

SUSTAINABILITY REPORT 2022







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About HBOR





Croatian Bank for Reconstruction and Development (HBOR) is the development and export bank and the export credit agency of the Republic of Croatia whose main task is to promote the development of the Croatian economy. By lending, investing in venture capital funds, insuring exports against political and commercial risks, issuing guarantees and providing business consulting services, HBOR builds bridges between entrepreneurial ideas and their realisation with the goal of strengthening the competitiveness of the Croatian economy. HBOR is a legal entity established by a special act¹ and is not entered into the court register. It operates at three locations in Zagreb, headquarters at the address Strossmayerov trg 9 included, and six regional offices (Dalmatia, Istria, Lika, Primorje and Gorski Kotar, North-West Croatia and Slavonia and Baranja).

The activities of the Croatian Bank for Reconstruction and Development are financing the reconstruction and development of the Croatian economy, financing infrastructure, encouraging exports, supporting the development of small and medium-sized enterprises, encouraging environmental protection, and insuring the export of Croatian goods and services against non-market risks. To perform these activities, the Croatian Bank for Reconstruction and Development approves loans and other placements, issues bank and other guarantees, concludes insurance and reinsurance contracts, invests in debt and equity instruments, and performs other financial operations and services.

In 2022, HBOR marked the 30th anniversary of its operations. In June 1992, the Croatian Credit Bank for Reconstruction (HKBO), the predecessor of today's HBOR, was established by a special act. HKBO took over the funds, rights, obligations and 50 employees of the Croatian Development and Export Bank (HRIB). Pursuant to the Reconstruction Finance Act, which was adopted by the Parliament of the Republic of Croatia in June 1992, HKBO also took over the financial resources, rights and obligations of the Fund for the Construction and Reconstruction of Buildings Destroyed by the War. Before the establishment and start of operational activities of HKBO, modelled after the German development bank: Kreditanstalt für Wiederaufbau (KfW), the Government of the Republic of Croatia and the Government of the Federal Republic of Germany signed an agreement making KfW responsible for providing technical, financial and advisory assistance to HKBO. During 30 years of operations, HBOR has provided support for almost 70 thousand projects totalling more than HRK 203 billion. The first business year was concluded with the total assets of HRK 335 million, whereas HBOR's total assets amount to HRK 29 billion today.

¹ Act on the Croatian Bank for Reconstruction and Development (Official Gazette of the Republic of Croatia, Nos. 138/06, 25/13)

VALUES AND PRINCIPLES

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 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development. We pay special attention to the skills and knowledge of employees as the foundation of our expertise. 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 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 five-year period so that they 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.



SUSTAINABILITY

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 society 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 levels.

HBOR will carry out all the above activities by considering the financial sustainability of the bank's operations.



FLEXIBILITY AND EFFICIENCY

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.

A more efficient use of technology is an important component in contributing to the successful achievement of goals.

TRANSPARENCY

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 previous years. 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 society.





THE MOST SIGNIFICANT FINANCIAL INFORMATION IN 2022

In 2022, HBOR supported 2,831 projects totalling more than HRK 9.5 billion through loans approved, guarantees issued and exports insured. Most of the commitments related to loans and, in the reporting year, altogether 2,343 projects were supported with loans totalling more than HRK 6.4 billion.

In 2022, the most numerous borrowers of HBOR's loans were small and medium-sized enterprises, to whom 1,983 loans were granted, which makes up 89 percent of the total number of loans granted.

Loans approved to public sector entities totalled almost HRK 1 billion, and Croatian exporters were supported with more than HRK 3.2 billion through 630 placements.

HBOR raises long-term funds for general and special purposes in the financial markets, mostly in the form of loans and occasionally in the form of debt instruments for the purpose of ensuring sufficient financial means to fund HBOR's operations and lending activities. 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 84 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 44 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 14 percent of borrowings were earmarked for the financing of projects implemented by local government units.

OVERVIEW OF THE MOST SIGNIFICANT FINANCIAL INFORMATION OF HBOR

HRK million	2020	2021	2022
Total assets	28,680.36	28,249.99	29,032.31
Gross loans	27,197.29	26,329.34	27,903.26
Total capital and reserves	10,354.62	10,567.73	10,710.60
Total income	657.97	728.64	682.07
Total expense	(578.63)	(541.56)	(495.90)
Profit	79.34	187.08	186.17
Interest income	621.34	676.17	627.88
Interest expense	(244.19)	(184.61)	(158.41)
Net interest income	377.15	491.56	469.47

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Statement of the President of the Management Board of HBOR



The main goal of development banks is to ensure sustainable and inclusive growth and financial stability of the economy by financing the long-term needs of society. Special emphasis is put on the financing of the projects that contribute to sustainable development and provide long-term finance in the areas such as renewable energy sources, energy efficiency, mitigation and reduction of climate change, conservation of natural resources, rural development and employment. This became especially relevant with the adoption of the European Green Deal, which mobilises significant resources to achieve the common goal of Europe as the first climate-neutral continent by 2050.

HBOR recognises its unique role and position in promoting the economy. The decarbonisation and climate transition of sectors and clients facing the greatest challenges will be of key significance, whether in terms of starting new business ventures or transitioning existing operations to more sustainable technologies and practices. This will promote better implementation of national climate strategies and plans, reduce greenhouse gas emissions and support Croatia's efforts to contribute to the climate neutrality goal.

Sustainable finance journey and aligning with the European Green Deal and the Paris Climate Agreement are demanding but unavoidable processes to support the transformation of the Croatian economy. HBOR plans to increase the financing of green activities while simultaneously managing climate risks. The integrated climate approach will enable HBOR to connect all elements, from portfolio steering, over access to data gathering, to advising and financing clients in their transition.

Through such alignment, HBOR will be able to use more resources that are at its disposal, from the programmes of financial institutions to the resources provided by the 2021-2027 European NEXT Generation framework. HBOR is already an implementing partner in some programmes such as the National Recovery and Resilience Plan, in which environmental criteria are the key to making financing decisions.

The way in which financial institutions incorporate environmental, social and governance criteria into their decision-making processes has become an inevitable part of their business. Although HBOR has already introduced several criteria for checking the sustainability of financed projects in several of its finance programmes, it focused on, especially during 2022, reorientating its activities towards sustainable financing and climate transition.

In striving to deepen its expertise and better understand the areas for growth and the opportunities for the domestic economy, HBOR launched a thematic project of sustainable financing. Thus, it started a systematic alignment with the regulatory requirements relating to sustainability and sustainable financing, raising the level of understanding of environmental, climate and social risks and opportunities and their impacts on business. In addition, the goal of the project was to strengthen capacities for setting up methodologies, policies and procedures for sustainability risk management and impact measurement as well as developing the HBOR's Sustainable Finance Action Plan. With this reform project, which was completed in April 2023, HBOR gained a solid basis for creating opportunities to encourage the development of activities aimed at carbon neutrality, environmental efficiency and social inclusion. An important aspect of this development is a thorough approach to reporting. In anticipation of the adoption of the European Sustainability Reporting Standards, by improving its reporting in accordance with the GRI Standards in 2022, HBOR took a step further in ensuring a clearer and more effective understanding and management of its own impacts and more transparent reporting on its activities.

The transition towards low-carbon and eventually carbon-neutral operations together with the creation of a sustainable, resilient and competitive economy requires investing in innovations that are key to the development of new technologies. In addition to developing innovative financial solutions to encourage the achievement of climate goals, HBOR also intends to achieve additional benefits for society, such as employment with a special focus on vulnerable social groups, reduction of inequality, promotion of gender equality and equal opportunities for all. In these efforts, HBOR is ready to continue developing its experts, to learn, cooperate and exchange experiences and best practices that will enable it to provide to the domestic economy the support needed in the rapidly changing global business context.

Hrvoje Čuvalo, MSc
President of the Management Board
Croatian Bank for Reconstruction and Development

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Sustainability Approach





As the export bank and export credit agency of the Republic of Croatia, HBOR has a unique role in encouraging the development of a sustainable and resilient economy. In addition to encouraging all stakeholders, by its financing activities, to respect the principles of sustainability, HBOR also seriously considers its own organisational sustainability in the context of the operations of the Croatian economy.

CONTEXT OF OPERATIONS

The economy of the Republic of Croatia, after having fully recovered from the pandemic in 2021, resisted the negative impacts of the Russian invasion of Ukraine in 2022 – primarily noticeable uncertainty and a pronounced rise in the prices of energy and raw materials. The growth rate of the real GDP weakened in 2022 to 6.2% after a significant growth of 13.1% in the preceding year. Economic growth in 2022 was supported by a strong double-digit growth in merchandise exports and an extremely successful tourist season, which exceeded the record 2019 in terms of revenues from foreign tourists. The consumer price inflation rate, which rose to a noticeably high average of 10.7% in 2022 compared to the average of 2.7% recorded in 2021, had an adverse impact on economic developments. The increase in energy and food prices contributed the most to the strong inflation, and the increase in the prices of services and industrial products became increasingly pronounced in the second part of 2022.

The Croatian economy showed a higher level of resilience than the euro area average – where the real GDP grew at a slower pace than in the Republic of Croatia, which reflects the greater negative impact of the war in Ukraine and disruption of the energy market on the euro area than on the developments in Croatia. Weakening of GDP growth is expected in 2023 due to the continued negative impact of geopolitical instability on domestic and foreign economic developments, primarily resulting from a significant slowdown in activity in the euro area. The average consumer price inflation in the euro area is expected to slow down in 2023 under the influence of a pronounced reduction in the prices of energy and other primary raw materials in the world market as well as under the influence of disappearing price increase base effects during 2022.

With three packages of measures, during 2022, the Government of the Republic of Croatia endeavoured to mitigate the increase in energy and food prices and the spilling over of the inflationary shock to households. In 2022, the general government budget surplus (ESA 2010) stood at 0.4% of GDP, after a deficit of -2.6% of GDP in 2021. The increase in nominal GDP resulted in a further decrease in the ratio of public debt to GDP to 68.4% in 2022 from 78.4% recorded a year earlier. Thus, in 2022, the correction of the budget deficit and public debt continued according to the convergence criterion of 3% of GDP, i.e. 60% of GDP. Confirmation of membership in the euro area and joining the Schengen area had a favourable impact on the attitude of foreign investors and financial markets towards the Republic of Croatia. The credit

rating of the Republic of Croatia reached BBB+ according to S&P's and Fitch, and then Baa2 according to Moody's, which is the highest level recorded so far. In July 2022, S&P's upgraded HBOR's rating to BBB+/A-2 (from BBB-/A-3) with a stable outlook.

The resilience of the Croatian economy strengthened during 2022 as a result of the implementation of reforms, the fulfilment of the foreseen obligations and the dynamics of the use of EU funds under the National Recovery and Resilience Plan (NRRP). Namely, in 2022, Croatia was the third member state that submitted the second request for the payment of funds under the Recovery and Resilience Facility (RRF), upon which the NRRP is based, and the payments were made based on the fulfilment of the assumed reform obligations.

Uncertainty in the financial markets marked the year 2022, and volatilities were strong due to the rising inflation, the Ukrainian crisis and the resulting strong pressures on economic developments. Noticeable inflationary pressures were followed by intense tightening of the monetary policy of the leading central banks. At the same time, the formal confirmation of entry into the euro area had a favourable impact on the Republic of Croatia because it served as a framework for the mitigation of the tightening monetary policy on finance conditions – it limited the growth of Croatia's risk premium, which means that the growth of borrowing costs was slower than in other CEE countries in 2022. Market yields on the debt securities of the Republic of Croatia grew throughout 2022, however, the tightening of financing conditions, in the context of extremely high excess liquidity of the banking system, had a considerably smaller impact on companies and the population.

Risks in terms of the stability of the Croatian financial system were elevated during 2022 owing to increased uncertainty, weakening economic prospects, increased inflation and increased volatility in the financial markets. Prompt rehabilitation of the domestic Sberbank d.d. in indirect Russian ownership, by sale to Hrvatska poštanska banka d.d. at the beginning of 2022, mitigated the risks for the financial stability of Croatia resulting from the negative reputational risk after the Russian invasion of Ukraine and the introduction of sanctions against Russia. The banking system in Croatia remained highly capitalised and liquid during 2022, and the quality of the loan portfolio and the profitability of banks continued to improve despite the strengthening of systemic risks.

