APPROVED
By the Supervisory Board
of the National Development Institution
Minutes No. __ dated 26.06.2026

CONSIDERED
By the Management Board
of the National Development Institution
Minutes No. __ dated 29.05.2026

RISK MANAGEMENT POLICY
of the National Development Institution

Kyiv 2026

Version 1.0	Approved on January 30, 2020	General Meeting of Shareholders
Version 2.0	Approved on January 06, 2026	Supervisory Board of NDI
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Responsible unit: Risk Analysis and Control Unit

Agreed:

Responsible Person	Name	Date
Chief Compliance Manager	Alisa Dorokhina	
Legal Unit	Olena Slavhorodska	
Anti-Corruption Authorized Officer	Mykhailo Oliinyk	
Management Board	Andrii Hapon	29.05.2026

Related NDI Documents:

- Risk Appetite Statement (approved)
- NDI Strategy (be approved)
- Code of Conduct (approved)
- Business Continuity Plan (approved)
- Regulations on the Organization of Work with Collateral in Financing Partner Institutions
- Accounting Policy (be updated)
- Regulations on the Internal Audit (Control) Service (approved)
- Regulations on the Accrual of Loss Provisions for Expected Credit Losses on Financial Instruments (approved)
- Regulations on the Interaction of the NDI with Partner Institutions
- Regulations on the Internal Control System (be approved)
- Regulations on Project Management (under preparation)
- Procedure for Dealing with Non-Performing Loans
- Procedure for Working with Authorized Entities for the Implementation of Financial State Support Programs
- Procedure for Investing Temporarily Available Funds
- Environmental and Social Policy (be updated)
- Rules for the Provision of Financial Services (approved)
- Financial Monitoring Rules (approved)

Table of Contents

1 General Provisions

1.1. This Risk Management Policy of the National Development Institution (hereinafter referred to as the 'Policy') has been developed in accordance with

- the Law of Ukraine 'On the National Development Institution' (hereinafter referred to as the 'Law on NDI'),
- the Regulations on the Requirements for the Establishment of an Internal Control System by the National Development Institution, approved by the Resolution of the Board of the National Bank of Ukraine dated April 22, 2026 No. 39 (hereinafter referred to as the 'NBU Regulations on ICS'),
- the Law of Ukraine 'On Prevention and Counteraction to Laundering of Proceeds from Crime, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction' (hereinafter referred to as 'Law No. 361-IX'),
- other regulatory acts, the Charter of the National Development Institution (hereinafter referred to as the 'Charter'), internal regulatory documents of the National Development Institution,
- as well as taking into account international corporate governance standards and best practices, including:
  - ISO 31000 (General Risk Management), ISO 27005 (Information Security) and ISO 22301 (Business Continuity),
  - World Bank ESS standards (regarding environmental and social risk management),
  - guidelines of the Basel Committee on Banking Supervision,
  - COSO Internal Control Integrated Framework, G20/OECD Principles of Corporate Governance,
  - Basel Committee Internal Control Framework, International Compliance Association, and other guidelines.

1.2. The National Development Institution (hereinafter referred to as the 'Institution' or 'NDI') implements a risk management system as a component of the NDI's internal control system through the approval and application of internal risk management documents that define the procedure of actions aimed at carrying out a systematic process of identification, measurement, monitoring, control, reporting, and mitigation of all types of risks at all organizational levels.

1.3. This Policy is organic part of the risk management system and reflects the core principles of the Institution's activities, taking into account inherent risks, managing them through prudent resource management, diversification of funding sources, and the application of comprehensive risk management systems.

1.4. The Policy defines the purpose, objectives, principles, structure, and operating procedure of the Institution's risk management system as a component of the internal control system to ensure the identification, measurement, monitoring, control, reporting, and mitigation of risks inherent in the Institution's activities. If necessary, other internal risk management documents shall be developed by the NDI in implementation hereof.

1.5. Within the risk management system, the Institution distinguishes at least the following list of material risks inherent in the activities of the NDI, the implementation of which may have a material adverse impact on the financial stability, capital, liquidity, implementation of the NDI's strategic objectives and mandate, compliance with legislative, regulatory, contractual or donor requirements, reputation or continuity of the NDI's activities:

- liquidity risk;
- credit risk;
- compliance risk;
- operational risk;
- environmental and social risks;
- market risk.
- reputational risk.

The requirements of this Policy are mandatory for all governing bodies, committees, key persons, units, and employees of the Institution, and in cases provided for by these Regulations and agreements — for outsourcers and partner institutions.

The Institution ensures the creation, continuous, and effective functioning of a comprehensive, adequate, and effective risk management system, taking into account the types of activities, the nature and types of services provided by the Institution, and the risks inherent in its operations.

Glossary

Terms in these Regulations are used in the meanings provided in the Law of Ukraine 'On the National Development Institution', the Law of Ukraine 'On Prevention and Counteraction to Laundering of Proceeds from Crime, Terrorist Financing and Financing of Proliferation of Weapons of Mass Destruction', NBU Regulations on ICS, and other regulatory legal acts.

For the purposes of this Policy, the terms shall have the following meanings:

Risk Appetite – the capacity and willingness of NDI to assume a certain level of risks in order to achieve the established goals of NDI within the framework of state policy, the Charter, and the current strategy.

Outsourcing – the transfer by the Institution on a contractual basis of specific functions and/or tasks/processes within these functions for execution by another person without transferring the responsibility of the Institution for the proper performance of such functions, tasks or processes, as well as for the management of the risks associated with them.

Risk Owner – an NDI unit which, by its functional duties, is or may potentially be a source of material and/or non-material losses in the course of its work, and which has the ability to identify, analyze, and control the impact on events that are sources of exposure to various types of risk.

Chief Compliance Manager – a key person of the Institution's internal control system, responsible for coordinating the compliance function and organizing the implementation of the ICS in terms of compliance.

Risk Appetite Statement (RAS) – an internal NDI document that defines the quantitative parameters of risk appetite, the types of risks that the Institution will accept or avoid to achieve its goals, and the level of risk appetite for each such risk that NDI is ready and willing to accept or avoid for the sake of achieving its business goals.

Tolerable Level of Risk – the maximum amount of risk that NDI is able to accept across various risks, given its capital level, capability to adequately and effectively manage risks, and taking into account regulatory restrictions.

Environmental and Social Risks (E&S Risks) – the probability of losses, additional expenses, or shortfall in revenue by the Institution resulting from the violation or failure to take into account environmental and social responsibility, gender equality and inclusiveness, responsible business conduct practices, and 'green' financing initiatives during the formation and implementation of development or support programs and projects;

Investment Proposal – an internal document prepared by the unit responsible for program management based on the results of the preliminary assessment of a potential PI and the proposed terms of participation in the program. The Investment Proposal is reviewed by the Management Board, and approved to the Supervisory Board of NDI, aligned with the PI by signing by both parties, and serves as the basis for reserving program funds for the PI.

Key Risk Triggers – indicators that track the probability and potential impact of risks in an organization. Triggers act as early warning signs, helping to detect potential issues before they escalate into serious threats to NDI's operations and affect its financial stability. Unlike Key Performance Indicators (KPIs), which measure performance, triggers focus on the possibility of negative events occurring and their potential consequences. The list of triggers is specified in the Risk Appetite Declaration.

Risk Committee – the Risk Committee of the Supervisory Board.

Counterparty – an institution and/or person with whom NDI has financial relations. This concept refers to an individual institution or a group of institutions that are legally or financially consolidated or otherwise interdependent from a risk perspective.

