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Reporting on the sustainable development of Ukrainian banks: Current state, challenges and prospects

■ **Abstract.** Given the growing importance of sustainable development and Ukraine's integration into the European economic area, high-quality and comprehensive sustainability reporting is critical for the banking sector. The study aimed to assess the completeness of sustainability disclosures in the non-financial reporting of Ukrainian banks, to identify challenges and opportunities for improving the quality of such information to achieve positive effects at both the micro and macroeconomic levels. To achieve this goal, the case study method was used, which involved a comprehensive analysis of the websites of all Ukrainian banks to study their non-financial reporting. An in-depth analysis was conducted to determine the availability and quality of disclosed information on environmental, social and governance (ESG) factors. The study results showed that Ukrainian banks are only beginning to adopt sustainability reporting. The disclosed sustainability information is largely descriptive, lacking quantitative or financial data, and is often heterogeneous and unstructured. Even banks that position themselves as socially and environmentally oriented do not fully disclose sustainability risks or provide comprehensive information in the context of sustainable development goals. Only 35% of Ukrainian banks submit a "Sustainable Development Report" as part of their management report and only 45% of these banks address all ESG factors in the report. It has been demonstrated that, despite significant challenges in complying with the requirements of the Corporate Sustainability Reporting Directive, which remains voluntary for Ukrainian banks, adopting these standards is essential. Doing so will improve the profitability and transparency of banks' operations,

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strengthen investor confidence, and create a more stable financial system in Ukraine. The urgent need for Ukrainian banks to take a more proactive and comprehensive approach to sustainability reporting and to prepare for the requirements of the future regulatory environment was emphasised

■ **Keywords:** non-financial reporting; financial institutions; information disclosure; economic, social, and governance factors; requirements; indicators; audit

■ INTRODUCTION

Compliance with the imperatives of sustainability is a leading priority in the contemporary business world. Companies include social and environmental results in non-financial reports to demonstrate sustainability and responsible partnership. In the modern Ukrainian business landscape, the disclosure of information about sustainable development is essential for achieving a competitive position in the world economy. Publishing non-financial statements is an important manifestation of the company's high responsibility to stakeholders. The preparation of reporting on sustainable development is a tool for positive transformations, which is not limited to the publication of statements but is an integral part of the wider process of company's growth, implementing action plans, and evaluating the results obtained.

Establishing non-financial sustainability reporting should act as a factor in stimulating banks' activity in this area. Financial institutions will be more concerned with practices that focus on both social and environmental performance, especially regarding supply chain due diligence, human rights, and green innovation. As stated by I. Makarenko (2023), sustainability reporting provided the following benefits to the companies: improving executives' awareness of the consequences of environmental and social activities, reducing the cost of capital, improving corporate culture, reducing information asymmetry between the company and stakeholders, improving reputation, reducing business risks, and increasing the market value. Until recently, the relevant reporting in European countries was regulated by Directive of the European Parliament and of the Council No. 2013/34/EU (2013) and the Directive of the European Parliament and of the Council No. 2014/95/EU (2014). Numerous scholars have studied the banks' reports, focusing on the relevance of the information presented and its compliance with the requirements of the Non-Financial Reporting Directive (NFRD).

A.L. Santos & L.L. Rodrigues (2022) analysed the quality of information regarding the sustainable development of Portugal banks, rightly believing that only meaningful, relevant, and comparative data can objectively reflect the banks' contribution to sustainable development, create a better social image for banks, and also characterise the risks of their activities related to ESG criteria. P. Schröder (2022) researched the non-financial disclosures of German banks across a three-year period. The study revealed a consistent and notable increase in the quality of these reports, likely due to the banks' accumulated experience. Furthermore, the research emphasised the need to understand the drivers of reporting quality, specifically citing experience, presentation style, and the chosen reporting standards.

Many studies analysed the relationship between the banks' sustainability reporting and their financial performance. The scholars sometimes reach conflicting

conclusions regarding the impact of reporting on environmental, social, and governance (ESG) issues on banks' performance indicators. N. Stakic & L. Barjaktarovic (2023) conducted an empirical study of sustainability within Serbian banks, analysing environmental loans, carbon emission reductions, and community investments as reported by the banks. Their research demonstrated a statistically significant relationship between ESG metrics and environmental lending. However, they found no significant correlation between financial profitability and overall ESG practices.

E.O. Korolo & A.S. Korolo (2023) research on Nigerian banks revealed that economic and environmental sustainability reporting had negligible impacts, one negative and one positive, on return on assets. However, social sustainability reporting demonstrated a statistically significant negative correlation with profitability. The authors suggested, among other things, that banks should improve their evaluation and measurement of economic, social, and environmental impacts across all operations. According to B.T.T. Loan *et al.* (2024), there were positive effects of environmental disclosure and governance disclosure on the bank's return on equity. However, the study did not provide evidence of a statistically significant association between social disclosure and financial performance. This confirms the problems with standardising information in non-financial reports and the extremely complex and multifaceted nature of the interaction between sustainability factors and bank financial performance.