STRATEGIC APPROACH

The 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development² defines the strategic goals that HBOR will strive to attain in order to achieve the greatest possible positive impacts on the Croatian economy and ensure its sustainable growth.

Promotion of the development of equity and quasi-equity market in the Republic of Croatia

To provide stronger long-term support for domestic micro, small, medium-sized and medium-capitalised companies (existing and newly established), HBOR promotes the development of equity and quasi-equity market in the Republic of Croatia. This includes the investing of own monies and other available national and European monies in the funds managed by independent fund managers as well as the raising of knowledge and exchanging of experiences and views among the key stakeholders in this market.

² 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development

Promotion of economically and socially balanced and sustainable regional, rural and urban development of the Republic of Croatia

To contribute more strongly to balanced regional development, HBOR puts a special focus on encouraging the development of underdeveloped areas. This is achieved by promoting the development of entrepreneurship, primarily micro, small and medium-sized enterprises, and by supporting the development of local and regional economic, communal and social infrastructure. To attain this goal, HBOR further strengthens cooperation with the units of local and regional government for the purpose of promoting investments and activities intended to achieve positive local and regional results and growth, with a special emphasis on supporting municipalities, cities and counties in the use of available monies of EU funds.

Promotion of Croatian economy internationalisation and globalisation

HBOR puts special efforts into further strengthening exporters and competitiveness of the domestic economy in international markets directly and/or in cooperation with commercial banks. By developing new and adapting existing loan, guarantee, export credit insurance products intended to support exports as well as by strengthening cooperation with relevant stakeholders of the domestic economy, HBOR strives to bridge the imbalances in the market by providing a stronger support for internationalisation and globalisation of the Croatian economy.

Promotion of economic recovery from the COVID-19 pandemic and of competitiveness by emphasising innovation, digital transformation and Industry 4.0

Considering the need to recover from the consequences of the COVID-19 pandemic and the need to strengthen investments of the domestic economy, HBOR will strive to increase the support for private sector investments. More efficient use of all available sources of funding, especially of financial instruments under EU funds, will enable the development of appropriate financial products and services. Taking into account the fact that EU funds support those entities that they consider eligible (usually micro, small and medium-sized enterprises), it is of utmost importance to provide additional sources of funding in cooperation with other public and private stakeholders of the domestic economy (relevant ministries and other public institutions, commercial banks, etc.) in order to provide comprehensive support for the overall development of the domestic economy.

Besides developing financial products, HBOR puts further efforts in the strengthening of cooperation among public institutions (relevant ministries, HAMAG-BICRO, etc.), scientific community (universities, research centres, scientific institutes, etc.) and companies in order to improve the overall innovation potential of the domestic economy and enable a more efficient transfer of research and development results into new products and technologies.

Promotion of climate and energy neutral economy through energy efficiency, renewables, and environmental protection

Considering the current and announced trends in the EU as well as the strategic long-term vision of the prosperous, modern, competitive and climate-neutral national and EU economies, in cooperation with other relevant institutions and entities, HBOR strongly supports public and private entities in promoting energy efficiency, renewable energy resources and environmental protection as the basic prerequisites for sustainable national and global development.

SUSTAINABLE FINANCE

Within the project called “Reorient Croatian Development Bank’s (HBOR) Operations Towards Sustainable Financing and Green Transition” (hereinafter: the Sustainable Financing Project) started in 2021, HBOR initiated a systematic alignment with the goals of the regulation on sustainability and sustainable financing. The project was implemented with the funds of the European Union and in cooperation with the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.

The project objective was to support HBOR in understanding environmental, climate and social risks and their implications on business as well as to ensure the development and implementation of a comprehensive set of sustainable finance policies, procedures, tools and metrics. Throughout 2022, led by a team of international consultants, HBOR’s experts participated in training aimed at strengthening HBOR’s capacity to support the green transition of the Croatian economy. Divided into several key phases, the activities carried out resulted in the creation of the diagnostic report, proposals for methodologies for ESG risk management and impact measurement, proposals for sustainability governance, disclosures and communication, capacity building through a series of training courses and the creation of Sustainable Finance Action Plan of HBOR.

According to the findings of the diagnostic report, the future sustainable finance strategy of HBOR should be based on four pillars: providing funds for financing low-carbon projects to bridge the sustainable finance gap in Croatia; building internal technical and financial capacity to originate and execute sustainable investments and integrate ESG risks in the due diligence process; fostering low-carbon growth while effectively managing risks related to ESG factors; engaging with local, regional and international sustainable finance players to mobilise funding and knowhow needed to scale up its sustainable investment portfolio.

To prepare for the green transition of Croatia, HBOR should, according to the findings of the project, in due course:

- Adopt a “sustainability lens” to originate deals in GHG intensive sectors anchored on the promotion of Paris-aligned solutions and integration of ESG risks
- Adopt a SusFin Classification Framework to ensure integrity of sustainable finance assets
- Drive sustainable asset growth drivers via “greening” existing clients and sourcing and developing new green clients
- Develop and disclose industry specific ESG risk profiles, policies and exclusion lists. HBOR should begin profiling GHG intensive sectors and conducting ESG materiality assessments to determine ESG risk drivers and decarbonisation pathways. Certain industries are particularly sensitive from a social or environmental perspective (including impacts on the climate). To assess potential transactions with clients or prospects in these industries, HBOR can define specific policies and guidelines. Typical policies and guidelines cover the sectors oil and gas, mining, power generation, and forestry and agribusiness.

IMPACT ASSESSMENT

By complementing the preparation process for setting up a sustainable financing strategy, HBOR launched a new materiality analysis within the framework of the preparation of this sustainability report. The materiality analysis process was started by reviewing HBOR's previously identified material topics and by putting them in the context of the development of sustainability in general, particularly in terms of sustainability requirements that are placed before the financial sector. The objective of the assessment was to cover all short-term and long-term impacts of HBOR's operations on the stakeholders and the environment and to start the preparations for new regulatory requirements and the application of the upcoming European Sustainability Reporting Standards. Various global sources of information and guidelines were used in the analysis, such as Global Risk Report by the World Economic Forum, international treaties and agreements, guidelines for the integration of ESG criteria and international frameworks such as the UN Sustainable Development Goals and the principles of the UN Global Compact.

The assessment was the basis for the organisation of a workshop, at which HBOR's reporting team, composed of some twenty experts from all relevant organisational units, covered the following two steps: identifying material impacts and potential and actual adverse impacts of HBOR on society and the environment as the first step in the impact due diligence process. With the help of reporting consultants, the members of the reporting team listed and systematised possible material impacts in the following three areas:

OPERATIONS

- Financing of environmental protection and climate transition
- Financing of entrepreneurship, innovation and development

MANAGEMENT OF OPERATIONS

- Corporate governance
- Alignment with voluntary initiatives and regulations
- Risk management
- Digital security and data protection
- Responsibility in the supply chain
- Management of own environmental impact

SOCIETY

- Corporate culture and working conditions
- Employee well-being, occupational health and safety
- Education and development of employees
- Cooperation with associations and communities

The identified twelve impacts, as well as forty potential adverse impacts, were re-assessed and quantified by HBOR's experts in an online survey. The survey included 68 people from HBOR as follows: members of the management of HBOR, members of the reporting team and a sample of employees who participated in the sustainable financing project.

Mapping and engagement of stakeholders

The stakeholders were included in the assessment of material impacts and potential adverse impacts by participating in the online survey as well. The participation in the survey was preceded by the stakeholder mapping process, in which HBOR's experts prepared comprehensive maps of key stakeholders by groups. Altogether 91 stakeholders evaluated and prioritised 12 topics in the environmental, social and governance segments and assessed the probability and severity of potential adverse impacts that could arise in the case of inadequate governance of impacts and sustainability risks.

The represented stakeholder groups included HBOR's employees (who did not participate in the sustainable financing project and were not members of the reporting team), foreign and domestic financial institutions, representatives of state authorities and local and regional government units, HBOR's suppliers, companies, non-governmental organisations, media, rating agencies, representatives of the academic community, investors and representatives of interest and professional associations. Also, in-depth interviews were held, in which five foreign and domestic experts participated and gave their views on the topics important for HBOR.

In assessing the impacts in the online survey, the topics were rated on a scale from 1 to 8, where 1 was a topic of low importance and 8 was a score for topics of the highest importance. The estimates of both surveys ranged from 5.42 (the lowest average score) to 6.95 (the highest average score). None of the topics assessed was rated less than 5 (out of a total of 8), which showed that all topics covered by the survey were relevant for HBOR's operations.

THE FOLLOWING FIVE MATERIAL TOPICS WERE RATED AS VERY IMPORTANT FOR HBOR:



Generally, the highest ratings were awarded to the topics that related to the development of products, the provision of services and support for the development and effective management of organisation business processes.

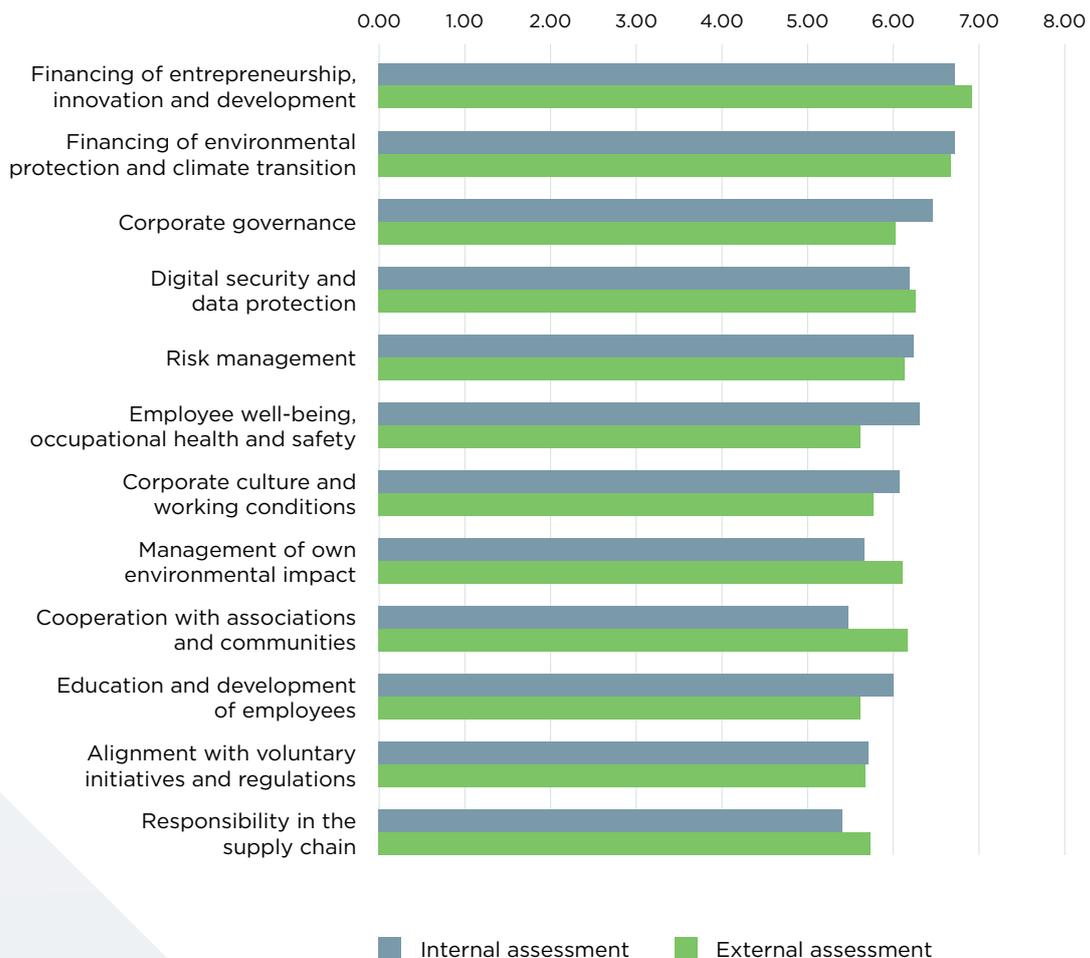
The following topics associated with the relationships with employees and communities and the topics associated with own environmental responsibility were rated as topics of high importance:

- Employee well-being, occupational health and safety
- Corporate culture and working conditions, which included human rights, diversity and inclusion, salaries and benefits as well as work-life balance
- Management of own environmental impact
- Cooperation with associations and communities
- Education and development of employees

The topics relating to the supply chain management projects and compliance were awarded slightly lower ratings compared to the previously listed ones, however, they were highly rated as well:

- Alignment with voluntary initiatives and regulations
- Responsibility in the supply chain

ASSESSMENT OF HBOR's MATERIAL TOPICS



In addition to the engagement of the stakeholders through the survey, interviews were organised with five foreign and domestic experts in the field of sustainable development, sustainable financing and climate and environmental protection using a semi-structured interview method. The interviews focused on the current state of sustainability development in the Croatian market, the biggest challenges for the economic sector, especially for non-financial companies, but also for financial institutions, the role and capacity of HBOR to be one of the most important driving forces of sustainable development, the readiness of domestic companies for climate transition and the types of support that HBOR can provide to the Croatian economy in terms of sustainable development.

