

SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT 2021



Zagreb, July 2022

Contents

Statement by the Management Board	5
Sustainable and Responsible Financing in the Focus of the EU	7
EU Taxonomy	10
Role of the European Banking Authority (EBA)	12
More than 270 Banks Endorsed the Principles for Responsible Banking	13
HBOR Social Responsibility and Sustainability	15
Our Environment.....	15
Framework for the Assessment of HBOR’s Material Impacts	19
Satisfaction of Clients.....	24
Ensured Continuity of Support through Regular Programmes and Programmes under the COVID-19 Measures.....	24
Digitalisation of Loan Applications.....	24
Measuring Impacts of Projects.....	24
Regional Presence in Croatia through Regional Offices	25
Transparency.....	26
Financing Support for Entrepreneurship and Development.....	28
Mitigation of Negative Effects of the COVID-19 Pandemic on the Economy	28
Support to Innovative Companies through the Fund FRC2 Croatia Partners.....	30
CROGIP	31
Technology Transfer Fund	31
The Three Seas Initiative Investment Fund.....	31
Financial Instruments	32
Helping Enterprises Access Liquidity – HEAL	34
Support to Exporters and Export Credit Insurance.....	35
Financing Support for Climate and Environmental Protection.....	36
Continued Successful Implementation of ESIF Loans for Energy Efficiency	37
Case Studies NCFE, ELENA and EIAH	38
In Dialogue with Employees	43
Communication with Employees	43
Benefits.....	44
Gender Equality.....	45

Employee Development..... 48

Evaluation of Work Performance 49

Occupational Health and Safety 50

Environmental Impact..... 52

 Waste 52

 Energy 54

Corporate Governance 55

 Governance Bodies 55

 Compliance Monitoring..... 57

 Public Disclosure of Activities 57

 Anti-Corruption..... 58

 Prevention of Money Laundering and Terrorism Financing 60

Local Communities 61

 Sponsorships and Donations 61

Organisational Profile 62

 Values 63

 Overview of the Most Significant Financial Information of HBOR..... 65

 Memberships..... 67

 Stakeholders..... 70

 Reporting Practice 71

 GRI Table of Contents..... 72

Statement by the Management Board

Dear Madam/Sir,

HBOR's Social Responsibility and Sustainability Report provides an overview of HBOR's activities and initiatives in 2021 in the field of sustainability and sustainable finance.

HBOR's operations in 2021 were marked by the continuation of activities related to the mitigation of negative consequences of the COVID-19 pandemic on the operations of Croatian business entities. Data at the end of 2021 indicate that more than 70 percent of all loans approved to entrepreneurs under COVID-19 Measures were supported by HBOR's measures: loan programmes or credit insurance programmes. This share and the significance of HBOR's role in supporting the sustainability of operations of Croatian entrepreneurs gain particularly in importance if we consider that HBOR employs only 2 percent of the total number of employees in the Croatian banking system, in which HBOR's assets account for 5.4 percent of the total assets.

In addition to approvals under the COVID-19 Measures, HBOR continued to implement all its existing loan programmes and export credit insurance programmes, to finance equity and develop new products and services.

In cooperation with the relevant ministries and competent authorities of the Republic of Croatia, HBOR was an active participant in the preparation of the National Recovery and Resilience Plan - NRRP (under the Recovery and Resilience Facility - RRF) during 2021.

Encouraging competitiveness and internationalisation, balanced regional development and sustainable climate-neutral and energy-neutral economy as well as development of equity capital market have been defined as key areas in HBOR's 2020-2024 Business Strategy, and HBOR will implement financial instruments in the total amount of HRK 1.925 billion under the NRRP in order to promote these areas. In the first half of 2022, HBOR started with the implementation of financial instruments in the total amount of HRK 1.1 billion, which enabled favourable financing of new private and public sector investments aimed at strengthening the competitiveness and resilience of the economy as well as encouraging the transition to the green and digital economy. HBOR will, through the funds of the NRRP, in addition to already available favourable loans, also enable the use of guarantees, whereas part of the funds will be directed to the development of new venture capital funds.

It is important to emphasise that every project that uses NRRP funds must satisfy the Do No Significant Harm principle in terms of exclusion of ineligible activities and verification of sustainability and must comply with the relevant EU legislation.

Namely, in 2021, Europe, as the leader of the global fight against climate change, continued to resolutely implement its climate goals. Thus, it made the goal of reducing emissions by at least 55 percent by 2030 (compared to 1990 levels) and the goal of climate neutrality by 2050 legally binding through the adoption of a complex legislative climate package.

This ambition is parallely followed by the financial sector through its support for the Sustainable Development Goals and the financing of the transition towards a climate-neutral, resilient, resource-efficient and fair economy. In response to new regulatory requirements, members of both the domestic and international financial communities have placed climate action/fighting climate change high on their list of strategic priorities in 2021. Banks, including HBOR, undertake a series of activities in order to respond to the demands of regulators and funding sources and direct financing to those investments that reduce exposure to climate and environmental risks.

Our role, as the development and export bank of the Republic of Croatia, is to support the green transition and thus ensure financial stability, sustainable and inclusive growth. In addition to new financial instruments under the NRRP, our journey towards sustainable financing through systematic alignment with the comprehensive EU Green Agenda and the Paris Climate Agreement began in 2021 through the activities of the sustainable financing project called: "Reorient HBOR's Operations Towards Sustainable Financing and Green Transition", which was financially supported by the European Union through the funds under the DG REFORM Technical Support Instrument. We aim to develop innovative financing solutions and strategies in order to achieve positive environmental and climate results but also co-benefits on wider society through, for example, reducing inequality, encouraging gender equality, youth employment or improved health. Therefore, the main focus of our efforts is to lay the foundations of the financial infrastructure through which we will support the transition of our clients. We will introduce the activities aiming to adjust internal sustainability data collection systems, select key indicators of environmental, social and governance factors to be included in decision-making procedures, and develop new, sustainability-related products and services.

In addition, during 2021, we aligned our procedures with professional and regulatory standards in the field of lending and export credit insurance by the state as prescribed by the Organisation for Economic Cooperation and Development (OECD), and, following stakeholder requests, we took additional steps in the field of transparency.

By the mid-2022, HBOR joined the Croatian Business Council for Sustainable Development – HRPSOR, an association founded by leading Croatian businessmen to encourage sustainable development in the economy and represent the economy in sustainable development. HBOR has been monitoring and supporting the activities of HRPSOR since 2008, and, by becoming a member, HBOR became able to further strengthen expertise and cooperation with the domestic business community that is active in this area.

HBOR will continue to operate responsibly and in accordance with the universal principles of sustainability of the UN Global Compact in the field of human rights, labour, environment, and fight against corruption in the period to come and will regularly report on the progress achieved in the implementation of these principles. HBOR will provide support to the activities of the local network of members of the UN Global Compact Croatia and of the social community in which it operates and will actively contribute to the achievement of the Sustainable Development Goals by 2030.

Sustainable and Responsible Financing in the Focus of the EU

Reorienting capital flows towards sustainable investments

The Action Plan on Financing Sustainable Growth, by which the EU intends to reorient capital flows towards sustainable investments, was adopted in 2018. In 2019 and 2020, the EU operationalised individual action areas defined by the Action Plan and took significant steps towards developing a sustainable financial system. Through the adopted EU Taxonomy, investors and companies are given a basis for making informed decisions on investing in economic activities that comply with the EU environmental objectives. With a long-term strategy to combat climate change presented in 2020, the EU and member states have set binding targets for reducing net greenhouse gases by at least 55 percent by 2030 compared to 1990. The EU framework for sustainable finance has a key role in achieving these objectives and supporting a sustainable recovery from the COVID-19 pandemic.

Driven by insufficient sustainability of the financial system in terms of meeting the needs of society, the EU encouraged the adoption of the most comprehensive and demanding measures in the field of sustainable finance. Most of the measures, complex and comprehensive, were driven by the Action Plan on Financing Sustainable Growth¹ (also known as Action Plan on Sustainable Finance), adopted in March 2018. The Action Plan is a part of broader efforts to connect finance with the specific needs of the European and global economies for the benefit of the planet and society and aims to:

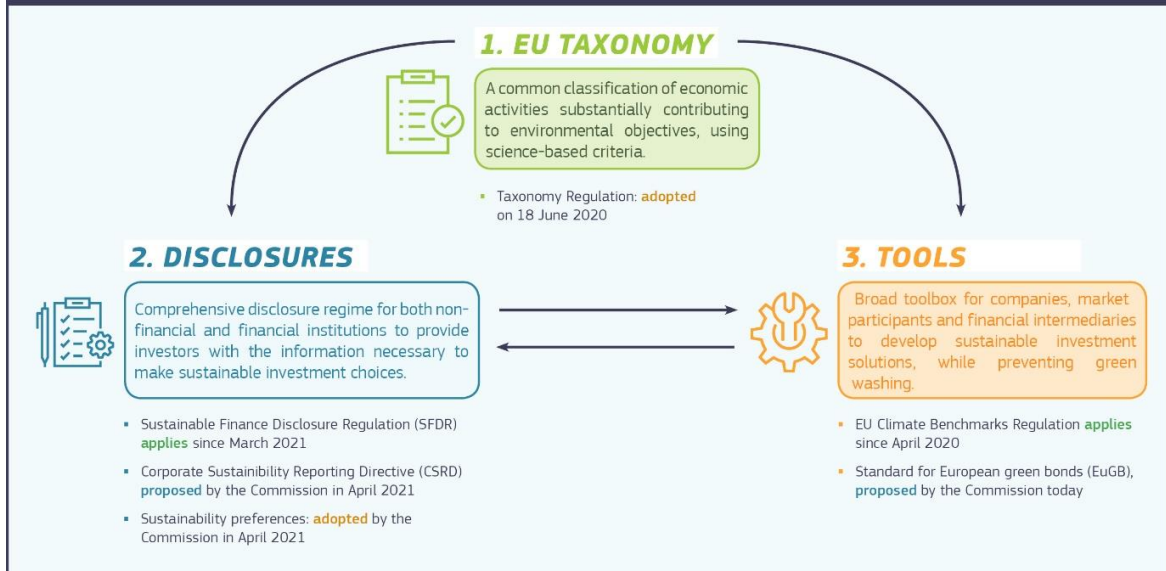
- Reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth,
- Incorporate sustainability into risk management (manage financial risks stemming from climate change, environmental degradation and social issues),
- Foster transparency and long-termism in financial and economic activity.

The Plan has established the following three main components of the framework for sustainable finance:

- 1) System of classification, i.e. “taxonomy” for sustainable activities,
- 2) Disclosure framework for non-financial and financial companies, and
- 3) Investment tools, including reference values, standards and labels.

¹ [Commission action plan on financing sustainable growth](#)

2018: THE FOUNDATIONS OF THE EU SUSTAINABLE FINANCE FRAMEWORK



Source: Communication from the Commission of 6 July 2021 on the Strategy for Financing the Transition to a Sustainable Economy

In March 2020, the EU unveiled its long-term strategy to combat climate change, and the EU and its member states have set binding targets to reduce net greenhouse gases by 2030 by at least 55 percent compared to 1990. In order to achieve the European Green Deal, a number of legislative proposals have been drafted, by which the EU seeks to prepare for the aforementioned reduction of greenhouse gas emissions and the transformation of the economy, society and industry. At the same time, the EU's long-term budget and the accompanying NextGenerationEU recovery package provide funding to support the green transition. Thus, 30 percent of the Multiannual Financial Framework 2021 – 2027 (MFF) is dedicated to climate action, and member states' national recovery and resilience plans must include measures which direct 37 percent of resources to green transition and to combating climate change. Simultaneously, the European Investment Bank (EIB) as the "climate bank of the EU" has taken steps to support this transition.

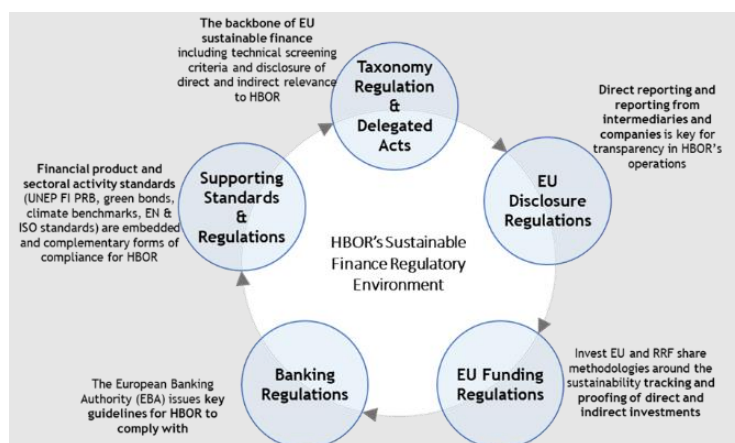
Since 2018, considerable progress has been made in laying the foundations of the sustainable finance framework and building its components. At the same time, the understanding of what is needed to achieve sustainability goals as well as the global context has deepened, so a new phase of the EU's sustainable finance strategy has begun. In this sense, in order for the financial system to support the economy's transition to sustainability, four main areas, in which additional measures will be needed, have been identified in the strategy as follows:

- TRANSITION FINANCE
- INCLUSIVENESS
- RESILIENCE AND CONTRIBUTION OF THE FINANCIAL SECTOR
- GLOBAL AMBITION

The strategy for financing the transition towards sustainable finance solves the challenges of the need for investments in the transition and ensures fair transition as well as adaptation to the global context. The Commission has invited all relevant stakeholders – central banks and supervisory authorities, member states, citizens, local authorities and financial and non-financial companies to take actions in their respective areas and maximise the impact of this strategy.

As one of the stakeholders in the implementation of the Strategy for financing the transition towards sustainable economy, HBOR has taken measures in its field of activity. In the past report, the mapping of regulations on sustainability and the analysis of requirements that apply to HBOR have been announced, and they have been carried out within the project supported by the Technical Support Instrument called *"Reorient HBOR's Operations Towards Sustainable Financing and Green Transition"*². The findings of the performed diagnostic analysis have shown that the following 5 components contained in the EU sustainable finance regulation are the most important for HBOR:

1. TAXONOMY REGULATION AND DELEGATED ACTS
2. EU DISCLOSURE REGULATIONS
3. EU FUNDING REGULATIONS (InvestEU and RRF)
4. BANKING REGULATIONS (EBA implementation guidelines)
5. SUPPORTING STANDARDS (UNEP FI PRB, GBS etc.)



Source: Diagnostic report DG REFORM TSI2021 – HBOR's Sustainable Finance Project

More on the project can be found on page 18 of this Report.

² TSI 2021 Reorient Croatian development bank's (HBOR) operations towards sustainable financing and green transition

EU Taxonomy

EU Taxonomy is a tool to help investors and companies, i.e. a classification system, which will enable them to identify environmentally sustainable economic activities affecting the achievement of a climate-neutral economy and the goals of the Paris Climate Agreement³. The Taxonomy defines a list of economic activities with key criteria for assessing their contribution to the environmental objectives:

1. Climate change mitigation,
2. Climate change adaptation,
3. Sustainable use and protection of water and marine resources,
4. Transition to circular economy,
5. Pollution prevention and control, and
6. Protection and restoration of biodiversity and ecosystems.

In order to be considered as Taxonomy aligned, economic activities must meet the following criteria:

- Contribute substantially to at least one of the six environmental objectives,
- Do no significant harm to any other environmental objective,
- Comply with minimum social and governance safeguards,
- Comply with the specific technical screening criteria.



³ The Paris Climate Agreement (French: Accord de Paris) is a climate agreement signed on 12 December 2015 at the 21st session of the Conference of the Parties (COP 21) of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris. The main goals of the agreement are to limit global warming to well below 2°C, ensure food supply, but also strengthen the capacity of countries to fight the effects of climate change, develop new “green” technologies and help weaker, economically less developed members achieve their national plans on emission reductions. The Republic of Croatia ratified the Paris Agreement on 17 March 2017 (Official Gazette, No. 3/2017-16, International Agreements, act).

According to the Taxonomy, an economic activity is considered to do significant harm in terms of EU's environmental objectives in the following cases:

1. CLIMATE CHANGE MITIGATION – if the activity leads to significant greenhouse gas emissions
2. CLIMATE CHANGE ADAPTATION – if the activity leads to an increased adverse effect of the current climate and the expected future climate on the activity itself, or on people, nature, or property
3. SUSTAINABLE USE AND PROTECTION OF WATER AND MARINE RESOURCES – if the activity is detrimental to the good condition or good ecological potential of water bodies, including surface water and groundwater, or to the good environmental status of marine waters
4. CIRCULAR ECONOMY, including WASTE PREVENTION and RECYCLING – if the activity leads to significant inefficiencies in the use of materials or in the indirect or direct use of natural resources or if the activity leads to a significant increase in waste generation, incineration or disposal, or the long-term waste disposal may cause significant and long-term damage to the environment
5. POLLUTION PREVENTION AND CONTROL – if the activity leads to a significant increase in emissions of pollutants into the air, water, or soil
6. PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS – if the activity is significantly detrimental to the good condition and resilience of ecosystems or is detrimental to the conservation status of habitats and species, including those of the EU interest.

The EU Taxonomy contains key definitions for identifying environmentally sustainable economic activities. In the conditions of market development that is rapidly adopting the concepts of sustainable finance, HBOR is expected to follow this development and to use the EU Taxonomy as a classification tool, even though HBOR as a development bank is not falling under explicit compliance obligations. Under the current set of regulations, financial institutions should begin reporting on their alignment with the Taxonomy in 2024, by which time the necessary data for 2023 should be available.

Role of the European Banking Authority (EBA)

On 6 December 2019, the European Banking Authority⁴ (EBA) published the EBA Action Plan on Sustainable Finance⁵ outlining its approach and timeframe for fulfilling the mandates related to environmental, social and governance factors (ESG factors) that increasingly gain importance in financial markets due to climate change, public sector activities and society as a whole. Therefore, according to the EBA, it is crucial that financial institutions can monitor and measure ESG factors in order to manage transition risks and physical risks. Transition risk is the borrower's risk arising from the transition of the current economy to a low-carbon and climate-resilient economy, and it may include political risk, legal risk, technological risk, market risk and reputational risk. Physical risk is the borrower's risk arising from physical changes that can cause climate changes such as storms, floods, fires, long-term climate change, rising of sea levels, water availability and more. As the manifestations of these risks are still uncertain, the EBA has encouraged financial institutions to start incorporating ESG factors into their business strategies as soon as possible and to start identifying ESG risks and monitoring them by using simple measurement tools such as the green asset ratio (GAR).