Compliance Risk – the risk of losses and/or sanctions, additional expenses, shortfall in planned revenue, or loss of reputation due to non-compliance of the Institution's activities with the requirements of the legislation of Ukraine and/or other requirements (rules, standards, principles) for conducting such activities that the Institution is obliged to comply with or has decided to adhere to, the rules of the code of conduct (ethics), conflict of interest prevention, as well as internal documents of the Institution.

Credit Risk – the probability of incurring losses, additional expenses, or a shortfall in planned revenue as a result of a debtor's / counterparty's failure to perform their assumed obligations in accordance with the terms of the contract, taking into account the specific nature and business model of the Institution.

Micro, Small, and Medium Enterprises (MSMEs) – business entities that, in accordance with the legislation of Ukraine, belong to micro, small or medium-sized enterprises and may be final beneficiaries of development or support programs and projects implemented by the Institution directly or through partner institutions.

Risk Monitoring – a process of systematic supervision over risks, and over the control and risk management system and process, in order to identify deviations from their acceptable level and/or the effectiveness of risk management.

Operational Risk – the probability of incurring losses, additional expenses, or a shortfall in planned revenue due to deficiencies or errors in the organization of internal processes, intentional or unintentional actions of the Institution's employees or other persons, failures in the operation of the Institution's systems, or due to the impact of external negative factors;

Partner Institution (or PI) – a bank or another financial services provider with which the Institution cooperates within the scope of implementing development or support programs and projects to ensure access to financing for target groups supported by the Institution.

RAC Unit – the Risk Analysis and Control Unit, which is a structural unit of NDI responsible for risk analysis and control.

Program Management Units – structural units of NDI that, according to the organizational structure, report to the member of the Management Board responsible for investment activities, specifically including the state and regional program management unit and the donor-funded program management unit.

Risk – uncertainty associated with the possibility of adverse events occurring, considered as the probability and scale of losses, additional expenses, shortfall in revenue, or non-performance of contractual obligations by a party due to the impact of negative internal and external factors.

Risk Appetite – the aggregate amount of possible (expected) losses across all types of quantifiably measurable risks and separately for each of the risks, determined in advance and within the tolerable level of risk, regarding which there is a decision on the expediency / necessity of retaining them to meet the Institution's goals.

Liquidity Risk – the probability of incurring losses or additional expenses due to the inability to ensure the performance of its obligations in a timely manner due to the lack of a sufficient volume of liquid assets.

Market Risk – the probability of incurring losses, additional expenses, or a shortfall in planned revenue due to adverse changes in market factors (interest rates, foreign exchange rates, the value of financial instruments) that affect the value of the Institution's assets and liabilities.

System of Checks and Balances – the distribution of powers among the General Meeting of Participants of NDI (hereinafter referred to as the 'General Meeting'), the Supervisory Board of NDI (hereinafter referred to as the 'Supervisory Board'), the Management Board of NDI (hereinafter referred to as the 'Management Board'), and committees established by the Supervisory Board (hereinafter referred to as the 'committees'), key persons and/or units, and employees of the Institution, which ensures accountability and eliminates (prevents) the possibility of the Institution's governing bodies making decisions that could lead to a conflict of interest and/or negative consequences in its activities.

Hedge – a risk mitigation (reduction) instrument that consists of taking measures to compensate for/minimize losses from a hedged item at the expense of profit from a hedging instrument.

2 Scope of Application and Objective of the Policy

2.1. The Policy is an internal document on risk management issues and a component of the internal control system of the Institution, which defines the main requirements for the functioning of the risk management system and ensures:

1) identification, measurement, monitoring, control, reporting, and minimization (reduction to a controlled level) of all material risks in the activities of the Institution, taking into account the size, complexity, volume, types, and nature of the operations carried out by the NDI, the organizational structure, and the risk profile of the NDI, as well as the specific characteristics and purpose of the activities of the National Development Institution;

2) the availability of appropriate mechanisms for defining and controlling risks in the activities of the NDI, taking into account the need to separate the accounting of assets and liabilities during the performance of activities related to the provision of guarantees, the administration and/or support of state, regional, and local development or support programs and projects, and other types of activities of the NDI.

2.2. The types of risks that the Institution accepts or avoids in its activities, and the risk appetite indicators for each of these risks, are regulated by the RAS, taking into account legislative requirements and approved strategic goals and objectives. The RAS also provides for the formulation of main principles regarding the level of risk acceptance by NDI.

2.3. The classification and systematization of different types of risks are carried out according to certain criteria defined by NDI as having the most significant impact on the risk profile and solvency of NDI, and may be divided into subcategories if deemed appropriate.

2.4. To comply with the principle of transparency, NDI provides this Policy for review to investors and donors if necessary, and discloses the summary on the web-site of NDI.

2.5. The creation and maintenance of a high risk management culture includes ensuring the awareness and involvement of members of the NDI`s Supervisory Board, Management Board, as well as other employees of NDI in risk management.

3 Key Principles of Risk Management

3.1. The risk management system, as a component of the Institution's internal control system, functions in compliance with the following principles:

1) effectiveness – ensuring an objective assessment of the size of risks and the completeness of risk management measures with the optimal use of financial resources, personnel, and information systems in managing NDI's risks;
2) timeliness – ensuring timely (at an early stage) identification, measurement, monitoring, control, reporting, and mitigation of risks at all organizational levels;
3) structured approach – a clear distribution of functions, duties, powers, and responsibilities in the risk management process among structural units and employees of NDI;
4) segregation of functions – preventing the combination of incompatible functions, ensuring a system of checks and balances;

5) comprehensiveness and integration – covering the types of activities inherent in NDI at all organizational levels and assessing the interrelationships of risks;
6) proportionality – built taking into account the scale, specialization, and complexity of business processes, in accordance with defined strategic goals and objectives, and the business model of NDI;
7) independence – functional and organizational independence of the subjects of the second and third lines of defense from the subjects of the first line of defense;
8) equality – NDI preventing any forms of unjustified discrimination against the participation of partner institutions or other business entities, as well as preventing conflicts of interest.

3.2. When implementing programs and projects to support MSMEs as final beneficiaries, NDI takes into account the compliance of the risk management culture in PIs with regulatory standards.

4 Organizational Structure of the Risk Management System

4.1. The organizational structure of the risk management system in the Institution is a component of the internal control system and encompasses governing bodies, committees, key persons, structural units, and employees of the Institution, as well as the distribution of powers, accountability, responsibility, and interaction defined among them, which ensures the functioning of three lines of defense, as well as the identification, measurement, assessment, monitoring, control, reporting, and mitigation of risks at all organizational levels.

4.2. An internal control system has been built in NDI, a part of which is the risk management system, which operates on the basis of the classic model of three lines of defense against risk with a clear distribution of functions, powers, responsibility, and accountability among the subjects of internal control, complying with restrictions regarding conflicts of interest, as follows:

- the first line of defense includes units directly involved in the use of financial instruments (business units), operational support and support units, such units that accept risks in the course of their activities and are responsible for managing these risks;
- the second line of defense includes risk analysis and control, E&S risk management, and compliance functions, which ensure the organization and control of the effectiveness of risk control and management measures carried out by the first line of defense, their compliance with the requirements of legislation and internal documents of NDI;
- the third line of defense includes the internal audit function, which performs an evaluation of the effectiveness of the activities of the first and second lines of defense, and a general evaluation of the effectiveness of the structure of the risk management system within the performance of the internal audit function.

4.3. The Institution has established rules and procedures for vertical and horizontal interaction, namely:

- vertical interaction – between structural units or specific functions or individual processes by subjects of different lines of defense and governing bodies;
- horizontal interaction – within one unit / function and/or between units / persons assigned with the execution of specific functions or individual processes of the same line of defense.

