supervisory board level. Apart from that, establishing a designated unit or appoint responsible officers accountable for driving, coordinating and implementing ESG initiatives is essential. Forming a cross-functional team that includes members from different departments, such as finance, risks, operations, and marketing, to collaborate on ESG projects can be beneficial and can ensure a holistic approach to ESG integration. These governance structures should ensure proper coordination, accountability, and reporting on ESG matters across the institution and in interactions with external stakeholders.
- **Defining ESG policies and standards:** developing comprehensive ESG policies and standards, approved by the Supervisory Board, that provide clear guidance on integrating ESG considerations into all aspects of the institution's operations. It should include guidelines on ESG risk assessment,

⁷⁷ NBG. Sustainable Finance Taxonomy. 2022: <https://nbg.gov.ge/en/page/sustainable-finance-taxonomy>



due diligence, and monitoring processes, as well as frameworks for engaging with stakeholders and managing conflicts of interest.

- **Fostering ESG awareness and training:** promoting ESG awareness and build internal capacity through employee training programs. Educate staff, including the Supervisory Board members, on ESG concepts, best practices, and the institution's ESG strategy and policy to foster a culture of sustainability and responsible finance across all levels of the organization.
- **Integrating ESG into performance management:** incorporating ESG metrics and targets into performance assessments, compensation schemes, and incentive programs for the management and other employees. This encourages accountability and aligns individual performance with the institution's sustainability goals.
- **Establishing board-level oversight:** ensuring that the supervisory board actively engages with and oversees the institution's ESG integration efforts. Integrate ESG reporting and performance metrics into regular board discussions to facilitate informed decision-making and align ESG goals with the institution's overall objectives.

Risk Management

Paragraph 13 of Article 17. Risk Management of the CG Codes state: **‘The Supervisory Board, together with financial risks, shall assess non-financial risks that contain ESG, including climate-related 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.’**

Recommended actions for integrating ESG risks into the institution’s overall risk management framework include:

- **Integrating ESG into risk governance:** ensuring that ESG risks are fully integrated into the institution's risk management framework, including risk appetite, risk measurement, and risk mitigation strategies. Enhance the institution's risk management framework to incorporate ESG factors as a core component. Manage ESG risks as drivers of financial risks within their current risk management frameworks i.e. identify, assess, and manage ESG risks across various categories, including credit, market, operational, and reputational risks, using appropriate risk management tools, models, and stress-testing scenarios.
- **Developing ESG risk assessment processes:** establishing robust frameworks and methodologies for identifying, assessing and monitoring ESG risks in the institution's portfolio and operations, including climate-related risks. This may also include conducting scenario analysis and stress testing to evaluate the potential impact of ESG factors on financial performance and resilience. Detailed descriptions of some of the methods financial institutions can use are provided in the [ESG Integration and Risk Management in Practice](#) section.



- **Integrating ESG risks into risk appetite framework:** aligning the identification and management of ESG risks with the institution's risk appetite framework. This includes establishing risk limits and thresholds for ESG exposures and regularly reviewing risk appetite statements to ensure they adequately address the institution's exposure to ESG-related risks.
- **Enhancing ESG data and analytics capabilities:** investing in advanced data and analytics capabilities to improve the collection, integration, and analysis of ESG data and to address data gaps. Institutions can leverage external data sources and collaborate with industry peers to enhance data quality, comparability, and transparency, enabling more effective ESG risk assessment and reporting. This process should consider the evolving advancements in the field of ESG data and methods, ensuring that institutions stay updated with the latest developments and incorporate them into their ESG risk management practices.
- **Strengthening ESG reporting and disclosure:** enhancing the institution's ESG reporting and disclosure practices to provide transparent and comprehensive information to stakeholders, including investors, regulators, and the public. More details on ESG reporting and disclosure are provided in the [ESG Reporting and Disclosure](#) section.