The final EBA report on management and supervision of ESG risks for credit institutions and investment firms⁶ was published in June 2021, and the EBA recommends timely incorporation of ESG risks into business strategies, management structure, risk management and supervision. In addition, according to the EBA, the EU Taxonomy is a cornerstone of EU initiatives on sustainable finance, and institutions need to consider how they will use the Taxonomy, taking into account their strategic objectives and regulatory requirements. EU Taxonomy can be used as a tool to classify exposures, product design, engagement activities with clients and for setting of strategic goals and measures aligned with one's own risk appetite. The EBA emphasised that entities subject to the Non-Financial Reporting Directive will need to disclose how and to what extent their activities can be considered environmentally sustainable and in line with the EU Taxonomy and called on institutions to actively consider how the obligation to apply the Taxonomy will consequently affect their business activities. Since 2024, the EBA expects the banks to publish data on their exposure to carbon-intensive activities and assets that may be affected by physical risks arising from climate change. The EBA also proposes the use of BTAR (Banking Book Taxonomy Alignment Ratio) as a key indicator that should disclose information on compliance with climate goals and level of Taxonomy alignment of exposures towards small and medium-sized enterprises and other enterprises not subject to the Non-Financial Reporting Directive disclosure obligations.

⁴ The European Banking Authority (EBA)

⁵ EBA Action Plan on Sustainable Finance

⁶ EBA Report on management and supervision of ESG risks for credit institutions and investment firms EBA/REP/2021/18

More than 270 Banks Endorsed the Principles for Responsible Banking

The United Nations Environment Programme Finance Initiative (UNEP FI) has published a vision of its future activities through the Principles for Responsible Banking. The banking sector has thus been given a comprehensive basis for operation in line with the UN Sustainable Development Goals and the Paris Climate Agreement.

The Principles for Responsible Banking provide a framework for the development of a sustainable banking industry by aligning it with 17 UN Sustainable Development Goals⁷ and the Paris Climate Agreement. They have been developed by the member banks of UNEP FI, 30 of them gathered in a core group, and their implementation has been supported by more than 270 banking institutions worldwide within three years since the disclosure of the principles. Six key Principles for Responsible Banking are as follows:

- **PRINCIPLE 1: ALIGNMENT**
Alignment of the bank's business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and the relevant national and regional frameworks;
- **PRINCIPLE 2: IMPACT AND TARGET SETTING**
Managing the risks to people and environment resulting from the bank's activities, its products and services, while increasing the positive impacts and reducing the negative impacts. Targets should be set for the most significant impacts and made public;
- **PRINCIPLE 3: CLIENTS**
Responsible customer service, all with a view to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations;
- **PRINCIPLE 4: STAKEHOLDERS**
Proactive and responsible consulting, engaging and partnering with relevant stakeholders for the purpose of achieving society's goals;

⁷ In order to eradicate poverty, reduce inequality, protect the planet and ensure progress for all, at the 69th meeting of the UN General Assembly in 2015, 17 Global Sustainable Development Goals (SDGs) were adopted, with 169 targets, in the document "Transforming our World: the 2030 Agenda for Sustainable Development". Although the goals are not legally binding, the UN member states are expected to establish a system for integrating SDGs into national policies and monitoring of implementation through agreed indicators. In 2016, the European Commission prepared the Communication called: "Next steps for a sustainable European future – European action for sustainability" setting out the EU framework for achieving SDGs and implementing the 2030 Agenda.

- **PRINCIPLE 5: GOVERNANCE AND CULTURE**
Incorporation of the Principles for Responsible Banking in the bank's operations and effective governance and a culture of responsible banking;
- **PRINCIPLE 6: TRANSPARENCY AND ACCOUNTABILITY**
Periodic review of individual and collective implementation of the Principles for Responsible Banking and transparent and accountable reporting on positive and negative impacts and contribution to society's goals.

The Principles were officially launched on 22 September 2019, one day ahead of the UN General Assembly, Climate Action Summit in New York. Their implementation by the end of 2021 was endorsed by banks with assets worth more than USD 84 trillion that committed to design financial products and services focused on sustainability with a view to implementing far-reaching changes, including the measuring of impact of economic activities on society and the environment as well as ongoing activities for the development of a sustainable and low-carbon economy.

In the implementation of the Principles, the banks should take the following three main steps:

1. **IMPACT ANALYSIS** – identification of the most significant impacts of the bank's products and services on society, the environment and the economy;
2. **TARGET-SETTING** – setting and achieving measurable targets in the impact areas that are the most significant for the bank;
3. **REPORTING** – public reporting on the progress in the implementation of the Principles and transparency in terms of the impact and contribution.

HBOR | Social Responsibility and Sustainability

Our Environment⁸

After a strong decline in economic activity in 2020 caused by the coronavirus pandemic, 2021 was marked by the recovery of the Croatian economy. Namely, despite the burden of new variants of the COVID-19 virus and price growth pressures caused by global disruptions in supply chains and rising energy prices, the real GDP growth rate in 2021 was 10.2 percent, after a drop of 8.4 percent in 2020. The biggest contribution to the growth of economic activity was from total exports, and the increase in personal consumption also had a positive effect. The results of the tourist season in 2021, measured by tourism revenues, almost reached the record level of the pre-pandemic year of 2019. At the same time, the economic activity in the euro area, after a contraction of -6.4 percent in 2020, recorded a growth of 5.4 percent in 2021.

Consumer price inflation accelerated during 2021 to 2.6 percent compared to 0.1 percent in 2020. The contribution to the acceleration of inflation growth is reflected to the greatest extent in the noticeable increase in energy and crude oil prices in the world market and the difficulties in global supply chains caused by the strengthening of global demand after the closure of economies due to the COVID pandemic. The annual inflation rate in the euro area also accelerated, from 0.3 percent in 2020 to 2.6 percent in 2021.

During 2021, the stability and resilience of the financial system of the Republic of Croatia was preserved. The banking system remained highly capitalised, profitable and liquid. At the same time, the quality of the loan portfolio was not impaired despite the expiration of the moratoriums granted on loans to non-financial companies in response to the coronavirus pandemic.

The credit rating of the Republic of Croatia did not change during 2021. Standard & Poor's and Fitch agencies maintained Croatia's investment credit rating at BBB-, while Moody's agency maintained the rating at one level below investment grade (Ba1). The focus during 2021 was on the process of introducing the euro, that is, on fulfilling all the conditions contained in the Convergence Report.

At the European Union level, for the purpose of recovery from the pandemic, a special financial instrument called "NextGenerationEU" was launched, from which funds began to flow into EU economies from summer 2021. The NextGenerationEU enables member states to invest in the long-term future and the resilience of EU society and the economy to new crises with a strong emphasis on accelerating the green and digital transition.

⁸Source: General Report on the Activities of the European Union in 2021, European Commission Country Report Croatia 2020, 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development, version 2.0, Croatian National Bank, National Recovery and Resilience Plan 2021 – 2026, July 2021.

The main element of the NextGenerationEU instrument is the Recovery and Resilience Facility (RRF), launched in February 2021, which provides grants and loans to support reforms and investments in member states worth up to EUR 723.8 billion (in current prices). The instrument is performance-based as payments are made on the basis of the achievement of agreed key milestones and target values. Therefore, the member states had to submit national plans to the European Commission, which set out the reforms and investments they intend to implement by the end of 2026.

The European Commission had previously estimated that the formation of a complete, long-term vision for improving environmental sustainability, which would encourage transition from a linear to a circular economy, reduce air pollution, improve water supply and sewerage systems and encourage investment in green energy projects, would be crucial for Croatia's further social and economic development. The use of renewable energy sources in transport and better energy efficiency would enable the achievement of sustainable development goals and the common EU goals.

Through the National Recovery and Resilience Plan 2021 – 2026 (NRRP), Croatia was able to utilise grants and loans to finance reforms and related investments totalling almost EUR 10 billion, which were used to accelerate recovery and increase the resilience of the economy and society. Besides, under the Multiannual Financial Framework 2021 – 2027, the amount of EUR 9.6 billion from cohesion, safety and fisheries policies and the amount of EUR 4.76 billion from agricultural policy were allocated to Croatia.

The Croatian National Recovery and Resilience Plan 2021 – 2026 (NRRP) recognises the challenges facing the Croatian economy and society, and the measures proposed by the plan are aimed at achieving smart, sustainable and inclusive growth as well as the implementation of 76 reforms and 146 related investments aimed at building economic, social and institutional resilience. Simultaneously, the plan contributes to the achievement of four general objectives at EU level: promoting economic, social and territorial cohesion in the EU, strengthening economic and social resilience, reducing social and economic effects of the crisis and promoting green and digital transition. The plan was approved by the European Commission in July 2021.

Role of HBOR in the National Recovery and Resilience Plan

In cooperation with the relevant ministries and competent authorities of the Republic of Croatia, HBOR, as the national development bank, participated actively in the preparation of the NRRP.

HBOR's 2020 – 2024 Business Strategy defines the promotion of competitiveness and internationalisation, balanced regional development and a sustainable climate and energy neutral economy as well as the development of equity capital market as key strategic areas. That is why HBOR will implement financial instruments aimed at promoting these areas within the framework of NRRP.

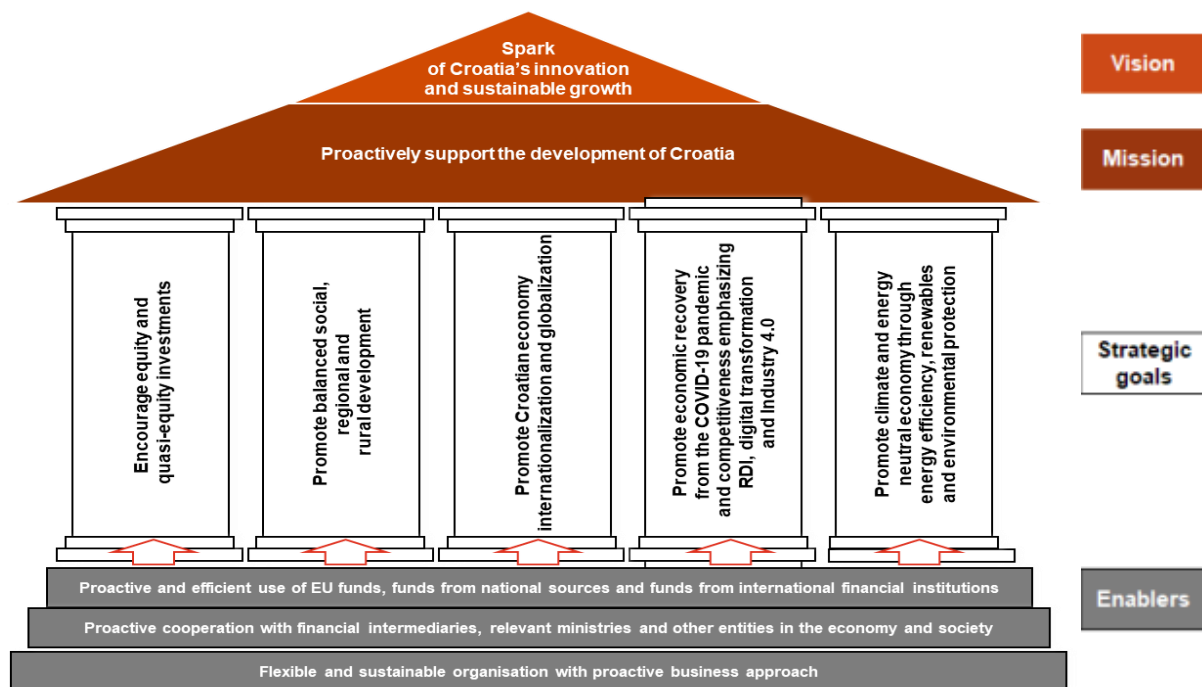
For this purpose, under the NRRP, HBOR is developing several financial instruments totalling HRK 1.925 billion. Financial instruments, to be implemented until 2026, include the following:

- Loans intended for special segments of private sector SMEs
- Interest rate subsidies for the private and public sectors
- Guarantee schemes for mid-caps and large enterprises
- Promotion of the development of new venture capital funds.

The implementation of financial instruments of direct loans and interest rate subsidies in the total value of HRK 1.1 billion started in the first half of 2022. More about financial instruments under the NRRP can be found on HBOR's websites.

2020 – 2024 Business Strategy of HBOR

The Strategy defines the vision of HBOR as the driving force of innovation and sustainable growth of Croatia to be achieved by proactive support to the development of Croatia. Proactive support means active monitoring and identifying the needs of the domestic market and monitoring the changes in international markets as well as constant interaction with various stakeholders. The goal is to timely identify needs that have not been properly identified and estimated and thus act to reduce market failures. In order to achieve the greatest possible positive effects on the Croatian economy and society as well as to reduce negative effects, HBOR has defined five key strategic goals, provided that organisational and process changes have been made.



Source: 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development, version 2.0

Within the framework of the new 2020 – 2024 Business Strategy of HBOR, revised in 2021, in the context of sustainability, HBOR emphasises the following:

- Providing liquidity support to the domestic economy and implementing measures of recovery from the consequences of the COVID-19 pandemic⁹,
- Proactive, systematic and sustainable promoting innovative environment in Croatia,
- Promoting the development of the financial market,
- Promoting sustainable regional, social and economic development,
- Promoting the achievement of economic and other goals of the Government of the Republic of Croatia,
- Achieving the goals of the European Union, 17 sustainable development goals from the UN programme for sustainable development until 2030, and the climate goals determined by the Paris Agreement.

Project: Reorient HBOR's Operations Towards Sustainable Financing and Green Transition, supported under the Technical Support Instrument for Member States

Operational implementation of the Strategy in the context of the harmonisation with the requirements of the sustainability and sustainable finance regulation was started by HBOR by the project called: *Reorient HBOR's Operations Towards Sustainable Financing and Green Transition* (hereinafter: the Sustainable Finance Project).



The Project was supported under the DG REFORM Technical Support Instrument (TSI2021). TSI is the successor to the Structural Reform Support Programme, which has supported more than 1000 reform projects in 27 member states through the provision of expertise since 2017. Under the TSI instrument, projects with an emphasis on green and digital transition have been especially supported since 2021, and HBOR's Sustainable Finance Project is one of 13 projects from Croatia supported in 2021¹⁰.

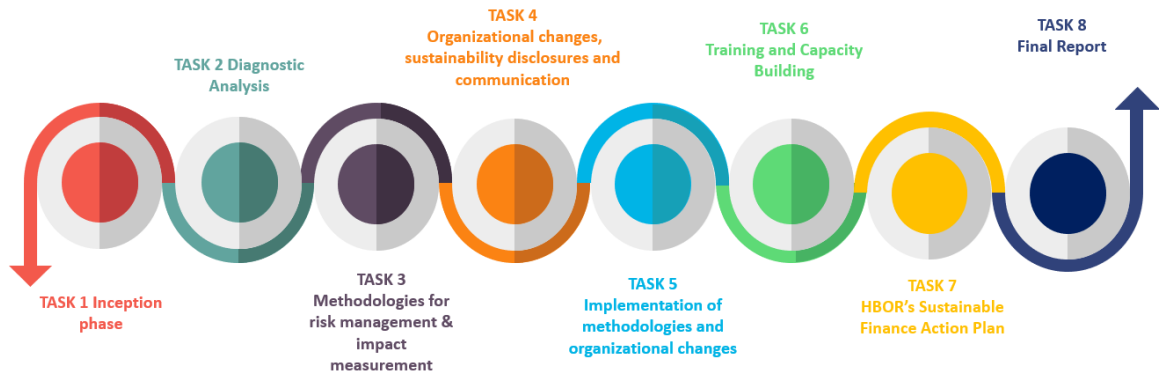
The goal of Sustainable Finance Project is to strengthen HBOR in the following areas:

- Understanding environmental, climate and social risks and their implications for business and
- Developing and implementing a comprehensive set of sustainable financial policies, procedures, tools and benchmarks, which will enable HBOR to systematically assess environmental, climate and social risks and opportunities arising from client/investees' operations to these risks.

⁹ In view of the circumstances caused by the COVID-19 pandemic, the Strategy was amended in 2021 in such a way that the strategic determinant related to the promotion of competitiveness was expanded to include the promotion of economic recovery from the consequences of the COVID-19 pandemic.

¹⁰ The mission of the Directorate General for Structural Reform Support (DG REFORM) is to provide support for the implementation of structural and administrative reforms aimed at increasing growth.

Technical expert support for a total of 18 months will be provided through a holistic approach based on several tasks and deliverables covering diagnostic report, proposal of methodologies for managing ESG risks and impact measuring, proposals of governance, communication and reporting arrangements, capacity building and training as well as creation of HBOR Sustainable Finance Action Plan .



Technical support to HBOR will be provided by experts from an international consortium¹¹ who have competencies in various aspects of sustainable finance.

The project is expected to have a direct impact on and benefits to not only internal but also indirectly external stakeholders of HBOR. The knowledge and skills of HBOR’s employees and management in the areas of sustainable finance and application of the EU Taxonomy and the Technical Guidelines on sustainability proofing for the InvestEU fund will be increased, so that they can support sustainable and transitional projects of Croatian companies and measure and monitor their impacts. At the same time, several other stakeholder groups in Croatia will also benefit – from entrepreneurs and investors to financial institutions and public authorities. Stakeholders will be involved in project activities through consultations and publications of project findings.

The project was officially launched in September 2021, and the expected duration of the project is 18 months, or until April 2023. By June 2022, the Diagnostic Report and the Report on ESG Risk Management and Impact Measurement Methodologies were delivered.

Framework for the Assessment of HBOR’s Material Impacts

The Business Strategy of HBOR is a key starting point for assessing the importance of material impacts of HBOR in the sustainability context. A comprehensive assessment of material impacts was conducted in two steps, as part of the preparation of the sustainability reports for 2019 and 2020 with an expert help from consultants. Thus, in 2019, key material

¹¹ AARC Consortium composed of: FRANKFURT SCHOOL OF FINANCE AND MANAGEMENT, Germany; TRINOMICS, the Netherlands and EKONERG, Croatia

issues for HBOR were first identified, and, in 2020, a survey was conducted to assess the importance of material impacts.

The assessment of HBOR's material impacts covered those impacts that could "lead to stronger economic and social growth, creation of value added and reduction of adverse economic, social and environmental developments at national and regional levels"¹². According to the Principles for Responsible Banking, material impacts are the most significant positive and negative environmental, social and economic impacts in terms of the Sustainable Development Goals, the Paris Climate Agreement and other relevant international frameworks, such as the UN Guiding Principles on Business and Human Rights.

Evaluated material impacts in 2020 were:

- Financing – support for entrepreneurship and development
- Financing – support for climate and environmental protection
- Responsible financing
- Compliance with legislation and European regulations
- Transparency
- Innovations and digital solutions
- Satisfaction of clients
- Dialogue with employees¹³.