All involved experts stressed the unique role of HBOR in financing climate transition and smart economic development, emphasising that HBOR should focus on large companies, on the one hand, that need to implement transition plans, and, on the other hand, on creating opportunities for small and medium-sized enterprises. The experts noted that HBOR covered almost all economic activities interesting in terms of development, which could make climate contributions across different sectors.

In addition to raising internal capacities, the experts believe that, for the purpose of developing sustainable financing, HBOR should improve risk assessment and prioritisation, align organisational and reporting structures with the regulatory framework, and develop a strategy. When all environmental (e.g. climate transition) and social needs (e.g. equal opportunities, development) become financed under the sustainable financing strategy, it will be the most important positive impact of HBOR's operations on the stakeholders and the environment.

Due diligence of adverse impacts

Special attention in the process of assessing the material impacts of HBOR was paid to the identification and assessment of potential and actual adverse impacts on the environment and people, including their human rights. Following the guidelines of major intergovernmental frameworks related to human rights and sustainability due diligence (including the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the International Labour Standards of the International Labour Organisation (ILO) and the Global Governance Principles of the International Corporate Governance Network (ICGN)), the adverse impacts were identified and assessed in three steps: mapping of adverse impacts according to severity and probability at the initial workshop of the reporting team, internal assessing of recognised adverse impacts and mapping of sensitive groups of stakeholders of the reporting team through an online survey, and including of the stakeholders in the assessment of the severity and probability of the occurrence of recognised adverse impacts, also through an online survey.

Mapping of adverse impacts was carried out at the workshop of the reporting team, where altogether 40 potential adverse impacts were identified in three observed areas (operations, business management and society). Although the severity of the occurrence of adverse impacts was assessed as moderate to high (5.35-7.58 out of 10), the probability of the occurrence of the observed potential adverse impacts was assessed as low to medium (2-3.63 out of 5).

The assessment results showed that the highest rated potential or actual adverse impacts according to importance for HBOR and severity of consequences requiring active management were identified in the business management segment and included leakage and/or misuse of data; errors in IT security; and non-competitive salaries in the organisation. Three potential or actual adverse impacts with the highest probability of occurrence were overtime work/work on annual leave and sick leave; imbalance of private and professional life of employees; and non-competitive

salaries in the organisation. All participants described the impacts as possible but relatively low probable.

Prioritisation of material impacts

Considering the results of the assessment of material impacts with a focus on the positive and potential adverse impacts of HBOR on the economy, stakeholders and the environment, the Management Board of HBOR determined priority material impacts at a special meeting where it considered the results of the materiality assessment.

▶ Extremely important impacts:

- Financing of entrepreneurship, innovation and development
- Financing of environmental protection and climate transition
- Corporate governance
- Digital security and data protection
- Risk management

▶ Important impacts:

- Employee well-being, occupational health and safety
- Corporate culture and working conditions
- Management of own environmental impact
- Cooperation with associations and communities
- Education and development of employees
- Alignment with voluntary initiatives and regulations
- Responsibility in the supply chain

CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

Development banks around the world have a key role in supporting countries' efforts to increase the contribution to the Sustainable Development Goals by providing direct financing and support for projects and programmes of the public and private sectors as well as by helping mobilise and channel public and private resources towards investments harmonised with the Sustainable Development Goals.

The goals most focused upon by the banks³ are those related to economic growth and decent work (Goal 8), climate protection actions (Goal 13), clean energy (Goal 7), sustainable cities and communities (Goal 11), industry, innovation and infrastructure (Goal 9) and responsible consumption and production (Goal 12).

Following the research results of the assessment of the relative importance of individual material impacts, it was confirmed that there was a clear link between the sustainable development goals and HBOR's operations aimed at the attainment of the four strategic goals defined in the 2020-2024 Business Strategy of the Croatian Bank for Reconstruction and Development.

³ European bank practices in supporting and implementing the UN Sustainable Development Goals, European Banking Federation, KPMG, 2021



RELATIONSHIP BETWEEN STRATEGIC GOALS AND SUSTAINABLE DEVELOPMENT GOALS



According to the findings of the mapping of the Sustainable Development Goals in HBOR's operations of May 2022 under the Sustainable Financing Project, it was confirmed that HBOR's investments could strengthen and accelerate the green transition and support the sustainability of society as a whole.

SDG mapping showed that HBOR was very active in three distinctive SDG fields: the financial products currently offered by HBOR provided strong support for the achievement of Goal 8: Decent Work and Economic Growth, Goal 9: Industry, Innovation and Infrastructure and Goal 17: Partnership for the Goals.

These goals are incorporated into HBOR's various services and activities and demonstrate HBOR's role as a development bank that promotes inclusive and sustainable economic growth, develops resilient infrastructure, supports industry and innovation, strengthens global partnerships for sustainable development. HBOR could focus on three key SDGs: SDG 8, SDG 9 and SDG 13, with a recommendation relating to the mapping results that, to support climate activities, HBOR's potential climate ambition should follow the 1.5°C reduction ambition encapsulated in the National Low-Carbon Development Strategy.

04

Support for
Entrepreneurship,
Development and
Climate Transition





To support the economy in attaining the goals of the European Green Deal, HBOR recognises its unique role in providing financial resources to the economy that will support the climate transition of companies and promote fair and inclusive economic and social development.

Pursuant to HBOR's 2020-2024 Business Strategy, HBOR has defined five key strategic goals under the assumption of achieving organisational and procedural changes in order to provide proactive support for the development of innovativeness and sustainable development of the Croatian economy.

In the context of sustainability, focus is placed on the following goals:

- Providing liquidity support to the domestic economy and implementing measures of recovery from the consequences of the COVID-19 pandemic
- 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 under the UN programme for sustainable development until 2030, and the climate goals determined by the Paris Agreement

The set goals are reflected in the offer of HBOR's products and services. They include loan programmes and measures, operational programmes for loans and guarantees under the National Recovery and Resilience Plan (NRRP), ESIF loans, guarantee programmes, export credit insurance programmes, venture capital funds, technical assistance programmes intended for the public and private sectors regarding the use of EU funds, national sources and sources of international financial institutions. They are implemented in cooperation with financial intermediaries (commercial banks and leasing companies), relevant ministries and other relevant national and local institutions such as HAMAG-BICRO, regional development agencies, units of local or regional government, companies for managing venture capital funds, etc. Furthermore, HBOR has launched the programmes of COVID-19 measures and Ukraine measures to support the recovery of as many entrepreneurs as possible who have been facing difficulties in doing business due to the adverse impact of the COVID-19 pandemic and the consequences of the Russian aggression against Ukraine.

APPROACH TO PRODUCT DEVELOPMENT

In product development, HBOR relies on regulatory requirements for a particular product or service, market requirements and funding source requirements as well as on key determinants of HBOR's Business Strategy and good practices of the equity financing industry. In addition to the Ordinance on the Introduction of New Products and Business Changes, there are also other documents as follows: HBOR's Lending Policies, Decisions on Interest Rates, General Terms and Conditions of Lending Activities, General Terms and Conditions of Guarantee Activities, General Terms and Conditions of Security for Placements, Ordinance on Credit Risk Management, HBOR's Procedure Manual being the implementing body for financial instruments under the NRRP, Ordinance on the Implementation of OECD Recommendations on Environmental Protection and Impact on Society and Sustainable Export Lending, Ordinance on the Implementation of OECD Recommendation on Prevention of Bribery, Ordinance on HBOR's Reputational Risk Management, Anti-Money Laundering and Counter-Terrorism Financing Ordinance (AML/CTF), HBOR's Procedure Manuals being the implementing body for certain financial instruments (EUF), Policy of Investing in Equity and Quasi-Equity (DU) and specific terms and conditions and criteria determined by funding sources such as the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) or the World Bank (IBRD)⁴.

Financial instruments are developed in accordance with the operational programmes of the Republic of Croatia for the use of EU funds. The operational programmes are the basis for the development of financial instruments in a strategic sense. In addition to considering market aspects, policy aspects important for the ministries responsible for individual allocations of monies under the European Structural and Investment Funds (ESIF) are also considered.

The Export Credit Insurance and Guarantees Division develops the programmes in accordance with the market needs. When developing export credit insurance programmes, the state of the Export Credit Insurance Guarantee Fund is monitored, from which potential indemnities would be paid under these programmes. Guarantees are developed in accordance with separate agreements concluded with individual ministries, which determine the budget and the sources as well as other elements determined by the principals.

Natural Capital Financing Facility

Until the end of September 2022, HBOR implemented the Natural Capital Financing Facility (NCOFF) that resulted from the cooperation with the EIB and the concluded EUR 15 million Finance Contract. Its funds were intended for the financing of preservation and sustainable use of biodiversity through green entrepreneurship and adaptation to climate change using natural solutions.

This financial instrument combined the funds of the European Investment Bank (EIB) and the funds under the LIFE programme: the EU instrument intended for the financing of activities in the area of environmental protection, nature and climate.

Besides favourable loan terms and conditions, entrepreneurs and the public sector were also provided with free technical assistance. Advisory services were available to them, such as determining the fulfilment of programme criteria, help in identifying and preparing projects, technical and financial advice, help with marketing strategy, reporting on project status and results, etc.

⁴ Ordinances, acts and other documents

INCLUSION OF ESG CRITERIA

Environmental, social and governance (ESG) criteria are an important part of product development at HBOR. They are generally considered in the context of strengthening the competitiveness and sustainability of the domestic economy, meeting the needs of small and medium-sized enterprises, medium-sized and large enterprises, exporters, units of local or regional government and other public and private stakeholders in the economy of the Republic of Croatia. This is, for example, evident in the promotion of the recovery from the consequences of the earthquake, in the promotion of the economic development of the counties of Sisak-Moslavina, Zagreb and Karlovac, in private sector investments, in the promotion of the development of activities of special interest, in the promotion of entrepreneurship of special target groups and in the promotion of the development of special areas of Croatia. Furthermore, under the National Recovery and Resilience Plan, the promotion of investments in the green and digital transition is considered by applying the Do No Significant Harm (DNSH) criterion.

HBOR regularly includes internal and external stakeholders in product development. Depending on the programme, external stakeholders can be various Croatian ministries, the European Investment Fund (EIF), the European Commission, international financial institutions such as EIB, CEB, IBRD, other development banks and export credit agencies, commercial banks, leasing companies, companies for managing funds, HAMAG BICRO, units of local or regional government (ULRGs), various business associations and other stakeholders.

On the other hand, in order for the borrowers to receive the funding for their projects, they have to meet the General Eligibility Criteria, which are an integral part of every loan programme, and they have to complete the Environmental Protection Questionnaire. If the funds are approved under the NRRP, the borrowers must comply with the operational programmes and complete the Self-Assessment Questionnaire, whereas, for the financing of export programmes, the Questionnaire on Environmental Protection and Social Impact must be completed. In addition, depending on the requirements of international funding sources (EIB, CEB, IBRD), the borrowers must also meet other aspects, i.e. criteria. They are given access to all mechanisms set up at the level of HBOR in accordance with internal rules, regulations, manuals and procedures.