By incorporating these recommendations, financial institutions can effectively integrate ESG considerations into their business models, policies, governance structures, and risk management frameworks. This will enable them to better identify and manage ESG risks, capitalize on emerging opportunities, and contribute to a more sustainable financial system.

For more details regarding requirements and recommendations on the sound governance practices, please refer to the CG Codes for Commercial Banks and Microbanks, respectively.



Appendix

Annex 1: Exclusion List⁷⁸

#	Sector/Activities
1	Production or trade in any product or activity deemed illegal under national laws, regulations or international conventions and agreements
2	Production or activities involving harmful or exploitative forms of forced labor or child labor
3	Gambling (including online gambling), casinos and equivalent enterprises*
4	Production or use of or trade in radioactive materials
5	Production or use of or trade in unbonded asbestos fibers or asbestos-containing products
6	Unsustainable fishing such as drift net fishing in the marine environment using nets in excess of 2.5 km. in length
7	Production or trade in weapons and munitions*
8	Production, use of or trade in pharmaceuticals subject to international phase outs or bans**
9	Production, use of or trade in pesticides/herbicides and other hazardous substance subject to international phase outs or bans**
10	Production, use of or trade in ozone depleting substances subject to international phase out
11	Production, other hazardous substance or trade in products containing Polychlorinated Biphenyl Compounds (PCBs).
12	Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
13	Activities prohibited by national legislation or international conventions relating to the protection of biodiversity resources or cultural heritage
14	Activities which may adversely affect sites of cultural or archaeological significance
15	Transboundary trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations
16	Any business related to pornography or prostitution
17	Production or trade in tobacco*
18	Production or trade in alcoholic beverages (excluding beer and wine)*
19	Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests
20	Production or trade in wood or other forestry products other than from sustainably managed forests
21	Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements
22	Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit

⁷⁸ Please note that exceptions to the items listed may be considered under specific conditions and circumstances. These considerations and additional explanations should be outlined in detail within the bank's respective procedure/policy document.

* Total share of financing of these four sectors should not exceed 10% of the bank's credit portfolio.

** Reference documents for pharmaceutical products, pesticides and herbicides subject to phase outs or bans include: [UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments](#); Convention the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade ([Rotterdam Convention](#)); [Stockholm Convention](#) on Persistent Organic Pollutants; [WHO Restrictions in use and availability of pharmaceuticals](#).

Annex 2: ‘Annex 1’ Activities of the Environmental Assessment Code of Georgia⁷⁹

1: Energy

- 1.1. Refining of crude oil (except for lubricants);
- 1.2. Liquefaction/gasification of 500 tonnes or more of coal or bituminous shale per day.
2. Construction and operation of thermal power stations and other combustion installations with a heat output of 2.10 megawatts or more.
3. Allocation of nuclear power stations or other nuclear reactors, including the dismantling or decommissioning of such power stations or reactors, except for research installations for the production and conversion of fissionable and fertile materials, whose maximum power does not exceed 1 kilowatt of continuous thermal load.
4. Installations designed for the following activities:
 - 4.1. the production and/or enrichment of nuclear fuel;
 - 4.2. the processing of irradiated nuclear fuel or high-level radioactive waste;
 - 4.3. the final disposal of irradiated nuclear fuel;
 - 4.4. the storage of irradiated nuclear fuel or radioactive waste outside the production site if it is planned to store them for more than 3 years;
 - 4.5. the final disposal of radioactive waste.
5. Production of cast iron, steel and/or ferroalloy, including primary and/or secondary smelting.
6. Production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrochemical processes, except for jewellery.
7. Extraction of asbestos, processing and/or transformation of asbestos or products containing asbestos: an annual production of more than 20 000 tonnes of asbestos- cement products; an annual production of more than 50 tonnes of friction materials; for other uses of asbestos, utilisation of more than 200 tonnes of asbestos per year.
8. Chemical industry:
 - 8.1. Production of basic organic compounds;
 - 8.2. Production of basic inorganic compounds;
 - 8.3. Production of simple or compound phosphorous, nitrogen and/or potassium-based fertilisers;
 - 8.4. Production of plant health products and/or biocides;
 - 8.5. Production of pharmaceutical products using a chemical and/or biological process;
 - 8.6. Production of explosives.
9. Construction and operation of main-line overground and/or underground railway.
10. Construction and operation of airports with a basic runway length 1600 m or more.
11. Construction of motor roads of international or intrastate significance.
12. Reconstruction and/or modernisation of motor roads of international and interstate importance the entire section of which is 5 km or more in length.
13. Construction of tunnels and/or bridges located on the motor roads of international or intrastate significance.
14. Construction of inland waterways or ports which permit the passage of vessels with load capacity of more than 1350 tonnes.
15. Construction and operation of sea ports and loading and unloading piers connected to land and other ports (except for ferry piers) which can take vessels of over 1350 tonnes.
16. Disposal, incineration and/or chemical treatment of hazardous waste.
17. Disposal, incineration and/or chemical treatment of more than 100 tonnes of non-hazardous waste per day.
18. Carrying out of works related to groundwater abstraction or artificial groundwater recharge where the annual volume of water to be abstracted or recharged is 10 million cubic metres or more.
19. Transfer of water resources between river basins (except for the transfer of drinking water through pipelines):
 - 19.1. Where the transfer of water resources aims at preventing shortages of water and where the amount of water transferred exceeds 20 million cubic metres per year;