The assessment of the relative importance of individual material aspects and of HBOR's approach to managing these impacts was performed by a survey conducted in March 2020 through an online questionnaire that contained 3 groups of questions (groups of questions on: mission and vision, importance of material aspects and sustainable development goals, and general questions – type of stakeholder group and characteristics of respondents). Representatives of several stakeholder groups participated in the survey – clients, non-governmental organisations, domestic and foreign banks, business associations, suppliers and others¹⁴. The findings of the survey were checked in an internal workshop, and based on all the results, a matrix of material impacts was prepared. The evaluation showed that the most important areas of impacts were as follows: Satisfaction of Clients, Transparency and Financing – support for entrepreneurship and development.

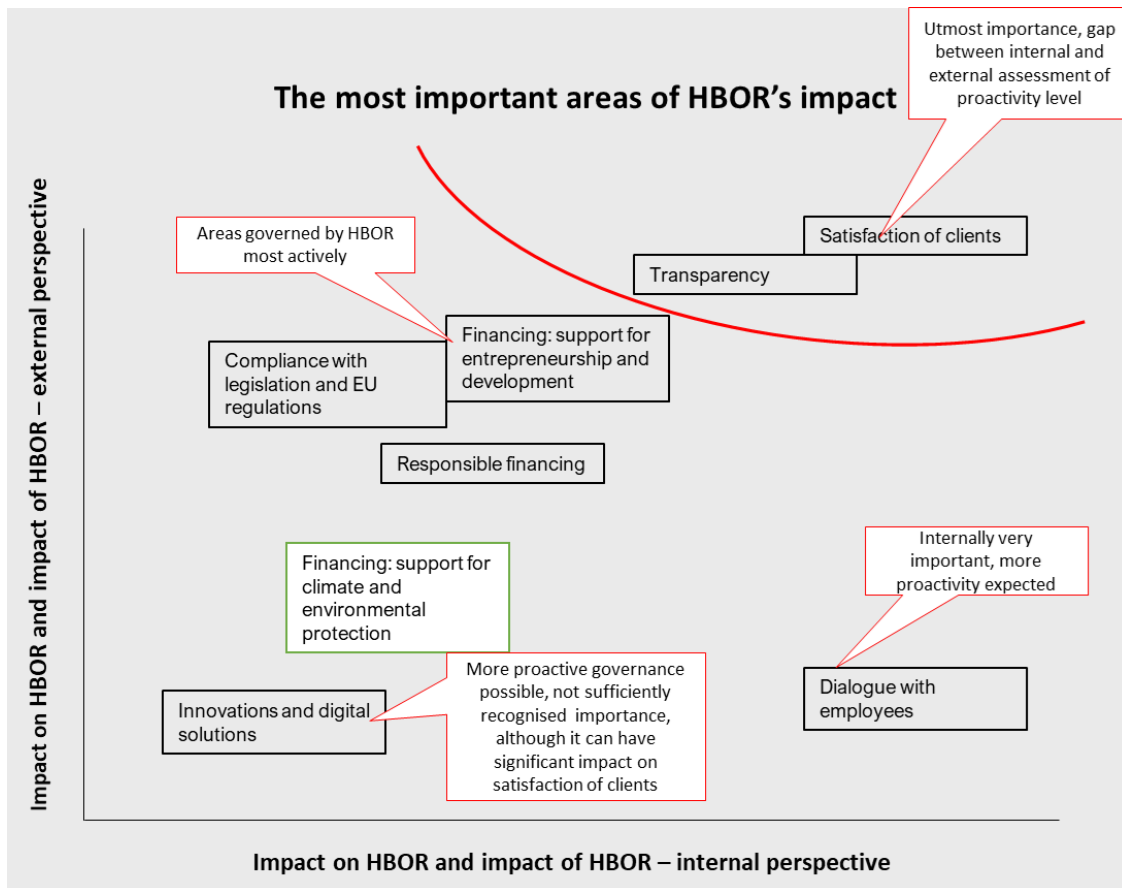
In accordance with the findings of the assessment, HBOR's social responsibility and sustainability reports (for 2019, 2020 and 2021) were structured in the way that the most significant areas of material impacts were described in separate chapters.

¹² 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development (the Strategy)

¹³ 102-47

¹⁴ 102-43

Matrix of Material Impacts of HBOR^{15 16}





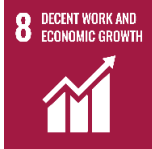





In 2021, no new assessment of material impacts was made, but according to the feedback from internal and external stakeholders consulted under the project tasks of the Sustainable Finance Project from groups of employees and management, financial institutions, public authorities and business associations, it can be concluded that all identified material impact areas not only confirmed, but gained additional importance. Internal stakeholders expressed a great need for and interest in strengthening internal knowledge about the regulatory framework of sustainable finance and the requirements applicable to HBOR, and they recognised the challenges of complying with such requirements. Internal stakeholders were focused on applying practical and achievable methodologies and approaches, by which HBOR could adopt sustainable finance and really support the green transition. At the same time, the management was aware of the opportunities provided by multiple specified-purpose sources of finance available to HBOR – from sources available through special financial institutions, to InvestEU and NRRP. External stakeholders recognised the importance of HBOR's role in the transformation of the Croatian market and in the support to sustainable economic activities and clients who needed finance, as well as the challenges of such a reorientation.

¹⁵ 102-44

¹⁶ 102-47

Clear Link Between HBOR’s Strategic Direction and Sustainable Development Goals

The survey of the assessment of relative significance of individual material impacts conducted in 2020 confirmed that there was a clear link between the sustainable development goals (Goals 7, 8, 9, 11, 12 and 13) and HBOR’s operations aimed at achieving 4 strategic goals defined in the 2020 – 2024 Business Strategy of HBOR. The results also suggested that HBOR had a far greater impact through Financing: support for climate and environmental protection as the largest number of external respondents, 60.78 percent, said that HBOR could contribute to the achievement of Goal 7: Affordable and clean energy, while in the second place with 54.90 percent in terms of the highest possible contribution was Goal 8: Decent work and economic growth.

Strategic goals	Sustainable Development Goals to which HBOR can contribute most / has positive impact on
Promote development of equity and quasi-equity market	 
Promote balanced and sustainable economic and social regional, rural, and urban development	 
Promote economic recovery from the COVID-19 pandemic and competitiveness emphasising innovation, digital transformation and Industry 4.0	 
Promote climate and energy neutral economy through energy efficiency, renewables, and environmental protection	 

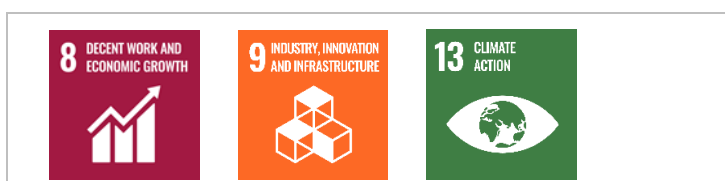
It can be concluded that in the light of the Business Strategy, HBOR, in accordance with its new mandate, contributes directly to the achievement of two sustainable development goals, and to four goals at the strategic level.

 	Direct contribution
   	Strategic and sectoral contribution



The results of HBOR's survey were confirmed in the findings of a comparative research, in which HBOR participated in 2020 as a member of the International Development Finance Club (IDFC). The artificial intelligence tool¹⁷ that reviewed the text of HBOR's 2018 and 2019 Sustainability Reports and looked for language structures and terminology that could be linked to the Sustainable Development Goals, found that HBOR's activities presented in the sustainability reports were equally focused on all goal groups: economic, environmental and social.

Additionally, according to the latest findings of the Sustainable Development Goals mapping of HBOR's activities of May 2022¹⁸, it was confirmed that HBOR investments could strengthen and accelerate the green transition and support the sustainability of society as a whole. HBOR should contribute to the achievement of all 17 Sustainable Development Goals through its mission and activities. The mapping showed that HBOR was very active in the area of three goals, namely: Goal 8, Goal 9 and Goal 17¹⁹, all of which were identified in several HBOR's activities and could further strengthen HBOR's position in the market. At the same time, there was room for progress to contribute to Goal 7, Goal 11 and Goal 13 as the backbone of all future efforts to implement the EU Green Plan. The focus of activities could potentially be directed to 3 key goals: Goal 8, Goal 9 and Goal 13, and the recommendation accompanying the findings of the mapping indicated that, in order to support climate activities, HBOR's potential climate ambition should follow the ambition of 1.5 °C reduction under the National Low Carbon Development Strategy.



¹⁷ The OECD's "SDG tracker tool" was used to review the documents of the participating banks and to map the activities that could be linked to the Sustainable Development Goals. More about the survey findings can be found in the IDFC SDG Framework Report: Towards SDG Alignment

¹⁸ Diagnostic Report DG REFORM TSI Project of 23 May 2022

¹⁹ Goal 17: Partnership for Goals

Satisfaction of Clients

Ensured Continuity of Support through Regular Programmes and Programmes under the COVID-19 Measures

All 9 HBOR's loan programmes were active in 2021 directly and/or through commercial banks. In the mid-2021, exporters were offered working capital loans at a reduced interest rate, and interest rates for public sector investments co-financed through EU funds were also reduced. For entrepreneurs investing in the area affected by the earthquake, at the beginning of 2021, more favourable loans for investments and working capital were made possible under four regular loan programmes. Cooperation with individual counties, municipalities and cities continued, which subsidised part of the interest for the borrowers of HBOR's loans from their own funds based on the agreements on business cooperation with HBOR. Cooperation with HAMAG-BICRO continued, which enabled the borrowers of HBOR's loans to participate in guarantee programs for the allocation of state aid.

Due to the prolonged circumstances of operating in the COVID-19 pandemic, the implementation of the working capital finance loan programme under the COVID-19 Measures continued.

Digitalisation of Loan Applications

In 2021, the activities continued relating to the digitalisation of loan application processing from the initial inquiry of a potential borrower, through the loan application submission, to the decision-making and contract execution (so-called loan origination). The application is based on modern technological platforms and represents the basis for further digitalisation of business processes at HBOR. Part of this process, the initial inquiry, has been digitalised and put into operation. Digitalisation of other parts of the process is under way, with activities taking place in 2 directions – digitalisation of applications received by HBOR directly from borrowers and digitalisation of applications from commercial banks.

HBOR
HRVATSKA BANKA
ZA OBNOVU I RAZVITAK

Kreditni upit

Prijava Registracija

1 Korisnički podaci 2 Zaporka

Korisničko ime ili e-adresa
Korisničko ime ili e-adresa

Zaboravljena zaporka Dalje

Measuring Impacts of Projects

Following the announced regulatory requirements for reporting on sustainability and disclosure of environmental, social and governance data (ESG), both companies and financial institutions will have to publish ESG information. ESG information will serve for the assessment of environmental, social and governance risks and will ensure the optimal

allocation of capital for the purpose of the green transition. Such information will be required and evaluated by both HBOR and financial institutions. HBOR is continuously working on adapting documentation and process of collecting ESG data on clients and projects, and the current HBOR's Sustainable Finance Project should support the selection of an adequate methodology for the identification, assessment, management, measurement and reporting of the environmental, climate and social aspects of HBOR's products and services.

Regional Presence in Croatia through Regional Offices

Through its network of 6 regional offices active in the regions of north-western Croatia, Dalmatia, Istria, Primorje and Gorski Kotar, Lika, Slavonia and Baranja, HBOR carries out the activities aimed at advising and informing entrepreneurs about the use of HBOR as a source of finance for starting a business, growth and development. Regional offices have an important role in educating entrepreneurs, especially those who are just starting to think about entering entrepreneurship, as well as in cooperating with local government representatives who create preconditions for increasing economic activities through investments.

During 2021, the negative impact of the pandemic on the national economy continued, so the activities of HBOR's regional offices were adapted to the prevailing business conditions on the spatial coverage of each office. Contacts with stakeholders continued as well as presentation and educational activities through personal contacts at meetings and presentations and through digital platforms, depending on the technological capabilities of stakeholders and individual offices.

Regional offices provided support to businessmen by organising webinars and through collaborative activities with external stakeholders: offices for the economy of local government units, competent chambers of commerce and trades, entrepreneurship centres or development agencies, employment institutes and local action groups. Strong activity of the regional offices recorded in 2021 is also expected in 2022, considering the financial products offered by HBOR to businessmen faced with the negative impact of the COVID-19 pandemic on the economy as well as the financial instruments under the NRRP.

Transparency

HBOR has several different mechanisms for informing different groups of the public about business and decision-making that have an impact on the environment and society, whereby it is guided by legal regulations, sectoral practices, and standards of multilateral financial institutions. These mechanisms are reviewed and improved by considering:

- The issues and concerns of certain groups of the public, while respecting the dual character of HBOR as a financial and public institution,
- The 2020 – 2024 Business Strategy, in which it is stated that in HBOR’s activities “special focus will be on the goals set by the UN’s Agenda 2030 for Sustainable Development and the latest climate goals determined in the Paris Agreement”, and
- The public interest in the criteria, based on which HBOR conducts analytical screening of documentation and makes decisions on loans and insurance of individual projects.²⁰

In 2019, some NGOs active in Croatia and in the EU required HBOR to review its procedures and approaches to reporting and transparency, analytical screenings of projects related to environmental and social criteria (focus on risk assessment related to human rights, environment and corruption) and invited HBOR to explain its approach to climate change governance and to explicitly distance itself from funding fossil fuel projects. HBOR was invited to improve its export-credit activities in line with the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”) (OECD Council Recommendations).²¹

Following these invitations and the policies and practices of other export-credit institutions, HBOR initiated the development of operational procedures and improvements in the application of the OECD Council Recommendations. During 2021, HBOR's operations were aligned with the professional and regulatory standards in the field of loans and export-credit insurance by the state prescribed by the OECD for achieving the goals of socially responsible business under the following three recommendations:

- Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence - The "Common Approaches",
- Recommendation of the Council on Sustainable Lending Practices and Officially Supported Export Credits, and
- Recommendation of the Council on Bribery and Officially Supported Export Credits.

HBOR implemented the recommendations in question in its actions through two internal documents:

- Ordinance on the Implementation of OECD Recommendations on Environmental Protection and Impact on Society and Sustainable Export Lending, in effect as of 4 June 2021, and

²⁰ 417-1

²¹ Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”)

- Ordinance on the Implementation of OECD Recommendation on Prevention of Bribery, in effect as of 15 October 2021.

More detailed information on the manner of applying the OECD recommendations, internal ordinances, supported projects, and the contact address: odrzivost@hbor.hr to which stakeholders can send their inquiries and concerns on projects, is published on the website in the SUSTAINABILITY section in Croatian and English.

In addition, the Business Strategy prompted the need to develop and adopt a special policy on measures to fight climate change and reduce CO emissions, and the need to identify and incorporate climate risks into internal documents and procedures. Given the complexity of the issue and the existing capacities, during 2020, a project proposal was prepared and submitted to the EC for funding, which requested, under the Technical Support Instrument²², technical consultancy assistance for the development, preparation and introduction of a set of policies, procedures, tools and metrics, by the introduction of which HBOR should be enabled to assess environmental, climate and social risks and opportunities arising from its business activities as well as to manage exposure. As stated, the project called: Reorient HBOR's Operations Towards Sustainable Financing and Green Transition was started in September 2021 and represents the beginning of the operational implementation of HBOR's strategic goal: promotion of climate and energy neutral economy.

Regarding access to information requests, as of 1 January 2019, HBOR has aligned its processes and documentation in accordance with the Supreme Court judgment. New practice of providing information on HBOR's direct borrowers includes four categories of information: name of direct borrower, amount, purpose, and name of project. With regard to the publications on the websites, in the reporting year, HBOR requested an opinion of the Commissioner for Information and conducted, in accordance with the received response and the recommendations of the consultants who carried out the Mock Pillar Assessment²³, preparatory actions for publication. At the beginning of 2022, HBOR started publishing announcements of agendas for and conclusions made at the meetings of the Supervisory Board, the Management Board and the Credit Committee in an anonymised form. They are available at HBOR's websites and the link <https://www.hbor.hr/kako-radimo/>.

²²Technical Support Instrument TSI 2021

²³ In accordance with Article 154 of the Financial Regulation, entities that wish to cooperate indirectly with EU funds must undergo a comprehensive Pillar Assessment. Based on the results of the Pillar Assessment, the Commission decides whether to entrust the task of budget execution to an entity and conclude special agreements with the entity, i.e. agreements on contributions for indirect management. For the purpose of cooperation with EU funds, HBOR decided to conduct the Pillar Assessment and the preparations for it, i.e. it conducted the Mock Pillar Assessment in order to be as ready for the Pillar Assessment as possible.

Financing | Support for Entrepreneurship and Development

Most of HBOR's loan beneficiaries during 2021 were small and medium-sized enterprises, to which 1,108 loans were approved, i.e. 93 percent of the total approved loans

Mitigation of Negative Effects of the COVID-19 Pandemic on the Economy²⁴

In order to mitigate the negative consequences of the COVID-19 pandemic on the economy, since March 2020 and during 2021, HBOR implemented the COVID-19 Measures directly or in cooperation with commercial banks:

1. Moratorium and rescheduling of existing obligations

- Moratorium and rescheduling of existing obligations of up to 16 months (until 30 June 2021) were made possible for all clients for individual sectors with simplified and accelerated processing
- Since the start of the implementation of the COVID-19 Measures until the end of 2021, HBOR implemented more than 1,800 moratoriums, thus granting grace for the principal amount of more than HRK 13.7 billion.

During the approved moratoriums, HBOR did not charge clients either regular interest or fees, and clients were able to use the moratorium in the described manner, even though HBOR was still obliged to regularly settle its obligations to creditors without the possibility of using the moratorium. In addition to the moratorium, the rescheduling of existing loan obligations was made possible for all borrowers of HBOR's loans who were unable to carry out planned activities due to the COVID-19 pandemic, regardless of whether the loan was approved directly or through commercial banks or leasing companies.

2. Approving new favourable liquidity loans

- In 2021, the implementation of temporary measures and working capital loan programmes at an interest rate of as low as 0 percent continued.

Since the start of the implementation of the COVID-19 Measures until the end of 2021, HBOR approved, under the COVID-19 Measures loan programmes, more than HRK 2.1 billion in loans. As at 31 December 2021, HBOR's exposure under the loans approved to business entities under the COVID-19 Measures stood at HRK 1.9 billion.

3. New insurance and guarantee programmes

- In addition to approving loans under the COVID-19 Measures, HBOR introduced new loan insurance programmes for exporters' liquidity in order to encourage banks to approve new liquidity loans to entrepreneurs.

²⁴ More information is available in the 2021 Annual Report (www.hbor.hr/naslovnica/hbor/financijska-izvjesca-pregled-preuzimanje/#godisnja-izvjesca)

- New manners of insuring loans and issuing guarantees were also introduced, under which HBOR assumed up to 100 percent of loan repayment risk.