However, NFRD provided a high level of flexibility regarding the structure and format of disclosure of non-financial information, which over time ceased to satisfy the requests and interests of stakeholders. In 2022, the EU adopted a new Directive of the European Parliament and of the Council No. 2022/2464/EU (2022) which directed companies to display in their reports information on the sustainability of the business model; compatibility with the global warming target under the Paris Agreement; sustainable development goals' achievements; the main risks related to the company's dependence on sustainability issues; determination of actual or potential adverse impacts on sustainable development in the value chain and operations, etc. The specified Directive does not yet directly concern Ukrainian undertakings, in particular, financial institutions. Considering Ukraine's aspirations for European integration and the necessity to incorporate European norms into its domestic legal framework, it is crucial to explore the readiness of local banks to implement the relevant requirements. The research aimed to assess the quality and extent of sustainability information disclosed by Ukrainian banks in their non-financial reports, pinpoint the obstacles to complete disclosure, and propose solutions to enhance this information for promoting economic growth on both micro and macro scales.

■ MATERIALS AND METHODS

The study employed a multi-faceted methodological approach to analyse the integration of sustainability practices within the Ukrainian banking sector. A content analysis of scientific literature, regulatory documents, and sustainability reports was conducted to track the banking sector's progressive engagement with sustainability through non-financial reporting and ESG integration. This analysis also identified areas for further research. To assess changes in Ukrainian legislation regarding non-financial information disclosure, the formal-legal method was utilised. This revealed the formal implementation of Directive of the European Parliament and of the Council No. 2013/34/EU (2013) and the Directive of the European Parliament and of the Council No. 2014/95/EU (2014) via national legislative amendments in 2017-2018. The analysis focused on revisions to the Law of Ukraine No. 996-XIV (1999) and the instruction on the procedure for compiling and publishing financial reports of banks of Ukraine (Resolution of the Board of the National Bank of Ukraine No. 373, 2011).

A case study approach was used to examine the current state of sustainability reporting by Ukrainian banks. This involved reviewing the websites of 63 banks (Banks of Ukraine, n.d.) (6 state-owned banks, 14 banks owned by foreign bank groups, and 43 privately owned banks) and conducting an in-depth analysis of their non-financial reporting (63 management reports, 5 sustainability reports, 1 Communication on Progress, and 3 separate reports). European legislation was analysed to evaluate its feasibility and benefits for Ukrainian banks in sustainability reporting. The synthesis method was applied to systematise key challenges for Ukrainian banks in preparing Corporate Sustainability Reporting Directive (CSRD) compliant sustainability reports. The comparison method was used to identify the interrelationships between EU documents, including the Regulation of the European Parliament and of the Council No. 2019/2088 (2019), the Regulation of the European Parliament and of the Council No. 2020/852 (2020), and the CSRD (Directive of the European Parliament..., 2022). Systemic analysis was then used to determine their significance for sustainable development.

Graphical and tabular methods were employed to visually represent and clarify the data. The graphical method demonstrated the heterogeneous and unstructured nature of sustainability information in Ukrainian banks' management reports. Tabular presentation organised the distribution of reporting documents and the disclosure of ESG information across different bank groups. Generalisation and analogy methods were used to derive conclusions from the research findings. Drawing on international best practices, recommendations were developed to improve sustainability reporting and auditing at the state level. The study was conducted in the following stages: review of Ukrainian banks' websites to identify non-financial reporting and analyse detailed reporting format; analysis of the collected information, focusing on the disclosure of sustainable development issues, with a specific emphasis on ESG factors; synthesis of the findings from the content evaluation of non-financial reports, identifying key features and trends; assessment of bank compliance with regulatory requirements regarding information disclosure in non-financial reporting.

■ RESULTS

It is worth noting that the banking sector joined the process of evaluating its sustainability somewhat later than the real sector companies. The banking business, by its nature, has long been considered neutral in terms of environmental impact. According to researchers, banks go through several stages of involvement in the issues of sustainable development: defensive banking, preventive banking, offensive banking, and sustainable banking (Jeucken & Bouma, 1999). It is quite obvious that individual banks, as well as the banking systems of certain countries, can be at different stages and vary in their level of awareness of the problems of sustainable development.

In Ukraine, non-financial information in the form of a management report was implemented in 2017, when the Law of Ukraine No. 996-XIV (1999) was amended. The same law stated that the content of the management report for banks was determined by the National Bank of Ukraine (NBU). Therefore, at the beginning of 2018, the NBU introduced a new section on management reporting to the instructions on the procedure for compiling and publishing financial statements of Ukrainian banks (Resolution of the Board of the National Bank of Ukraine No. 373, 2011). This addition requires that the report includes an analysis of the economic, environmental, and social aspects of banking, essentially the ESG criteria. It should detail the changes during the reporting period and discuss their future impact on the bank's activities or potential to pose risks. In addition, it was noted that banks with the average number of employees exceeding 500 people were also obliged to disclose issues of employment, respect for human rights, and the fight against corruption. Thus, the requirements of the Directive of the European Parliament and of the Council No. 2013/34/EU (2013) and Directive of the European Parliament and of the Council No. 2014/95/EU (2014) were formally implemented into the regulatory framework of Ukraine.