In its business relations, HBOR accepts the environmental and social requirements of the institutions such as the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) and the World Bank (IBRD). The purpose of such requirements and standards is to ensure that the financed projects are prepared and implemented in accordance with international conventions, agreements and standards aimed at the protection of human rights and the preservation of the environment and climate. For example, in accordance with the Environmental and Social Safeguards Policy of the Council of Europe Development Bank, this institution requires that all financed projects comply with the relevant principles of the European Convention on Human Rights (ECHR) of the Council of Europe and the principles of the European Social Charter. Therefore, the contracts with the CEB contain a provision regulating that the projects financed by CEB's funds must not lead to the violation of the above agreements, and this provision is transferred to commercial banks and final borrowers under loan contracts.

DIALOGUE WITH BENEFICIARIES

Transparent communication with the beneficiaries is an important aspect of the development and implementation of products and services that HBOR offers to the Croatian economy. Therefore, it uses numerous communication channels and methods to maintain an open and two-way dialogue with the borrowers and all other stakeholders. HBOR communicates about its business activities on its websites, profiles on social networks, publications in the media and also on numerous other occasions organised by HBOR or county chambers or units of local or regional government, such as round tables in which regional offices participate, by directly communicating with business partners such as commercial banks and leasing companies as well as by organising informative meetings, presentations or trainings.

In accordance with the World Bank's environmental and social standard on stakeholder engagement and information disclosure, the institutions implementing World Bank's projects should provide interested parties with timely, relevant, understandable and accessible information and should consult with them in an appropriate manner, without manipulation, interference, coercion, discrimination and intimidation. Therefore, for the IBRD HEAL project (Helping Enterprises Access Liquidity in Croatia Project), a Stakeholder Engagement Plan was prepared that, in the context of the HEAL project, defined the stakeholders, including vulnerable people and groups. HBOR is obliged to establish an accessible and publicly available grievance mechanism, and, for this purpose, it uses the existing grievance mechanism described in the Ordinance on the Method of Appointing a Grievance Officer and the Procedure for Reporting Irregularities in the Croatian Bank for Reconstruction and Development of June 2022.

Furthermore, one of the grievance mechanisms in HBOR is the possibility of reporting violations of HBOR's Code of Conduct. The reporting template, the description of the manner for submitting reports and the e-mail address for submitting reports are available on HBOR's websites in Croatian and English. The Compliance Monitoring Function carries out the procedure upon a received report and is obliged to review the submitted and collected data, consider the report, make conclusions about its justification and inform HBOR's Management Board accordingly. The Management Board of HBOR determines the merits of the report, decides on the severity of the violation and on the sanctions.

Finally, at the end of 2022, an online questionnaire was prepared that will be anonymously completed during 2023 with an objective of obtaining feedback that will be the basis for the activities intended to improve the quality of services, primarily in the process of gathering information, collecting documentation and approving placements. The borrowers will thus be given an opportunity to express their satisfaction with the stages of the approval process and with the terms and conditions, to highlight possible obstacles in the approval process and to express the likelihood that they will choose HBOR's services again and recommend HBOR's programmes to others.



PROGRAMMES IN 2022

After the initial recovery from the pandemic crisis at the end of 2021, the war in Ukraine posed new challenges for Croatian businesses in 2022. Disruptions in supply chains, rising energy prices and high inflationary pressures had an adverse impact on the Croatian economy, reducing the readiness and capacity of Croatian entrepreneurs to make new investments.

In order to help support economic activities and mitigate the consequences of an adverse economic environment, HBOR continued to implement the existing measures and introduced new ones.

MEASURES TO SUPPORT THE ECONOMY OF THE REPUBLIC OF CROATIA FOLLOWING THE RUSSIAN AGGRESSION AGAINST UKRAINE

In 2022, HBOR provided funds to help the economy in conditions of market disturbances caused by the Russian aggression against Ukraine under the temporary measure Working Capital CRISIS 2022 and insurance policies as collateral with the possibility of subsidising the insurance premium.

Under the temporary measure within the framework of the loan programme - Working Capital CRISIS 2022, loans are approved directly and in cooperation with commercial banks under the risk sharing model with the tenure of up to five years, one-year grace period included. From 1 September 2022 until the end of the year, 31 loans were approved in the amount of HRK 282 million. The implementation of this measure continued in 2023.

To support exporters and their suppliers who faced business difficulties due to the crisis caused by the Russian aggression against Ukraine, portfolio and individual insurance programmes were available for liquidity loans. These programmes allowed the participants who met the conditions prescribed by the programmes to acquire collateral that banks, as loan providers, could use for the approval of new liquidity loans. The banks who joined the cooperation under the portfolio insurance programme included loans, in accordance with the pre-agreed criteria, into the insured portfolio, for which HBOR assumed up to 90 percent of the repayment risk.

The insurance premium subsidy programme enabled exporters, i.e. the borrowers of loans covered by portfolio or individual insurance programmes for exporters' liquidity loans implemented by HBOR as measures to support the economy of the Republic of Croatia following the Russian aggression against Ukraine, to reduce, partially or fully, the cost of the insurance premium if the conditions for subsidising the insurance premium were met. In that way, it was possible to provide insurance at more favourable terms and conditions for loans granted to exporters as well as to avoid a significant increase in exporters' financial costs and further deterioration of their liquidity.

ROLE IN THE NATIONAL RECOVERY AND RESILIENCE PLAN

In accordance with HBOR's 2020-2024 Business Strategy, HBOR implemented, under the National Recovery and Resilience Plan (NRRP), financial instruments aimed at promoting competitiveness and internationalisation, balanced regional development and a sustainable climate and energy neutral economy as well as developing equity market.

In 2021, HBOR was an active participant in the development of the National Recovery and Resilience Plan under the Recovery and Resilience Facility (RRF) and was entrusted with the implementation of six financial instruments totalling EUR 256 million.

The financial instruments to be implemented by HBOR include direct loans under the programme called Special SME Segments Investment, subsidising of interest rates for the private and public sectors, guarantee fund for loans to mid-cap entities and large business entities and encouraging of the development of new venture capital funds. All these financial instruments are implemented in accordance with the Do No Significant Harm principle (DNSH), i.e. the requirement that investment characteristics must not harm the climate and environmental objectives defined by the EU taxonomy.

Success stories: Investing in sustainable production

Letina Group is implementing a development project by investing in the expansion of production capacity and the equipment for a new hall. For more than 30 years now, this Croatian manufacturer has been offering custom-made stainless-steel tanks and containers for the wine, beer and food industries. Their products are placed on five continents in more than 30 countries across the world, with more than 90 percent of their products being exported.

The Letina project was among the first to be approved under the new HBOR's direct loan programme with an additional interest rate subsidy from the National Recovery and Resilience Plan (NRRP). In addition to significantly more favourable financing terms and conditions, along with adjusting investment elements to high environmental and social standards, Letina Group plans to ensure additional energy savings and cost reductions, which will definitely contribute to efficiency and competitive advantage in the world market.

Careful design of the project was crucial, especially considering the climate and environmental objectives of the EU taxonomy, i.e. ensuring a significant contribution to certain objectives, while taking care not to harm the environment. It was important to calculate the carbon footprint and the impact of the investment on the environment by considering the advantages of using renewable energy resources and energy-efficient machines and electric forklifts, and to prove that the investment would achieve a result at least 20 percent better than the standard for nearly zero energy consumption (nZEB). All these elements were integrated into the project documentation so that the contractors could properly follow green construction standards.

IMPLEMENTATION OF COVID-19 MEASURES

In 2022, the implementation of the measures continued that had been adopted to help the economy deal with the consequences of the COVID-19 pandemic. The working capital loans were approved directly or under the risk-sharing model with commercial banks for loan amounts above HRK 1.5 million to exporters or

the tourism sector, or above HRK 37 million to other entities. The programme was implemented in cooperation with 15 banks until the end of June 2022, and directly for loan amounts of more than HRK 1.5 million to entrepreneurs in tourism activities and those generating at least 10% of income from exports or indirect exports, and for loan amounts exceeding HRK 37 million to other entrepreneurs.

Furthermore, working capital loans for rural development were approved by reallocating a part of the funds under the Investment Loans for Rural Development financial instrument, which was completely financed from the programme contribution under the 2014-2020 Rural Development Programme of the Republic of Croatia. Loans are available to borrowers until the end of the eligibility period, that is, for as long as there is a need resulting from the adverse consequences of the COVID-19 pandemic, however until 31 December 2023 at the latest.

In 2022, as part of the COVID-19 measures, HBOR directly approved 152 loans totalling almost HRK 1.4 billion and 656 loans in the amount of more than HRK 3.5 billion from the beginning of the implementation of these measures until the end of 2022.

As part of these measures, until 30 June 2022, HBOR offered portfolio and individual insurance of liquidity loans for exporters, for which, since the launch of the programme in 2020, it provided insurance for 369 loans in the total amount of HRK 4.2 billion. The insurance premium subsidy programme was also implemented until the end of June 2022, during the period of whose implementation 299 subsidies were approved in the amount of more than HRK 76 million.

CONTINUED COOPERATION WITH ULRGS AND HAMAG BICRO

Pursuant to business cooperation agreements concluded between HBOR and counties, municipalities and cities, entrepreneurs are offered interest rate subsidies on HBOR's loans awarded from county, municipality or city sources. In certain areas, the agreements introduced a possibility of lending to entrepreneurs at an interest rate as low as 0 percent. During 2022, valid agreements were signed and were in effect with 42 units of local and regional government (ULRGs).

Success stories: New regional competence centre

The new Zabok Regional Competence Centre in Tourism and Hospitality has been growing from the foundations of Zabok High School. By a transformation into a Competence Centre, Zabok High School will provide conditions for adequate education, as well as acquisition of knowledge and skills. In addition to modernised and new classrooms, practicums, training centre and common areas, the centre will also have a catering facility with accommodation units of different categories, which will provide the best practical training to participants through business segments in real situations. Besides creating appropriate conditions for top education, the objective for this facility is to enable work-based learning, to provide a unique example of good practice and a demonstrative example of green architecture and functionality in the economic sector in Croatia and the surrounding area.

The project is being implemented under the 2014-2020 Competitiveness and Cohesion Operational Programme, however, due to the increase in the prices of construction materials and works, HBOR has provided additional support of HRK 37 million for the County of Krapina-Zagorje as the project implementing entity.

The cooperation with HAMAG-BICRO was continued under ESIF programmes of individual guarantees for investment loans and working capital loans intended to small business entities (except for agriculture and fishery, trade activities etc.) and for rural development intended for enabling easier access to financing for micro, small and medium entities of small businesses in the agricultural, processing and forestry sectors as well as programmes of limited portfolio guarantee intended for enabling easier access to financing for micro, small and medium entities of small businesses.

EUROPEAN PROJECTS AND INITIATIVES

In 2022, HBOR continued to implement the current financial instruments intended for the private sector: “ESIF Growth and Expansion Loans” and “Working Capital for Rural Development”. The financial instrument intended for the public sector was also implemented: “ESIF Loans for Public Lighting”. At the same time, the adjustment of existing financial instruments to the needs of the market continued through changes in their terms and conditions. By working in informal working groups coordinated by the Ministry of Regional Development and European Union Funds, and in cooperation with the competent ministries, HBOR started the process of developing new financial instruments, the implementation of which is expected in 2024.

Success stories: Advanced technologies for the use of renewable energy sources

The company Ekoplan-sustavi offers economical and environmentally friendly heating and cooling solutions and is one of market pioneers in offering products that rely on renewable energy sources. As the first company in Croatia that offered heat pumps, it currently develops its business with the technology it knows well to meet the demand for energy-efficient and green solutions through modular pre-assembled systems based on the technology of renewable energy sources.

Under the ESIF Growth and Expansion Loans, Ekoplan-sustavi bought their first business premises, which enabled them to faster attain their goals and business results, strengthen competitiveness and increase the number of employees. Favourable loan terms and conditions enabled them to make significant savings that would be channelled into further growth and business development. Ekoplan-sustavi plan the serial production of equipment that accompanies heat pumps and the delivery of ready-made solutions for family homes, tourism premises and economic facilities.