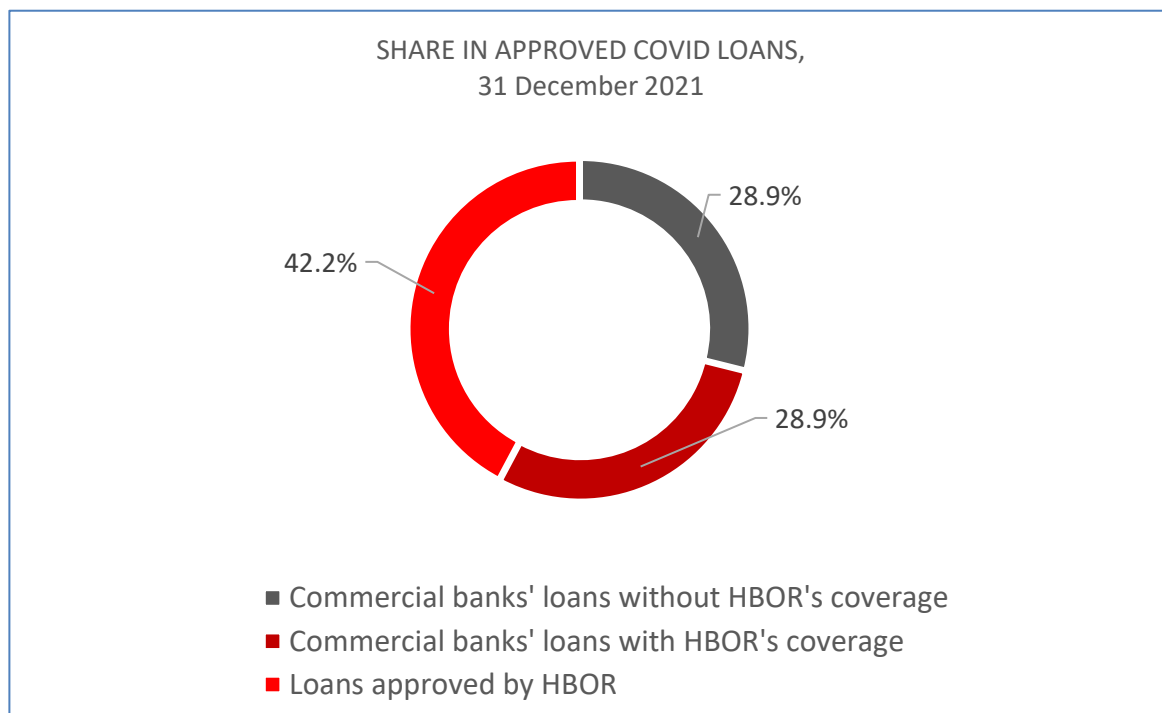
Since the start of the implementation of the COVID-19 Measures until the end of 2021, in addition to HBOR's insurance programmes and guarantee programmes under the COVID-19 Measures, the amount of more than HRK 3 billion in liquidity loans to entrepreneurs was insured. Of the approved insurance amount, almost HRK 2.3 billion related to the loans approved to entrepreneurs by commercial banks.

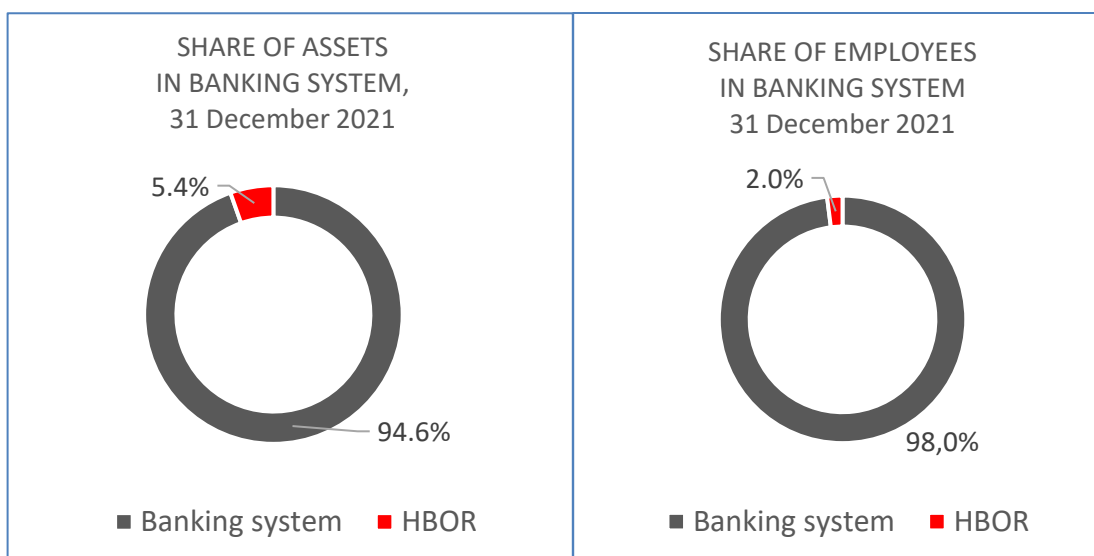
Total results of COVID-19 Measures

As at 31 December 2021, HBOR's exposure under loans approved under the COVID-19 Measures stood at HRK 1.9 billion, and HBOR's exposure under insured loans, i.e. loans granted by commercial banks to entrepreneurs under the COVID-19 Measures with HBOR's coverage, stood at HRK 1.3 billion.

Considering the fact that the amount of HRK 1.3 billion of the total exposure of commercial banks as at 31 December 2021 of HRK 2.6 billion related to loans approved by commercial banks under HBOR's insurance programmes, more than 70 percent of all loans which were granted to entrepreneurs under the COVID-19 Measures were supported by HBOR's measures.

This share is especially significant when it is taken into account that HBOR employs 2 percent of the total number of employees in the Croatian banking system, in which HBOR's assets make up 5.4 percent of total assets.





With the COVID-19 Measures, the continuity of the implementation of all existing programmes was ensured, with additional benefits of reduction in interest rates for:

- Borrowers – exporters under Working Capital loan programme: to 0.8 percent from the previous 2 percent or 3.5 percent,
- Units of local or regional government, institutions and agencies majority-owned by them in supported areas on direct loans under the loan programmes the Public Sector Investment and the EU Projects: to 1.1 percent from the previous 1.75 percent or 2 percent,
- Borrowers investing in the areas struck by the earthquake (Sisak-Moslavina County, Karlovac County and Zagreb County) on loans under the loan programmes the Private Sector Investment, the Youth, Female and Start-Up Entrepreneurship and the Public Sector Investment: up to 1 percent for investment and up to 0.5 percent for working capital (with a possibility of reducing these interest rates to as low as 0 percent as a result of subsidies by individual units of local or regional government).
- The continuity of the implementation of financial instruments, export credit insurance programmes and programmes for promoting development of the equity capital market was ensured.

Support to Innovative Companies through the Fund FRC2 Croatia Partners

FRC2 Croatia Partners SCSp is a venture capital fund partly funded with ESIF Financial Instruments through cooperation with the European Investment Fund (EIF), and partly with funds from private investors. In June 2019, HBOR became one of investors in the fund.

The fund consists of two components:

- acceleration component intended for innovative start-ups that have only business ideas (Start-up school) and prototype (Accelerator) and

- venture capital (VC) component intended for companies that already operate and have initial buyers and that have already passed through the early phase of development. HBOR has invested only in the VC component

Since its establishment in June 2019 until the end of 2021, the fund reviewed more than 2 thousand investment opportunities, and investments were made in more than 100 projects.

CROGIP

In January 2019, the EIF and HBOR signed an agreement totalling EUR 70 million, by which the Croatian Growth Investment Programme (CROGIP) initiative was launched. The amount of the agreement was increased to EUR 80 million in 2020 and to EUR 100 million in 2021, of which HBOR and the EIF invested EUR 50 million each.

The EIF implements CROGIP through investing in venture capital funds and co-investing together with funds and private investors on market terms. The programme is not limited to a specific sector.

- In accordance with the terms of the CROGIP initiative, the EIF has chosen three funds to invest in: the Adriatic Structured Equity Fund, the Prosperus Growth Fund and the Croatian Mezzanine Debt Fund, and the selection of the company that will manage the Technology Transfer Fund is underway. The total size of the funds that have been established is EUR 205.8 million, and by the end of 2022, the establishment of a fourth fund is expected, the size of which will be at least EUR 40 million.

Technology Transfer Fund

By the joint initiative of SID Bank (Slovenian Development and Export Bank), the EIF and HBOR, the first regional platform was established for launching a fund to finance the commercialisation of innovative technological and scientific solutions of Croatian and Slovenian universities, research institutes and centres. The future technology transfer fund of a minimum size of EUR 40 million will have to, among other conditions, ensure that at least EUR 15 million is invested in projects or companies developed at universities or research institutes or centres in the Republic of Croatia.

The Three Seas Initiative Investment Fund

The Three Seas Initiative, a platform for cooperation between 12 EU member states in the area of the three seas (the Adriatic, Baltic and Black Seas), was established to support joint cross-border strategic projects with an emphasis on energy, transport and digital connectivity in the region.

The Three Seas Initiative Investment Fund was created as a financial tool with the help of which capital is invested in the Initiative's projects. HBOR, as the development bank of the Republic of Croatia, was invited to participate in the structuring of the Fund. The Fund's investment goal is to use available funds for investment in infrastructure projects that contribute to security and diversity of energy supply, reduction of emissions and transport costs, economic, social, and digital connectivity of the EU member states as well as the

integration by reducing differences in infrastructure quality. In order to encourage the realisation of joint projects in the areas under the Initiative, the Government of the Republic of Croatia made a decision to invest in the Fund at the end of 2020. By this Decision, HBOR was authorised to make an investment in the Fund in its own name and for the account of the Government of the Republic of Croatia in an amount of up to EUR 20 million, increased by fees and costs of joining and participating in the Fund.

As at 31 December 2021, the size of the Fund stood at EUR 923.1 million.

Financial Instruments

During 2021, HBOR implemented five financial instruments, three of which were intended for the private sector, namely ESIF Growth and Expansion Loans and Investment Loans for Rural Development which HBOR implemented through commercial banks and Working Capital for Rural Development which HBOR implements directly. Through ESIF Growth and Expansion Loans and Investment Loans for Rural Development, favourable funds were made available for long-term investment loans to micro, small and medium-sized enterprises whereby 50 percent of loans from the source of the European Structural and Investment Funds (ESIF) was financed at an interest rate of 0 percent, and the other 50 percent of loans from commercial bank's source at the market interest rate determined by the commercial bank. The financial instrument Investment Loans for Rural Development was available to potential borrowers from September 2019, and the applications under this programme were received until the beginning of July 2021. The financial instrument Working Capital for Rural Development, as one of the measures of COVID-19, was implemented by HBOR from July 2020, and its implementation continued in 2021. This financial instrument is intended for the financing of working capital necessary to eliminate instabilities in the development of production and the financing current operations at a fixed interest rate of 0.5 percent with only promissory note as collateral.

Two financial instruments intended for the public sector refer to investment in the energy efficiency of public sector buildings and public lighting and are described in more detail in the chapter Financing – support for climate and environmental protection.

Cooperation with HAMAG-BICRO

In 2021, HBOR continued its business cooperation with HAMAG-BICRO through three HAMAG-BICRO guarantee programmes:

- **ESIF individual guarantees for investment loans and working capital loans**, intended for small business entities, including newly established entities, which are provided guarantees to cover a portion of the loan principal or leasing, co-financed from the European Regional Development Fund in accordance with the Operational Programme Competitiveness and Cohesion (OPCC) 2014 – 2020. The minimum guarantee period for investment loans is up to 10 years, and for working capital loans up to 5 years. The maximum guarantee amount for investment loans is up to EUR 4 million, and for working capital up to EUR 1 million.

- **ESIF individual guarantees for rural development**, aimed at facilitating access to finance for micro, small and medium-sized entities in the agriculture, processing and forestry industries via financial institutions that will provide guarantees for the coverage of a portion of loan principal or leasing in accordance with the terms and conditions of the Rural Development Programme of the Republic of Croatia 2014 - 2020. The minimum duration of a guarantee is 12 months, and the maximum 15 years, while the maximum guaranteed amount is EUR 1.3 million. Individual guarantees are co-financed by the proceeds of the European Agricultural Fund for Rural Development. Guarantees can be obtained for all locations in Croatia, except for the cities of Zagreb, Osijek, Rijeka and Split.
- **ESIF limited portfolio guarantee**, intended to facilitate access to finance for micro, small and medium-sized enterprises co-financed by the European Regional Development Fund, providing a guarantee to cover a part of the principal and contractual interest on loans or leasing included in the portfolio. The minimum guarantee period is 12 months, and the maximum 10 years. The maximum guaranteed amount is EUR 150 thousand. Only new loans/leasing can be included in the portfolio (refunding of existing loans/leasing is excluded).

In addition, in 2021, two cooperation agreements were concluded under the guarantee programme:

- Programme for the award of state aid in the tourism and sports sectors in the current COVID-19 pandemic for micro, small and medium-sized entrepreneurs operating in the sectors as defined by the programme. HAMAG implements the programme in the name and for the account of the Ministry of Tourism and Sports
- Programme for the award of state aid to the marine, transport, transport infrastructure sectors and related activities in the current COVID-19 pandemic for new working capital loans. HAMAG implements the programme in the name and for the account of the Ministry of the Sea, Transport and Infrastructure.

Guarantees under the Pan-European Guarantee Fund (EGF) – Approving Loans at More Favourable Terms and Conditions for the Purpose of Mitigating the Consequences of the COVID-19 Pandemic

The Pan-European Guarantee Fund was established by the EIB Group in 2020 in order to accelerate the recovery of the European economy after the COVID-19 pandemic, preserve jobs and provide liquidity.

- **EIF GUARANTEES for the financing of Croatian small and medium-sized and small mid-cap companies (up to 499 employees)**
The European Investment Fund (EIF), part of the European Investment Bank Group (EIB Group) enabled, by signing a contract with HBOR, the use of guarantees worth EUR 35 million. These guarantees are used for directly approved loans under the existing loan programmes in order to obtain more favourable terms and conditions: loan approval at interest rates reduced by 0.403 p.p. compared to regular or with lower requirements for

collateral, i.e. loan approval only with bills of exchange and debentures. Entrepreneurs can use these benefits for working capital loans and investment loans.

- **EIB GUARANTEES for the financing of mid-caps and large companies**

By signing a contract with HBOR, the European Investment Bank (EIB) enabled the use of guarantees of EUR 50 million for loans granted to mid-caps and large companies.

- These guarantees enable lending to mid-caps and large companies with lower requirements for collateral. They can be used for the approval of direct working capital loans and for investments of mid-caps under the existing HBOR's programmes.

Cooperation with Counties, Municipalities and Cities – Interest Rate Subsidy and Lower Interest Rates for Earthquake-Affected Areas

HBOR has also established cooperation with individual counties, municipalities and cities, within the framework of which entrepreneurs investing in this area can count on an interest rate subsidy on HBOR's loans from county, municipality or city funds with an interest rate from as low as zero percent. Until the end of 2021, cooperation was established with 41 local or regional government units (LRGUs).

In addition, in order to accelerate the reconstruction of facilities and equipment, establish regular operations and encourage economic development in the earthquake-affected areas, for all entrepreneurs that operate or will operate in Sisak-Moslavina County, and potentially Zagreb County and Karlovac County, HBOR made special benefits for financing public and private sector investments and working capital in the form of reduced interest rates and lower collateral requirements, and it abolished fees for loan processing and for changing of loan terms and conditions.

Helping Enterprises Access Liquidity – HEAL

New IBRD's credit line for financing called: Helping Enterprises Access Liquidity (HEAL) in the amount of EUR 200 million was contracted on 7 June 2021. The IBRD's loan funds will be used for financing the working capital needs of SMEs and Mid-Caps and/or financial restructuring in accordance with HBOR's loan programmes and IBRD's eligibility criteria.

Development goals of the project are as follows:

- Support the recovery of private sector exporters from the economic impact of the COVID-19 pandemic,
- Improve access to finance for companies in neglected segments (female entrepreneurs and companies operating for less than 5 years) and underdeveloped regions, and
- Strengthen the institutional capacities of HBOR as a development bank.

For the period of use of this credit line, until 2025, HBOR will apply the standards of the World Bank: Environmental and Social Framework of the World Bank. In order to ensure the implementation of development goals, HBOR will cooperate with IBRD experts in the field of environment and society, and it is also planned to organise workshops on the application of environmental and social standards for HBOR's employees and employees of commercial

banks who will be involved in the implementation of the HEAL project. For the purposes of project implementation, several implementation documents were prepared – the Environmental and Social Commitment Plan, Environmental and Social Management System of and the Stakeholder Engagement Plan. The use of HEAL credit line funds will begin in 2022.

Support to Exporters and Export Credit Insurance

In 2021, Croatian exporters were backed by HBOR in more than 700 placements in the total amount of more than HRK 4 billion, furthermore 567 projects of exporters totalling HRK 2.63 billion were covered under export credit insurance programmes, and 18 export bank guarantees at the request of exporters in the total amount of HRK 154 million were issued.

With altogether 10 active export credit insurance programmes, HBOR covered all market segments, from micro exporters, small and medium-sized exporters to large exporters. HBOR provided insurance for exporters from various industrial sectors, including the tourism sector. HBOR also supported banks that financed the operations of exporters and insurance companies through reinsurance of export receivables.

In the reporting year, the main activities in the field of export credit insurance were focused on the continuation of the implementation of the COVID-19 Measures aimed at mitigating the negative consequences of the pandemic on the Croatian economy. Thus, under the COVID-19 Measures and the programmes for insuring liquidity loans for exporters in 2021, cover was provided for 223 loans approved by banks to exporters or their suppliers totalling HRK 1.80 billion (68 percent of the total insured turnover). In the same period, 213 premium subsidies in the total amount of HRK 50.71 million were approved under the COVID-19 Measures Insurance Premium Subsidy Programme, which enabled the borrowers of liquidity loans to reduce or not to incur the costs of loan insurance. In 2021, exporters also showed increased interest in short-term export receivables insurance programmes, under which export turnover in the amount of HRK 490.66 million was insured.

Financing | Support for Climate and Environmental Protection

Promoting the sustainable, climate and energy neutral economy has been identified in HBOR's Business Strategy as one of the strategic goals in line with the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change

Promoting environmental protection is one of HBOR's priority activities defined in the By-Laws of HBOR and the HBOR Act as well as in HBOR's 2020-2024 Business Strategy. Activities that have a negative impact on the environment, and which are not significantly mitigated or compensated, are not eligible for funding under any HBOR's programme or product.²⁵ Promoting projects for environmental protection, energy efficiency and renewable energy sources are some of the targeted goals of HBOR's loan programmes Private Sector Investments and Public Sector Investments. All projects financed by HBOR are prepared and implemented in accordance with the applicable national legislation and HBOR's eligibility criteria and are additionally reviewed in terms of certain environmental and social risks. In the financing of projects implemented by HBOR directly, the environmental impact assessment (screening) is implemented by the Technical Analysis and Environmental Protection Department, where projects are categorised into risk categories designated as A, B or C.