However, having given the right to banks to independently define the format of displaying information in the management report, the National Bank did not mention the aspects of sustainability among the issues recommended for disclosure, which, of course, negatively affected the quality of non-financial reporting. At the same time, the Ministry of Finance of Ukraine has developed methodological recommendations for non-financial companies in compliance with the NFRD requirements for displaying ESG factors (Order of the Ministry of Finance of Ukraine No. 982, 2018). These include a description of the company's policy on specified issues, the outcomes of such policies, the main risks related to these issues, and the mechanisms for risk minimisation, among others. Yet, the NBU did not officially provide banks with similar explanations. Therefore, the National Bank did not use such an element of the EU legal framework as the guidelines on non-financial reporting (European Commission, 2017), which, although not mandatory, contribute to the provision of high-quality, relevant, useful, consistent, and more comparable non-financial (ESG-related) information.

In this regard, it is worth noting that among the documents of the central banks of the countries that are candidates for joining the EU, only a document from the National Bank of Georgia that is directly related to the disclosure of information about sustainable development – the ESG

reporting and disclosure principles (2020) – and prepared with the support of the OECD attracts attention. Nevertheless, at the end of 2021, the NBU presented the development of the Sustainable Finance Development Policy (2024) until 2025, developed in cooperation with the IFC. To comply with EU regulations, the policy required banks to include ESG factors in their corporate oversight and to embed environmental and social risk considerations within their risk framework. Additionally, it emphasised the importance for financial institutions to disclose the sustainable nature of their activities. To ensure this, from 2022 to 2024, it was planned to prepare and approve standards for the disclosure of ESG information by banks, the formation of a control system for the provision of such information, the development of appropriate analytical tools, and the holding of training for market participants. But regarding a full-scale military invasion, the work in this area was stopped. It was resumed only in 2023 as part of the World Bank's technical assistance, taking into account the catastrophic consequences of military actions and the new status of the state as a candidate for EU membership, which adds obligations to Ukraine regarding the implementation of the practice of sustainable financing.

At the same time, Ukrainian banks, at their own will, can and are already using internationally recognised systems and standards for reporting on sustainable development, including the Global Reporting Initiative, International Integrated Reporting Council, Carbon Disclosure Project, Financial Stability Board's Task Force on Climate-Related Financial Disclosures, UN Global Compact, International Financial Reporting Sustainability Disclosure Standards, and others. Such reporting can serve as a

valuable tool for the bank to better understand its impact and risks, mitigate them more effectively, capitalise on new opportunities, and address specific challenges to become a leader in sustainability. It also allows the bank to showcase its commitment to sustainable development principles to stakeholders and the public.

The full-scale invasion has not eliminated the requirements and needs for achieving the Sustainable Development Goals in Ukraine. Furthermore, the war did not diminish the necessity of considering ESG factors in financial institutions' operations; instead, it encouraged a more active implementation of them: the humanitarian disaster sharpened attention to the social aspect; destruction and resource limitations forced entities to review and find new business approaches, including taking into account ethical aspects; the environmental consequences of the war forced them to be deeply anxious about the restoration of the environment. All this should be reflected in non-financial reporting.

Based on the facts in international practice, several formats of non-financial reporting are distinguished, namely: communication on progress; a report on sustainable development; a separate social report based on indicators independently determined by the entity; integrated reporting, which combines both financial and non-financial reporting (management report). The results of information gathering from the websites of Ukrainian banks are displayed in Table 1. It is essential to point out that certain information related to the environmental and/or social aspects of banking, which may be published on a website as a message or article but not compiled in a separate document, is not considered non-financial reporting.

Table 1. Banks that provided non-financial reporting in 2018-2023

Groups of banks	Management report	Sustainability report	Communication on Progress	Separate report
State-owned banks	6	1	-	-
Banks owned by foreign bank groups	14	3	-	3
Privately owned banks, including:	43	1	1	-
▪ with foreign capital	13	1	-	-
▪ with domestic capital	30	-	1	-
In total	63	5	1	3

Source: developed by the authors

Therefore, even those banks that declare a socio-environmental orientation of their development are not fully informationally transparent because they do not publish reports on sustainable development. Only five of the 63 studied banks have relevant reports (albeit for different periods): Ukrzazbank (2018-2020), Ukrsibbank (2022), Credit Agricole Bank (2023), SEB Corporate Bank (2023), and Bank Lviv (2020-2022). Furthermore, First Ukrainian International Bank (FUIB) publishes the Communication on Progress, ProCredit Bank – Impact Banking in Practice, ING Bank Ukraine – Integrated Climate Report, Pravex Bank – ESG Report. Therefore, only 14% of banks voluntarily prepare reports with information on the environmental and social results of their activities and their impact on the environment and society. It was found also

that all banks, under the requirements of the NBU, publish management reports, but their structure and content differ significantly, which does not allow for obtaining systematic and comparative information on reporting on sustainable development.

A thorough examination of management reports of Ukrainian banks showed that the information provided by them about sustainable development is heterogeneous and unstructured. But the most important thing is that almost all banks do not disclose sustainability risks that can arise in environmental, social and business contexts and negatively affect the value of investments. The availability of certain sections in the bank management reports, which in one way or another disclose the issues of sustainability, is shown in Figure 1.