4.4. The risk management system as a component of the internal control system in the Institution is structured in such a way as to ensure appropriate information flows and timely reporting to the Supervisory Board and the Management Board regarding current activities, risks assumed in the process of activities, the results of their assessment and control, applied response measures, and the level of their management.

4.5. The Supervisory Board ensures the organization of and exercises control over the functioning of the internal control system, including the risk management system as its component, and monitors the performance of functions assigned to the committees of the Supervisory Board.

The Supervisory Board:

- In cooperation with the Management Board, ensures the development of and approves the strategy of the Institution, taking into account its risk profile.
- Exercises control over the functioning of the risk management system as a component of the internal control system in accordance with the risk profile of the Institution.
- Approves internal high policy risk management documents and the organizational structure of the risk management system within the internal control system.
- Monitors the work of the Management Board regarding the organization of the risk management system, in particular based on the reporting of the Chief Risk Officer.
- Reviews reports submitted by the Chief Risk Officer and proposals of the Risk Committee on improving risk management practices in the Institution and makes decisions on them within its powers.
- Approves the main conditions of cooperation with partner institutions.

4.6 Risk Committee:

- Reviews proposals of the Chief Risk Officer and the Management Board regarding the strategy, policy, rules, and restrictions in the field of risk management and submits them for approval to the Supervisory Board.
- Determines appropriate methods and tools for specifying and assessing NDI's risks and determines the frequency of implementing these methods;
- Reviews reports on risks to which the Institution is exposed and on the effectiveness of the risk management system, submitted for consideration by the Chief Risk Officer.
- Verifies the compliance of proposed products/services with the strategy and business model of NDI, assesses the risks associated with these products, considering the price and profitability;

4.7. The Management Board:

- Ensures the functioning of the risk management system as a component of the internal control system and is responsible for its proper organization at the operational level:
- Ensures the implementation of this Policy and the functioning of the risk management system in accordance with the internal documents of the Institution.
- Submits internal risk management documents for approval to the Supervisory Board and exercises control over their implementation;

- Organizes the functioning of the risk management system within the internal control system in accordance with this Policy and internal documents of the Institution.
- Reviews risk reports, insures and assesses the adequacy of management responses to significant risks, including approval of corrective actions, in cases where they exceed established limits or have a potential impact on the achievement of NDI's strategic objectives, and makes decisions on the expediency of taking the proposed response measures.
- Creates appropriate conditions for the functioning of the risk management system to ensure adequate risk management in the Institution.
- Ensures cooperation and support of NDI structural units regarding risk management and compliance with the principle of independence.

4.8 The Chief Risk Officer is a key person of the internal control system who ensures the functioning of the second line of defense in terms of risk management:

- The Chief Risk Officer is accountable to the Supervisory Board on functional matters with simultaneous organizational reporting to the Chairman of the Management Board.
- Facilitates the development of internal documents of the Institution on risk management issues, in particular the Risk Management Policy and the Risk Appetite Declaration, ensures their submission for review to the Management Board, the Risk Committee, and for approval to the Supervisory Board.
- Participates in the preparation of the NDI Strategy and provides proposals regarding the risks of its implementation.
- Coordinates the activities of the structural units of the Institution on risk management issues within the second line of defense.
- Ensures the timely and high-quality preparation of risk reports, in particular regarding compliance with financial indicators (ratios), limits, and risk triggers, as well as the results of monitoring the Institution's risk profile.
- Submits proposals for improving the risk management system to the Risk Committee and the Supervisory Board.
- Assesses and forecasts the level of the Institution's risk exposures, including regarding financial partners, and ensures compliance with financial indicators (ratios) and internal risk limits.
- Provides information to the Supervisory Board and the Risk Committee on all matters related to risk management.
- Provides information to the Management Board and the Chief Compliance Manager regarding the detection of a risk of violating ratios, limits, and triggers, and immediately (no later than the day following the day of detection) reports on the detected potential danger.

4.9 The Risk Analysis and Control Unit (RAC Unit) is a structural unit of the second line of defense in the internal control system and performs the following main functions:

- Ensures: (i) conducting an assessment of the Institution's risks according to the relevant parameters of probability and impact; (ii) conducting identification, detection, and control of risks in accordance with the indicators of the Risk Appetite Declaration; (iii) preparing a list of risk management/response measures for NDI, and monitors the implementation of approved measures.

- Develops and, if necessary, updates internal documents of the Institution on risk management issues.
- Ensures control over compliance with the internal documents of the Institution on risk management issues and control over their proper application by subjects of the first line of defense.
- Develops proposals for measures to respond to identified risks for review by authorized governing bodies;
- Prepares regular risk reports to the Management Board of NDI, the Risk Committee, and the Supervisory Board;
- Ensures the maintenance of a database of realized and potential risks, tracking external factors that may impact risks;
- Interacts with all units of NDI and ensures the integration of risk management into all business processes and the development of a risk management culture in the Institution;
- Provides methodological and advisory support to NDI employees on risk management issues;
- Submits proposals for conducting training events on risk management for NDI employees;
- Interacts with the internal audit of NDI regarding the development of the internal audit plan, exchange of information, discussion of audit findings, exchange of knowledge and methodology.

The duties, powers of RAC Unit employees, and requirements for submitted reporting are defined by this Policy, internal documents of NDI, the regulations on the RAC Unit, and the job descriptions of RAC Unit employees. RAC Unit employees must have access to information and documents of NDI necessary for the performance of functional duties defined by this Policy and the job descriptions of employees.

4.10 The Compliance Function or the person assigned with the corresponding compliance functions as Chief Compliance Manager, belongs to the second line of defense in the internal control system and performs the following main functions:

- The Chief Compliance Manager is accountable to the Supervisory Board on functional matters with simultaneous organizational reporting to the Chairman of the Management Board;
- verifies compliance of internal documents of the Institution with the legislation of Ukraine, ensures monitoring of changes in the legislation of Ukraine, conducts an assessment of the impact of such changes on the processes and procedures implemented in the Institution, and ensures control over the implementation of relevant changes into internal documents;
- verifies the compliance of measures carried out by subjects of the first line of defense with the internal control documents of the Institution;
- ensures the management of risks associated with conflicts of interest that may arise at all levels of the Institution's organizational structure;
- ensures the organization of control over the protection and processing of personal data in accordance with the legislation of Ukraine;

- is responsible for proper and timely informing and training of subjects of internal control regarding internal documents and amendments made to them, which define the procedures for carrying out each type of control activity and individual internal control procedures;
- compiles reports within its competence regarding the implementation of control/monitoring activities, which are to be submitted for evaluation and review to the governing bodies of the Institution.

4.11 Environmental and Social Risk Management Unit is responsible for the identification, measurement, assessment, monitoring, control, and reporting on environmental and social risks, as well as the development of internal NDI documents regarding the implementation of E&S standards in NDI's activities.

Its main tasks include:

- ensuring the process of assessing E&S risks during the implementation of development or support programs and projects stipulated by contractual obligations;
- monitoring the size and profile of E&S risks within the framework of the implementation of development or support programs and projects of NDI;
- developing, updating, and implementing environmental and social risk management principles for implementation by partner institutions within the framework of development or support programs and projects of NDI;
- coordinating the collection of E&S data and monitoring relevant data within the framework of development or support programs and projects of NDI, conducting training in the field of E&S risk management for counterparties and NDI employees;
- preparing the NDI Risk Report in terms of disclosing information on E&S risks.

4.12 Internal Audit as the third line of defense in the internal control system, provides an independent assessment of the effectiveness and completeness of the functioning of the internal control system, including risk management processes.

