

## General Eligibility Criteria for Equity and Quasi-Equity Funding Instruments

The General Eligibility Criteria for Equity and Quasi-Equity Funding Instruments (hereinafter: General Eligibility Criteria for Investments) define the general characteristics and limitations that apply to investments in final beneficiaries (directly and indirectly through financial intermediaries) in accordance with the **Equity and Quasi-Equity Investment Policy** (Investment Policy, <https://www.hbor.hr/en/policy-for-investments-into-equity-and-quasi-equity>).

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## 1. Investment modalities

Croatian Bank for Reconstruction and Development (hereinafter: HBOR) may conduct equity and quasi-equity investments in its own name and on its own behalf or based on an agreement with the fiduciary (principal) in the name and on behalf of the principal or in its own name and on behalf of the principal.

In accordance with the decisions of the Government of the Republic of Croatia and/or HBOR's decision-making bodies, HBOR invests in equity and quasi-equity through the following forms of investment:

1. Direct investment:
  - a) by purchase of equity securities (shares and other equity instruments) or equity stakes in companies and international companies,
  - b) by converting the receivables based on loans approved by HBOR or receivables of the fiduciary (principal) in shares or equity stakes,
  - c) by taking over investments made by the alternative investment funds or co-investment vehicles in kind (*lat. in specie*).
2. Indirect investments can be made by HBOR by investing through the financial intermediate, or it can give a mandate to the implementing body (e.g., the European Investment Fund, abbreviated: EIF) to invest funds in the name and on behalf of HBOR or on behalf of HBOR and in its own (EIF) name.

## 2. Final beneficiaries

In the case of direct investments, final beneficiaries are companies or international organisations in which HBOR acquires equity stake. In the case of indirect investments, these are the companies in which the financial intermediate invests on behalf of HBOR.

### 2.1. Eligible final beneficiaries

Eligible final beneficiaries (hereinafter: Final Beneficiaries), in addition to other terms and conditions defined by these General Eligibility Criteria for Investments and HBOR's internal documents, are private sector business entities.

Private sector business entities are privately owned or majority privately owned companies, which are already incorporated or are about to be, and by size may be:

- **Micro, small and medium-sized enterprises**

Private sector business entities employing fewer than 250 employees and having an annual turnover not exceeding EUR 50 million and/or an annual balance sheet not exceeding EUR 43 million according to the last available annual financial statements, the size of which is determined in accordance with European Commission Recommendation 2003/361/EC of 6.5.2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003) (hereinafter: EC recommendation).

- **Mid-caps**

Private sector business entities employing between 250 and 2,999 employees according to the latest available annual financial statements, and which by their size, ownership, number of employees and other conditions do not fall into the category of micro, small and medium-sized enterprises in accordance with the EC Recommendation.

HBOR's decision-making bodies may take decisions on eligible Final Beneficiaries other than those listed in these General Eligibility Criteria for Investments.

## 2.2. Specific target groups of Final Beneficiaries

Eligible Final Beneficiaries are those which are qualified for an investment and are in a suitable investment stage (depending on whichever investment stage is targeted by the Investment Programme<sup>1</sup> published on the HBOR website). In accordance with the definitions of Invest Europe<sup>2</sup> and unless the Investment Programme defines otherwise, eligible Final Beneficiaries for AIF investment strategies and/or co-investments are in one of the following investment stages:

- (i) Seed,
- (ii) Start-up,
- (iii) Later stage venture,
- (iv) Growth capital,
- (v) Replacement capital,
- (vi) Buyout.

## 2.3. Ineligible Final Beneficiaries

Ineligible Final Beneficiaries are those in which it is not possible to invest. Unless otherwise defined in the Investment Programme published on the HBOR website, these are:

- **Entrepreneurs in difficulty**

Final Beneficiaries cannot be entities belonging to the category of companies in difficulty in accordance with the provisions of Article 2, point. 18. Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187 of 26 June 2014, hereinafter: the Regulation: 651/2014), i.e. the provisions of the regulation in force at the time of approval of the investment.

More details on the link: <https://www.hbor.hr/naslovnica/hbor/poduzetnici-u-teskocama>

- **Exclusion criteria determined by the Reputational Risk Management Ordinance**

In accordance with HBOR's Reputational Risk Management Ordinance, risk categories and exclusion criteria as well as their impact on the conclusion, continuation or termination of a business relationship with a client are determined.

More details on the link: <https://www.hbor.hr/pravilnik-o-upravljanju-reputacijskim-rizikom-hbor-a-koji-proizlazi-iz-poslovnog-odnosa-s-klijentom/>

For Co-investments, in addition to the above-mentioned Ineligible Final Beneficiaries, the provisions of the Conflict of Interest Prevention Act (OG 143/2021) and its amendments will apply in the process of selection of Final Beneficiaries.

## 3. Financial Intermediaries

Financial Intermediary is an alternative investment fund (AIF) management company or other legal entity advising the AIF and/or special purpose vehicle established to undertake investments and co-investments in equity and quasi-equity.