The assessment is carried out on the basis of the Environmental Protection Questionnaire²⁶ that is an integral part of obligatory documentation when submitting applications for a direct loan under the programmes Youth, Female and Start-Up Entrepreneurship, Private Sector Investment, Public Sector Investment and EU Projects. In the case of lending via commercial banks, the banks check the environmental impact in accordance with their own methodologies, but if necessary, the environmental impact can also be analysed by HBOR. In the case of loans financed from the sources of special financial institutions, the OECD Recommendations and the standards of individual special financial institutions are taken into account when preparing an opinion on the environmental impact of the project.

Generally, an assessment of impact on environment and society is not required when applying for working capital loans. However, for the purposes of implementing the credit line intended to finance loans for working capital and financial restructuring, which HBOR concluded with the IBRD in 2021, a special Environmental and Social Management System and a special Questionnaire for Environmental and Social Verification and Assessment were prepared.

²⁵ The General Eligibility Criteria of HBOR is an internal document that defines general features, restrictions and special features that apply to financing projects/clients under seven loan programmes. Activities with a negative impact on the environment may not be financed under any of HBOR's programmes and products.

²⁶ The Environmental Protection Questionnaire includes the information on profile of the applicant and its environmental management policies, quality management policy and safety at work policy; profile of the location, history of the location and existing activities on the location, all from the aspect of environmental protection, and condition of the environment, air and dangerous waste emissions, water consumption, waste water release and waste generation and management.

In 2021, preparations began for the use of funds under the Croatian National Recovery and Resilience Plan (NRRP). Regarding the list of activities that have not been financed by HBOR's loans so far, the implementation of the criteria in accordance with the Council Implementation Decision on the approval of the assessment of the recovery and resilience plan for Croatia is additionally being prepared. The following activities and assets will be additionally excluded from eligibility:

- Activities and assets related to fossil fuels, including downstream use,
- Activities and assets under the EU Emissions Trading System (ETS) achieving projected greenhouse gas emissions that are not significantly lower than the relevant benchmarks,
- Activities and assets related to waste landfills, incinerators, and mechanical biological treatment plants, and
- Activities and assets where the long-term disposal of waste may cause harm to the environment.

In addition to the excluded activities criteria, all projects will be subject to the principle of do no significant harm, and in case it is proven that a project significantly contributes to one or more environmental goals, special benefits will be provided. In this way, environmental, climate and social factors will be incorporated into the application documentation requesting funds financed under HBOR's NRRP measures.

For 9 main groups of programmes, additional adaptations of the information system have already been carried out in order to better identify and monitor projects. Thus, it is possible to identify projects that can be classified in the category of environmental protection, energy efficiency and renewable energy sources.

Continued Successful Implementation of ESIF Loans for Energy Efficiency

During 2021, HBOR continued to apply the favourable terms and conditions for financing the improvement of energy efficiency in public sector buildings and ensuring savings in the public lighting system.

ESIF Loans for Energy Efficiency in Public Sector Buildings

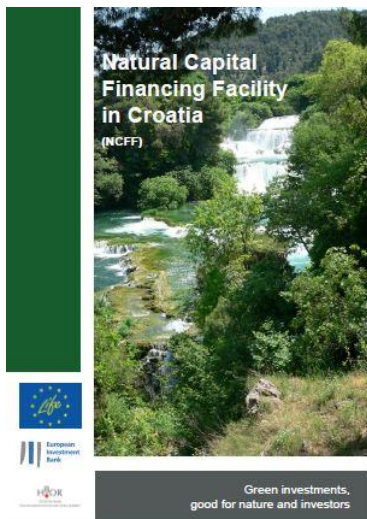
These loans are aimed at achieving a reduction of energy consumption for heating and/or cooling at year level of at least 50 percent on very favourable terms and conditions. Loans are intended for local and regional government units, public institutions and institutions engaged in social activities, state authorities, ministries, central state offices, state administrative organisations and state administration offices in counties, religious communities active in social activities and associations active in social activities and having public powers regulated by a special law. Minimum loan amount is HRK 100,000, and maximum amount is HRK 60,000,000, at an interest rate of 0.1 percent, 0.25 percent or 0.5 percent, which is determined depending on the level of development of the investment area. Borrowers are exempt from paying all fees that are usually charged for loan origination. This financial instrument was available to potential borrowers from December 2017, and applications under this programme were received until 8 November 2021. Altogether 65 placements in the amount of almost HRK 273.5 million were approved under the programme.

ESIF Loans for Public Lighting

These loans are intended for the construction of new electricity metering and billing devices, the installation of lighting and controlling equipment, the installation of photovoltaic power supply systems for public lighting with distributed or centrally positioned photovoltaic panels intended exclusively for the supply of electricity to public lighting systems. Eligible investments are those that result in energy savings of at least 50 percent compared to the current situation. Minimum loan amount is HRK 500 thousand, and maximum loan amount is HRK 15 million at an interest rate of 0.1 percent, 0.25 percent or 0.5 percent depending on the level of development of municipalities and cities. In 2021, HBOR concluded six loan contracts for the financing of public lighting with two municipalities and four cities totalling more than HRK 28,94 million. By 31 December 2021, a total of 32 loans in the amount of more than HRK 137 million were contracted. The energy savings that will be achieved with these 32 projects exceed 77 percent.

Case Studies NCF, ELENA and EIAH

Successful Raising of Capacities to Implement NCF: the Financial Instrument for Preservation and Sustainable Use of Natural Capital



HBOR was the first national development bank in the European Union to join the implementation of the Natural Capital Financing Facility (NCF) that combines the funds of the European Investment Bank (EIB) and the funds under the LIFE programme: EC programme for the environment and climate action. It is intended to finance projects contributing to the preservation and sustainable use of natural capital as well as to the adaptation to climate change by using natural solutions in green entrepreneurship, green infrastructure, payment for ecosystem services and compensation for environmental damage. HBOR's internal capacity building for the implementation of this instrument has been targeted at four groups of activity: raising of awareness, identification of potential projects, definition of the terms and conditions of NCF instrument, and technical analysis and capacity building of HBOR for its implementation.

Since the start of the project implementation, informative materials have been prepared (a special site on the NCF instrument within HBOR's websites, the brochure "Instrument for Financing Natural Capital in Croatia: Green Investments, Good for Nature and Investors" in Croatian and English), key interested parties and potential borrowers under the financial instrument have been identified, and workshops and meetings with the representatives of the interested public and potential borrowers have been organised. Special terms and conditions have been defined for lending to NCF projects within the framework of the existing HBOR's loan programmes for private and public borrowers, within which the existing

interest rate can be reduced by up to 1 p.p. (depending on the impact of the project in terms of the protection of natural capital).

During 2021, 2 NCFE projects were financed: the financing of agricultural machinery for a certified organic farm and the financing of waste wool processing and production of organic pellets. In November 2021, the NCFE instrument was also presented at the thematic panel on biodiversity at the national sustainability conference.



ELENA: Grants for the Preparation of Investment Projects in the Area of Energy Efficiency and Renewable Energy Sources

The European Local Energy Assistance (ELENA) is a technical assistance programme developed jointly by the European Commission and the European Investment Bank in order to provide support for the preparation of investments in energy efficiency and renewable energy sources. Technical assistance is intended for beneficiaries in both the private and public sectors and can be used to prepare projects financed by beneficiaries either with HBOR's financial instruments or loan programmes or with their own funds or other sources of finance.

Under the ELENA programme implemented by HBOR, 100 percent of the costs of preparation of investment projects to be implemented by selected consultants is covered. The programme provides a grant to cover 90 percent of the costs of preparing project documentation for investment projects in the field of energy efficiency, renewable energy sources and cleaner urban transport and mobility. The remaining 10 percent of the project preparation costs is provided by HBOR from its own sources. Grants are mainly used to finance architectural and engineering and related services in construction and spatial planning for energy efficiency projects in buildings that include renewable energy sources. The services are provided by external suppliers (consultants). In addition to the costs of consulting services for the preparation of documentation, the eligible costs under the ELENA financial support include other related administrative costs (e.g. costs of promotion and marketing, costs of external audit of the ELENA Programme, etc.). The main indicator of the success of the ELENA Programme is the attainment of the leverage, i.e. the multiplier of technical assistance grants at the level of the total portfolio of the ELENA Programme of HBOR. The level of the multiplier is 20, which means that EUR 2 million of ELENA grants should result in a minimum of EUR 40 million worth of eligible investments of ELENA grant beneficiaries. The portfolio of eligible investments for the attainment of leverage under the

ELENA Programme includes the sum of the amounts of investments performed throughout the duration of the ELENA Programme.

In 2020, the implementation of the programme started following a public procurement procedure, in which consultants were selected. By 31 December 2021, the preparation of documentation for 58 projects was approved. Of the total number of approved projects, project documentation for 34 projects was prepared by the specified date. The documentation in question was financed from the proceeds of the ELENA grant in the total amount of more than HRK 3.6 million. Thus, several counties, cities, municipalities and public authorities are preparing projects to increase energy efficiency in hospitals, schools, kindergartens, nursing homes, sports facilities, shopping malls, entrepreneurial facilities and public lighting systems, whereas companies are preparing projects to increase energy efficiency of hotels and shopping centres. ELENA technical assistance will be available to the beneficiaries until 1 May 2023.



EIAH: better investment in environmental protection and management projects, sustainable urban and rural development, the circular economy, smart cities, social infrastructure projects and the social and solidarity economy

The project called: “Advisory Services to the Public Sector” (the Project) is implemented with the funding provided by the European Union through the European Investment Advisory Hub (EIAH) based on the Finance Contract for the financing of the development and implementation of investment advisory services concluded on 26 February 2021 between the European Investment Bank (EIB) and HBOR (Finance Contract).

The goals of the Project are to increase the quality and volume of public sector investments in the Republic of Croatia with the aim of balancing local and regional development, and improving the absorption of the European structural and investment funds in the 2021 – 2027 Financial Framework through advisory assistance in structuring sustainable and thus profitable public sector projects and, above all, projects of local or regional government units (LRGUs).

The total value of the Project is EUR 670,125.00, of which the EIAH finances up to a maximum of 75 percent of the eligible costs of the Project, i.e. up to a maximum of EUR 500,000.00 (Grant funds). The difference of up to 100 percent of the costs of the Project, which

according to the estimate of the total costs of the Project can amount to a maximum of EUR 170,125.00, will be financed by HBOR from its own funds.

The project is implemented in cooperation with two groups of external consultants (Consultants 1 and Consultants 2). During the period of the contract on consulting services (May – December 2021), Consultants 1 provided advisory services to HBOR in order for HBOR to develop the most appropriate model for providing technical assistance and to recommend a future model for HBOR to provide technical assistance. Also, in cooperation with Consultants 1, HBOR organised and carried out a promotional campaign with the aim of raising awareness of available HBOR's advisory support. As part of the promotional campaign, a round table was held on 15 July 2021 on the topic "The role and possibilities of HBOR in encouraging the development of public sector projects in order to contribute to the development of LRGUs", and on 12 November 2021 a conference took place on the topic: "How to (better) prepare public sector projects for financing", whereas, during October and November 2021, four workshops were held on structuring projects in the public sector at the local level (Delnice, Gospić, Pleternica and Knin).

In the second phase of the Project, Consultants 2 provided advisory services and technical assistance to the final borrowers under the Project in the preparation of project documentation and the entire application documentation for project financing. In accordance with the Finance Contract, within the framework of this goal, it is necessary to help the development and financing of at least 7 investment projects of LRGUs, of which at least 4 in the underdeveloped areas of the Republic of Croatia.

The selection of the projects to be offered HBOR's technical assistance and advisory services was carried out on the basis of the following criteria:

- Geographical diversity and representation of LRGUs from different counties
- Representation of all eligible sectors (investments in social, communal, and green infrastructure)
- Area development index and sufficient representation of underdeveloped areas and areas of special state concern
- Stated needs for technical assistance and support.

A total of ten projects of LRGUs (cities, municipalities and homes for the elderly owned by counties) were selected, of which six from underdeveloped areas and areas of special state concern. The selected projects were in the field of social infrastructure: construction and/or reconstruction of a kindergarten, a home for the elderly and disabled, a sports and recreation centre, a primary school, extension of a high school with a sports hall, and projects in the field of environmental protection: construction of a water protection system, installation of a treatment plant and construction of a recycling yard for construction waste.

Project activities will take place until mid-2022.



In Dialogue with Employees

HBOR continuously provides its employees with equal opportunities for further growth and development, offers them various education possibilities and monitors their development with a special focus on equal work environment. At the beginning of 2021, HBOR conducted a survey of employee satisfaction regarding organisational climate and job satisfaction. The survey of organisational climate and job satisfaction was conducted in the period 15 – 23 March 2021. The survey was conducted online via a questionnaire that could be accessed by all employees, i.e. 365 HBOR's employees. 184 employees completed the questionnaire, which is a response rate of 51.68 percent. The results of the survey indicated that the employees who completed the questionnaire were most satisfied with their relationships with their colleagues. The results of the survey and the proposals for measures to further improve organisational climate and job satisfaction were presented to the management.

HBOR has had a relatively low and balanced employee turnover rate over the last three years. In 2021, there was an increase in the number of employee departures compared to 2020, and 34 new employees were hired. In 2021, the average number of employees was 362 employees. In 2021, an employee turnover of 6.6 percent was recorded, which is slightly higher than in 2020, due to a significantly higher so-called "natural employee turnover", i.e. retirements. Namely, of 24 employees who departed, 12 were those who retired.²⁷

	2019	2020	2021
Average number of employees	368	369	362
Departed employees	22	15	24
Employee turnover rate	6 %	4.1 %	6.6 % ²⁸

Communication with Employees

HBOR communicates openly and transparently with employees in order to provide employees with access to key information. Employees are also encouraged to communicate any feedback information such as criticism, praise, or suggestions, whereas a possibility of anonymous feedback is provided for. In recent years, the intranet has been used more intensively for communication with employees in order to provide timely information. Also, every organisational unit can share folders and areas at the intranet to ensure better communication, easier work and document sharing.

In 2021, communication with employees was continued through the communication of important information and the collection of feedback information from employees. The main goal was to establish timely, systematic, and regular two-way communication to protect the health and safety of employees and reduce exposure to risks. This mode of communication was especially important in work from home conditions. Several communication platforms

²⁷ 401-1

²⁸ 401-1

were used for communication, and the functionalities of those platforms were further expanded due to new needs and processes. Employees were instructed to use all digital tools, and regular IT support was provided. In addition, management was actively involved in communicating key information, business decisions and goals to employees. In 2021, the traditional annual employee gathering was held live, and it was organised in the open space in front of the building at the Zelinska 3 location.

All internal documents are published together with their amendments at the intranet site generally eight days prior to their entry into force. Before adopting any amendments to internal documents, the consent of the managing directors/executive directors of the organisational units to which the said changes apply is required (e.g. in the case of reorganisation of an organisational unit, the consent of the managing director/executive director of the respective organisational unit is required, etc.).²⁹

The only body of HBOR that is composed of employees' representatives is the Occupational Health and Safety Committee, whereas HBOR's Labour Ordinance defines the person authorised to receive and resolve complaints related to the dignity of employees: Commissioner for the Protection of Employees' Dignity. During 2021, two complaints were filed to protect the dignity of employees. The complaints were processed, and the Management Board was informed about the conducted procedure for the protection of employees' dignity as well as about the established facts and circumstances, upon which the Management Board made a decision. No harassment was found in both complaints.³⁰

Benefits

In 2021, there was neither trade union nor any trade union branch at HBOR, and no data was collected on trade union or association membership. HBOR does not restrict or prevent employees from becoming trade union members.³¹ Consequently, HBOR does not have a Collective Agreement, but it provides its employees with various benefits to which employees are entitled or which may be provided to employees in accordance with the Labour Ordinance and other documents³²³³. In the mid-2022, a trade union branch was established in HBOR for the first time, namely a branch of the Trade Union of Banking and Financial Employees of Croatia.

HBOR's employees are entitled to new-born upfront payments and to payments in the case of death of a close family member and in the case of employee's disability in the amounts of non-taxable income in accordance with the Personal Income Tax Ordinance. An employee may be paid financial assistance in case of continuous sick leave longer than 90 days. In addition, HBOR may pay financial assistance to employees in the case of disability of a child or spouse/person with whom the employee lives in an extramarital union for the payment of medical aids, for the purchase of drugs abroad, for the payment of increased therapy costs,

²⁹ 402-1

³⁰ 406-1

³¹ 407-1

³² 102-41

³³ 201-3

rehabilitation costs, increased medical examination costs, increased hospital treatment costs and for the elimination of the consequences of a natural disaster. Requests for the payment of financial assistance are submitted by employees to the Human Resources and are approved by the Management Board.³⁴ In 2021, assistance was paid to eliminate the consequences of the earthquake for 16 employees residing at Zagreb and Petrinja who suffered damage and destruction of property and who submitted a request and fulfilled the criteria for assistance in elimination of the consequences of natural disaster.

Gender Equality

In 2018, HBOR adopted the 2018-2021 Action Plan for the Promotion of Gender Equality (Action Plan). The Action Plan is a framework for internal activity and is adopted every 4 years. This document envisages the implementation of various activities to promote and improve gender equality with two main objectives:

- Ensure efficient implementation of measures and tasks contained in the 2014-2020 Action Plan for the Implementation of Female Entrepreneurship Development Strategy and the National Gender Equality Policy;
- Promote gender equality within the framework of HBOR's regular business activities and ensure continuity in incorporating gender equality principles in HBOR's management processes.

Action Plan activities

Under the Action Plan, it is usual to carry out activities of special-purpose financing of female entrepreneurship and additional activities of capacity strengthening, employee training, cooperation developing through participation in theme stakeholder initiatives, promotion and visibility activities through participation in theme panels or professional discussions on female entrepreneurship as well as donor or sponsor activities for projects targeted at protecting or promoting non-discrimination, equality, diversity, human rights and non-violence.

In 2021, HBOR continued to carry out its long-term activities with a focus on facilitating access to finance for female entrepreneurs. Thus, in 2021, 44 loans were approved to female entrepreneurs under HBOR's loan programmes in the total amount of more than HRK 41 million.