They see their future in business in the increasing interest in the installation of energy-efficient heating solutions at reduced costs as well as in the procedures of energy renovation of buildings and anti-seismic renovation of earthquake-damaged buildings that foresee the possibility of installing heat pumps, thus contributing to the achievement of EU goals and reducing the dependence on fossil fuels.

In the first half of 2022, HBOR implemented the second phase of the project called: “Advisory Services to the Public Sector” intended for the structuring of sustainable projects in the public sector. The project is financed by the European Union through the European Investment Advisory Hub (EIAH) on the basis of the Finance Contract for the financing of the development and implementation of investment advisory services concluded at the beginning of 2021 between the European Investment

Bank (EIB) and HBOR. The total value of the project is EUR 670,125, of which EIAH finances up to 75 percent of the costs, and the difference is financed by HBOR from HBOR's own funds. In 2022, advisory services were provided to local and regional government units, including three cities, four municipalities and one county-owned home for the elderly. Altogether ten projects were implemented, six of which in the underdeveloped areas of the Republic of Croatia that included the construction and/or renovation of social infrastructure and environmental protection projects.

PROMOTION OF FEMALE ENTREPRENEURSHIP

In addition to financing female entrepreneurship activities, HBOR contributes to the promotion of gender equality by participating in thematic stakeholder initiatives, panels and expert discussions on female entrepreneurship as well as by donating for or sponsoring projects aimed at protecting or promoting equality, diversity, human rights and non-violence.

Therefore, in 2022, HBOR continued to implement its long-term activities focused on enabling easier access to financing for female entrepreneurs. Since the launch of the loan programme Youth, Female and Start-Up Entrepreneurship in May 2019, HBOR awarded a total of 136 loans to female entrepreneurs, where the most loans were granted to entrepreneurs in the counties of Primorje and Gorski Kotar (28), Osijek and Baranja (24), Istria (23) and the City of Zagreb (20).

In 2019, HBOR incorporated additional adjustments into its information system by introducing the "female entrepreneur" attribute to be able to monitor data on female entrepreneurship under all other loan programmes besides that special-purpose programme. Thus, in 2022, 63 loans were granted to female entrepreneurs under HBOR's loan programmes totalling HRK 126.8 million, of which 42 loans were granted under the Youth, Female and Start-Up Entrepreneurship loan programme, and such activities are also planned for the coming period. The loan programme was preceded by the loan programme Female Entrepreneurship, under which HBOR extended 550 loans to female entrepreneurs in the period from 2011 to 2019.

During 2022, HBOR cooperated with the Office for Gender Equality on the proposal of the National Plan for Gender Equality for the period of up to 2027 and the Proposal of the Action Plan for the implementation of the National Plan for the period of up to 2024 with regard to the part of the measure, in which HBOR was listed as the implementing entity. The Action Plan was adopted in March 2023 and referred to HBOR's loan programme Youth, Female and Start-Up Entrepreneurship as to the measure that contributed to the realisation of the Plan considering the number and amount of loans granted to female entrepreneurs as the indicators.

DEVELOPMENT OF VENTURE CAPITAL AND PRIVATE EQUITY MARKET

With an objective of strengthening access to the funds for the development of domestic micro, small, medium-sized and mid-cap companies, particularly the innovative ones and those with a higher degree of risk such as start-ups, fast-growing companies or companies in propulsive ICT industries, HBOR participated in a number of initiatives to develop venture capital and private equity market in the past period.

Through the venture capital fund, the Venture Capital Fund Fil Rouge Capital (FRC2 CROATIA PARTNERS SCSP), which was established in 2019 with HBOR's support, more than 180 individual investments were made. During 2022, the third fund was established under the CROGIP programme (Croatian Growth Investment Programme), started to operate and made its first investments, whereas the other two funds invested intensively in companies in the Republic of Croatia. The establishment of a technology transfer fund is in preparation, and the manager of the fund is planned to be selected in 2023. At the end of 2022, a prerequisite was created for the establishment of one more fund or several more funds by using the proceeds of the National Recovery and Resilience Plan (NRRP).

HBOR participates in the investment fund of the Three Seas Initiative following the decision of the Government of the Republic of Croatia to invest in the Fund with the purpose of encouraging the implementation of joint projects in the area covered by the initiative. By the decision, HBOR is authorised to invest the amount of up to EUR 20 million in the Fund on its own behalf and for the account of the Government of the Republic of Croatia, plus the fees and costs of joining and participating in the Fund. HBOR joined the Fund in Q1 2021, and the size of the Fund equalled EUR 928.1 million on 31 December 2022.

EXPORT CREDIT INSURANCE ACTIVITIES

HBOR has a mandate to perform export credit insurance and reinsurance activities with an objective of encouraging exports, promoting internationalisation of operations and increasing competitiveness of Croatian exporters in the foreign markets. During 2022, in addition to the implementation of crisis measures relating to the COVID-19 pandemic, due to the crisis caused by the Russian aggression against Ukraine, HBOR put a special focus on facilitating liquidity financing for exporters by introducing new insurance programmes as the measures to support the economy of the Republic of Croatia.

Under the Programme for the Insurance of Liquidity Loans for Exporters introduced in the second half of 2022 based on the Temporary Crisis Framework of the European Commission, 25 loans for exporters' liquidity totalling HRK 376.1 million were insured by HBOR until 31 December 2022. HBOR enabled exporters to reduce the cost of insuring those loans through the insurance premium subsidy programme that was introduced in the second half of 2022 as well. Under this programme, the amount of HRK 12 million was approved in subsidies by the end of 2022. The implementation of insurance and premium subsidy programmes continued in 2023.

During 2022, HBOR insured a record turnover of HRK 2.8 billion, which was a result of an increased use of insurance programmes introduced with an objective of providing support to the economy in crisis conditions caused by the COVID-19 pandemic and the Russian aggression against Ukraine. In 2022, under its export credit insurance programmes, HBOR supported exports of Croatian goods and services to 43 countries worldwide.

DEVELOPMENT OF NEW FINANCIAL PRODUCTS IN LINE WITH EUROPEAN CLIMATE AMBITIONS

HBOR wishes to be a leader in advocating sustainable solutions by supporting the transition of borrowers to a carbon-neutral, climate-resilient and sustainable economy by providing sustainable financial services. To do so, it is necessary to harmonise the portfolio with the low-carbon strategy plans. Sustainable financing relates to any form of financial services that integrates environmental, social and governmental criteria into business or investment decisions to the long-lasting benefit of borrowers and society as a whole.

Sustainable financing is directly related to the comprehensive strategic pillars of HBOR contained in the 2020-2024 Business Strategy for the promotion of economically and socially balanced and sustainable regional, rural and urban development of the Republic of Croatia. Therefore, the development of sustainable financial products and methods for improving the profitability of green and social projects and business plans as well as for initiating, executing and supporting investments by using international funding sources are crucial for the sustainable development of Croatia.

To create new opportunities for Croatian businessmen, HBOR will consider the development of promotional and awareness-raising programmes for the purpose of attracting renewable energy projects and other clean energy projects as well as the development of verification tools to be applied to potential clean energy investment plans and other climate adaptation opportunities. At the same time, HBOR will encourage sustainable growth by improving its own process of assessing climate risks and opportunities, and it will ensure the integrity and growth of green assets by applying classification logics and methods aligned with internationally accepted principles. Furthermore, it will establish a strong system for identifying, measuring, analysing and reporting on performance indicators and impacts of the programmes it develops.

EU TAXONOMY: FIRST PORTFOLIO ASSESSMENTS

Under the project “Reorient HBOR’s Operations Towards Sustainable Financing and Green Transition”, an initial assessment of eligibility of HBOR’s portfolio in terms of the taxonomy of green activities was carried out by comparison with the NACE classification. It is important to note that the assessment included the economic activities then recognised by the adopted delegated acts on taxonomy, and it did not capture all economic activities that can make a substantial contribution to the environmental objectives and will be gradually added through other delegated acts. A preliminary analysis of the portfolio showed that HBOR was in a good position to start reporting on eligibility and alignment with the EU taxonomy. In the coming period, HBOR will focus more on increasing the reliability of the tools and data used in the assessments of eligibility and alignment, so that it can transparently report on its portfolio and better assess future projects to be financed.

05

Social Commitment





HBOR has a unique role of promoting sustainable development in the Croatian economy. For the fulfilment of this goal, cooperation is crucial, both at the international level and at the level of the domestic economy, and presence in the communities where HBOR operates is crucial as well. Therefore, HBOR's experts actively contribute to the activities of numerous business associations by encouraging cooperation on today's most important economic topics, whereas HBOR itself ensures that its contribution to society grows by awarding grants.

DOMESTIC AND INTERNATIONAL ASSOCIATIONS

HBOR participates in the activities and management of numerous business associations, clubs and chambers to encourage the development of business, the exchange of knowledge, ideas and experiences and to improve its own products and services. In addition to participating in the activities of associations, HBOR also participates in the activities of numerous commissions, committees and working groups in cooperation with ministries and local and regional government units. Furthermore, HBOR's representatives participate in the activities of the Working Group on Export Credits (ECG) of the Council of the European Union.

HBOR's representatives also participate actively in various administrative bodies and expert groups, they are active in discussions, educational programmes and sharing of good practices, and contribute to the preparation of various studies and operational guides. New European policies aimed at the achievement of the goals of the Paris Agreement on climate change and the 2030 Agenda were the key topics on the agendas of all international associations during 2022.

Memberships of international associations

Banking Association for Central and Eastern Europe (BACEE)
Berne Union - Prague Club
European Association of Public Banks (EAPB)
EIF-NPI Equity Platform
European Venture Fund Investors Network (EVFIN)
European Association of Long-Term Investors (ELTI)
European Investment Fund (EIF FISG)
Three Seas Initiative Investment Fund
ICC Croatia
Invest Europe
Inter-Bank Association of the People's Republic of China and Central and Eastern European Countries
International Development Finance Club (IDFC)
Network of European Financial Institutions for SMEs (NEFI)
Organisation for Economic Co-operation and Development (OECD)
UN Environment Programme Finance Initiative (UNEP FI)
UN Global Compact

Memberships of domestic associations

American Chamber of Commerce in Croatia (AmCham)
Society for Sports and Recreation of Bank and FINA Employees in the Republic of Croatia
Croatian Business Council for Sustainable Development (HR PSOR)
Croatian SWIFT Group
Croatian Banking Association (HUB)
Croatian Public Relations Association (HUOJ)
Croatian Association of Accountants and Financial Experts
Croatian Institute of Internal Auditors
Croatia Green Building Council
Croatian Standards Institute
Croatian Archival Society
Croatian-Austrian Chamber of Commerce
Croatian Assessors Association
Information Systems Audit and Control Association (ISACA)
Club of Exporters - Lider
Nordic Chamber of Commerce in Croatia
German - Croatian Chamber of Commerce and Industry (AHK)
Partner Council of Primorsko-Goranska County
Business Council for Economic Cooperation with Australia
Central State Office for Croats Abroad
ACI FMA Croatia (Financial Markets Association Croatia)
Association of Croatian Exporters (HIZ)
Association Croatian Accountant
Sports Society HBORSPORT

► Cooperation on climate transition

HBOR's representatives participated in the annual meeting of the NPI Equity Platform of the European Investment Fund in Luxembourg, where a special emphasis was placed on climate and climate transition. The EIF-NPI Equity Platform is a platform for the exchange of knowledge among the European Investment Fund (EIF), the European Commission and 47 national development institutions from 29 European countries with an objective of improving access to financing for relevant projects, SMEs and Mid-Caps, supporting capital market defragmentation, and harmonisation of national, European and private funding sources.

Furthermore, HBOR's representatives participated in a Climate Facility pilot Mentoring Program. Experts from International Development Finance Club member institutions participated in program's first edition, focused on the exchange of experiences on climate strategy issues of financial institutions. The programme that started in November 2021 would become a recurring programme expanded to a larger number of participants and to other topics of interest for the Club.