The internal audit unit or the person assigned with the internal audit function performs, in particular, the following duties regarding risk management:

- conducts an assessment of the effectiveness of the activities of the first and second lines of defense and a general assessment of the effectiveness of the risk management system, which is part of the overall internal control system;
- provides proposals on the development / review of the process of carrying out control measures and/or individual risk management procedures;
- ensures verification of compliance by subjects of the first line of defense and control over compliance by subjects of the second line of defense with risk limits established by the Institution, the completeness / outcome of control over compliance by partner institutions with cooperation terms established by the Institution, and, within scheduled audit reviews, reports information on existing violations or the risk of their violation to the governing bodies.

The internal audit unit or the person assigned with the internal audit function reports directly to the Supervisory Board. The Supervisory Board / Audit Committee hears the report of the internal auditor regarding the assessment of the risk management system in accordance with the internal audit work plan.

5 Risk Appetite Statement

5.1. NDI's capacity to assume risks depends on the objectives of the Strategy, taking into account NDI's business model, which primarily must ensure the fulfillment of all obligations of the Institution, the creation of a capital buffer to absorb potential losses, and the prevention of capital depletion in the future.

5.2. The Risk Appetite Statement (RAS) is built on a balance between the profitability of programs and projects and regulatory requirements, the principles of which are integrated in accordance with the strategy, goals, objectives, and a risk-oriented approach in cooperation with PIs.

5.3. The RAS contains NDI's position regarding the level of risk acceptance, their mitigation, defining general boundaries of risk tolerance, and is based on building an effective risk management system, taking into account the high awareness of all lines of defense of the Institution.

5.4. The draft of RAS is developed by the RAC Unit, reviewed by the Management Board and the Risk Committee, and approved by the Supervisory Board. After approval, the RAS must be brought to the attention of NDI units for compliance in their work according to their functional duties.

5.5. Quantitative parameters of indicators in the RAS must have thresholds and be measurable; for this purpose, they are calculated based on the analysis of historical data, benchmarks, and the relevance of the impact on NDI's operations.

5.6. The RAS is reviewed and updated annually or more frequently if significant changes occur in the environment or strategy of NDI. The Chief Risk Officer initiates a review of the RAS based on changes in the risk profile, risk monitoring results, triggering of triggers or other relevant factors. The Management Board, Risk Committee or Supervisory Board may initiate an unscheduled review of the RAS.

6 Risk Identification

6.1. Risk identification is the process of detecting potential events or threats that may adversely affect the achievement of the Institution's objectives or the capacity to perform specific tasks. This constitutes the initial stage of the risk management system, which encompasses the determination of risk sources, their impact on operations, and the root causes of occurrence for the purpose of systematizing potential risks and identifying ways to minimize them. The NDI risk management system is aimed at identifying risks and reviewing them in relation to the NDI business processes, in order to establish a comprehensive overview of existing risks.

6.2. For the purpose of risk identification, raising awareness, and fostering the development of a risk management culture within the Institution, the ACR Department conducts risk identification with the involvement of employees from the structural units of the respective business processes, analyzes the submitted information, monitors risk levels, and formulates proposals for their minimization.

6.3. To identify risks, the ACR Department utilizes combinations of various methods and tools, taking into account the set goals and objectives with the application of a system of indicators, which enables the forecasting of potential risks that may affect the achievement of the set goals and objectives in accordance with the internal documents of NDI.

7 Risk Assessment

7.1. Assessment of the probability of occurrence and the potential impact of key risks enables the formation of a comprehensive understanding of risks, ensures the necessary information base for risk management decision-making, and facilitates the preparation of measures for their mitigation.

7.2. For the assessment and analysis of risks, NDI utilizes qualitative and quantitative indicators that generate various types of data as the foundation for the risk management process.

7.3. Risk assessment takes into account information regarding the sources and root causes of each risk's occurrence, the impact of adverse consequences, and the probability of a specific event taking place.

7.4. When developing risk management measures, NDI may employ the following response methods:

- **risk mitigation** – limitation of exposure, creation of provisions/reserves, and preventive measures aimed at reducing the probability and scale of potential losses;
- **risk retention/acceptance** – acceptance that the risk level is permissible and that NDI is aware of its probability of manifestation, as well as the possibility of accepting residual risk after risk mitigation measures have been implemented;
- **risk reallocation or partial transfer of risks** to another party, including the application of various instruments (contracts, insurance policies, hedging, etc.);
- **risk avoidance** – a decision to forgo activities or conduct operations that may lead to an unacceptable risk level.

The selection of the most appropriate option for decisions or measures is carried out based on a risk-based approach, balancing the losses associated with a specific method against the benefits, as well as direct and indirect costs. The results of modeling and post-evaluation of programs are used by the NDI as a feedback tool for calibrating the risk management system, including reviewing risk assessments, the effectiveness of response measures, risk appetite parameters, and the design of financial instruments.

7.5. The Institution conducts risk assessment based upon:

- **safety** (the prudent selection of partner institutions for the purpose of safeguarding funds and avoiding reputational risks);
- **maintenance of liquidity** (the capability to manage assets and liabilities);
- **compliance with regulations and limits** in accordance with the RAS or other internal documents of NDI.

7.6. When applying risk reduction and control methods where significant expenditures are planned, NDI must perform:

- a comparative analysis of the necessity of implementing these specific measures and pathways, alongside the possibility of reducing them through risk retention and/or risk financing (transfer);

- an opportunity cost analysis of the expenditures on such measures to compare them with the cost of risk retention/transfer and to assess the potential impact and consequences.

Significant expenditures within the scope of this clause are defined as equal to or exceeding 5% of the budget expenditures for a specific program or development/support project under which such risk reduction and control methods are applied.

7.7. During the identification and assessment of key risks, the level of risk appetite is calculated for each of the risks of NDI to determine risk tolerance, which serves for monitoring the level of risks that NDI is prepared to accept without material detriment to its operations.

7.8. Risk transfer may be executed via the following instruments:

- **risk insurance**, the materialization of which causes exclusively losses and cannot result in income;
- **hedging of market risks**, the realization of which may lead to either losses or profits;
- **risk transfer** by virtue of entering into an agreement with another counterparty for additional consideration;
- other alternative risk transfer instruments.

The primary distinguishing characteristic of these instruments is the cost of risk transfer services, which entails expenditures for NDI and demands a prudent approach to the utilization of such instruments.

7.9. Risk avoidance/minimization includes actions directed at terminating or refusing to execute operations that could potentially lead to negative consequences for NDI.

7.1. Credit Risk

7.1.1. Credit risk is the risk of non-performance and/or untimely performance by a PI of its assumed obligations in accordance with the terms and conditions of the credit (loan) agreement.

7.1.2. Credit risk management is based on the following principles:

1) **risk diversification** (avoidance of excessive concentration) among PIs within the scope of the strategy and established targets, taking into account the requirements of the RAS;
2) **assessment of the efficiency of the PI's business processes** at the stage of partnership evaluation;
3) **reasonable pricing** in interest rates and commissions for NDI based on risk forecasting;
4) **risk monitoring** at the level of an individual counterparty/PI as well as the loan and investment portfolio;
5) **avoidance of undesirable risks** to the maximum extent possible.

7.1.3. Credit risk exposure arises from the investment activities conducted by NDI through the implementation of financial instruments, specifically through the provision of credit (loans), issuance of guarantees, and placement of funds.

7.1.4. Credit risk concentration within the Institution may also arise due to a limited circle of acceptable PIs, as NDI applies conservative approaches to the selection of partner institutions, avoids excessive risk concentration, and ensures diversification at the level of financial instrument portfolios.

7.1.5. NDI may accept an increased propensity for credit risk in projects that contribute to the economic and social development and recovery of Ukraine, but maintains low tolerance for projects that may adversely impact the environmental and social sphere.