³⁴ 401-2

In the period from 2020 to 2021, the main drivers of HBOR's activities in the field of gender



equality were various thematic stakeholder initiatives under international sectoral associations and clubs that recognised the challenges of deepening inequality during the pandemic and gender equality as a key component of economic recovery. HBOR supported the international sectoral initiative of development banks for gender equality and women's empowerment and co-signed, at the 1st summit of public development banks "Finance in Common" held in November 2020, along with 25 other development banks, the Paris Development Banks Statement on

Gender Equality and Women's Empowerment. This document emphasises the important role of public development banks in achieving the Sustainable Development Goal No. 5 – Achieve gender equality and empower all women and girls (SDG 5), and the banks are invited to strengthen internal and external activities aimed at gender equality, increase special purpose funding, connect such activities with the activities that contribute to climate protection and biodiversity, and improve cooperation with all stakeholders committed to gender equality and inequality reduction. Following the signing of the Statement, the signatory banks actively cooperated, and the first results of such joint work in the form of harmonisation of financing measures, identification of good practices and public strengthening of their obligations were presented at the Generation Equality Forum (GEF)³⁵ in June 2021, an international event marking the 25th anniversary of the Beijing Declaration and the Platform for Action.

An overview of the practices of development banks in promoting gender equality is also



given in the publication: Public Development Banks Driving Gender Equality – An Overview of Practices and Measurement Frameworks³⁶. In addition to case studies of leading development banks, the publication also contains analysis and proposals for steps to adopt principles, mechanisms, tools and approaches to gender equality management that development banks can incorporate into their operations and processes – from strategic documents and policies, communications, management structure and support from the highest management, through programming and financing, monitoring progress and influence.

Additionally, HBOR participated in the joint research study of the International Development Finance Club (IDFC) on strengthening gender equality in development banks³⁷, the findings

³⁵ The Generation Equality Forum (GEF) took place in March 2021 in Mexico City and from 30 June to 2 July 2021 in Paris. The forum brought together a broad platform of stakeholders, including governments, the business sector, and activists, and it presented a five-year gender equality action plan based on a series of concrete, ambitious and transformative activities to accelerate equality, leadership and better opportunities for women and girls throughout the world.

³⁶ <https://www.unwomen.org/sites/default/files/Headquarters/Attachments/Sections/Library/Publications/2021/Public-development-banks-driving-gender-equality-en.pdf>

³⁷ International Development Finance Club / Frankfurt School of Finance & Management "Study on Strengthening Gender Equality in the Development Banking Sector"

of which will be the basis for the development of a long-term collective plan to support the members of the IDFC Agenda 2030 in the realisation of SDG 5. The objectives of contracting the study were: to highlight the key role of development banks in the financing of a



sustainable economy, to strengthen the incorporation of the perspective of equality in the processes of lending, cooperation with stakeholders, communications, non-financial reporting and evaluation, to show the relationship between gender equality and financing and to give specific recommendations that the financial sector can apply in the fight against gender stereotypes, discrimination and inequality. The diagnostic report on HBOR's practices aimed at gender equality was prepared after several months of study activities led by FSFM experts – from the collection and analysis of qualitative and quantitative data to thematic interviews with key organisational units and educational workshops

for employees and management. The findings of the study showed that in HBOR there was a high level of awareness and a strong willingness to adopt the best practices of financing and supporting gender equality backed by a strong regulatory framework and an extensive partner network as well as available generous sources of funds and technical assistance for this purpose. At the same time, potential areas of improvement were related to the establishment of operational and management capacities and internal mechanisms for systematic data collection and analysis and incorporation through support and product development activities as well as promotion and reporting activities.

Employee gender breakdown

Management Board breakdown by gender						
	2019		2020		2021	
Women	1	50 %	1	50 %	1	50 %
Men	1	50 %	1	50 %	1	50 %
Total	2	100 %	2	100 %	2	100 %

Note: number of employees on the last day of the year

Management breakdown by gender						
	2019		2020		2021	
Women	20	45 %	18	43 %	22	47 %
Men	24	55 %	24	57 %	25	53 %
Total	44	100 %	42	100 %	47	100 %

Note: number of employees on the last day of the year

Employee breakdown by gender						
	2019		2020		2021	
Women	243	65 %	241	66 %	247	66 %
Men	129	35 %	124	34 %	128	34 %
Total	372	100 %	365	100 %	375	100 %

Note: number of employees on the last day of the year

In 2021, of 375 employees, 345, i.e. 92 percent, were highly educated and of an average age of 44. Most of HBOR's employees are women. In 2021, 66 percent of the total number of employees were women, and men accounted for 34 percent³⁸, where HBOR is no exception in terms of the sector having a general female prevalence. The management breakdown contains management jobs from the Management Board level to the level of Managing Directors. The relative share of women in the management is lower than the relative share of women in the total number of employees, and, in 2021, the share of women in the management stood at 47 percent³⁹. Furthermore, in 2021, 21 employees were on family/maternity leave, of which 20 women and 1 man⁴⁰.



Employee Development

Systematic care and investment in the development and education of each individual employee are among the key factors for achieving the goals of a state development and export bank. All HBOR's employees are offered training and education opportunities in accordance with the needs of the business. Development programmes are tailored on the basis of the needs of individual jobs, organisational units and specific needs of HBOR. Terms and conditions of employee training and education are regulated by the internal ordinance on employee training and education. Some of the terms and conditions relate to type of training and education, planning of training and education as well as rights and obligations of employees.

Employees are generally offered specialist seminars, training courses, conferences, English language courses, computer courses, know-how exchange with related institutions in the country or abroad and long-term education programmes (undergraduate or postgraduate studies). Applications for education and training courses are submitted by employees through the internal application system. Furthermore, the transfer of the acquired knowledge within the organisation is systematically ensured. Beside external education, internal educational workshops are also organised that are targeted at separate groups of employees, whereas some of them are open for all interested with an objective of additionally educating employees. The most usual topics of workshops include the changing of legal regulations, the adopting and upgrading of managerial knowledge, and, if necessary, the presentation of changes in processes and manners of working. Specialised workshops for the development and acquisition of specific knowledge and/or competences important for business are often organised and carried out by experts or relevant persons from the country or abroad.

³⁸ 102-8 (due to the internal monitoring system, it was not possible to introduce information on contract type)

³⁹ 405-1

⁴⁰ 401-3

Training for New Employees is organised for all new employees of HBOR and includes professional training provided by representatives of various organisational units in order to familiarise new employees with work processes in HBOR. The training also encourages employees to familiarise among themselves, and upon completion of the entire training, the acquired knowledge of participants is checked⁴¹. In terms of education, in 2021, employees participated altogether in 2,963 hours of external training compared to 3,363 in 2020. Trainings attended by employees in 2021 were held both live and online, taking into account the still present COVID restrictions. In addition, employees were actively encouraged to use digital contents and various online events available through domestic and international associations. External education includes all types of professional training and education, paid leave for the purpose of employee education, training, or education outside HBOR, which is paid in full or in part by HBOR, as well as training on certain issues⁴².

In 2021, HBOR renewed the Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management.

Evaluation of Work Performance

In order to ensure the attainment of the set plans and goals, performance management system was introduced in 2015 to systematically monitor the effects of developing every individual employee and the entire organisation. Under this system, competences of both experts and managers as well as defined target goal attainments are appraised and new target goals are set for every quarter. The evaluation of performance is comprised of the appraisal of competences and the appraisal of target attainment in the proportion 50:50. Quarterly interviews are conducted for the purpose of providing feedback to the employees from their directly superior managers.

These activities resulted in all employees receiving assessments of their performance regularly with individual target goals being set for all employees⁴³. The administration of performance management system processes is supported by the HR.net application system. Career development is implemented horizontally through specialist and professional promotions and vertically through development of careers in the direction of manager or head positions. In this way, employee advancement is linked to the performance management system, and promotion criteria are regulated by the internal performance management ordinance.

⁴¹ 404-2

⁴² 404-1

⁴³ 404-3

Occupational Health and Safety

Occupational health and safety issues are defined by special internal documents⁴⁴. The Occupational Safety Ordinance determines the right to health protection at work for all employees of HBOR⁴⁵. Occupational health and safety activities are carried out by an occupational health and safety expert. The Occupational Safety Board has been set up and operates at HBOR that meets at least twice a year, and the members of the Board discuss current issues in the field of occupational safety. Employee safe work training and training in initial firefighting are carried out by the occupational safety expert and/or authorised company⁴⁶.

The Occupational Safety Ordinance and the Guidelines for Occupational Injury and Occupational Disease Reporting Procedure have been published on the intranet sites and are available to all employees. Additionally, a special thematic site called Occupational Safety has been set up on the intranet site where all relevant information and instructions are regularly published⁴⁷. Every year, the person in charge of occupational health and safety and fire protection submits to the Management Board a written report on occupational safety measures and measures taken during the previous year as well as the plan of measures for the current year⁴⁸. In 2021 pandemic conditions, the implementation of all prescribed measures for the protection of employees' occupational health and safety was carried out, and employees work in the conditions where a safe and healthy working environment and protection of employees is ensured. All epidemiological measures were carried out regularly, devices and equipment for protection against coronavirus (masks, disinfectants, gloves, disinfectants for the area) were procured, the body temperature of employees and visitors was measured and EU digital COVID certificates or appropriate evidence of vaccination, recovery or testing were checked when entering HBOR's premises. The Guidelines for Operation and Implementation of Safety and Health Measures in Circumstances of Risk of Infectious Disease COVID-19 were updated in accordance with decisions of the Civil Protection Headquarters and recommendations of the Croatian Institute of Public Health.

Considering that, due to the consequences of the Zagreb earthquake in March 2020, the available office space has been reduced (the location at Strossmayerov trg is not in use) and considering the obligatory keeping of physical distance and implementation of epidemiological measures, the maximum number of employees who can be present in each facility and in each work room was determined.

Work from home was provided to everyone, except for employees performing activities in special working conditions, in accordance with the Occupational Safety and Health Act and the Ordinance on Performing Work in Special Working Conditions. In 2021, a new Risk

⁴⁴ 403-1

⁴⁵ 403-8

⁴⁶ 403-5

⁴⁷ 403-4

⁴⁸ 403-1

Assessment was published on HBOR's intranet site that was prepared in cooperation with employees⁴⁹. Due to the possibility of working from home, annexes to employment contracts were concluded with employees. All employees have been provided with equipment and solutions for working from home as well as with secure access to shared files.

In 2021, additional IT and communication equipment was purchased – desktop computers and/or laptops were replaced with new laptops for all workers, mobile devices were replaced for existing users and purchased and distributed to new users.

To prevent musculoskeletal problems caused by inadequate and non-ergonomic working conditions, workers working from home were able to pick up their office work chairs and use them in their workplaces at home.

During 2021, additional content was published at the intranet site related to work from home circumstances, prevention of stress and problems with the musculoskeletal system as well as content related to the prevention of coronavirus infection, stressful situations caused by fear of pandemics and earthquakes, work from home and conditions of work in pandemic and post-earthquake circumstances⁵⁰. With an objective of implementing preventive protection measures against the incidence of occupational and work-related diseases, the procurement of ergonomic aids (pads, etc.) and ergonomic keyboards and mice continued.

During 2021, no injuries at work were recorded, there were no deaths or occupational diseases⁵¹.

⁴⁹ 403-2

⁵⁰ 403-4

⁵¹ 403-9 and 403-10

Environmental Impact

Waste

In its daily operations, HBOR does not produce a significant⁵² quantity of waste. However, HBOR keeps detailed records on the energy consumed and the quantity of waste generated by its activities in order to be able to manage waste disposal and reduce waste quantities as well as to have an insight into its real impact on the environment.

Hazardous Waste

Electric and electronic (EE) equipment is collected, recorded and stored carefully. Each type of hazardous waste is collected and stored separately until hand-over to an authorised collector of waste. This prevents hazardous waste from polluting municipal waste and ensures its safe disposal in accordance with the law.

In 2021, no EE waste was disposed of, but the collection and disposal of this type of waste is envisaged in 2022 after the decommissioning of replaced IT and communication equipment. In other words, in 2021 and 2022, computers and mobile phones were replaced with new ones. Part of the old equipment will be offered to the workers for purchase or donated at the request of the organisational unit in charge of donations.

Hazardous waste handed over / kg	2019	2020	2021
EE waste	1,000	0	0
Toners	100	0	0
Batteries	80	0	0
Fluorescent tubes and bulbs	80	0	0
Air conditioning devices	0	0	0

Other Waste

Among other types of waste, HBOR collects construction and bulky waste and plastic waste. In the previous period, bulky waste was generated as a result of write-off of fixed assets (tables and chairs), and of construction works and clearing of supplies. All bulky and construction waste was disposed of by the contractors, with which the disposal of waste generated as a result of the performed works was agreed within the agreed price when contracting the terms and conditions of the works. In 2021, there was no disposal of other types of waste, and part of the collected bulky waste (old furniture) at the location of Bednja (real estate seized for unpaid receivables) was purchased in 2021 by the new owner of the said real estate. Part of the bulky waste that was not disposed of in 2021 and that was collected at the location Strossmayerov trg will be disposed of in 2022.

⁵² According to Article 9 of the Waste Management Act, the amount of waste that is considered insignificant in the transport of waste is up to an amount of 1,000 kg of hazardous waste or up to an amount of 10,000 kg of non-hazardous waste in one or more apparently connected shipments.

Plastic waste is collected in specially marked cardboard boxes located in the corridors of HBOR's premises. In 2020 and 2021, due to the working conditions in which most workers worked from home, no significant amounts of plastic waste were collected.

Other waste / kg	2019	2020	2021
Construction and bulky waste	6,640	0	0
Plastic waste	48	0	0

Although the legislation no longer obliges employers to appoint a commissioner and a deputy commissioner for waste, HBOR has appointed them, and their main tasks are to monitor the implementation of waste management regulations, organise the implementation of waste management regulations and advise on waste management issues related to HBOR. In addition, it is planned to continue the implementation of educational activities and measures for the purpose of reducing waste generation and increasing awareness among employees of the importance of waste separation, collection and recycling. These activities are aimed at ensuring the impact on business on several levels: reduction of operating costs and removal of obstacles to the work of individual organisational units (e.g. reduction in the quantity of material stored in the archives, upgrade in the information system, better implementation of the Green Office principles, etc.).

Waste Kitchen Oil and Waste from Grease Separator

All waste quantities generated in the restaurant kitchen are collected and delivered to the entity authorised for industrial cleaning, collection and temporary disposal of waste. This primarily relates to biodegradable waste and waste kitchen oil from grease separator. In 2020 and 2021, there was no need to dispose of oil and waste since the restaurant at the location Strossmayerov trg has not been in operation since March 2020, and the catering service provider disposed of the waste itself after leaving HBOR's premises.

Paper and Cardboard

Waste paper and cardboard are collected in separate, clearly marked waste paper boxes. The boxes are placed around offices and in visible places in corridors, next to shared printers and copy machines. Waste paper for shredding is collected separately. Waste paper is delivered to companies specialised in collecting and recycling/disposing of paper. HBOR continuously carries out activities aimed at raising the awareness among the employees about the responsible use of resources and reduction of the use of paper documentation such as training to use the papercut system. In pandemic 2020 and 2021, most employees worked from home, printing and circulation of paper documents was significantly reduced, and an insignificant amount of waste paper was collected that was sold to a company specialised in the collection of paper waste. HBOR intends to continue such practice when the workers return to their offices.

Collected paper and cardboard / kg			
	2019	2020	2021
Total	10,700	3,660	720 ⁵³

Energy

During 2021, a significant reduction in the consumption of all energy sources was recorded. This reduction is due to the fact that, in 2020 and 2021, the majority of employees worked from home. As in previous years, regular annual inspections and services of equipment and consumables were performed also in 2021⁵⁴. Energy sources used at HBOR's locations are as follows:

- Gas: for space heating and water heating
- Diesel: for electricity producing generator
- Solar water heating (collector at one location) – the system is out of order because the building where the system is situated is at the location that is not used due to the damage sustained in the earthquake
- Electricity
- District heating thermal energy
- Water

Consumption of energy sources at Strossmayerov trg 9 ⁵⁵	2019	2020	2021
Gas total (m³)	32,548.90	11,392.80	0.00
Electricity (kWh)	215,977.80	74,301.68	32,748.06
Water (m³)	1,865.90	406	0.00

Consumption of energy sources at Zelinska 3	2019	2020	2021
Thermal energy – heating (kWh)	179,720.00	153,425.00	178,558.00
Electricity (kWh)	167,638.70	120,113.20	130,273.80
Water (m³)	1,213.90	545.20	188.00

Consumption of energy sources at Gajeva 33	2019	2020	2021
Gas total (m³)	9,402.00	8,404.00	8,917.00
Electricity (kWh)	63,318.80	49,463.73	47,126.38
Water (m³)	432.00	211.11	193.50

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Corporate Governance

Compliance of business operations with laws and other regulations as well as compliance with internal rules are the basis of responsible corporate governance and the necessary precondition for successful operations in the increasingly demanding regulatory environment. HBOR systematically monitors legislation and good practice in the field of corporate governance that are incorporated into HBOR's operations in accordance with the principles of good banking.

HBOR's Code of Conduct defines the basic standards of ethical and legal procedures, rules for preventing corruption and ensuring professional behaviour. Also, the possibility of reporting violation of the Code is envisaged. Code of Conduct default form, description of default reporting procedure and e-mail address for reporting defaults are available at HBOR's websites in Croatian and English languages.⁵⁶ The person responsible for compliance monitoring is responsible for initiating proceedings on the basis of received HBOR's Code of Conduct violation reports and for counselling⁵⁷. In 2021, seven violation reports were submitted, and five procedures were implemented due to the HBOR's Code of Conduct violation. In two violation report cases, it was established that HBOR's Code of Conduct violation report was unfounded, and out of a total of five implemented procedures, two reports were identified as well-founded and the Management Board of HBOR was informed about them together with proposal for further action⁵⁸. One report was found to have elements of irregularity that do not refer to the violation of the HBOR Code of Conduct provisions, and it was referred for further competent action. In the remaining two reports, it was established that the persons who had submitted the report had used two mechanisms, that of the Grievance Officer and that of the Compliance Monitoring Function. Since it was established that these were reports of irregularities, the procedures for the two reports were carried out by the Grievance Officer. Every year, information on the reports submitted and proceedings initiated on the basis of received HBOR's Code of Conduct violation reports is submitted to the Management Board of HBOR by 31 January for the preceding year.

In accordance with the principles of public disclosure, financial statements of HBOR and HBOR Group for the reporting periods are published on HBOR's websites. HBOR's annual separate and consolidated financial statements are adopted by the Supervisory Board and submitted to the Croatian Parliament for confirmation. The 2021 annual rating process of HBOR was conducted by the international independent rating agency Standard & Poor's.

Governance Bodies

Duties, responsibilities and powers of the members of the Management Board and the Supervisory Board are regulated by the Act on HBOR (Official Gazette of the Republic of Croatia "Narodne novine" No. 138/06) and the Act on the Amendments to the Act on HBOR

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(Official Gazette of the Republic of Croatia “Narodne novine” No. 25/13). They are further elaborated in the By-Laws of HBOR. The Act on HBOR and the By-Laws of HBOR as well as the decisions made by the Supervisory Board determine the types of transactions that HBOR performs only with a prior consent of the Supervisory Board. The Management Board and the Supervisory Board successfully co-operate through open discussions, and the timely submission of thorough written reports to the Supervisory Board is the basis for this co-operation.