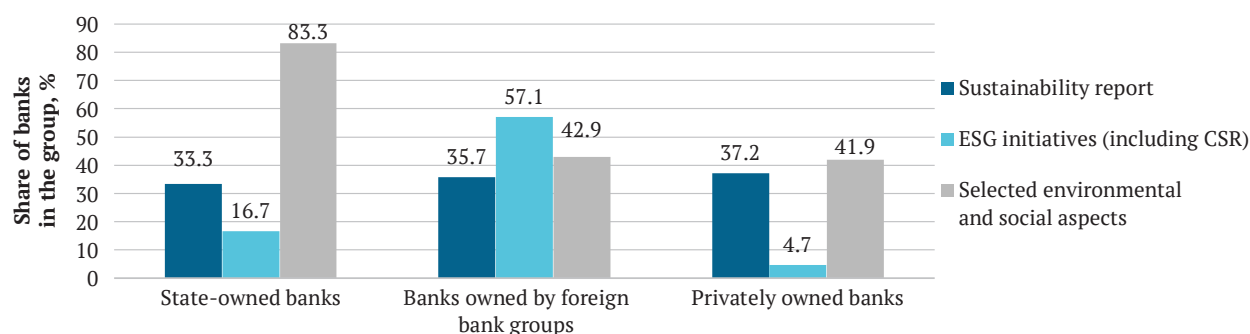


Figure 1. Completeness of data on sustainability in Ukrainian banks' management reports

Source: developed by the authors

It is important to highlight that 13 commercial banks do not represent aspects of sustainable development in their non-financial reporting, namely: Citibank, Deutsche Bank DBU, Credit Europe Bank, MTB Bank, A-Bank, Clearing House, Unex Bank, Cristalbank, RWS Bank, MetaBank, Bank Trust-Capital, Bank Familny, Motor-Bank. It shows the lack of transparency and their unwillingness to be responsible to society for the impact of banking on the environment and social processes.

The most common practice is the disclosure of information about social and environmental aspects or responsibility (46% of the sample), some banks even have an approved environmental and social control system and/or implement an environmental and social policy (for example, Sense Bank). Only 11 banks (17.5%) represent ESG initiatives (including the policy of corporate social responsibility as a concept, thanks to which institutions integrate social and environmental issues into the operating model and interact with stakeholders) in management reports. It is worth noting that most of these banks – eight, are banks of foreign banking groups, which can be explained by the following features of their business: the existence of clear

regulatory requirements in the parent banks' countries regarding the disclosure of ESG data; integration of ESG factors into the strategy and business processes of parent banks, which contributes to a more systematic approach to their implementation; a high level of awareness of the importance of ESG aspects and the need to disclose such information; the availability of considerable funding at parent banking groups, which allows them to invest in ESG projects and initiatives.

22 banks (35% of the total) include the "Sustainability Report" as a separate section in the management report, but this data differs in scope, content, and structure. Besides, the general disadvantages are the following: information does not have a financial component (aspects of sustainable development are displayed without linkage to financial results and are only descriptive); it is not regular, consistent, and comparable; it has a low level of reliability (because there is no consistency in the collection of information and third-party audit). To determine the maturity of Ukrainian banks in incorporating ESG factors into their activities, the structure of sustainability reports was analysed to examine the disclosure of ESG aspects of their business (Table 2).

Table 2. Inclusion of E, S and G factors in banks' sustainability reports

Bank name	E	S	G
PrivatBank	+	+	+
Ukrgazbank	+	+	+
Raiffeisen Bank	+	+	+
Kredobank	+		+
Credit Agricole Bank		+	
Pravex Bank	+	+	+
SEB Corporate Bank	+	+	+
Bank Alliance	+	+	+
Altbank	+	+	+
Cominbank	+	+	+
Poltava-bank	+	+	
Bank for Investments and Savings	+	+	
Bank "Ukrainian Capital"	+	+	+
Asvio Bank		+	
Bank Grant	+	+	+
Bank 3/4	+	+	
European Industrial Bank	+		
Bank Avangard			

Table 2. Continued

Bank name	E	S	G
Polcombank	+	+	
Ukrainian Bank of Reconstruction and Development	+	+	
BTA Bank	+	+	
Alpari Bank			

Source: developed by the authors

It was found that only 10 banks out of 22, i.e., less than half of them, took into account all ESG aspects in their reports. In general, E (environmental) and S (social) factors are reported much more often than factor G (corporate governance). At the same time, most of the banks' initiatives within the framework of corporate responsibility in 2023 were related to social aspects: the help to internally displaced persons, children, educational and health care institutions, and Ukrainians affected by the consequences of the war. Regarding the governance aspect (G), despite the presence of a separate report on corporate governance in the banks' management reports, the impact of corporate governance on ensuring the sustainability of banking is

practically not reflected directly in the report on sustainable development. It is worth noting that most of the analysed bank reports are descriptive and do not represent quantitative or financial data. Banks prefer narrative descriptions to reflect the potential impact of risks rather than quantifying them. Improving banks' sustainability reporting practices is especially important concerning Ukraine's status as a candidate for EU membership. Currently, the basis of sustainability reporting in the European Union is formed by a triad of mandatory documents: the EU taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), and the EU CSRD together with the European Sustainability Reporting Standards (ESRS) development (Table 3).