7.1.6. Program management units coordinate and are responsible for cooperation with PIs, the timeliness and efficiency of program implementation, monitoring the level of transformation of funds provided by NDI, and monitoring final beneficiaries,

7.1.7. The counterparty's solvency regarding debt service is a key factor for credit approval. Solvency assessment focuses on identifying core financial risks (by the ACR Department) and business risks (by program management units) associated with the partner institution. The risk rating of the PI based on a scoring assessment is performed by the ACR Department in accordance with the approved partner institution risk assessment algorithm.

7.1.8. Monitoring compliance with covenants is the responsibility of the first line of defense (program management units), while control is vested in the second line of defense (ACR Department). Additionally, the ACR Department calculates the scoring assessment of the NDI partner institution when conducting an impact analysis of the implementation of each financial instrument in accordance with the internal documents of NDI.

7.1.9. To mitigate credit risk, NDI may accept collateral for credit operations in order to minimize losses in the event of a PI default. The procedure for handling collateral is regulated by an internal document of NDI. The requirement regarding the level and structure of collateral shall be in line with decision of the authorised body as an integral component of approving the investment proposal reviewed by the Management Board.

7.1.10. The Program Management Unit, as the owner of the investment proposal, prepares and submits it for consideration by the MB/SB. The ACR Unit provides an independent risk assessment, including the formation of a risk profile and a corresponding conclusion, which is provided to the MB/SB separately and used when making a decision. In particularly, the roles of the units are delimited in accordance with the principle of three lines of defense.

- The **ACR Unit**, which, together with the compliance manager and the environmental and social standards assessment specialist, prepares the PI risk profile. This profile specifically includes an analysis of the reputation of owners/controllers and their integrity, screening against sanction requirements, capitalization, liquidity, quality and concentration of the loan portfolio, reputation of executives, management of non-performing loans, and calculation of the risk class.

- The **program management unit**, which prepares the PI business profile, including an analysis of the strategy, business model, competitive position of the PI in the SME lending market, dynamics and structure of the loan portfolio, nomenclature of credit products, lending terms and conditions, target clientele, credit technologies, and lending development plans.

7.1.11. The ACR Department conducts regular monitoring of the financial condition of PIs and analyzes the quality of the NDI loan portfolio in order to ensure the timely adoption of measures to protect the interests of NDI as a creditor.

7.1.12. For the purpose of additional credit risk control, credit agreements with PIs shall stipulate a set of covenants with which the PI must comply throughout the duration of the agreements. The threshold values of such covenants may be established at a higher level (with a buffer) than the actual current metrics of the PI. In the event that a PI breaches the actual values of indicators defined as covenants (breach of obligations), the Management Board of NDI adopts a decision regarding response measures to the situation, depending on the materiality of the cause and the trend of the violation. Non-performance of contractually stipulated obligations shall entail liability as provided under the terms of the credit agreement.

7.1.13. Materiality is defined as a deviation from the established covenant level within a range of up to 10% of the threshold value. In each instance, regardless of the level of non-compliance, the Management Board of NDI reviews the causes and nature of the violation, as well as the capacity of the PI to normalize the covenant values. Valid reasons may, inter alia, include changes in regulatory requirements, unforeseen exchange rate volatility, or a systemic financial crisis. In such cases, NDI (by decision of the Management Board) may temporarily waive the exercise of its right to demand early repayment of funds from the PI. The Chief Risk Officer shall notify the Risk Committee of any decisions adopted.

7.1.14. The loan pricing mechanism for PIs is determined in accordance with the principle of financial sustainability of NDI and its focus on a positive financial result, providing for the formation of allowances/provisions for loan losses and the maintenance of adequate capitalization. Loan interest rates, loan commissions, and fees for guarantees are established in such a manner as to cover the cost of resources, administrative expenses, and, where possible, the cost of risk associated with credit extension. Given that NDI does not distribute profit on dividends, pricing does not incorporate the cost of equity. The risk-adjusted loan pricing mechanism of NDI is governed by a separate internal document. Pricing is an important tool for risk management and ensuring the financial stability of the NDI, aimed at covering operating costs, expected losses and maintaining a sufficient level of profitability, taking into account the accepted level of risk. NDI strives to ensure that operating costs are covered by income from core activities, ensuring the long-term financial stability of the Institution. NDI may use risk-adjusted return indicators (in particular RAROC) as an auxiliary tool for assessing the effectiveness of financial instruments and forming pricing approaches. The general principles and methodology of pricing are approved by the authorized body of NDI, taking into account the RAS, and the Board ensures their application when determining the terms of financial instruments.

7.1.15. The internal document regulating the credit risk scoring procedure of NDI must incorporate a requirement regarding an acceptable risk class for PIs, below which credit agreements with such an institution shall not be concluded.

7.1.16. Internal risk ratings of PIs based on the NDI scoring assessment and their associated risk parameters, alongside the terms of the credit agreement, serve as key input factors for credit decision-making. The Management Board of NDI must implement timely response measures to any warning signs (red flags) in the PI's operations reported by the Program Management Units and/or the ACR Department. The list of warning signs may include the application of enforcement measures, violation of prudential ratios, net losses, growth in non-performing loans, reduction of the client base, and qualitative indicators including suspension or downgrade of a credit rating, dismissal of senior executives, exit of shareholders from capital, adverse news regarding the reputation of managers, etc. The counterparty internal risk rating methodology is governed by a separate regulatory document of NDI and shall be reviewed annually for adequacy, in particular through back-testing, with subsequent reporting to the Risk Committee along with proposals for relevant amendments.

7.1.17. The procedure for credit risk calculation and scenario sensitivity analysis is defined by a separate document of NDI.

7.2. Compliance Risk

7.2.1. The NDI defines compliance risk as the risk of incurring losses and/or sanctions, additional expenditures, or shortfalls in planned revenues, or loss of reputation resulting from the non-compliance of the Institution's activities, in the realization of its primary objective pursuant to the Law on the NDI, with the requirements of the legislation of Ukraine and/or other requirements (rules, standards, principles) which the Institution is obliged to observe or has resolved to adhere to, including the rules of the code of conduct (ethics), requirements for the prevention of conflicts of interest, as well as internal documents of the Institution.

Compliance risk is one of the material risks for the NDI, given the nature of its operations as a tier-two financial institution that fosters the economic and social development and reconstruction of Ukraine by ensuring the provision of financial, informational, advisory, and other support to MSMEs and other target groups through partner institutions.

7.2.2. The NDI compliance risk management system is an integral component of the overall risk management framework and is fully integrated into the internal control system in accordance with the Regulation on the Internal Control System (ICS) of the NDI. Compliance risk management is performed with a clear delineation of functions from operational risk management in order to avoid duplication thereof.

7.2.3. The objectives of the NDI in the field of compliance risk management are:

- preventing the occurrence of losses, sanctions, additional expenditures, shortfalls in planned revenues, or loss of reputation resulting from the non-compliance by the NDI with legal requirements, regulatory acts, market standards, and rules of fair competition, or minimizing their impact on the Institution;
- ensuring compliance with the requirements of the internal documents of the NDI and covenants of agreements executed with international partners and donors;
- properly managing conflict of interest situations: preventing the abuse of such situations and minimizing the consequences of events related thereto;
- fulfilling corporate ethics requirements and ensuring equitable treatment of partner institutions, counterparties, and other stakeholders;
- fostering and maintaining a compliance culture within the Institution.