The Supervisory Board determines the principles of operating policy and strategy, supervises the business activities of the Bank, adopts HBOR’s lending policies, adopts the annual financial statements and examines the Internal Audit reports and reports drafted by external independent auditors and by the State Audit Office. The Supervisory Board also monitors and controls the legality of the business activities of the Management Board, appoints and dismisses the President and the members of the Management Board. According to the Act, the Supervisory Board consists of ten members: six ministers in the Government of the Republic of Croatia, three Members of Parliament and the President of the Croatian Chamber of Economy. The Rules of Procedure of HBOR’s Supervisory Board are available on the HBOR website <https://www.hbor.hr/naslovnica/hbor/o-nama/>.

The Management Board represents HBOR, conducts HBOR’s business and administers its assets, and is obliged and authorised to undertake all actions and pass all resolutions it considers necessary for the legal and successful conduct of business. The powers of the Management Board also include adopting normative acts that determine the manner of operations and the internal organisation of HBOR, adopting loan programmes, making individual loan approval decisions and decisions on other financial transactions, making decisions on the appointment and dismissal of employees with special powers, making decisions on the rights and obligations of employees and reporting to the Supervisory Board. The Rules of Procedure of HBOR’s Management Board are available on the HBOR website <https://www.hbor.hr/naslovnica/hbor/o-nama/>.

Members of HBOR’s Management Board in 2021:

- Tamara Perko, MSc, President of the Management Board,
- Hrvoje Čuvalo, MSc, Member of the Management Board.

On the basis of HBOR’s Code of Corporate Governance and the Audit Act, the Audit Committee of HBOR has been established pursuant to a decision of the Supervisory Board. The Audit Committee is comprised of three members, one of whom is appointed from among the members of the Supervisory Board of HBOR and the other two, at least one of whom must be an independent member, are appointed by the Supervisory Board. The President is appointed by the Supervisory Board from among the independent members of the Audit Committee.

The composition of the members of the Supervisory Board, the Management Board and the Audit Committee is published in the annual reports and on the HBOR website.

In order to ensure as effective and as high-quality risk management as possible and to reduce the risks to the lowest level possible, the following committees operate under the Management Board: the Assets and Liabilities Management Committee, the Credit Risk Assessment and Measurement Committee, the Information System Management Committee and the Business Change Management Committee.

The internal control system of HBOR is organised through independent organisational units as follows:

- Independent organisational unit for risk management conducts the identification, assessment, measurement, supervision and control of risks that HBOR is exposed or may be exposed to within the framework of its operations,
- HBOR's Internal Audit, as an independent organisation unit, is in charge of verifying the adequacy of the risk management procedures and the internal control system, including risk control function and compliance function, as well as of implementing the internal policies, procedures and activities related to the prevention of money laundering and terrorism financing,
- Independent compliance function organises, coordinates and directs the activities concerning compliance monitoring at the level of HBOR, advises on matters of compliance, controls measures taken to minimize compliance risk, incorporates information on compliance monitoring, identifies and assesses the risks of compliance and provides regular reports. The main tasks of the compliance function are to limit the non-compliance risk and its possible negative effects, ensure compliance of all internal documents and business processes with the relevant regulations and promote the principles of ethical business.

Compliance Monitoring

Pursuant to the legislation, the Compliance Monitoring Function has been established at HBOR. This function is independent of business processes and activities in which risks arise and it is implemented in a decentralised manner throughout all organisational units of HBOR. In order to better regulate compliance monitoring and define responsibilities of all employees and responsible persons in charge of compliance with relevant acts, regulations, policies, standards and procedures of HBOR, the Compliance Monitoring Policy and the Compliance Monitoring Ordinance are in force. Compliance monitoring is carried out in accordance with the annual work plan prepared on the basis of a documented risk assessment.

Public Disclosure of Activities

HBOR continuously performs measures aimed at increasing access to information for all stakeholders and informing the public in a proactive manner. HBOR puts a special focus on providing information to the public about its goals and about the measures for their attainment as well as about the results of its activities by simultaneously obeying the principle of bank secrecy. Therefore, all information on HBOR's operations can be found on HBOR's

websites except for those subject to bank secrecy regulations pursuant to the Act on Credit Institutions.⁵⁹ Announcement of agendas and conclusions from the meetings of the Supervisory Board, the Management Board and the Credit Committee can be found on the HBOR website under section HOW WE WORK <https://www.hbor.hr/kako-radimo/>.

In 2021, the public was regularly informed about significant changes or new developments in HBOR's operations through various forms of communication: press releases or written replies to inquiries. Annual financial statements containing independent auditor's report, semi-annual financial statements containing management report and quarterly condensed financial statements are published regularly and timely.

In 2021, HBOR published 19 press releases informing the public about operations, attained business results, new products and services as well as changes to the existing ones.

HBOR is obliged to apply the Public Procurement Act and procures goods, works and services for business purposes in accordance with its provisions. Pursuant to the Public Procurement Act, HBOR publishes on its website:

1. Plan of procurement for goods, services and works for each calendar/budget year and all amendments to the Plan
2. Register of contracts
3. Economic operators with whom it must not conclude Procurement Contracts due to conflicts of interest

In 2021, altogether 27 public procurement procedures were published in the Electronic Public Procurement Classifieds, whereas simple procurement procedures were published on HBOR's websites. From 1 January 2022, all simple procurement procedures with an estimated procurement value equal to or greater than HRK 20,000 will be published in the Electronic Public Procurement Classifieds.

Access to information is possible throughout the year on working days from 8 to 16 o'clock. Information officer prepares annual reports on the implementation of the Right of Access to Information Act to be submitted to information commissioner. In 2021, 17 requests for access to information were received pursuant to the Right of Access to Information Act. On the website of HBOR, under the section ACCESS TO INFORMATION, <https://www.hbor.hr/pristup-informacijama/>, users of the right to access information can find more information on how to submit a request to the information commissioner.

Anti-Corruption

Pursuant to the 2010-2012 Anti-Corruption Programme for Majority State-Owned Companies, HBOR adopted measures to remove the causes of corruption. After the expiry of the programme, all documents and procedures became part of the regular business practice of HBOR. A statement of non-existence of conflict of interest is part of mandatory documentation of a procurement procedure. Criteria for the award of sponsorships and

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donations are publicly available. Activities of control functions are planned annually. Employees have access to information/education material in the field of ethics and conflicts of interest, and all new employees undergo a regular process of getting acquainted with these topics. HBOR's Code of Conduct defines the mechanism for proceedings upon reports of Code of Conduct violation. Adopted principles are continuously developed through regular reviewing and updating of documents⁶⁰. Since 2018, the compliance monitoring function has continuously conducted online education on business ethics with the focus on the prevention of conflicts of interest. The education has covered general ethical principles and provisions of mandatory regulations, voluntary guidelines and internal documents of HBOR (HBOR's Corporate Governance Code, Conflict of Interest Prevention Act, Procurement Act, ICC (International Chamber of Commerce) Guidance on Conflict of Interest, Decision on the Adoption of Corporate Governance Code in Companies in which the Republic of Croatia Holds Shares or Interests, Rules of Procedure of HBOR's Management Board, Rules of Procedure of HBOR's Supervisory Board, Compliance Monitoring Policy, Handbook for Procedure of HBOR as the Body Implementing the ESIF Growth and Development Financial Instrument) as well as examples from practice and recommendations. In 2021, a training called Ethical Rules – Conflict of Interest was carried out for new employees and employees who could not join the training in previous cycles due to legitimate reasons⁶¹. Employees are made aware of the necessity of making decisions based on ethical principles also in situations that are not covered by regulations and binding norms and that may arise in the business life of the employee or organisation.

In accordance with the Whistleblower Protection Act ("Narodne novine" No. 17/19), which entered into force on 1 July 2019 and which gave rise to the obligation on the part of HBOR to appoint a grievance officer and to establish an internal irregularity reporting system, grievance officer and deputy grievance officer were appointed in October 2019. The grievance officer assumed the responsibility for proceedings upon irregularity reports (both in cases of internal reporting and of reporting by third persons). In December 2019, an internal document was adopted regulating the procedure of reporting irregularities at HBOR. In order to carry out the procedure upon a report on irregularity, fraud or corruption submitted by a borrower, employee or any other interested party, an irregularity reporting form is provided. The irregularity reporting form and the address for submitting reports are published on HBOR's website at the following link: <https://www.hbor.hr/naslovnica/hbor/prijava-nepravilnosti-prijevare-sumnje-korupciju/>.

In 2021, fourteen irregularity reports were submitted. In the procedure of assessing merits that was conducted by the grievance officer, it was established that nine of fourteen reports were unfounded, while the remaining five were founded. The Management Board of HBOR was informed about all the reports (some contain recommendations for further action) and in accordance with the Whistleblower Protection Act, the grievance officer informed the Ombudsman about the reports received and about the outcome of the action. No reports of

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suspected corruption were recorded in 2021 within the mechanism for reporting irregularities, which is led by the grievance officer. Also, there were no disputes initiated against HBOR based on a lawsuit due to corruption, nor were there any disputes resolved in favour of or against HBOR regarding the corruption issue⁶².

At the same time, reports of suspected irregularities in the implementation of financial instruments and complaints on decisions made by commercial banks rejecting loan applications are submitted to a separate address: esif.nepravilnosti@hbor.hr. This reporting mechanism is managed by the organisational unit called EU Funds and Financial Instruments. In 2021, no reports were received on this basis.

Prevention of Money Laundering and Terrorism Financing

In its operations, HBOR carries out measures, activities and procedures to prevent money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Ordinance and the Methodology for the Implementation of Anti-Money Laundering and Terrorist Financing Measures, Activities and Procedures that are based on the Anti-Money Laundering and Terrorist Financing Act. In 2021, activities aimed at strengthening the internal system of anti-money laundering and terrorist financing (AML/CTF) continued. In accordance with the prescribed legal obligations, the persons authorised to prevent money laundering and terrorist financing held professional training and education of HBOR's employees relating to the implementation of measures, activities and procedures aimed at preventing money laundering and terrorist financing. At the same time, the authorised person and her deputy themselves attended online professional meetings and trainings on the prevention of money laundering and terrorist financing, and they were able to provide advisory and practical assistance to employees in specific business situations.

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Local Communities

Sponsorships and Donations

As part of its activities aimed at the development of the community, HBOR grants donations and sponsorships with priority given to projects related to HBOR's mission that contribute to the creation of new values based on knowledge, cultural heritage and natural resources for the purpose of attaining sustainable and balanced development of all regions of the Republic of Croatia. The goal of the award of such funds is to create a positive atmosphere and to promote excellence in the local community and society as a whole.

HBOR grants donations and sponsorships on the basis of the Ordinance on the Procedures and Criteria for the Award of Donations and Sponsorships, which, together with the award criteria, has been published on HBOR's websites under CORPORATE SOCIAL RESPONSIBILITY. The Ordinance is aligned with the Regulation of the Government of the Republic of Croatia on the criteria, benchmarks and procedures for financing and contracting programmes and projects of interest to the common good implemented by associations. HBOR publishes the results of tenders for donations as well as information on the beneficiaries of smaller donations, large extraordinary donations and sponsorships under DONATIONS AND SPONSORSHIPS. The procedure of awarding sponsorships and donations as well as the public announcement of beneficiaries are in accordance with the Right of Access to Information Act and the recommendations of the Anti-Corruption Programme of the Government of the Republic of Croatia for majority state-owned companies⁶³.

In 2020 and 2021, public invitations for the award of donations were not announced, but donations were awarded at request. In 2021, 13 smaller donations were awarded in the total amount of HRK 63,800 and in individual amounts of up to HRK 5,000 and six extraordinary large donations in the total amount of HRK 2.05 million. All six large, extraordinary donations were awarded for humanitarian projects to recipients on the earthquake-affected areas of Sisak and Sisak-Moslavina County. Five of six extraordinary large donations were awarded from the funds of the Polish development bank, BANK GOSPODARSTWA KRAJOWEGO (BGK), and one in the individual amount of HRK 165,000 from HBOR funds. Criteria for awarding donations and sponsorships in 2021 as well as the list of recipients of donations and sponsorships in 2020 and 2021 are published on the HBOR's website under DONATIONS AND SPONSORSHIPS - CRITERIA.

<https://www.hbor.hr/naslovnica/hbor/kriteriji-dodjelu-sponzorstava-manjih-donacija/>

⁶³Anti-corruption programme of the Government of the Republic of Croatia for the companies majority owned by the state for the period 2010 – 2012

Organisational Profile

HBOR⁶⁴ promotes systematic, sustainable and balanced economic and social development in line with the overall strategic goals of the Republic of Croatia.

Main areas of HBOR's operations are financing of reconstruction and development of the Croatian economy, financing of infrastructure, promotion of exports, support for the development of SMEs, promotion of environmental protection, insurance of exports of Croatian goods and services against non-marketable risks. Pursuant to the adopted 2020-2024 Business Strategy, the primary focus of HBOR's business operations is on the promotion of the development of equity and quasi-equity market in the Republic of Croatia, promotion of economically and socially balanced and sustainable regional, rural and urban development of the Republic of Croatia, promotion of Croatian economy internationalisation and globalisation, promotion of recovery from the pandemic caused by COVID-19, promotion of competitiveness by emphasising innovation, digital transformation and Industry 4.0, and promotion of climate and energy neutral economy through energy efficiency, renewables and environmental protection. The primary focus of HBOR's business activities is on the Republic of Croatia, however, HBOR supports Croatian exporters through its credit lines and export credit insurance programmes⁶⁵. The largest export turnover with insurance coverage was realised for buyers in France, Ukraine, Belarus, Latvia and Greece⁶⁶.

HBOR has its headquarters in Zagreb, where the Bank operates at three locations. HBOR has six regional offices:

- Regional office for Dalmatia
- Regional office for Istria
- Regional office for Lika
- Regional office for Primorje and Gorski Kotar
- Regional office for North-West Croatia
- Regional office for Slavonia and Baranja⁶⁷

HBOR's founder and 100% owner is the Republic of Croatia. The Republic of Croatia guarantees for the obligations of HBOR unconditionally, irrevocably and at first demand without issuing a separate guarantee instrument. The liability of the Republic of Croatia as the guarantor for the obligations of HBOR is joint and several and unlimited⁶⁸.

As at 31 December 2021, there were 375 employees at HBOR⁶⁹. In 2021, there were no major changes at HBOR or the supply chain⁷⁰.

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Values

HBOR's values⁷¹ are expertise, proactivity, innovation, sustainability, flexibility, efficiency and transparency.

HBOR's values	
Expertise	As part of the activities set forth in the Act on HBOR, HBOR will act as a competence centre for financial structuring and implementation of projects for the public and private sectors by providing users with easy access to financial products, information on available funding sources and other information relevant to achieving the goals set in the Act on HBOR and the 2020-2024 Business Strategy. The basis of our expertise are the skills and the knowledge of employees, to which we pay special attention. We invest significant own funds in the development of our employees, but we also effectively use other available sources such as EU funds and funds of international financial institutions. We will continue to strengthen our own expertise and encourage continuous pursuit of excellence through significant investments in the education and training of employees who are the basis of our success.
Proactivity	A proactive approach is one of the key values that will be extremely important for HBOR in the next five-year period. Namely, the role of development banks and institutions is the timely recognition of the needs of the domestic economic system, which can be achieved only through a proactive approach to the gathering of information through market research, communication with key stakeholders, development and implementation of new products and presentation of HBOR's effects on the economy in general. Proactivity as an approach and as a feature of the organisation and employees permeates all our activities and organisational values, and consequently the strategic goals of HBOR.
Innovation	Innovation and support for innovative projects are among the key preconditions for creating greater value added, competitiveness, long-term sustainability and stability of the development of the

⁷¹ 102-16

	<p>domestic economy. Given the lower intensity of investment of the domestic economy in research, development and innovation, HBOR will pay special attention to the systematic support of innovations in the next 5-year period in order for them to become an indispensable part of the country's business culture. HBOR will promote innovation also by developing innovative financial products that will encourage the cooperation of various stakeholders in the Croatian business, public and scientific environments and support the development of the domestic financial market. By integrating innovation into its own values and organisational culture, HBOR further emphasises continuous improvement, proactivity and progress as key levers of its own business and business success.</p>
<p>Sustainability</p>	<p>Economically, ecologically and socially sustainable development is one of the main values of national, regional and global development. Regardless of whether it is about sustainable financing and orientation towards the long-term well-being of the entire community or about HBOR's internal/institutional sustainability, HBOR will strive to provide services, products and activities that contribute to the sustainable development of the company and are at the same time financially justified in terms of HBOR's sustainable operations. In the next five-year period, HBOR will focus on the development of sustainable financing in the Croatian market as one of the preconditions for the long-term well-being of the entire community, both at the national and international level. HBOR will carry out all the above activities by taking into account the financial sustainability of the bank's operations.</p>
<p>Flexibility and efficiency</p>	<p>To achieve its goals in terms of the growth of the entire Croatian economy, HBOR will, in the coming five-year period, make greater efforts to harmonise its organisational structure and processes with good banking practices and practices of other development banks, all with an objective of ensuring higher efficiency of its operations and greater flexibility in approaching its customers. An important component in contributing to the successful achievement of goals is a more efficient use of technology.</p>

Transparency	<p>As HBOR is a financial institution owned by the Republic of Croatia that provides support to the business and social environments, one of its essential values is the transparency of activities towards both the internal and external environments. This effort includes ongoing reporting on activities and providing clear and informative reports to all internal and external stakeholders. Furthermore, HBOR will continue to measure and publish annual results in terms of economic performance in the previous year. HBOR will strive to increase the positive impacts and reduce the negative impacts on the environment as well as to adequately manage the risks arising from HBOR's activities that affect the people and the environment. Transparency of operations will continue to be ensured by regular audits of operations and by the development of a system of reporting on the impacts of HBOR's activities on the overall development of the Republic of Croatia and society⁷².</p>
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Overview of the Most Significant Financial Information of HBOR

HRK million	2019	2020	2021
Total assets	26,446.49	28,680.36	28,249.99
Gross loans	26,571.11	27,197.29	26,329.34
Total capital and reserves	10,267.10	10,354.62	10,567.73
Total income	702.69	657.97	728.64
Total expense	(547.64)	(578.63)	(541.56)
Profit	155.05	79.34	187.08
Interest income	664.59	621.34	676.17
Interest expense	(311.56)	(244.19)	(184.61)
Net interest income	353.03	377.15	491.56 ⁷³

Note: HBOR is not subject to profits tax

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In 2021, HBOR supported 1,797 projects in the total amount exceeding HRK 7.7 billion through loans approved, guarantees issued and exports insured.