Table 3. Mandatory documents that regulate sustainability reporting in the EU

Document	Purpose of adoption	Relationship with other documents	Importance for sustainable development
EU Taxonomy (Regulation of the European Parliament and of the Council No. 2020/852, 2020)	To form a classification of environmentally sustainable types of economic activity, which is used within the framework of CSRD and SFDR	Provides basic efficiency criteria for determining types of economic activity that have a significant contribution to achieving the goals of the European Green Course and are necessary for the preparation of relevant reporting	It is a tool for the distribution of investments by types of economic activity, which are defined in the taxonomy
SFDR (Regulation of the European Parliament and of the Council No. 2019/2088, 2019)	To increase the transparency of ESG information for sustainable investing	The data, according to the CSRD, are the basis for supplementing the SFDR reports with information on sustainable development. Therefore, part of the indicators provided in CSRD reporting can be used by banks when disclosing information about sustainable finance according to SFDR requirements	ESG metrics are disclosed in reporting to encourage sustainable investment practices
CSRD (Directive of the European Parliament..., 2022)	To improve the qualitative and quantitative parameters of corporate reporting on sustainable development		Obliges to include ESG indicators that comply with the EU taxonomy in SFDR reporting

Source: developed by the authors

Although the mentioned regulatory acts are not yet binding for Ukrainian banks, the implementation of their requirements will significantly increase the transparency and quality of information on sustainable development in the annual corporate reporting of banks. Based on such data, reporting users will be able to form an integrated view of the bank's impact on ESG factors and the effectiveness of its business. The results of the study indicate the following main benefits of implementing the CSRD requirements for Ukrainian banks. Most banks do not have an effective development strategy, and top executives are focused on solving current issues. The availability of clear reporting requirements under the CSRD, the use of detailed standardised non-financial indicators, the integration of ESG data into risk framework and the bank's strategy will have a synergistic effect and improve the controllability of risks and allow for identifying new development opportunities related to ESG. For instance, describing in the sustainability report the consideration of sustainability factors in the bank's corporate strategy and the financial consequences of operations, determining the areas of improvement of sustainability indicators,

and the connection of business strategy with sustainable development plans (as it is required by the CSRD), the bank's top executives can identify areas of investment that most fully correspond to the values and strategy. Thus, a detailed analysis of the strategy will become an effective tool for economic development, which will allow more clearly align the strategy, plans, and operational processes with the sustainability goals.

The availability of banking products that take into account the goals and requirements of sustainable development will contribute to increasing the competitiveness and reputation of the institution, as well as expanding the market niche due to the attraction of sustainability-oriented customers. In particular, implementing "green" bonds or "green" lending at rates lower than market ones will allow for the preferential attraction of new sustainability-oriented customers. This will result not only in the economic support of such business entities but also in the improvement of the bank's reputation as one that cares for society and the national economy as a whole. It should be noted that the availability of sustainable banking products, which are increasingly in demand in the domestic market, is

extremely important because, as the research showed, their supply is still insufficient.

The bank's empowerment to attract foreign capital, since the bank's focus on sustainable development is an important factor when making a decision on investment and lending to companies from EU countries. Reporting of all Ukrainian banks according to CSRD requirements, which clearly define indicators and reporting standards, will ensure transparency and comparability of reporting. That will serve as information support for foreign companies when making investment or lending decisions in favour of sustainability-oriented banking institutions.

Reduction of reputational risks through the provision of consistent, transparent, and meaningful information on sustainable development. While preparing corporate reports according to the CSRD requirements offers significant advantages through detailed coverage of sustainability issues, it poses a real challenge for Ukrainian banks, which currently provide limited data on ESG factors. The CSRD mandates comprehensive retrospective and prospective qualitative and quantitative information on sustainable development across value chains, covering short, medium, and long-term horizons.

The problems faced by domestic companies in preparing non-financial reports have already been identified by scholars: the lack of a standardised form for providing information; difficulties in obtaining information that may constitute a trade secret; the quality of the audit of the management report, and others (Tsaruk, 2019). Additionally, when compiling reports under CSRD requirements, Ukrainian banks may encounter challenges such as data collection (including information about counterparties' activities), data aggregation, electronic formatting, and additional expenses for mandatory audits of sustainability reports. These issues can be explained in more detail as follows.

1. The main feature and requirement of CSRD and ESRS developed for it is the principle of double materiality when information is disclosed both from the point of view of the impact of environmental and social problems on the bank (the so-called financial materiality) and in terms of the impact of the bank's operations on the environment and society (the so-called ESG materiality). Financial materiality involves assessing the impact of ESG factors on the financial performance of banks. ESG materiality involves assessing the impact of the bank's operations on the environment, society, and governance (Stiroh, 2022). Investing and financing other economic entities are specific to banking, meaning that a significant part of a bank's materiality is found in its clients' economic activities. Therefore, when assessing dual materiality, the bank must take into account not only the impact of its operations on the environment but also the impact of the bank's clients and associated companies on sustainable development. In addition, banks must calculate the amount of environmentally sustainable activities of their clients and the share of loans granted or investments made in these kinds of activities.