7.2.4. To achieve its compliance risk management objectives, the NDI introduces and executes the following procedures and measures:

- monitoring compliance with the legislation of Ukraine in the field of prevention and counteraction to the laundering (cleansing) of proceeds of crime, terrorist financing, and the financing of the proliferation of weapons of mass destruction (AML/CFT), including the primary financial monitoring program;
- monitoring new programs and significant changes in the activities of the NDI prior to their implementation, including the provision of findings and opinions by the Chief Compliance Manager regarding compliance risks inherent to new products and programs;
- managing risks associated with conflicts of interest that may arise at all levels of the organizational structure of the NDI;
- monitoring the accuracy and reliability of the financial and regulatory reporting of the Institution;
- ensuring the procedure for information exchange among participants of the compliance risk management system, including the types, form, and deadlines for providing information;
- monitoring compliance with the requirements of the legislation of Ukraine regarding the attraction and utilization of funds, including funds from international donors and creditors;
- ensuring the procedure for interaction between the NDI and the NBU (National Bank of Ukraine), the Ministry of Finance, and other state and governmental authorities exercising oversight over the activities of the NDI;
- sanctions compliance procedures, taking into account the sanctions regimes of the NSDC (National Security and Defense Council) of Ukraine, the UN, the EU, the USA (OFAC), the United Kingdom (OFSI), and other jurisdictions relevant to the implementation of cooperation programs with donors and creditors;
- measures to prevent fraud and corruption in accordance with donor requirements and the Anti-Corruption Program of the NDI; ensuring the functioning of a whistleblower protection mechanism;
- monitoring compliance with the covenants of agreements with international partners and donors, as well as formulating and executing action plans to rectify identified non-compliances;
- monitoring compliance risk within the relationships of the NDI with partner institutions, counterparties, and donors, including evaluating their compliance with financial monitoring requirements, sanctions restrictions, and the reputational standards of the NDI;
- monitoring the protection and processing of personal data in accordance with the legislation of Ukraine.

7.2.5. The NDI ensures the timely identification and measurement of compliance risk in order to select an appropriate method for its management. The identification of compliance risks is conducted utilizing information obtained from the following sources:

- a mechanism for confidential reporting of inappropriate conduct / violations in the activities of the NDI;
- the operational risk event register (in terms of events possessing a compliance component);
- appeals, claims, and inquiries from partner institutions, counterparties, and third parties;
- reports based on the results of internal audit reviews and external auditors (including donor auditors);

- inquiries and requirements from regulatory and oversight authorities (NBU, Ministry of Finance, NACP, State Financial Monitoring Service, and other authorities);
- results of own monitoring of legislation and covenants;
- results of thematic compliance reviews;
- other information obtained by the Chief Compliance Manager in the course of performing their functions.

7.2.6. The obtained information is accumulated and systematized by the Chief Compliance Manager in the register of compliance incidents and risks in accordance with the internal documents of the NDI for subsequent analysis and compliance risk management.

7.2.7. When measuring the level of compliance risk, the NDI also utilizes the following indicators: impact on the reputation of the NDI; probability of compliance risk materialization; assessment of the effectiveness of existing controls; and the probability of breaching donor and creditor covenants.

7.2.8. The assessment of compliance risk is conducted on a regular basis (at least quarterly) and on an ad-hoc basis—in the event of significant amendments to legislation, the introduction of new programs, the detection of incidents, or upon receipt of inquiries/demands from regulators and donors.

7.2.9. The Chief Compliance Manager conducts, on a continuous basis, monitoring of compliance by the NDI with the requirements of the legislation of Ukraine, internal documents, sanctions regimes, and donor covenants.

7.2.10. The key instruments for compliance risk monitoring are:

- legislative monitoring — systematic tracking of changes in legislation and evaluation of their impact on NDI processes;
- compliance tracking with donor and creditor covenants — tracking the status of fulfillment of each covenant, specifying the responsible department and the deadline for execution;
- key compliance risk triggers — the percentage of timely completed compliance training, the number of open compliance incidents, deadlines for covenant execution, the number of inquiries from regulators, and the execution level of the compliance monitoring plan;
- compliance incident register — accounting of identified violations, deadlines, and the status of their remediation;
- sanctions screening of partner institutions, their ultimate beneficial owners, and connected/related parties prior to and during the course of cooperation.

7.2.11. The Chief Compliance Manager ensures regular reporting on the status of compliance risk management:

- quarterly compliance report — submitted to the Management Board and the Supervisory Board (Risk Committee), containing information on monitoring results, identified risks, incidents, status of covenant fulfillment, and measures taken to eliminate violations;
- annual compliance report — an expanded report for the Supervisory Board covering an overall assessment of the compliance risk level, results of thematic reviews, an evaluation of the effectiveness of the compliance risk management system, and the plan for the upcoming year;

- extraordinary/ad-hoc reports — submitted in the event of detecting a material incident, receiving a regulatory inquiry, breaching a covenant, or other events requiring immediate attention from the management bodies;
- reports to donors and creditors — within the timeframes and in the forms prescribed by the covenants of the respective agreements.

7.3. Liquidity Risk

7.3.1. The NDI defines liquidity risk as the risk of incurring losses due to the inability to meet its obligations in a timely manner as they mature. The NDI segregates liquidity risk into:

- liquidity funding risk, which arises if obligations cannot be fulfilled due to the inability to obtain financing in a timely manner;
- market liquidity risk, which arises if the NDI is unable to sell or convert assets into a liquidity reserve (buffer) equivalent to cash equivalents without a discount (the recognition of substantial losses).

7.3.2. The NDI accepts liquidity funding risk arising from the maturity mismatch between obtaining financing and lending. Liquidity risk is mitigated by maintaining an adequate buffer of liquid assets by the NDI. For the purpose of financial risk diversification and liquidity buffer maintenance, the NDI may allocate free liquidity (temporarily available funds); the procedure for conducting such operations is established by a separate document of the NDI.

7.3.3. For the purpose of risk diversification and effective liability management, the responsible units of the NDI perform:

- monitoring and analysis of the structure of the resource base to determine the level of free liquidity and the possibility of allocating funds into financial instruments;
- monitoring of the current state of assets and liabilities to determine the level of liquidity gaps, as well as interest rate, currency, and other risks;
- monitoring and control of risks regarding the execution of approved short-term and long-term budgets, plans, and strategies, based on the results of which corrective measures are implemented.

7.3.4. The NDI strives to diversify its resource borrowings in terms of currencies, maturities, instruments, and investor types to avoid excessive reliance on individual markets and funding sources.

7.3.5. Risk tolerance for market liquidity risk is low; this risk is mitigated by maintaining a high-quality and sufficient short-term liquidity buffer. The presence of a robust liquidity reserve allows the NDI to carry out its core activities even under severe market stress conditions.

7.3.6. The RAC Unit develops and submits to the Management Board, for further review by the Risk Committee, and—if deemed acceptable—to the Supervisory Board for approval, regular reports on the liquidity position and compliance with approved limits and targets. The management of the liquidity position and compliance with established exposure limits are overseen by the structural unit of the first line of defense and are regularly monitored by the ALM Department in accordance with the internal documents of the NDI.

7.3.7. The need for liquidity across various time horizons is determined based on a sensitivity analysis of future cash flows prepared by the relevant department of the NDI. The key metric applied is the survival horizon, which measures how long the NDI is capable of meeting its obligations under stress events. The scenario for the sensitivity analysis of future cash flows may include, inter alia, assumptions regarding delayed repayment of loans granted by the NDI to partner institutions (PIs), restrictions blocking access to market funding, premature termination of financing operations, and a significant decrease in the value of assets included in the liquidity buffer, in accordance with the internal documents of the NDI.

7.3.8. The NDI shall place temporarily available funds in line with corresponding ordinance, to insure commitments to obligations. These funds may be not allocated into targeted financial instruments).

7.3.9. The procedure for calculating liquidity risk and scenario sensitivity analysis is defined by a separate document of the NDI.