1,797 PROJECTS FINANCED



HRK 7.7 BILLION

Most of the commitments relate to loans – in the reporting year, loans were approved for 1,193 projects in the amount exceeding almost HRK 5 billion.

HBOR raises long-term funds for general and special purposes in the financial markets, most usually in the form of loans and occasionally debt instruments for the purpose of ensuring sufficient financial means to fund HBOR's operations and credit activity. The raising of special-purpose funds is performed through international financial institutions, development banks and other related institutions, whereas general-purpose funds are raised in domestic and international financial markets.

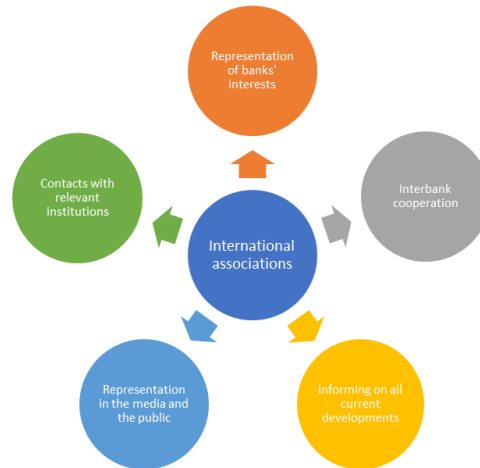
More than 89 percent of HBOR's total borrowings were raised through international financial institutions, of which the most important share related to the European Investment Bank. In terms of purposes, more than 48 percent of total borrowings were intended for the financing of small and medium-sized enterprises, approximately 24 percent of borrowings were intended for the financing of mid-cap companies, whereas approximately 12 percent of borrowings were earmarked for the financing of projects implemented by local government units⁷⁴.

HBOR has concluded cooperation agreements with 57 export-credit agencies, export banks, development banks and international financial institutions from all over the world, thus facilitating access to information and quality services for Croatian entrepreneurs when entering foreign markets and cooperating with foreign partners.

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Memberships

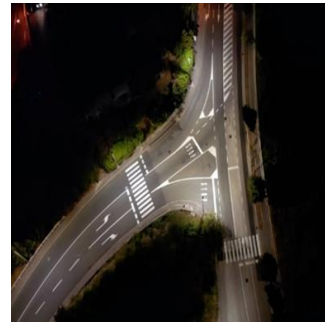
HBOR is a member of or participates in the operations or management of numerous business associations, clubs and chambers, and its memberships and available communication mechanisms are used by HBOR for the purpose of development of its business operations, development of its products and services, exchange of information and incorporation of the best practices in its business processes.



Activities are performed through the participation of HBOR's representatives in management bodies and expert groups, in discussions, educational programmes, exchange of good practices, contributions to various studies and operating guidelines. These well-established international sectoral platforms for cooperation and dialogue contributed to the rapid response of the banking sector and HBOR in the context of the 2021 pandemic. At the same time, new European policies in the field of achieving the goals of the Paris Agreement on Climate Change and the 2030 Agenda were key topics on the agenda of all international associations also in 2021, and thus a wide network of members of these associations was actively involved in addressing global challenges.



In November 2021, the European Association of Long-Term Investors – ELTI published the brochure *FIT FOR FINANCING 55 – The contribution of National Promotional Banks and Institutions in Europe*⁷⁵, which provides some selected examples of diverse sustainable projects financed by ELTI members. Among the presented projects of 9 development banks in Europe, there are also 2 examples of public lighting financing in the cities of Kastav and Knin presented by HBOR.



The Long-Term Infrastructure Investors Association (LTIIA), of which ELTI is a member, issued a report in October 2021 on challenges and opportunities for investors in social infrastructure. Among the presented projects, HBOR's project for financing the social infrastructure of a kindergarten in Zadar was published.



**Social Infrastructure:
from challenge
to opportunity for investors**

OCTOBER 2021



Long-term
Infrastructure
Investors
Association



⁷⁵ https://www.eltia.eu/images/ELTI_Brochure_-_Fit_for_Financing_55.pdf

HBOR's key international memberships⁷⁶:

	Activities of association	Main topics in 2021
 <p>EAPB EUROPEAN ASSOCIATION OF PUBLIC BANKS</p>	<p>The European Association of Public Banks (EAPB) gathers the European public financial institutions on relevant topics: EU regulations of financial institutions, EU funds, state aid, accounting and finance, capital markets, sustainable financing and other sectoral topics.</p>	<ul style="list-style-type: none"> • Sustainable financing (taxonomy, ESG risks, green bonds, non-financial reporting) • BASEL IV • IMF, InvestEU • Response of banks to the crisis caused by the pandemic
 <p>ELTI LONG-TERM INVESTORS</p>	<p>The European Long-Term Investors Association (ELTI) creates a network of national promotional banks and institutions. The Association informs its members about the discussions, initiatives and measures carried out by the EU institutions, initiates research studies, organizes conferences and represents the common interests of the members vis-à-vis the EU institutions.</p>	<ul style="list-style-type: none"> • Response of banks to the crisis caused by the COVID-19 pandemic • InvestEU, EU Taxonomy • RRF (Recovery and Resilience Facility) • Sustainable financing • Social housing
 <p>IDFC International Development Finance Club</p>	<p>The International Development Finance Club (IDFC) has a mission to contribute to global development. Subjects and topics of common concern to IDFC members are climate change, infrastructure, social development, innovation, poverty reduction, environmental protection and green projects.</p>	<ul style="list-style-type: none"> • Gender equality • Biodiversity, combating climate change • Harmonisation of the activities of banks with SD goals
 <p>NEFI</p>	<p>The Network of European Financial Institutions for SMEs (NEFI) gathers 18 financial institutions from 18 member states. NEFI promotes small and medium-sized enterprises with EU institutions and other SMEs related European associations and provides expertise on specific European promotional financing schemes.</p>	<ul style="list-style-type: none"> • New legislative proposals for the 2014-2020 programming period • Promoting financial instruments as a tool for financing small and medium-sized enterprises • Innovative financing
 <p>berneunion SUPPORTING TRADE AND INVESTMENT SINCE 1934</p>	<p>The Berne Union is a global association of export-credit insurers whose members are export-credit agencies, private credit and political risk insurers and multilateral institutions that provide insurance products, guarantees, and some kind of direct financing of international trade. The mission of the association is to encourage international trade through the implementation of common lending and investment principles.</p>	<ul style="list-style-type: none"> • Sub-Saharan Africa; Net Zero export loans • Private credit insurance market during the pandemic; cooperation between private and state export credit insurers during and after the pandemic • The impact of climate risk on the country's rating and the cost of debt • Cooperation of private and public financial institutions for the purpose of green transition and sustainable development financing • Government measures to support SMEs
 <p>UN environment programme finance initiative</p>	<p>The United Nations Environment Programme Finance Initiative - UNEP FI is a partnership between UNEP and the financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members - banks, insurers and investors – and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts.</p>	<ul style="list-style-type: none"> • Climate change • Ecosystems • Sustainable development goals and impact measurement • Social issues and protection of human rights
 <p>UN GLOBAL COMPACT COMMUNICATION ON PROGRESS</p> <p>This is our Communication on Progress in implementing the Ten Principles of the United Nations Global Compact and supporting broader UN goals. We welcome feedback on its contents.</p>	<p>The United Nations Global Compact is a UN international initiative launched in 2000 that connects the business sector with UN agencies, governments and civil society in upholding fundamental values in the areas of human rights, labour rights, the environment and the fight against corruption.</p>	<ul style="list-style-type: none"> • Sustainable development goals, environmental risks and opportunities, social impacts and opportunities, human and labour rights • Sustainability management, sustainable practices, sustainable development and sustainable financing; sustainability in supply chains
 <p>E.V.F.I.N. The European Venture Fund Investors Network</p>	<p>The European Venture Fund Investors Network (EVFIN) is an informal platform for dialogue and cooperation that gathers public investors from 16 European countries to exchange information and best practices.</p>	<ul style="list-style-type: none"> • Recovery from the pandemic
 <p>INVEST EUROPE</p>	<p>INVEST EUROPE is the world's largest association of private capital providers representing Europe's private equity, venture capital and infrastructure investment companies as well as their investors, including some of Europe's largest pension funds and insurers.</p>	<ul style="list-style-type: none"> • Record activity for the venture capital industry as a result of the accelerated recovery from the pandemic • EU sustainable funding • Climate change, ESG incorporation
 <p>BACEE BANKING ASSOCIATION FOR CENTRAL AND EASTERN EUROPE</p>	<p>The Banking Association for Central and Eastern Europe (BACEE) promotes its members in the international financial market, offering a wide range of services such as bank analysis, bank information, risk assessment and consulting services for members.</p>	<ul style="list-style-type: none"> • Impact of the COVID-19 pandemic on the financial industry • Digitisation
 <p>CHINA-CEEC Inter-Bank Association</p>	<p>The Inter-Bank Association of the People's Republic of China and Central and Eastern European Countries (CHINA CEEC) establishes cooperation between the People's Republic of China and the countries of the Central and Eastern Europe with the objective of strengthening economic and financial cooperation between member countries</p>	<ul style="list-style-type: none"> • Promoting cooperation in the economy, trade and investment (infrastructure, energy, telecommunications, agriculture, trade, finance, environment, SMEs) and the economy recovery from the crisis caused by the pandemic

⁷⁶ 102-12

HBOR is a member of the Development and Humanitarian Aid Committee administered by the Ministry of Foreign and European Affairs⁷⁷, whose official global framework is comprised of the 2030 Sustainable Development Programme containing 17 sustainable development goals, the Addis Ababa Action Agenda on Development Finance, the Paris Agreement on Climate Change, the World Humanitarian Summit, the Agenda for Humanity and the Sendai Framework for Disaster Risk Reduction⁷⁸.

Throughout 2021, meetings of the Council Working Group on Export Credits Export Credit Group (ECG), in which HBOR representatives participate as part of the Croatian delegation led by the Ministry of Finance, were held in virtual form due to the COVID-19 pandemic. The EU Council was presided over by Portugal and Slovenia, which placed climate issues high on the priorities of their presidency programmes. Encouraging the strategy of sustainable growth was at the centre of the working group's activities, where the discussions were held on how European officials supported export credits can contribute to sustainable growth.

The group's activities were also focused on the implementation of European green policies in export credit agencies' practices. In this regard, HBOR, within the framework of the Working Group, participated in determining further steps that the EU will take in the OECD with the aim of modernising the OECD Arrangement on Officially Supported Export Credits, revising the Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects (CFSU) and the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects (CCSU). As a result of these efforts, in October 2021, an agreement was reached among the Participants of the OECD Agreement on Revision of the Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects and official support for such projects has been significantly limited⁷⁹.

For more information on HBOR's memberships in international associations, please see: <https://www.hbor.hr/naslovnica/hbor/medunarodna-suradnja/>.

Stakeholders

The stakeholders vis-à-vis HBOR are the persons who affect HBOR or who are affected by HBOR's decisions and activities. HBOR's stakeholders are: government and public administration bodies, foreign and local financial institutions, investors/suppliers, beneficiaries, local community and non-governmental organisations, media, regulatory

⁷⁷ By the Decision of the Government of the Republic of Croatia of 18 January 2018, the National Council for Sustainable Development was established, headed by the Prime Minister of the Republic of Croatia. Administrative tasks for the Council are performed by the Ministry of Foreign and European Affairs, which also monitors, analyses and coordinates the implementation of the goals of the 2030 Agenda in Croatia.

⁷⁸ 102-13

⁷⁹ Support can only be provided to projects that use CCUS technology (carbon capture utilisation and storage) or projects for the installation of this technology. Projects for the supply of equipment for existing power plants to reduce emissions, air or water pollution can also be supported, provided that the life of the power plant is not extended or the capacity of the existing power plant increased.

bodies, rating agencies, employees and scientific institutions.⁸⁰ HBOR monitors the standpoints of the stakeholders, assesses their foundation and takes necessary measures to gradually improve relationships and develop transparency.⁸¹ HBOR communicates with the stakeholders actively and openly with a special focus on the improvement in quality of communication with beneficiaries.⁸²

Reporting Practice

HBOR has issued annual social responsibility and sustainability report (non-financial report)⁸³ for the period from 1 January 2021 to 31 December 2021.⁸⁴ The report for the period from 1 January 2020 to 31 December 2020 was published on 31 August 2021.⁸⁵

Compared to the previous reporting period, no significant changes occurred in the reporting practice. Besides the principles of UN Global Compact that are generally used when preparing reports, HBOR continued to use GRI Standards – Global Reporting Initiative Standards⁸⁶⁸⁷ and sustainable development goals in the identification of those contributing directly or indirectly. When identifying material topics, HBOR applied international standards and agreements, EU policies and rules, 2020 – 2024 Business Strategy of HBOR and other internal documents as well as assessments and evaluations of stakeholders relating to the relative significance of material topics, sustainable development goals and management approach⁸⁸. Material topics reflect HBOR’s non-financial impacts relating to its headquarters in Zagreb at three locations and six regional offices in Croatia, unless otherwise stated in the report⁸⁹. This report does not cover the material impacts of the HBOR Group.

HBOR Group prepares:

- Separate financial statements of the parent company – HBOR
- Consolidated financial statements that include HBOR and companies under its control – subsidiary companies⁹⁰.

The financial statements are prepared and presented in order to provide information on the financial position, success in operations and changes in the financial position of HBOR and HBOR Group in order to enable their users to make appropriate economic decisions and in order to give financial information about the implementation of the activities of HBOR Group.

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⁸⁰ 102-40

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⁸⁵ 102-51

⁸⁶ 102-48

⁸⁷ 102-54

⁸⁸ 102-49

⁸⁹ 102-46

⁹⁰ 102-45

⁹¹ 102-53

GRI Table of Contents

GRI INDICATOR ⁹²	INFORMATION	CHAPTER	UN GLOBAL COMPACT
ORGANISATION PROFILE			
102-1	Name of the organisation	Organisational Profile	✓
102-2	Activities, brands, products, and services	Satisfaction of Clients	✓
102-3	Location of headquarters	Organisational Profile	
102-4	Location of operations	Organisational Profile	
102-5	Ownership and legal form	Organisational Profile	✓
102-6	Markets	Organisational Profile	✓
102-7	Scale of the organisation	Organisational Profile	✓
102-8	Employees and other workers	Gender Equality	✓
102-9	Supply Chain	Overview of the Most Significant Financial Information of HBOR	✓
102-10	Significant changes to the organisation and its supply chain	Organisational Profile	✓
102-11	Precautionary principle or approach	Transparency	✓
102-12	External initiatives	Memberships	✓
102-13	Membership of associations	Memberships	
STRATEGY			
102-14	Statement from senior decision-maker	Statement by the Management Board	
102-15	Key impacts, risks and opportunities	Statement by the Management Board, Sustainable and Responsible Financing in the Focus of the EU, Our Environment, Framework for the Assessment of HBOR's Material Impacts, Transparency, Financing – Support for Climate and Environmental Protection, Organisational Profile - Values	✓
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	Values, Corporate Governance	✓
102-17	Mechanisms for advice and concerns about ethics	Corporate Governance	✓

⁹² 102-55

GOVERNANCE			
102-18	Governance structure	Governance Bodies	✓
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders	Stakeholders	✓
102-41	Collective bargaining agreements	Benefits	✓
102-42	Identifying and selecting stakeholders	Stakeholders	
102-43	Approach to stakeholder engagement	Stakeholders, Framework for the Assessment of HBOR's Material Impacts	✓
102-44	Key topics and concerns	Framework for the Assessment of HBOR's Material Impacts	✓
REPORTING PRACTICE			
102-45	Entities included in consolidated financial statements	Reporting Practice	
102-46	Defining report content and topic boundaries	Reporting Practice	
102-47	List of material topics	Framework for the Assessment of Material Impacts	
102-48	Restatements in information	Reporting Practice	
102-49	Changes in reporting	Reporting Practice	
102-50	Reporting period	Reporting Practice	
102-51	Date of most recent previous report	Reporting Practice	
102-52	Reporting cycle	Reporting Practice	
102-53	Contact point for questions regarding the Report	Reporting Practice	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting Practice	
102-55	GRI content index	Reporting Practice	
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Overview of the Most Significant Financial Information of HBOR	
201-2	Financial implications and other risks and opportunities due to climate change	Statement by the Management Board, Financing – Support for Climate and Environmental Protection	
201-3	Defined benefit plan obligations and other retirement plans	Benefits	✓

201-4	Financial assistance received from government	Overview of the Most Significant Financial Information of HBOR	
INDIRECT ECONOMIC IMPACTS			
203-1	Infrastructure investments and services supported	Financing / Support for Entrepreneurship and Development	
203-2	Significant indirect economic impacts	Financing / Support for Entrepreneurship and Development	
ANTI-CORRUPTION			
205-1	Operations assessed for risks related to corruption	Corporate Governance, Anti-corruption	✓
205-2	Communication and training about anti-corruption policies and procedures	Corporate Governance, Anti-corruption	✓
205-3	Confirmed incidents of corruption and actions taken	Corporate Governance, Anti-corruption	✓
ENERGY			
302-1	Energy consumption within the organisation	Energy	✓
302-4	Reduction of energy consumption	Energy	✓
WASTE			
306-3	Waste generated	Waste	✓
EMPLOYMENT			
401-1	New employee hires and employee turnover	In Dialogue with Employees	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits	✓
401-3	Parental leave	Gender Equality	
LABOUR/MANAGEMENT RELATIONS			
402-1	Minimum notice periods regarding operational changes	Communication with Employees	✓
OCCUPATIONAL HEALTH AND SAFETY			
403-1	Occupational health and safety management system	Occupational Health and Security	✓
403-2	Hazard identification, risk assessment, and incident investigation	Occupational Health and Security	✓
403-4	Worker participation, consultation, and communication on occupational health and safety	Occupational Health and Security	✓
403-5	Worker training on occupational health and safety	Occupational Health and Security	✓
403-8	Workers covered by an occupational health and safety management system	Occupational Health and Security	✓

403-9	Work-related injuries	Occupational Health and Security	✓
403-10	Work-related ill health	Occupational Health and Security	✓
TRAINING AND EDUCATION			
404-1	Average hours of training per year per employee	Employee Development	✓
404-2	Programmes for upgrading employee skills and transition assistance programmes	Employee Development	✓
404-3	Percentage of employees receiving regular performance and career development reviews	Employee Development	✓
DIVERSITY AND EQUAL OPPORTUNITY			
405-1	Diversity of governance bodies	Gender Equality	✓
NON-DISCRIMINATION			
406-1	Total number of incidents of discrimination and corrective actions taken	Communication with Employees	✓
MARKETING AND LABELLING			
417-1	Requirements for product and service information and labelling	Transparency Public Disclosure of Activities	