► The first Young Professionals (YP) forum of the Berne Union initiative

HBOR's representatives participated in the Berne Union's first Young Professionals (YP) forum in London in October 2022. This initiative was founded in 2019 and gathers a growing number of young professionals from dozens export credit institutions. The main goal of the initiative is the exchange of opinions, ideas, experiences, technical knowledge and competences on numerous topics in the field of export credit insurance. The YP initiative intends to deepen the connection and interaction among young professionals from export credit agencies through numerous topics in the field of export credit insurance, including current topics such as sustainability, climate change and others.

► HBOR joined the Croatian Business Council for Sustainable Development

HBOR became a member of the Croatian Business Council for Sustainable Development, which gathers the representatives of the economy in joint work on sustainability issues. In their first year of membership, the representatives of HBOR took advantage of the opportunities available to members, so they participated in study trips, round tables, educational programmes and the annual conference on sustainable development. HBOR also participated in the Croatian Sustainability Index - HRIO, a national methodology that provides a comprehensive insight into the sustainable business practices, a review of compliance with the latest provisions of the European Union and a comparison with the practices of other Croatian companies.



HBOR IN THE COMMUNITIES

Within its social activities, HBOR invests in the development of the community by awarding donations and sponsorships. Priority is 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 areas of the Republic of Croatia. The goal of awarding such funds is to create a positive atmosphere and to promote excellence in the local community and society as a whole.

As a public authority, HBOR is subject to the Act on the Right of Access to Information and regularly publishes the beneficiaries and amounts of donations and sponsorships, including the criteria for awarding donations and sponsorships. The award criteria⁵ are available to the public on HBOR's websites, and since 2016 HBOR has been reporting⁶ on all funds allocated to civil society organisations using the e-reporting system of the Office for Cooperation with NGOs of the Government of the Republic of Croatia. In its operations, HBOR follows the Recommendations of the National Network for CSR, which, among other things, regulate the area of granting donations and sponsorships. It is a member of several international and domestic associations or initiatives founded in connection with the issues of social development, responsible financing, environmental protection or sustainability.

⁵ Criteria for the Award of Donations and Sponsorships (only in Croatian)

⁶ Recipients of donations and sponsorships in 2022 (only in Croatian)

To further increase the transparency of the donation award procedure and to increase the visibility of socially responsible operations, following the best practices, HBOR adopted the Ordinance on the Procedures and Criteria for the Award of Donations in 2015. The Ordinance is aligned with the provisions of 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 in coordination with the Office for Cooperation with NGOs of the Government of the Republic of Croatia. Over time, the Ordinance was amended, and, in 2019, it included provisions on the procedures and criteria for awarding sponsorships, provisions on the ineligibility for the award of sponsorships or donations for events, projects or programmes of applicants with overdue liabilities towards HBOR and/or disputes of applicants and/or companies associated with HBOR. Also, mandatory application forms for small donations and/or sponsorships were introduced, which were then published on HBOR's websites, and amendments were introduced for the purpose of the alignment with the Regulation related to procedure digitalisation during the pandemic. The promotion of gender equality was also introduced in the prescribed programme and priority areas of funding, and all amendments to the Ordinance took place with prior consultation and coordination with the Office for Cooperation with the NGOs of the Government of the Republic of Croatia and HBOR's Compliance Monitoring Function (Compliance, AML/CTF, Information Security and Aid Office).

Since 2021, the award of donations and sponsorships has been managed by the Business Communications and Marketing Department of the Strategy Division. Accordingly, this Division has assumed the tasks of budgeting and of receiving and administrative checking of received applications for sponsorships and smaller donations, quality assessing of received applications, submitting proposals to the Management Board, contracting, receiving and evaluating final reports. Due to the increasing number of received applications for sponsorships and smaller donations and due to insufficient capacities of the Department, the implementation of public tenders for the award of donations in 2021 and 2022 was postponed (2020 tender was postponed due to the pandemic). Consequently, in December 2022, an initiative was launched to externalise the procedure for the implementation of HBOR's public tenders for donations, whereby they would be carried out by choosing an implementing entity in the public procurement procedure. Until 2022, HBOR successfully conducted altogether five public tenders for the award of donations and is experienced in terms of the type of engagement required for the quality implementation of this procedure. In this sense, an extensive market research was started to determine the potential implementing entities for the donation award procedure.

Following the recommendations of the state audit and the Office for Cooperation with NGOs of the Government of the Republic of Croatia, as part of the planned externalisation of HBOR's public tender procedures for donations, it is also planned to abolish individual awards of smaller donations of up to HRK 5,000. Having analysed the procedures, as a result of many years of experience, it was determined that such awards have little effect on the recipients in relation to the procedures that need to be carried out for their award. The abolition of such a practice, together with the externalisation of the donation award procedure, would contribute not only to the transparency of the procedure, but also to the optimisation of the use of HBOR's internal resources. In 2022, HBOR approved 13 such smaller donations, it approved two extraordinary larger donations to the Polish Red Cross as support for refugees from Ukraine in the amount of HRK 148,409.16 and to the Croatian Red Cross the amount of HRK 75,000 was awarded also as support for displaced people due to the Ukrainian crisis.

06

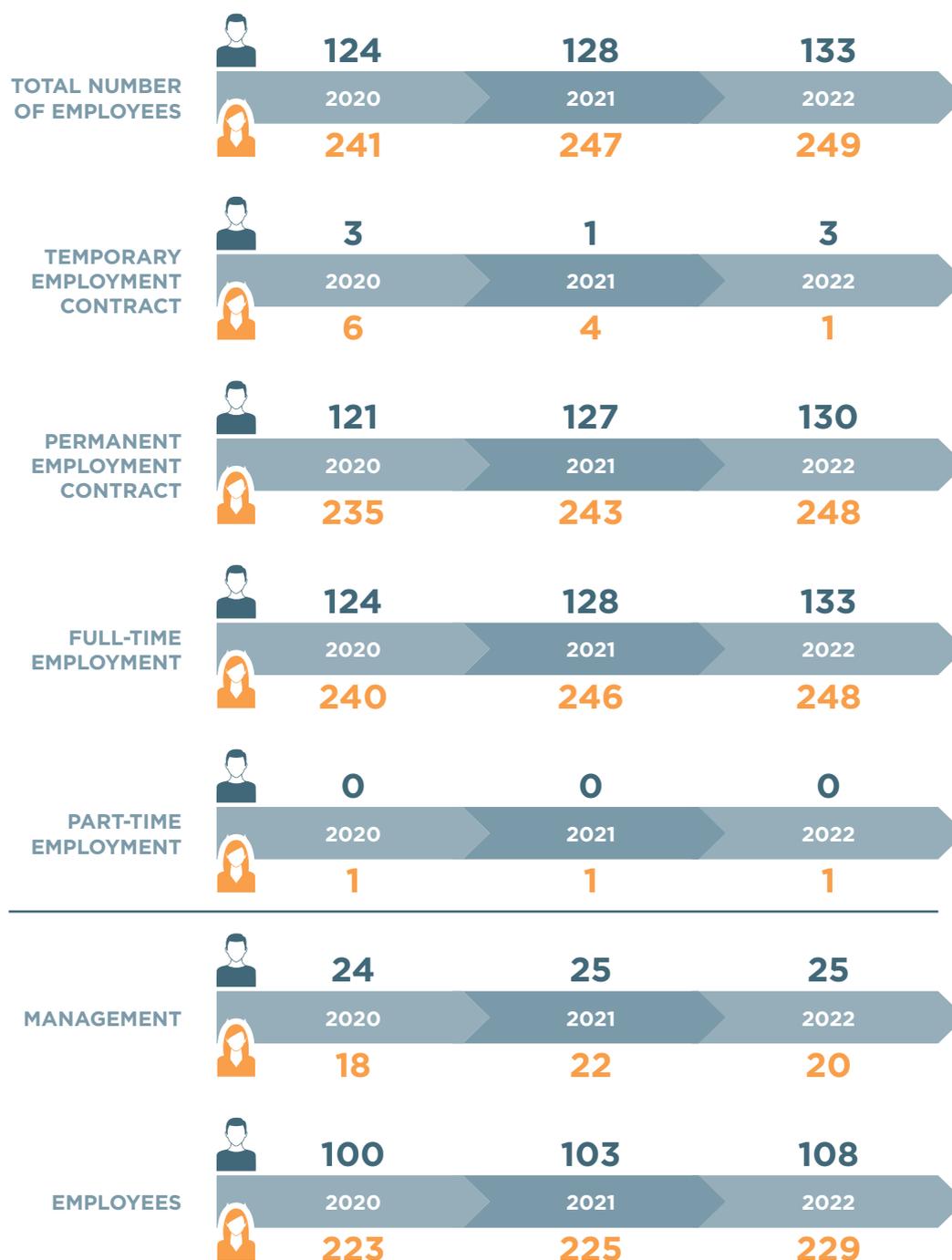
Employment at HBOR



In creating a quality work environment for HBOR's employees, emphasis is placed on encouraging professional growth and development, creating good working conditions and promoting equality, inclusion, transparency and equal opportunities. Such an approach creates a culture of professionalism and respect as the basis for achieving common business goals. Creating a competent workforce, trained to achieve the bank's strategic goals, is HBOR's primary duty.

In 2022, there were 382 employees at HBOR, and HBOR is responsible for their well-being, work performance, and progress. Most of them are full-time employees with permanent employment contracts. HBOR does not hire workers who are not employees at the same time.

HBOR'S EMPLOYEES



The rights of HBOR's employees are prescribed and regulated by the Labour Ordinance adopted in accordance with the Labour Act in cooperation with HBOR's expert teams working in the relevant fields of work. The new Labour Ordinance entered into force on 30 June 2023, and it was aligned with the Act on Amendments to the Labour Act and with the results of the consultations with the trade union commissioner who was given rights and obligations of the Workers' Council.

WORK CULTURE AND CONDITIONS

HBOR strives to create a positive and high-quality work atmosphere, which encourages employees to stay at HBOR and continue working towards the attainment of common business goals. As an employer, HBOR strives to understand the needs, wishes and concerns of employees for the purpose of retaining talented ones and at the same time attracting new experts. For this purpose, the Employer Partner certification procedure was carried out to examine good business practices and bring them closer to those recommended for creating a stimulating work environment. Besides, HBOR is present at student fairs, it posts job vacancies at the LinkedIn social network to attract talents, while simultaneously offering numerous financial and non-financial benefits to existing employees.

HBOR's employees have at their disposal several privileges and material rights so that they remain motivated in their work and have the necessary protection. Thus, HBOR offers health insurance subsidy, paid transportation, various grants, days off, seniority allowance, food allowance and permanent allowance. HBOR provides its employees with conditions that allow them to create a healthy balance between professional and private life, offering them the possibility of flexible working hours, flat-rate compensation for work from home or for work at a remote location.

HBOR does not have a Collective Agreement, but it provides its employees with the possibility of collective organisation and negotiation. In 2022, a branch of the Trade Union of Banking and Financial Employees of Croatia was established at HBOR. HBOR does not restrict the right of employees to collective organisation in any way and closely cooperates with the trade union commissioner who assumed the rights and obligations of the Workers' Council.

In terms of developing and strengthening corporate culture and in terms of implementing organisational values in the work environment, numerous activities are carried out to involve and motivate employees, such as Christmas party and Bank Day celebration, and employees can also participate in numerous sports activities organised by HBORSPORT society. Employee motivation is an extremely important segment, on which the success of HBOR's business depends. Excellence in work is rewarded and encouraged by an incentive part of the salary in the form of a salary supplement that is based on the quarterly assessment of competence and goal attainment through the performance management system. The amount of the incentive part of the salary is determined in a range that depends on the overall assessment of the achievement of goals and competencies in a certain period.

In case of employment termination, the employees whose employment contract is terminated by HBOR after two years of continuous work are entitled to severance pay and other rights in accordance with the Labour Ordinance and the employment contract, unless the employment contract is terminated for reasons resulting from the employee's behaviour. The amount of severance pay is determined by considering the duration of the previous continuous employment at HBOR.