⁷⁹ Please, refer to the Law of Georgia on Environmental Assessment Code ([Environmental Assessment Code | სსიპ „საქართველოს საკანონმდებლო მაცნე“ \(matsne.gov.ge\)](#)) for the latest version of the list.

- 19.2. In all the other cases, where the multi-annual average flow from the basin of abstraction exceeds 2 000 million cubic metres per year and where the amount of water transferred exceeds 5% of that flow.
20. Construction of urban waste-water treatment plants for the population of 50 000 people or more, with a respective capacity.
21. Construction and operation of dams and/or other structures designed for the holding back or permanent storage of water and where the amount of water held back or stored exceeds 50 000 cubic metres.
22. Construction and/or operation of hydroelectric stations with a capacity of 5 megawatts or more.
23. Construction and operation of pipelines with a diameter of 800 mm or more and a length of more than 40 km for the transport of oil, gas or chemical compounds, as well as for the transport of carbon dioxide (CO₂) for the purposes of geological storage.
24. Poultry farms (with more than 85 000 places for broilers and/or more than 60 000 places for hens) and/or pig farms (with more than 10 000 places for piglets (under 30 kg) and/or more than 6000 places for pigs (over 30 kg)).
25. Production of pulp from timber or similar fibrous materials and the production of over 200 tonnes of paper and/or cardboard per day.
26. Open-cast mining where the surface of the mining site exceeds 10 hectares.
27. Peat extraction where the surface of the site exceeds 150 hectares.
28. Construction of overhead and/or underground electrical power lines with a voltage of 220 kV or more and a length of more than 15 km.
29. Construction and operation of installations for the storage of fossil fuel and/or chemical products with a capacity of 1 000 cubic metres or more.
30. Geological storage of carbon dioxide (CO₂).
31. Capture of 1.5 megatons or more of carbon dioxide (CO₂) per year.

Annex 3: ‘Annex 2’ Activities of the Environmental Assessment Code of Georgia⁸⁰

1. Agriculture, silviculture and aquaculture:

- 1.1. Use of 10 hectares or more of agricultural land for non-agricultural purposes;
- 1.2. Use of 10 hectares or more of uncultivated land for agricultural purposes;
- 1.3. Construction and operation of melioration systems;
- 1.4 Afforestation in an area of 500 hectares or more and/or deforestation in an area of 50 hectares or more of forest for the purposes of conversion to another category of land and for the purposes of use;
- 1.5. Construction of stalls for 500 and more heads of livestock;
- 1.6. Arrangement of aquaculture farms (aquatic biota) with a capacity of more than 40 tonnes per year;
- 1.7. Reclamation of land from the sea (creation of artificial islands, peninsulas, etc.)