It is important to remember that Ukrainian banks do not currently perform actual materiality assessments. Only a few banks conduct such assessments based on qualitative indicators and with a high level of subjectivity, due to the nature of these measures. In particular, in 2024, FUIB planned to measure the achievement of its goals

through regular monitoring of ESG indicators (Progress report..., 2023). For a realistic picture, it is necessary to present information in a quantitative dimension. However, the quantitative assessment of dual materiality (considering the negative impact of the activities of clients to whom loans have been granted on sustainability) is a rather complex task that requires gathering data from internal and external sources, taking detailed measurements, reviewing the value chain to identify relevant areas for disclosure. All this increases the costs of preparing reports, requires the hiring of more qualified personnel and significant investments in technology and data handling, and changes in internal policies and accounting procedures.

2. The need to create a sustainability report (as part of a management report) in a formalised format and to upload it to the European Single Access Point (ESAP) requires making changes to information systems and accounting processes related to the preparation and disclosure of information about sustainable development.

3. A significant challenge in Ukraine, especially within the banking sector, is the shortage of experts with deep knowledge of sustainability reporting. These professionals must be capable of managing large volumes of data, working in a dynamic environment, and staying current with the ever-evolving requirements of numerous sustainability reporting standards, including the EU taxonomy.

4. When developing the CSRD and relevant standards, emphasis was placed on large corporations, without keeping in mind individual industry specifics. Therefore, the accelerated implementation of CSRD, the absence of sectorial standards considering the specifics of banking, and the mandatory audit of corporate reporting will significantly increase the costs of the banks, the NBU, other government bodies, and auditing companies.

On the other hand, such labour and resource costs are justified, as providing assurance by auditors regarding banks' sustainability reporting will help ensure the reliability, completeness, consistency, and coherence of this reporting in conjunction with financial reporting, which is especially important for users of such reports. At the same time, to ensure proper sustainability reporting, bank employees responsible for its preparation and auditors who will provide audit services on sustainability reporting must have a sufficient level of professional competence, theoretical knowledge of the preparation and audit of sustainability reports, and the ability to apply such knowledge in practice.

To initiate proper sustainability reporting by Ukrainian banks and create favourable organisational and legal conditions for this, it is necessary to improve state policy in this area, develop and approve the necessary regulatory legal acts. They can be based on the relevant provisions of the CSRD, which determine the mandatory audit of sustainability reporting and the requirements for auditors. In addition, at the state level, it is worth doing the following. A training with the involvement of sustainability experts from EU countries should be organised to train auditors and bank representatives who will prepare sustainability reports. The algorithm for certification of sustainability auditors and the procedure for organising work in the Law of Ukraine 2258-VIII (2017) should be specified to fulfil the mandatory task of providing assurance on sustainability reporting. A new section 5, titled "Audit entities entitled to perform

mandatory assurance tasks on sustainability reporting”, should include information about sustainability auditors in the Register of Auditors and Auditing Entities. The CSRD and the accompanying ESRS create both challenges and opportunities for banks. Even though the challenges are quite significant, banks that implement the requirements of these regulatory documents in their operations and invest in technology, data handling, policies, and procedures will be able to make a real impact on a more sustainable future and improve their long-term financial performance.

■ DISCUSSION

Analysis of disclosure of non-financial information practices by banks is one of the most important tasks for understanding the state of transparency and involvement in ESG initiatives in the banking sector and the extent of information asymmetry in this area. As a result of the analysis, it was found that all banks, under the requirements of the NBU, publish management reports, but their structure and content differ significantly, which does not allow for obtaining systematic and comparative information on reporting on sustainable development. The research analysed the current state of sustainability reporting in the Ukrainian banking sector, identifying key trends and problematic aspects. Particular attention was paid to comparing the existing reporting practices with the requirements of the EU CSRD, which, although still voluntary for Ukrainian banks, sets the direction for future reporting. Full-scale implementation of sustainable development reporting in Ukraine will have a positive effect on both the macro and microeconomic scales. At the level of the national economy, it will support sustainable long-term investment, reduce unemployment, and contribute to the recovery of the economy, which was also emphasised in the article by O. Solodovnik & I. Gavrylychenko (2021). Researchers explored how to track and assess the corporate sector’s progress towards sustainability goals in Ukraine by creating practical guidelines.