COOPERATION, SATISFACTION AND INTERNAL COMMUNICATION

HBOR endeavours to develop a transparent relationship with its employees as it believes that this is the way to strengthen mutual trust. Therefore, before making decisions of importance for the position of employees, consultations are carried out with the trade union commissioner who has assumed the rights and obligations of the Workers' Council. HBOR does not have a prescribed minimum deadline for notifying employees about significant changes in business that may affect their positions, but it strives to consider their needs and inform them in an adequate time frame.

Internal communication is an important aspect of culture development at HBOR. Over the years, the number of communication channels and topics has systematically increased. Communication with the employees takes place via e-mail, Intranet, SharePoint and Teams application that includes all employees. In 2022, through internal announcements at the Intranet, that numbered as many as 93, employees were informed about various news and events relating to the organisation transparently and efficiently. The topics covered by the Intranet relate to internal and external tenders, participation in conferences, appointment notices, educations, new documents, initiatives and conditions, new loan contracts and successful projects, sports activities, interesting information and congratulations to colleagues.

To care better for the satisfaction and experience of its employees, HBOR carries out occasional satisfaction surveys. In the latest one, conducted in 2021, cooperation within organisational units was the best-rated category, which was reflected in good communication and reliability, expertise, honesty and teamwork among colleagues, working hours, availability of information about vacancies in the bank, etc. Weaker rated categories were assignment of tasks not within the competence and responsibility of individuals, education and preparation for performing additional tasks, possibility of advancement and clear communication of advancement criteria. HBOR recognises such surveys as an excellent tool for getting acquainted with the opinions of employees and gaining insight into their needs, which is a good basis for creating improvement opportunities.

As it can be concluded from the figures in the tables, the number of HBOR's employees has remained relatively stable over the past three years, with a low turnover rate. A slightly higher number of those leaving can be observed in the age group of over 51, which is in line with the process of "natural" fluctuation, i.e. retirement.

NEWLY EMPLOYED AT HBOR AND THOSE LEAVING HBOR

Newly employed (as at 31 December)	2020		2021		2022	
	M	F	M	F	M	F
< 30 years of age	0	3	1	7	3	0
31-50 years of age	4	2	8	15	10	13
> 51 years of age	0	1	0	1	0	1

Employees who left (as at 31 December)	2020		2021		2022	
	M	F	M	F	M	F
< 30 years of age	2	1	1	1	1	1
31-50 years of age	6	5	3	6	5	6
> 51 years of age	1	2	1	12	1	5

DIVERSITY, INCLUSION AND NON-DISCRIMINATION

HBOR is committed to combatting discrimination and promoting equality as established in the Labour Ordinance and other internal documents. They describe the procedure for protecting the dignity of employees, for which the commissioner for the protection of employees' dignity is trained, who carries out protection procedures at the request of employees. In addition, decent and dignified behaviour without discrimination is also promoted by the Code of Conduct⁷, for which the Compliance Monitoring Function is responsible.

Employees who recognise any form of irregularity, injustice or have any other objection related to workplace practices can complain to the appointed commissioners. The commissioner for the protection of employees' dignity is authorised to receive and resolve complaints related to the dignity of employees. During 2022, one such complaint was submitted and processed, and it proved to be unjustified. The Management Board was informed about the implemented procedure for protecting the dignity of employees and about the established facts and circumstances.

As part of the promotion of inclusion and equality at HBOR, equal opportunities are ensured and provided for all employees. Equal salaries for all employees solely on the basis of equal work performed are ensured by several procedures and internal documents that determine the range of points, i.e. salaries.

In terms of gender breakdown, the male to female employee ratio is in favour of women. Over the years, there have been only slight changes in the gender breakdown with approximately 65 percent of women and 35 percent of men. It is important to stress that, in 2022, 44 percent of managerial positions in HBOR were held by women. The age breakdown is also typical for companies in Croatia today with approximately 70 percent of employees in the age group between 31 and 50 years. Although HBOR does not, at the moment, have defined diversity policies, the above data indicate that HBOR provides equal opportunity jobs.

Gender and age diversity (as at 31 December)	2020		2021		2022	
	M	F	M	F	M	F
< 30 years of age	10	10	5	16	7	9
31-50 years of age	96	162	101	166	101	170
> 51 years of age	21	69	22	65	26	70
Total	127	241	128	247	134	249

⁷ Code of Conduct

At HBOR, all employees have the right to parental leave, including adoptive parents. Both men and women used the right to parental leave in the last three years, and the figures are shown in the following table.

Right to parental leave	2020		2021		2022	
	M	F	M	F	M	F
Total number of employees who have the right to parental leave	127	241	128	247	134	249
Total number of employees who exercised the right to parental leave	0	26	1	20	1	19
Total number of employees who returned to work after the end of parental leave	0	26	1	20	1	19
*Rate of return to work of employees who exercised the right to parental leave	100%	100%	100%	100%	100%	100%
Total number of employees who returned to work after the end of the parental leave and who remained employed for 12 months after their return to work	0	26	1	20	1	19
**Rate of retention at work of employees who exercised the right to parental leave	100%	100%	100%	100%	100%	100%

* Rate of return to work = total number of employees who returned to work after parental leave / total number of employees who should have returned to work after parental leave x 100

** Rate of retention at work = total number of employees who remained employed for 12 months after their return to work after the end of parental leave / total number of employees who returned to work after parental leave in the preceding reporting period/s x 100

HBOR promotes equality and inclusion in business in all forms aiming to create a work environment that will motivate all employees regardless of their gender, age or other features of diversity. These values also apply when it comes to fair financial compensation.

Ratio of standard starting salary by gender to minimum salary	2020		2021		2022	
	M	F	M	F	M	F
All locations	1.52	1.10	1.42	1.19	1.11	1.10

Salary ratio by gender and position	Number of employees			Average	Median
	Total	M	F	Ratio F/M	Ratio F/M
Groups of jobs II - IV	63	16	47	1.06	1.05
Groups of jobs V - VII	172	61	111	0.95	0.94
Groups of jobs VIII	44	24	20	1.00	0.98

* Groups of jobs II-IV include the jobs of lower complexity, groups of jobs V-VII include the jobs of higher complexity, and groups of jobs VIII include the positions of President and Members of the Management Board, Senior Executive Directors, Executive Directors and Managing Directors

* Ratio calculation was based on the salaries of employees who worked for all 12 months in 2022

* Calculation was based only on the sample of employees who were in the same category in 2022

In terms of the ratio between the total annual compensation for the highest paid individual in the organisation and the average annual total compensation for all employees excluding the highest paid one, the calculation was based on the salaries of employees who worked all 12 months in 2022, full-time, with the exception of employees who received compensation at the expense of the Croatian Health Insurance Fund (HZZO). The ratio is 2.77.

HBOR recognises and appreciates the importance of human rights in business and private life. At the same time, it considers education about them equally important. Although HBOR does not have a systematic programme that would regularly deal with the education of employees on human rights and policies related to human rights protection, it endeavours to use every opportunity within the framework of projects or technical assistance. For example, in 2021, it participated in the international comparative study⁸ on strengthening gender equality in development banks, in which both employees and management participated in educational workshops. Besides, a representative of HBOR participated in the pilot version of the programme of the Croatian Business Council for Sustainable Development: Workplace Inclusion Champion.

PROFESSIONAL DEVELOPMENT AND ADVANCEMENT

To achieve its business goals, HBOR considers the development and education of its employees to be crucial. By investing in their development, a professional and ambitious work environment is created that contributes to business success, while simultaneously enabling the employees to feel personal and professional growth and development.

The terms and conditions of training and education are regulated by the internal Ordinance on Training, Education and Conferences of HBOR's employees and the Ordinance on Performance Management of HBOR. For this purpose, various procedures are used such as, among others, the annual training, education and conference attendance plan. Continuous certification through the Employer Partner certificate also makes a substantial contribution, which upgrades the management and improvement of this area of business with additional guidelines.

Under the training plan, the employees can plan their annual training, education and conference attendance in accordance with the requirements of their jobs and the development of processes within HBOR. Also, the realisation of their professional development is supported by the assessment of work performance through quarterly periods and set goals, which is regulated by the Ordinance on Performance Management, the umbrella document that defines and manages this business segment. Satisfaction with the opportunities for professional development offered to employees is monitored by quarterly and annual interviews. Individual goals are set for all employees, and they are provided with specialist and professional contents aimed at their professional development or at conducting their careers towards managerial or head positions.

The performance management system was introduced in 2015 to systematically monitor the performance of each employee's development. As part of the system, competencies and set goal achievements are assessed quarterly, and new goals are set for the coming quarter. The assessment of achievements is based on a 50:50 ratio, taking into account the parameters of the assessed competencies and the assessments of the achieved goals. To ensure a transparent relationship with the

⁸ "Study on Strengthening Gender Equality in the Development Banking Sector", International Development Finance Club / Frankfurt School of Finance & Management

employees and in order for them to have a clear insight into their performance, quarterly interviews were introduced, in which they receive feedback from their direct superior managers. By implementing this system, all employees of HBOR, except for the Members of the Management Board and the President of the Management Board, receive a regular appraisal of their work performance.

Through the implementation of the training and development system and performance appraisal system, the employees are continuously offered opportunities for their further professional development. This is achieved by enabling them to acquire new skills, they are provided with mentoring opportunities, professional development, advancement, creating business networks and independent research within the scope of the job description and position. Also, various types of education programmes are available to the employees, such as training and education on professional and “soft” skills and professional conferences. The education system includes all employees of HBOR. Furthermore, HBOR encourages its employees to participate in conferences, trainings and study visits.

EDUCATION AND TRAINING AT HBOR

Education	Number of hours	2020		2021		2022	
		M	F	M	F	M	F
Management	Average	7.27	6.79	5.54	6.19	17.42	10.96
	Total	189	56.5	144	161	453	263
Employees	Average	14.33	6.79	7.70	4.15	19.31	9.98
	Total	1,404.3	1,493.3	784.95	917	2,066.5	2,246.4

It is important to note that the previous methodology for gathering data on hours of education did not distinguish between legally mandatory and non-mandatory education programmes. Accordingly, the number of hours shown in the table is the total number of all educations conducted over the last three years. The above table does not include hours of education under projects or technical assistance. In the future, optimisation of this process will be considered so that the maintained records are in line with the methodological requirements.



Education for sustainable development

Sustainable development is an increasingly important aspect of everyday life, and as such it has become an increasingly important part of HBOR's strategic operations. Therefore, it is important to continuously educate the employees and the high management bodies about this topic so that they are informed about all current events and can improve the management of HBOR's operations. In 2022, under the project "Reorient HBOR's Operations Towards Sustainable Financing and Green Transition", several workshops took place aimed at raising HBOR's internal capacities to ensure sustainable financing intended to achieve sustainable and climate-neutral operations.

The capacity building workshops held under the project included 40 employees, members of the project team and beyond, and 11 managers. In addition, the managers and the members of the Management Board participated in the quarterly Steering Committee meetings, and the project received the highest-level sponsorship as it was sponsored by the President of the Management Board.

The topics covered by the project workshops included sustainability risk assessment and management methodologies, low-carbon scenarios, breakdown of greenhouse gas emissions by various industries in Croatia and classification criteria for those industries in accordance with the European taxonomy, breakdown of the regulatory framework of sustainable financing relevant to HBOR (including the Corporate Sustainability Reporting Directive, EU taxonomy and InvestEU) and implementation of the tools for risk management and portfolio steering proposed under the project.

In parallel with the development of the project, in 2022, HBOR's employees from 14 different organisational units participated in various conferences and other education programmes related to the topics of sustainability, climate risks, sustainability regulations compliance, non-financial reporting and other topics in this area. For example, HBOR's employees participated in several trainings on environmental and social risk management, on environmental, social and governance criteria in sustainability reporting, on calculation of energy needs for nZEB and ZEB buildings, on EU taxonomy and the life cycle of buildings across all aspects of sustainability.

OCCUPATIONAL HEALTH AND SAFETY

HBOR considers the development of working environment as well as the safety and health of its employees as very important. As an employer, HBOR believes that the environment in which employees will reside must be created in accordance with their needs. In this way, HBOR creates a pleasant workplace and atmosphere in which they would like to stay. Also, a motivated and satisfied employee is recognised as the potential for further improvement of the bank's operations.