2. Extractive industry and drilling works:

- 2.1. Open-cast mining and peat extraction (except for sand-gravel) where the surface of the site is more than 10 hectares; open-cast mining of solid minerals (except sand-gravel), when the surface of the mining site is more than 5 hectares;
- 2.2. Underground mining of minerals (including the extraction of underground fresh water for entrepreneurial purposes) where the amount of resources mined/extracted exceeds 100 000 cubic metres (except for the extraction of oil and natural gas or for the personal use of underground water) per year;
- 2.3. Extraction of minerals from the sea;
- 2.4. Drilling for the extraction of thermal waters;
- 2.5. Drilling for the storage of radioactive waste;

⁸⁰ Please, refer to the Law of Georgia on Environmental Assessment Code ([Environmental Assessment Code | სსიპ „საქართველოს საკანონმდებლო მაცნე“ \(matsne.gov.ge\)](#)) for the latest version of the list.

2.6. Drilling for the extraction of coal, ore or bituminous shale using surface industrial installations.

3. Energy industry:

- 3.1. Combustion installations for the production of electricity with a capacity of 2 megawatts or more;
- 3.2. Industrial installations for the production of steam and hot water (except for the steam and hot water installations related to oil and gas operations) where the area of development exceeds 0.5 hectares and their production capacity exceeds 50 megawatts;
- 3.3. Laying of pipelines with a length of 5 km or more for carrying gas, steam and hot water;
- 3.4. Construction of overhead and/or underground electrical power lines with a voltage of 35 kV or more, and construction of electrical substations with a voltage of 110 kV or more;
- 3.5. Construction and operation of installations for the surface and/or underground storage of fossil fuel, liquid and/or natural gas with a capacity of 100 cubic metres or more;
- 3.6. Briquetting of coal and/or lignite;
- 3.7. Processing and/or storage of radioactive waste;
- 3.8. Construction and/or operation of hydroelectric stations with a capacity from 2 to 5 megawatts;
- 3.9. Installations for energy production using the power of wind and/or sea waves.

4. Production and processing of metals:

- 4.1. Fusion of pig iron or steel for manufacturing products;
- 4.2. Processing of ferrous metals: hot-rolling, smitheries with hammers, application of protective metal coats, with a capacity of 50 tonnes or more per year;
- 4.3. Smelting of non-ferrous metals (except for precious metal), with a capacity of 20 tonnes or more per year;
- 4.4. Surface treatment of metals and/or plastic materials, using an electrolytic or chemical process, in a tank with a capacity of 10 cubic metres or more;
- 4.5. Motor vehicle industry (assembly of motorised vehicles) and manufacture of motor-vehicle engines;
- 4.6. Shipbuilding;
- 4.7. Aircraft construction;
- 4.8. Swaging by explosives;
- 4.9. Roasting and sintering of metallic ores.

5. Processing of mineral raw materials:

- 5.1. Processing of minerals;
- 5.2. Coking of coal;
- 5.3. Production of asphalt;
- 5.4. Manufacture of cement, lime, plaster and/or gypsum;
- 5.5. Production of asbestos and/or asbestos products;
- 5.6. Manufacture of glass and/or glass products (including glass fibre);
- 5.7. Manufacture of ceramic clay (except for traditional household production), manufacture of ceramic products (in particular roofing tiles, bricks, refractory bricks, tiles or porcelain).

6. Chemical industry:

- 6.1. Productions of chemicals by chemical treatment of intermediate products;
- 6.2. Production of pharmaceutical products, paint, varnishes, peroxides, elastomers and/or plastic materials;
- 6.3. Construction and operation of storage facilities for oil and oil products, petrochemical and/or chemical products.