Financial Intermediary is a legal entity registered in the Republic of Croatia which, based on the authorisation of the Croatian Financial Services Supervisory Agency, carries out the activity of managing AIFs or is a legal entity registered in another EU Member State which, based on the

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<sup>1</sup> Investment programme is a document adopted by the competent body of HBOR, which, in the event that HBOR invests the funds of the principal, may be based on an instruction or order of the principal and which defines the source of funds (own funds of HBOR or funds of the principal), the conditions and manner of implementation of direct investments or indirect investments (as defined in point 1 of this document).

<sup>2</sup> Invest Europe research methodology and definitions <https://www.investeurope.eu/media/2784/invest-europe-research-methodology-and-definitions.xlsx>

authorisation by the competent authority of that Member State, carries out the activity of managing AIFs.

Investments may not be made in cooperation with Financial Intermediaries which, on the date of conclusion of the contractual documentation with HBOR, are in one or more of the situations described below, or which, in a certain period prior to that date (HBOR will determine the period in question in accordance with its own assessment and best practice) were in one or more of the situations described below:

- (i) a request to initiate insolvency proceedings against the Financial Intermediary has been submitted or winding-up proceedings have been initiated against the Financial Intermediary;
- (ii) a decision has been made to annul or revoke the decision authorising the Financial Intermediary to carry out the AIF management activities;
- (iii) the Financial Intermediary's responsible persons have been convicted for misconduct;
- (iv) the Financial Intermediary's responsible persons have been convicted for fraud, corruption, participation in a criminal organisation or any other illegal activity;
- (v) Financial Intermediaries have materially misrepresented the data needed to establish cooperation or information for the absence of grounds for exclusion from the implementation of the Investment Programme or have materially misrepresented data during the implementation of the Investment Programme.

The list of ineligible activities of the Financial Intermediary is set out in **Annex 1** of these General Eligibility Criteria for Investments. In addition to the list of ineligible activities set out in Annex 1, the Investment Programme may further limit investment in certain activities. If the list of ineligible activities from these General Criteria does not comply with the list of ineligible activities of the Investment Programme published on the HBOR website, the list of ineligible activities listed in the Investment Programme will apply.

#### **4. Geographical distribution of investments**

The geographical distribution of investments is determined in the Investment Programme currently in force which is published on the HBOR website.

#### **5. Activities of special interest**

Activities of special interest (if any) are determined in the Investment Programme published on the HBOR website.

#### **6. State Aid rules**

In general, investments in Final Beneficiaries will not contain State aid.

If a particular Investment Programme allows investments to contain State aid, this will be defined in the Investment Programme.

#### **7. Other**

There is no legal title to obtain an investment and HBOR makes a separate decision on each request.

## **Annex 1 List of ineligible activities**

### **The List of ineligible activities of Final Beneficiaries (*exclusion list*) unless otherwise defined in the individual Investment Programme:**

- 1) Activities that limit individual rights and freedoms or that violate human rights;
- 2) In the area of defence activities: the use, development, or production of products and technologies that are prohibited by applicable international law;
- 3) Tobacco-related products and activities (cultivation and production, distribution, processing and trade);
- 4) Activities excluded from financing pursuant to the relevant provisions of the Horizon Europe Regulation<sup>3</sup>: research on human cloning for reproductive purposes; activities intended to modify the genetic heritage of human beings which could make such changes heritable; and activities to create human embryos solely for the purpose of research or for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer (SCNT);
- 5) Gambling (production, construction, distribution, processing, trade or software-related activities);
- 6) Sex trade and related infrastructure, services and media;
- 7) Activities involving live animals for experimental and scientific purposes insofar as compliance with the European Convention for the Protection of Vertebrate Animals for Experimental and other Scientific Purposes cannot be guaranteed;
- 8) Real estate development activity<sup>4</sup>, such as an activity with a sole purpose of renovating and re-leasing or re-selling existing buildings, as well as constructing new buildings intended for sale (investments in energy efficiency projects or social housing are not excluded<sup>5</sup>);
- 9) Activities forbidden by applicable national legislation;
- 10) Activities that have a negative impact on the environment and are not significantly mitigated or compensated;
- 11) All prohibitions and restrictions pursuant to contracts between HBOR and financial institutions concluded for the purpose of investing in equity and quasi-equity financing instruments and/or in accordance with the Investment Programme and/or other acts applicable to an individual investment.

**This document is an unofficial translation of the original in Croatian for information purposes only. In case of a discrepancy, the Croatian original shall prevail.**

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<sup>3</sup> Regulation (EU) 2021/695 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 28 April 2021 establishing Horizon Europe – the Framework Programme for Research and Innovation, laying down its rules for participation and dissemination, and repealing Regulations (EU) No 1290/2013 and (EU) No 1291/2013 <http://data.europa.eu/eli/reg/2021/695/oj>

<sup>4</sup> Exceptionally, it is acceptable if a company established for the purpose of real estate management within a group of affiliates invests in real estate to be used (lease) exclusively to affiliates, and the activity of related companies is not on the list of ineligible activities.

<sup>5</sup> Investments in energy efficiency projects shall cover exclusively costs related to raising the level of energy efficiency of real estate and shall not cover the costs of acquiring or constructing a property.