7.4. Market Risk

7.4.1. Market risk management is structured to ensure timely identification, assessment, monitoring, and control of the impact of potential changes in market factors (specifically, interest rates, exchange rate fluctuations, and the value of financial instruments) on the value of the Institution's assets and liabilities when making decisions regarding fundraising, investing, capital market operations, and foreign currency transactions.

7.4.2. The NDI monitors the foreign currency position in all relevant currencies present on the NDI's balance sheet on a regular basis.

7.4.3. The RAC Unit calculates the level of expected losses resulting from exchange rate changes and analyzes changes in the foreign currency position when reviewing an investment proposal of a FI (Financial Institution / Partner Institution), modeled taking into account the provision of the proposed loan and the substantiation of the exchange rate forecast.

7.4.4. Foreign exchange risk management measures include, in particular, the development of hedging strategies. The NDI may consider the possibility of hedging by entering into contracts with derivative financial instruments, such as utilizing forward contracts, options, swaps, and entering into agreements with foreign creditors to compensate for losses from the depreciation of local currency.

7.4.5. Other means of mitigating foreign exchange risk may include the diversification of foreign currency operations, foreign exchange risk insurance, as well as managing the maturity of active and passive operations in various currencies; the inclusion of clauses in loan agreements regarding the periodic review of the interest rate on a financial instrument; the introduction of a variable component to the base rate for FIs with a higher credit risk class, but with the possibility of increasing the interest rate in the event of a significant deterioration in the internal risk rating; the temporary suspension of loan issuance in a specific currency and the corresponding deferral of Euro-to-Hryvnia conversion in the event of increased exchange rate volatility; conducting Euro-to-Hryvnia conversion immediately prior to providing a loan to a FI; and balancing resource mobilization in a specific currency under new programs.

7.4.6. The procedure for calculating foreign exchange risk and scenario sensitivity analysis is determined by a separate document of the NDI.

In the NDI, interest rate risk arises from differences in the structure and terms of interest rate contracts between the assets and liabilities of the parties. Thus, the measurement of interest rate risk consists in calculating the mismatches (gaps) between interest-bearing assets and liabilities (which generate interest income and interest expenses, respectively) and changes in interest rates over time.

7.4.7. Interest rate gap analysis assesses the mismatch between assets and liabilities sensitive to changes in market rates based on their residual maturity periods or the next rate repricing opportunity, depending on whichever occurs earlier and/or the terms of agreements between the parties. The repricing gap analysis must be performed separately for each currency of the NFI's balance sheet.

7.4.8. The Management Board of the NDI determines measures for adjusting gaps to reduce the impact of interest rate risk on the operations of the NDI, which, in particular, may include:

- changing the structure of positions with fixed and floating rates;
- changing the maturity terms of assets and liabilities in EUR and/or UAH;
- attracting and placing new financial instruments;
- adjusting the level of interest rates or reviewing interest rates.

7.4.9. In order to reduce interest rate risks in borrowings, the NDI adheres to the principle of alignment of interest calculation methods (variable/fixed interest rate), and the weighted average maturity of credit instruments (assets) must be earlier than the weighted average maturity of liabilities; it also adheres to the principle of full cost recovery (the placement rate is not lower than the resource rate). Instruments for interest rate risk management include those available for the Ukrainian market, in particular: financial derivatives (swaps, futures, options); balance sheet strategies (matching of assets and liabilities, diversification, matching of maturity dates and rate repricing); analytical models (duration, gap analysis, stress testing, net interest income modeling).

7.4.10. The procedure for the analysis and calculation of the Institution's market risks is determined by a separate internal document of the NDI.

7.5. Operational Risk

7.5.1. The NDI defines operational risk as the probability of incurring losses, additional expenditures, or shortfalls in planned revenues resulting from deficiencies or errors in the organization of internal processes, flaws in the internal control system, disruptions in the operation of information systems, intentional or unintentional actions of NDI employees or other persons, as well as due to the impact of external factors. Operational risk is inherent in all types of NDI activities, its business processes, products, services, information systems, and changes made to them.

7.5.2. Operational risk management is carried out taking into account the need to distinguish it from compliance risk. Events that simultaneously contain signs of operational and compliance risk are subject to coordination between the RAC Unit and the compliance function in accordance with the internal documents of the NDI. The operational capacity of the NDI is taken into account, in particular the adequacy and quality of human resources, the level of development and reliability of the IT infrastructure, the efficiency of internal processes, and the ability of the management system to ensure the scalability of activities.

7.5.6. Operational risk management focuses primarily on preventive measures to ensure adequate internal control, business continuity, reliability and integrity of information, development of competent personnel who adhere to established rules and procedures, protection of the life and health of employees and third parties, as well as the protection of the NDI IT infrastructure.

7.5.4. Types of operational risk may include, in particular: internal fraud; external fraud; violations of occupational safety requirements; risks related to stakeholders, products, and business practices; losses from damage to physical assets; disruption of NDI operations due to internal system failures; and risks associated with the design and management of internal processes.

7.5.5. Operational risk encompasses, among other things, information and communication technology (ICT) risk and information security risk. Management of these components of operational risk is carried out in view of the internal documents of the NDI that regulate ICT management, cybersecurity, information protection, and physical security of equipment.

7.5.7. Data on operational risk events (incidents) are collected, recorded, and systematized for the purpose of analyzing the causes, consequences, and formulating conclusions and proposals for mitigation measures. Operational risk events are classified and reflected in the operational risk event register in accordance with a separate internal document of the NDI.

7.5.8. Operational risk assessment is conducted at the level of all business processes, systems, and changes within them. Process owners, supported by the RAC Unit, identify potential risks or threats to the effective functioning of processes, assess the likelihood and consequences of their realization, as well as the effectiveness and sufficiency of existing control measures.

7.5.9. Operational risk assessment is also carried out prior to the introduction of new or significantly modified products, services, processes, information systems, counterparty interaction models, as well as when making decisions regarding the outsourcing of functions or substantial changes to the terms of such outsourcing. Such an assessment must ensure the timely identification of operational risk sources, the determination of necessary control measures, and, if necessary, the escalation of the issue for consideration by the authorized management bodies of the NDI.

7.5.10. The NDI distinguishes within operational risk the security of IT infrastructure, including cybersecurity, and the physical security of personnel and equipment. The NDI ensures business continuity and applies crisis management methods to limit the negative impact of incidents and disruptions through timely response and rapid recovery of critical processes.

7.5.11. In the event of a significant operational risk event, the NDI ensures its timely recording, analysis of causes and consequences, definition of corrective and preventive measures, as well as escalation of information to the Management Board, and in cases specified by the internal documents of the NDI — to the Risk Committee and the Supervisory Board.

7.5.12. To ensure business continuity, the NDI maintains an action plan, which, in particular, defines the objectives, triggers for activating continuity and recovery plans, responsibilities and management structure for business continuity, crisis management, procedures for responding to incidents or prolonged operational disruptions, and the course of action during crisis situations.

7.5.13. Information and communication technology risk, as a component of operational risk, is associated with the probability of incurring losses, additional expenditures, or shortfalls in planned revenues resulting from the malfunction, deficiency, inadequacy, or non-compliance of information technologies with the needs of the NDI, which may lead to a disruption of the stable functioning of the NDI or deficiencies in the organization of the management of such technologies.

7.5.14. Information security risk, as a component of operational risk, refers to the probability of incurring losses, additional expenditures, or shortfalls in planned revenues resulting from a breach of confidentiality, integrity, or availability of data in the NDI's information systems, deficiencies in the organization of internal processes, or the occurrence of external events, including cyberattacks or insufficient provision for the physical security of equipment.