7. Food industry:

- 7.1. Manufacture of 25 000 tonnes or more of vegetable and/or animal oils and fats per year;
- 7.2. Canning of animal and/or vegetable products aiming at producing 25 000 tonnes or more of products per year;
- 7.3. Production of more than 20 tonnes of dairy products per day;
- 7.4. Production of more than 100 tonnes of beer and malt per day;
- 7.5. Production of more than 3 tonnes of confectionery per day;
- 7.6. Construction and operation of installations for the slaughter of animals where 30 or more animals are slaughtered per day;
- 7.7. Industrial production of 5 000 tonnes or more of starch per year;
- 7.8. Processing of more than 5 000 tonnes of fish per year;
- 7.9. Production of 25 tonnes or more of sugar per day.

8. Textile, leather and paper industries:

- 8.1. Production of 10 tonnes or more of paper and/or cardboard per day;



8.2. Pre-treatment (washing, bleaching, mercerisation) and/or dyeing of more than 1 tonne of textile and/or textile fibre per day;

8.3. Tanning/processing of leather;

8.4. Processing of cellulose.

9. Infrastructure projects:

9.1. Development of industrial estates in an area of more than 10 hectares;

9.2. Urban development projects with a development area of more than 10 hectares (including the construction of shopping centres and car parks for 1 000 cars);

9.3. Construction and operation of intermodal terminals and railways connected to them;

9.4. Construction of airfields;

9.5. Construction of sea harbours and related buildings whose development area based on the project is more than 1 hectare;

9.6. Construction of sewerage systems with a length of 2 km or more, and the construction of sewerage systems with a development area of 5 hectares or more;

9.7. Construction of inland waterways;

9.8. Flood-relief works;

9.9. Construction of dams and/or other structures/installations designed to hold water or store it on a long-term basis where the amount of water held or stored is more than 10 000 cubic metres;

9.10. Construction of tramways and/or ropeways use for transporting passengers;

9.11. Laying of pipelines with a length of more than 5 km for transporting oil, gas or carbon dioxide (CO₂);

9.12. Construction of aqueducts with a length of 5 km or more on the area of 1 hectare or more;

9.13. Works to protect coasts, to combat erosion of coastlines and to restore coastlines, as well as maritime works capable of altering the coast through construction (in particular, the construction of dykes, moles, jetties and other sea defence works, except for the reconstruction of such works).

10. Other projects:

10.1. Construction of permanent racing and test tracks for vehicles in the territory with an area of 15 hectares or more;

10.2. Disposal of waste;

10.3. Recovery of waste, except for the pre-treatment of non-hazardous waste;

10.4. Pre-treatment of hazardous waste;

10.5. Construction of temporary storage facilities for 10 tonnes or more of hazardous waste;

10.6. Construction and operation of waste-water treatment plants;

10.7. Arrangement and operation of sludge-deposition sites;

10.8. Recovery or destruction of explosive substances.

11. Tourism and leisure:

11.1. Arrangement of mountain ski runs and/or ropeways in the area of 5 hectares or more;

11.2. Construction of holiday villages (including hotels and associated developments) in the area of more than 10 hectares outside urban areas;

11.3. Construction of permanent campsites and/or caravan sites in the area of 5 hectares or more;

11.4. Development of amusement parks (including theme parks) in the area of 10 hectares and more, except for the arrangement of recreation/entertainment areas (including sports, playing, camping, swimming areas and urban gardening) as a result of the landscape development in the green areas of the built environment.