By publicising their contribution to sustainable development, Ukrainian banks will improve operational efficiency through a better understanding of banking risks, increased transparency, and consideration of ESG factors when making credit and investment decisions. This statement aligns with the opinion of E. Palmieri *et al.* (2024), who demonstrated the positive impact, in particular, of the environmental component of banking activities on reducing the risk of insolvency and bank default. I. Makarenko *et al.* (2020), like this study, analysed the sustainability reporting of Ukrainian banks. To evaluate it, the authors developed and applied the specific index, whose methodology includes a range of formal, content, assurance, and disclosure scorings. According to the results of a continuous assessment of the management reports of 75 banks for the 2018 fiscal year, the average index was 61.2%. In the opinion of the authors, this indicated a fairly high level of disclosure quality in their sustainability reporting, which is somewhat contradictory to the research conducted. Among the 14 indicators defined by the authors for evaluating reporting, only four directly addressed sustainable development (social aspects, environmental aspects, anti-corruption activities, human rights protection), while the others related to banks’ compliance with general requirements for

preparing non-financial reports. Therefore, the relatively high result reflected only the compliance of most management reports with regulatory requirements, rather than the quality of sustainable development reporting. At the same time, the conducted study confirmed the researchers’ conclusion that the best results in terms of completeness of non-financial information disclosure in Ukraine were observed in the groups of state-owned banks and banks owned by foreign bank groups (Fig. 1). The former, due to their status, are more responsive to implementing state policies, and the latter have the opportunity to leverage the experience of their parent structures in the field of sustainable development.

L. Kindratska (2024) explored the issue of forming sustainability reports by public sector entities, which is important for this study, considering that Ukraine already has seven state-owned banks at the beginning of 2025. They occupy almost half of the banking market and are considered entities of heightened public interest. Aligning the activities of public sector institutions with the achievement of Sustainable Development Goals positively impacts the effectiveness of economic processes in the context of enhancing economic development and citizens’ quality of life. The measures to improve the formation of relevant reporting, proposed by the author of the article, will contribute to more effective communication to stakeholders about the contribution of public sector institutions to sustainability, the formulation of reliable conclusions about the impact of their activities on the economy, environment, and social development of communities, as well as enhancing the quality characteristics of the services provided.

The research results that companies in the real sector of the economy have a somewhat higher level of disclosure regarding their economic, environmental, and social impact, thanks, in part, to greater methodological support from government bodies, correlate with the assertion of T. Yefimenko *et al.* (2021). However, the informativeness of even such companies’ reporting remains quite low. Therefore, based on international standards, researchers proposed a basic list of non-financial reporting indicators and the development of a practical commentary on their disclosure. H. Umantsiv (2023) also noted that the spread of sustainability reporting practices in Ukraine required the improvement of theoretical and conceptual-methodological approaches to substantiate the directions of disclosure of this information by companies in the context of European integration of Ukraine. The NBU should speed up the development and implementation of new reporting requirements following the CSRD. On the other hand, banks should assess as soon as possible their readiness for detailed data disclosure about business models, strategies, and supply chains related to sustainability.

The challenge of ensuring quality information disclosure on sustainable development and regulatory compliance is not unique to Ukrainian banks; it extends to banks in more developed countries as well. D. Tózsér *et al.* (2024) investigated this issue by evaluating the sustainability reporting compliance of Hungarian and top European banks using a scoring method. Their findings indicated that while both groups selected similar aspects of their activities for disclosure, the level of data representation was significantly lower in Hungarian banks. Consequently, the authors

concluded that Western European banks demonstrated superior preparedness for the CSRD compared to Hungarian banks, which they considered representative of the region. They emphasised the need for financial institutions in Central and Eastern Europe to more effectively adopt best practices, a conclusion that strongly aligned with the results of this study.

A.L. Santos & L.L. Rodrigues (2021) examined how Portuguese banks report climate-related data. Their research revealed that while disclosure has improved, it still falls short of recommended standards. The researchers also found significant variation in reporting practices among banks, with some being more advanced than others. This lack of uniformity, where banks prioritise different information, mirrors the situation in Ukraine and makes it impossible to compare sustainability performance across financial institutions. The authors correctly argue that greater standardisation of reporting topics and content is essential for meaningful comparisons between banks. Their proposals correlate with the results of the conducted research and are further complemented by the conclusions of I. Ferrero-Ferrero *et al.* (2023). The researchers believe that placing sustainable development at the centre of EU policy requires the creation of resources, implementation methods, and control tools at the supranational and national levels to ensure that sustainability reporting is on par with financial reporting. To achieve this, public authorities should join efforts to create a homogeneous and comparable reporting methodology and to ensure an independent assurance process for sustainability information.

Conducting an audit of sustainability reporting is crucial for ensuring its informativeness and effectiveness, as emphasised during the research. M. Kucheriava & A. Shvaher (2023) also analysed these issues, focusing on relevant European experience. The scholars provide proposals aimed at developing an institutional mechanism for overseeing the quality of sustainability reporting by business entities through establishing requirements for the qualification and certification of auditors who conduct sustainability reporting audits and defining the organisational principles for providing relevant audit services. The direction of further research aligns with the conclusions of T.L. Föhr *et al.* (2023) regarding the possibility and feasibility of using large language models for auditing sustainability reporting by developing a sustainability-related audit prompt framework.

The results of the research indicated that the imperatives of sustainable development play an increasingly important role in the modern banking sector; however, the degree of their implementation in Ukraine remains uneven. It was found that non-financial reporting on sustainable development has significant potential to reduce information asymmetry, increase the transparency of banks' activities, and improve their competitiveness, but its implementation in the domestic banking system is fragmented. Unification of requirements in the form of clear and detailed sustainability reporting standards for the banking sector, incentivising financial institutions not only to transparently disclose information but also to use quantitative indicators to assess the impact of their sustainable development initiatives, conducting training and consultations for banks on the methodology of preparing relevant reports, engaging

independent auditors to verify the accuracy and completeness of the information disclosed in the reports – all of this will enhance the transparency of banks' activities, foster investor confidence, and create a more sustainable financial system in Ukraine.