7.5.15. Key risk indicators (KRIs) for operational risk function as an early warning system and help to timely identify potential problems in processes, personnel, systems, and the external environment before they lead to significant losses or materially affect the NDI's operations. Operational risk event scenarios aim to analyze the most severe potential events, quantify their impact, and develop control measures. Historical and hypothetical assumptions are utilized to construct these scenarios. Based on the results of such analysis, the RAC Unit, supported by IT and other structural units, develops a list of preventive measures and/or mechanisms to overcome consequences for consideration by the authorized management bodies of the NDI.

7.5.16. The procedure for calculating operational risk and scenario sensitivity analysis are determined by a separate internal document of the NDI.

7.6. Environmental and Social Risks

7.6.1. Environmental and social risks (E&S risks) consist of:

- environmental risk associated with the impact of the core activities of the NDI on the environment;
- social risk associated with the impact on social factors, including, in particular, inequality (gender, social, religious, etc.), threats to health and safety, harmful and/or hazardous working conditions, non-compliance with human rights, etc.

A specific type of environmental risk is climate risk, which includes: (i) physical risks arising from physical events and the consequences of climate change, (ii) transition risk arising from the failure of the NDI's strategy or business model to adapt to the transition to a low-carbon, climate-resilient, or circular economy.

7.6.2. The NDI has approved the Environmental and Social Management System (ESMS) Manual, which includes internal procedures and the E&S policy. A separate structural unit responsible for the implementation of E&S standards has been established within the organizational structure of the NDI.

7.6.3. Analysis of E&S risks is a component of assessing an institution's eligibility for partnership. Reporting by PIs on E&S risks includes identifying potential violations of E&S standards, presenting information on risk mitigation measures taken, and evaluating their effectiveness. The NDI prepares regular reports for donors and creditors, as well as an annual sustainable finance report (compliance with E&S standards), which is submitted for the information of the Supervisory Board and for publication on the NDI website.

The procedure for managing environmental and social risks is determined by a separate document of the NDI.

7.7. Reputational Risk

7.7.1. Reputational risk refers to the risk arising from a possible negative perception of the NDI by stakeholders and other persons, caused by the activities of the NDI, the conduct of NDI employees, or external events, and which may thereby damage the value of the NDI's image, affect its normal operations, or even affect the stability of the financial and social spheres.

7.7.2. In managing reputational risks, the NDI is guided by the following principles:

- **forward-looking approach** – regular review of the reputational risk management situation in order to improve predictability in management;
- **proportionality** – application of a multi-level and differentiated management approach proportional to the scale of the NDI's activities, operational status, risk profile, and systemic importance;
- **full coverage** – inclusion of reputational risk management into the comprehensive risk management system with a key emphasis on corporate governance for protection;
- **effectiveness** – proactive assessment and forecasting of risk prevention, effective resolution of issues, and image recovery as the main criteria for reputational risk management, as well as the creation of a reasonable, timely response to reputational events.

7.7.3. The ACR unit assesses the relevant risks, controls their level and prepares appropriate reporting for management bodies. The NDI unit entrusted with communication functions shall be responsible for monitoring reputational events related to NDI image and coordinating measures approved by the management of the NDI. The communications and stakeholder engagement support risk management by ensuring timely and correct communication regarding risks, decisions, and activities of the NDI.

7.7.4. In working with financial institutions and other partners, the NDI pays special attention to their business reputation, as a poor reputation may affect the reputation of the NDI and its image. In particular, the internal document of the NDI regulating the eligibility criteria for financial institutions provides, inter alia, for the analysis of the ownership/control structure, transactions with actual and officially recognized related parties, and the business reputation of owners, ultimate controllers, and senior executives.

7.7.5. In assessing the eligibility of partner institutions, the NDI (the RAC unit, chief compliance manager, and program management units) shall be obliged to take into account any additional requirements or eligibility criteria that may be established by donors/creditors under specific programs/projects.

7.7.6. The key triggers (indicators) of reputational risk shall be determined by a separate document of the NDI.

8 Risk Control and Monitoring

8.1. Control measures are integrated into all levels of the NDI's business processes and represent a wide range of actions such as approval, authorization, verification, reconciliation, analysis of operations, and segregation of duties. Responsibility for analyzing and determining the necessity and expediency of additional control measures is vested in the first line of defense (process owners). The RAC unit, as a representative of the second line of defense, performs control actions and participates in the development of control measures and risk management measures, taking into account, inter alia, the comments of the internal auditor.

8.2. Conclusions on the results of the NDI risk analysis are formed on a regular basis in the NDI risk reports and are accompanied by proposals for response measure, and if expedient to develop the mitigation plan. A Risk Report is a document that provides information on the results of risk monitoring, analysis of their actual and potential impact on the NDI's activities, and is used as a tool for senior management, the purpose of which is to help understand and manage the overall risk profile of the NDI.

8.3. After the approval of risk management measures by the authorized management body of the NDI, the RAC Unit shall monitor the implementation of the measures in compliance with the established deadlines.

8.4. Risk reporting is based on the following principles:

- **Completeness** – coverage of all possible risks that may affect activities.
- **Accuracy and reasonability** – data must be accurate, verified, and have a clear source.
- **Timeliness** – provision of reports within deadlines that allow for a timely response to risks.
- **Relevance** – focusing on those risks and indicators that are important for a specific management level.
- **Transparency and clarity** – information must be presented in an accessible form, without unnecessary complexity.
- **Comparability** – the possibility of comparing data over time and across units/projects.
- **Adaptability** – the ability to change the format and content of reports depending on changes in the risk profile and/or strategy.

8.5. The NDI Risk Report shall contain information regarding:

- The current state of the banking sector;
- Macroeconomic indicators;
- The NDI risk profile, in particular by material types of risks;
- Compliance with the NDI's risk appetite;
- Monitoring of the financial condition of PIs, compliance with contractual terms and established covenants;
- Risk management proposals: information is displayed regarding proposals and a list of risk management measures that the NDI may apply to mitigate identified signs of risks. Such proposals are provided on an ad hoc basis relative to the identified risks.
- In the event of significant deviations from the established risk management processes, such information is also reflected in the NDI Risk Report;
- In the case of updates to legislative requirements (Ukrainian and international) regarding risk management that may have an impact on the activities of the NDI or partner institutions, such updates are also reflected as part of the NDI Risk Report.

8.6. The RAC Unit prepares the risk report and submits it for consideration to:

- The Management Board of the NDI on a quarterly basis. If necessary, the RAC Unit may at any time initiate the consideration of issues regarding identified risks by the Management Board;
- The Risk Committee and the Supervisory Board on a quarterly basis.

8.7. Internal audit of the risk management system is carried out within the framework of the evaluation of the internal control system in accordance with the internal audit plan approved by the Supervisory Board of the NDI.

8.8. The Supervisory Board reviews the NDI Risk Report, takes note of the Risk Report, and may, if necessary, provide recommendations and/or specific assignments.

9 Final Provisions

9.1. The Risk Management Policy of the NDI is established for an indefinite period and enters into force from the moment of its approval by a decision of the Supervisory Board.

9.2. This Policy shall be reviewed at least once a year, as well as in the event of:

- relevant amendments to the legislation of Ukraine, regulatory acts of the National Bank;
- amendments to the Charter of the Institution relating to this Policy;
- significant changes in the activities of the Institution, its organizational structure, types of services, types of risks;
- receipt of recommendations from the National Bank or other authorized state authorities;
- identification of significant deficiencies in the functioning of the risk management system based on the results of internal audit, external audit, or control measures of the National Bank;
- necessity in view of compliance with requirements determined by agreements with international partners and donors that require amendments to the internal documents of the Institution.

9.3. In the event of non-compliance of any part of the Policy with the current legislation of Ukraine, including in connection with the adoption of new legislative acts of Ukraine, the Policy shall be effective only in that part which does not contradict the current legislation of Ukraine.