Annex 4: Legislation on Minimum Environmental Safeguards

Category	List of Laws
General	<ul style="list-style-type: none"> • Law of Georgia on Environmental Protection - https://matsne.gov.ge/en/document/view/33340?publication=21 • Law of Georgia on Environmental Liability - https://matsne.gov.ge/ka/document/view/5109151?publication=0 • Law of Georgia on Environmental Assessment Code – https://matsne.gov.ge/en/document/view/3691981?publication=10 • Law of Georgia on Licenses and Permits - https://matsne.gov.ge/en/document/view/26824?publication=62 • Law of Georgia on Promotion and Guarantees of Investment Activity – https://matsne.gov.ge/en/document/view/33304?publication=15 • Law of Georgia on Planning and Coordination of the National Security Policy - https://matsne.gov.ge/en/document/view/2764463?publication=10
Air quality/ pollution and climate change	<ul style="list-style-type: none"> • Law of Georgia On Ambient Air Protection - https://matsne.gov.ge/en/document/view/16210?publication=14 • Law of Georgia – Air Code of Georgia - https://matsne.gov.ge/en/document/view/33298?publication=29
Soil and agriculture	<ul style="list-style-type: none"> • Law of Georgia on Soil Protection - https://matsne.gov.ge/en/document/view/93874?publication=9 • Law of Georgia on Subsoil – https://matsne.gov.ge/en/document/download/33040/14/en/pdf#:~:text=Subsoil%20of%20Georgia%20is%20state,right%20of%20ownership%20of%20subsoil. • Law of Georgia on Soil Conservation and Restoration-Improvement of Soil Fertility – https://matsne.gov.ge/en/document/view/14938?publication=9 • Law of Georgia on Pesticides and Agrochemicals - https://matsne.gov.ge/en/document/download/18106/9/en/pdf
Water	<ul style="list-style-type: none"> • Law of Georgia on Water - https://matsne.gov.ge/en/document/view/33448?publication=19 • The Law of Georgia on Water Resources (Draft Version) - https://euwipluseast.eu/images/2021/07/PDF/Draft_Water_Law_ENG_2019_March_clean_with_cover_page.pdf
Biodiversity	<ul style="list-style-type: none"> • Forest Code of Georgia - https://matsne.gov.ge/en/document/view/4874066?publication=3 • On Living Genetically Modified Organisms - https://matsne.gov.ge/en/document/view/2516880?publication=1 • The Law on Biological Diversity (Draft Version)
Use of natural resources	<ul style="list-style-type: none"> • Law of Georgia on Fees for the Use of Natural Resources - https://matsne.gov.ge/en/document/view/28948?publication=24 • Law of Georgia on License and Permit Fees - https://matsne.gov.ge/en/document/view/12880?publication=61 • State Tax Service of the Republic of Georgia regarding the instruction "On the method of calculation and payment of tax for the use of natural resources" - https://matsne.gov.ge/en/document/view/50056?publication=0 • On the approval of the "Technical Regulation - the rule of monetary compensation for damage caused to the environment" - https://www.matsne.gov.ge/en/document/view/5523053?publication=0



Waste	<ul style="list-style-type: none"> • Waste Management Code - https://matsne.gov.ge/en/document/view/2676416?impose=parallelEn&fullscreen=1&publication=12 • Law of Georgia on Import, Export and Transit of Waste - https://matsne.gov.ge/en/document/view/28456?publication=10 • Law of Georgia on Radioactive Waste - https://matsne.gov.ge/en/document/view/3056209?publication=0
Other	<ul style="list-style-type: none"> • Law of Georgia on Oil and Gas - https://matsne.gov.ge/ru/document/download/18424/22/en/pdf#:~:text=The%20oil%20and%20gas%20resources,the%20subsoil%20of%20the%20land. • Law of Georgia on Electricity and Natural Gas - https://matsne.gov.ge/en/document/download/31744/32/en/pdf • Law of Georgia on Tourism and Resorts - https://matsne.gov.ge/en/document/view/33370?publication=8 • Law of Georgia on Nuclear and Radiation Safety - https://matsne.gov.ge/en/document/view/1618592?publication=6 • Law of Georgia on Requirements for genetically modified food and animal feed - https://matsne.gov.ge/en/document/view/4367855?publication=0 • Law of Georgia on Labeling of Genetically Modified Organisms Designated for Food Products/Fodder and Genetically Modified Products Produced from them - https://matsne.gov.ge/en/document/view/2634028?publication=0