■ CONCLUSIONS

The study showed that although all banks publish non-financial reports in accordance with the requirements of the National Bank, only 14% of them voluntarily compiled certain types of reports with information on the environmental and social results of their activities in some years. These banks include Ukgazbank, Ukrsibbank, Credit Agricole Bank, SEB Corporate Bank, Bank Lviv, FUIB, ProCredit Bank, ING Bank Ukraine, and Pravex Bank. This showed that the majority of Ukrainian banks, even while declaring social and environmental responsibility, remain insufficiently transparent in disclosing their activities. An analysis of management reports revealed that 13 banks do not reflect aspects of sustainable development in them at all, which indicated an extremely low level of their readiness to disclose information in accordance with CSRD requirements. A significant difference in the structure and content of such reports was found: some banks limit themselves to general declarative statements about social responsibility, while only a few banks systematically reflect the ESG aspects of their activities.

Most often, banks provide general information on social and environmental aspects, including issues of social responsibility (46% of the sample), and only 22 banks (35% of the total) include a separate section on sustainable development in the management report, but their information, as a rule, is fragmented, descriptive, and not related to financial indicators. It is in the reports of the latter group of banks, including PrivatBank, Ukgazbank, Raiffeisen Bank, Kredobank, Bank Alliance, Altbank, Cominbank, and others, that ESG initiatives are presented in a more structured manner. However, it was found that only 10 out of the 22 banks providing sustainability reports disclose all ESG components, which is less than half of their number. Social and environmental aspects are most often highlighted (82% of banks), in particular, support for internally displaced persons, educational and medical institutions, due to current wartime challenges, energy conservation, and dealing with waste. Governance aspects are disclosed much less frequently (50% of banks), indicating insufficient integration of banks' corporate governance with sustainable development goals.

An analysis of international regulatory experience showed that the implementation of CSRD requirements can significantly improve the quality of sustainable development reporting. At the same time, the study revealed a number of barriers to the implementation of such standards, including the lack of unified methodological approaches to assessing ESG risks, insufficient staff competence, the absence of industry standards for the banking sector, and significant costs for auditing sustainability reports. However, non-compliance by Ukrainian banks with CSRD requirements in the future may lead to capital outflow, reputational damage, potential fines, legal consequences, and damage to business relationships. Therefore, despite all the difficulties, Ukrainian banks should start a

gradual transition to reporting under the new standards. To facilitate the reporting process, it is advisable to consider the possibilities of implementing intelligent software for both report preparation and its audit, which might be the subject of further research.

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■ CONFLICT OF INTEREST

None.

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Звітність зі сталого розвитку банків України: поточний стан, проблеми та перспективи

■ **Анотація.** З огляду на зростаюче значення сталого розвитку та інтеграцію України в європейський економічний простір, якісна та повна звітність зі сталого розвитку є критично важливою для банківського сектору. Метою дослідження було оцінити повноту розкриття інформації зі сталого розвитку в нефінансовій звітності українських банків, виявити проблеми та можливості підвищення якості такої інформації для досягнення позитивних ефектів на мікро- та макроекономічному рівнях. Для досягнення поставленої мети було використано метод кейс-стаді, який передбачав комплексний аналіз веб-сайтів усіх українських банків із метою дослідження їхньої нефінансової звітності. Поглиблений аналіз було проведено з метою визначення наявності та якості розкритої інформації щодо екологічних, соціальних та управлінських (ESG) факторів. Результати дослідження показали, що українські банки лише починають впроваджувати звітність зі сталого розвитку. Розкрита інформація зі сталого розвитку має переважно описовий характер, не містить кількісних або фінансових даних, часто є неоднорідною та неструктурованою. Навіть банки, які позиціонують себе як соціально та екологічно орієнтовані, не розкривають повною мірою ризики сталого розвитку та не надають вичерпної інформації в контексті цілей сталого розвитку. Лише 35 % українських банків подають «Звіт зі сталого розвитку» як частину свого звіту про управління, і лише 45 % із цих банків розглядають у звіті всі ESG-фактори. Продемонстровано, що, незважаючи на значні труднощі у виконанні вимог Директиви щодо корпоративної звітності зі сталого розвитку, яка залишається добровільною для українських банків, прийняття цих стандартів є необхідним. Це сприятиме підвищенню прибутковості та прозорості діяльності банків, зміцненню довіри інвесторів та створенню більш стабільної фінансової системи в Україні. Було наголошено на нагальній потребі для українських банків застосовувати більш проактивний та комплексний підхід до звітності зі сталого розвитку та підготуватися до вимог майбутнього регуляторного середовища.

■ **Ключові слова:** нефінансова звітність; фінансові установи; розкриття інформації; економічні, соціальні та управлінські фактори; вимоги; показники; аудит