Annex 5: Legislation on Minimum Social Safeguards

Category	List of Laws
Human Rights	<ul style="list-style-type: none"> • Constitution of Georgia - Article 34 – General principles for ensuring fundamental human rights - https://matsne.gov.ge/en/document/view/30346?publication=36 • Law of Georgia on the Elimination of All Forms of Discrimination - https://matsne.gov.ge/en/document/view/2339687?publication=0 • Law of Georgia on Gender Equality - https://matsne.gov.ge/en/document/view/91624?publication=9 • Law of Georgia on the Rights of Persons with Disabilities - https://matsne.gov.ge/en/document/view/4923984?publication=0 • The Code of the Rights of the Child - https://matsne.gov.ge/en/document/view/4613854?publication=2 • Law of Georgia on Health Care - https://matsne.gov.ge/en/document/view/29980?publication=37
Labor Rights	<ul style="list-style-type: none"> • Organic Law of Georgia – Labor Code of Georgia - https://matsne.gov.ge/en/document/view/1155567?publication=21 • Organic Law of Georgia on Labor Safety and Minimum Requirements for Safety and Health Protection in the Workplace - https://matsne.gov.ge/en/document/view/4486188?publication=1 • Law of Georgia on State Pensions - https://matsne.gov.ge/en/document/view/27946?publication=26
Taxation	<ul style="list-style-type: none"> • Law of Georgia – Tax Code of Georgia – https://matsne.gov.ge/en/document/view/1043717?publication=194
Fair Competition	<ul style="list-style-type: none"> • Law of Georgia on Competition - https://matsne.gov.ge/en/document/view/1659450?publication=9 • Law of Georgia on Introduction of anti-dumping measures in trade – https://www.matsne.gov.ge/en/document/view/4923585?publication=0 • Law of Georgia on Promotion and Guarantees of Investment Activity – https://matsne.gov.ge/en/document/view/33304?publication=15 • Law of Georgia On the Protection of Consumer Rights – https://www.matsne.gov.ge/en/document/view/5420598?publication=0 • Law of Georgia on Advertising - https://www.matsne.gov.ge/en/document/view/31840?publication=24
International Standards for Responsible Business Conduct	<ul style="list-style-type: none"> • The International Bill of Human Rights – https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights • The OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) https://www.oecd.org/corporate/mne/ • The UN Guiding Principles on Business and Human Rights (UNGPs) – GuidingPrinciplesBusinessHR_EN.pdf (ohchr.org) • The Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work (ILO) - https://www.ilo.org/declaration/lang--en/index.htm • UN Global Compact – Ten Principles – The Ten Principles UN Global Compact



Annex 6: Corrective Action Plan Template with examples

E&S Concern Area Identified through ESG DD	Corrective Actions Required	Timeframe	Action Completion Indicator	Responsibility (Bank's Borrower/ Customer, Staff, Management, or Board)
Evidence of land pollution from the discharge of untreated effluent	Action plan may include: <ul style="list-style-type: none"> • Removal and treatment of contaminated ground soil • Construction of sewage system for industrial wastewater • Construction of wastewater treatment facility and discharge system for treated water 	Six months	<ul style="list-style-type: none"> • Install and operate an effluent treatment plant; qualitative parameters of the treated effluent should be within limits. • The discharge of treated effluent should be solely through the constructed discharge system with no other modes of discharge and leakages. • Qualitative parameters of the treated contaminated ground soil should be within limits. 	Board of the borrower company
Absence of grievance redressal mechanism	Establish a grievance redressal mechanism	Three months	The grievance redressal mechanism should be well established and appropriately communicated to external stakeholders.	Board of the borrower company
Displacement of community structure	Restoration of community structure for common benefits	Three months		Management of the borrower company
Loss of trees, crops, or perennials	Compensation for standing crops and trees	One year	Plantation of trees	Management of the borrower company

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