The Occupational Health and Safety Committee is an advisory body that proposes and advises the Management Board on matters of occupational health and safety. The members of the Committee are an employer's authorised representative, an occupational safety expert, a worker commissioner for occupational safety and an occupational health medical practitioner. The employees themselves also participate in the development, application and evaluation of the health and safety

management system indirectly, guided by the rules that determine the behaviour in the field of employee well-being, such as the Occupational Safety Ordinance, Rules of Procedure of the Occupational Health and Safety Committee, the Risk Evaluation, Evacuation and Rescue Ordinance, Ordinance on the Use of Personal Protective Equipment, as well as other HBOR documents. As for the safety at work, all ordinances are adopted and implemented in accordance with the European directives and cover all employees. During 2022, no injuries at work were recorded, and there were neither deaths at work nor occupational diseases.

In the event that employees recognise negative effects, practices or have other types of comments on health and safety issues, they can refer them to competent experts. For example, inquiries, objections, appeals, praises and other comments can be submitted in person, by e-mail or using an SCCD request to the occupational health and safety expert, who assesses whether the subject will be dealt with alone or in cooperation with authorised persons, i.e. the Occupational Health and Safety Committee.

The recognition and management of safety hazards and risks at the workplace and the enhancement of these systems is carried out by applying the Risk Assessment Ordinance. It determines the methods and the way in which the assessment is carried out. Risk assessment for HBOR employees is carried out in cooperation with employees and occupational medicine experts, as well as other experts if needed. Any injuries at work, possible occupational diseases or other illnesses related to work are reported to the occupational safety expert, who reports them to the Croatian Health Insurance Fund.

In addition to supplementary health insurance subsidies, HBOR provides its employees with access to various health services in cooperation with an occupational medicine practice. Occupational medicine examinations are performed during the working hours of the employees at the expense of HBOR, regardless of whether they are preventive sight checks, regular medical examinations for employees who perform tasks in special working conditions, or medical examinations of other employees who complain about some problems. If employees receive a recommendation from occupational medicine, for example, for a special ergonomic aid at workplace (elevating table, chair cushion, ergonomic mouse etc.) such devices or aids are provided by HBOR. In addition, efforts are made to prepare and educate employees about occupational safety, and regular training on this topic is conducted, as well as training of authorised persons and occupational safety commissioner. Instructions for work in a safe manner for jobs with special working conditions, where such type of education is required, are published on the bank's intranet pages. Also, awareness of the importance of preserving physical and mental health was raised in 2022 through the communication of content on these topics in HBOR's internal channels.

During the COVID-19 pandemic, a number of guidelines were published and regularly updated in order to make the working environment as safe as possible. For example, various instructions and guidelines were regularly published in line with the recommendations of the competent services, such as the Guidelines for Operation and Implementation of Safety and Health Measures in Circumstances of Risk of Infectious Disease COVID-19, The Instruction on the Implementation Safety Measures for COVID-19, but also others. All necessary protection measures were carried out, which included the measuring of body temperature before entering HBOR's premises, announcement of arrivals, limiting the number of people in offices in accordance with recommendations, wearing masks and gloves provided by HBOR, and various other measures. The negative effect that this situation could have on employees was also recognised, and for this purpose, information focused on mental health and easier coping with the consequences of the pandemic was published.

07

Corporate Governance





HBOR manages its business by applying the HBOR's Corporate Governance Code⁹. The aim of this code is to establish, maintain and improve standards of corporate governance and transparency of HBOR operations for the purpose of efficient and responsible management of public capital and activities of special social importance for the development of the Croatian economy.

The fundamental principles of HBOR's corporate governance are: legality, transparency and publicity of operations, dividing of duties, i.e. clearly established procedures for the work of the Supervisory Board, the Management Board and other bodies and structures which make important decisions, preventing the conflict of interest, more efficient internal supervision, strengthening of personal responsibility and corporate social responsibility.

⁹ HBOR Corporate Governance Code

GOVERNANCE BODIES

The Supervisory Board of the Croatian Bank for Reconstruction and Development consists of ten members: six ministers of the Croatian Government, three members of the Parliament and the Chairman of the Croatian Chamber of the Economy. The minister in charge of finances is the President of the Supervisory Board, and the minister in charge of the economy is the Deputy President of the Supervisory Board. The Supervisory Board monitors and controls the legality of operations of the Management Board and appoints and revokes the President and Members of the Management Board. The Supervisory Board determines the principles of business policy and strategy, supervises the bank's business operations, establishes the credit policies of HBOR, prepares the annual financial statements and considers the reports of internal audit, external independent auditors and reports of the State Audit Office. The Rules of Procedure of HBOR's Supervisory Board are available on the HBOR website¹⁰.

The Audit Committee is an independent body, the members of which are appointed by the Supervisory Board of HBOR. The Audit Committee is comprised of three members, at least one of whom is appointed among the members of the Supervisory Board, and the other two members are appointed by the Supervisory Board. The Credit Committee is comprised of the chairman of the Credit Committee and a maximum of four members, one of whom is the deputy chairman. The number and members of the Credit Committee are determined and appointed by the Management Board at the proposal of the President of the Management Board.

The Management Board of HBOR consists of the President and Members of the Management Board. Members of the Management Board are appointed by the Supervisory Board. The Management Board conducts the business according to the Act on HBOR and its By-laws, administers the assets of HBOR and is obliged and authorised to undertake all actions and make all decisions it deems necessary for legal and successful conduct of business. The Management Board is also in charge of passing normative documents that determine the manner of work and internal organisation of HBOR, passing of loan programmes, individual decisions on loan approval and other financial business, making of decisions on the appointment and dismissal of employees with special authorisations, making of decisions on rights and obligations of employees and reporting to the Supervisory Board. The Rules of Procedure of HBOR's Management Board are also available on the HBOR website¹¹.

The operations of the Croatian Bank for Reconstruction and Development are conducted in accordance with the Act on the Croatian Bank for Reconstruction and Development, the By-Laws of HBOR¹² and the rules of procedure for the work of the management bodies.

Members of HBOR's Management Board in 2022:

Tamara Perko, MSc, President of the Management Board (in office until 16 October 2022)
Hrvoje Čuvalo, MSc, Member of the Management Board (in office until 16 October 2022)
Hrvoje Čuvalo, MSc, President of the Management Board (in office as of 24 October 2022)
Alan Herjavec, MSc, Member of the Management Board (in office as of 24 October 2022)
Josip Pavković, Member of the Management Board (in office as of 24 October 2022)

The criteria for the selection of members of the Management Board are determined in accordance with the Ordinance on the Conditions for the Selection and Appointment of Members of Supervisory Boards and Management Boards of Legal Entities of Special Interest for the Republic of Croatia and the Manner of their Selection¹³. The members were appointed in 2022 for a five-year term that lasts until 24 October 2027. The salaries and severance pays of the members of the Management Board are regulated by employment

¹⁰ The Rules of Procedure of HBOR's Supervisory Board (only in Croatian)

¹¹ The Rules of Procedure of HBOR's Management Board (only in Croatian)

¹² The By-Laws of HBOR

¹³ https://narodne-novine.nn.hr/clanci/sluzbeni/2019_02_12_237.html (only in Croatian)

contracts, and they do not exercise the right to a variable or incentive part of the salary like other employees of HBOR. Also, according to the Act on the Prevention of Conflicts of Interest, the Commission for Decisions on Conflicts of Interest issued guidelines that determined which receipts, in addition to salary, may not be received by the entities subject to the application of the abovementioned Act, including members of the HBOR Management Board, and which receipts they may receive, which HBOR adheres to in its activities.

TRANSPARENCY AND PUBLICITY OF OPERATIONS

As a bank established by the Act on HBOR and a public authority to which the Right of Access to Information Act (RAIA) applies, HBOR is guided by openness and the highest possible level of information transparency.

In order to comply with its obligations as a public authority, without violating the obligation to keep bank secrecy as a financial institution in accordance with the Credit Institutions Act, in 2019, the bank implemented an adjustment to the RAIA in such a way that, with regard to the handling of requests for access to information, it incorporated the RAIA clause in the relevant documentation (e. g. in loan applications, loan contracts, guarantee requests, guarantee agreements, requests for insurance etc.). Within the scope of this clause, clients declare that they are aware that the RAIA applies to HBOR and that HBOR will provide applicants with certain data in the event of receiving a request for access to information (for example, in the case of a loan: name of the borrower, amount, purpose of the loan and name of the project).

In addition to the above, the RAIA also stipulates the obligation to publish certain information proactively. HBOR publishes information (for example, various regulations, general documents, annual business plans, personnel plans, annual reports on the implementation of RAIA, dates and agendas of meetings of decision-making bodies, decisions made at meetings of the said bodies and others), while always protecting the data that are banking or business secrets or other protected information. In addition, certain information prescribed by this Act is submitted to the Central Catalogue of Official Documents of the Republic of Croatia, which ensures their permanent availability, while certain information is forwarded to the Open Data Portal. In the period from December 2021 to March 2022, an indirect inspection was carried out at HBOR, which was initiated by the bank itself, asking for opinions and instructions for the proper application of the RAIA in relation to the proactive publication of information and the publicity of operations. The transparency of HBOR was additionally enhanced, considering that the bank started to publish data that it had not published before, such as the financial plan and others.

The information officer and other employees involved in the application of the right to access to information are continuously trained in this field. All HBOR organisational units are aware that the Right of Access to Information Act applies to HBOR, and each of them publishes information within its competence on HBOR's website. The information officer handles requests for access to information in agreement with the organisational units in the competence of which is the requested information. The most frequent requests relate to information on beneficiaries and final beneficiaries of loans, loan amounts, export projects, decisions of the Management Board and the Supervisory Board related to projects financed by HBOR as an export bank and export credit agency, minutes of the Supervisory Board meetings and other information.

In the coming period, HBOR will further strengthen the publicity of its operations. In other words, after the preparatory actions have been completed, in 2024, HBOR will begin to publish the information on the beneficiaries and the amounts of awarded state aid, as well as on the beneficiaries and the amounts of de minimis aid. The data will be published in the second quarter of each year for aid awarded in the previous year.

MANAGING KEY IMPACTS

The Management Board of HBOR is responsible for managing all the impacts of the bank's operations. In the process of identifying material impacts with special emphasis on potential and actual adverse impacts of operations, the Management Board plays an active role in considering impacts and reporting on sustainability as the highest management body.

Sustainability in HBOR is managed by several organisational units depending on the aspect of business sustainability. For example, for the assessment of the environmental aspects of projects or beneficiaries, a special unit has been established in which engineers of various expertise assess the submitted projects according to environmental and climate criteria. The Compliance Monitoring Function monitors business compliance with all regulatory requirements and international agreements, while Human Resources department monitors aspects of employee relations, including aspects of sustainability such as diversity. A number of organisational units are active in sustainability issues, whether it is a participation in international associations, reporting requirements, as well as leading or participating in thematic projects related to sustainability issues.

All organisational units that have certain aspects of sustainability in their functions regularly report to the Management Board of HBOR. Also, issues of special concern that stakeholders communicate within the grievance mechanisms are separately processed and presented to the competent authorities in order to adequately respond to them.

As part of the project "Reorient HBOR's Operations towards Sustainable Financing and Green Transition", an analysis of the management structure of HBOR was carried out with an emphasis on sustainable financing activities. Proposals and recommendations are given for changes and additions to roles and responsibilities to ensure solid management of environmental, social and governance impacts in financing programmes. A stronger need for cross-sectoral coordination was highlighted, for example the organisation of a dedicated sustainable finance team, additional roles in existing teams, and the establishment of a dedicated committee such as the Climate Risks Committee or additional functions in existing committees. Following the findings of the project, the Management Board of HBOR will consider the necessary changes in its organisational structure.

Although there is no permanent thematic programme or measures to improve the collective knowledge, skills and experiences of the highest management body, from 2021, within the framework of the mentioned project, a series of workshops and consultation meetings were held in which the Management Board of HBOR also participated. In addition to formal opportunities for education, members of the Management Board monitor the development of issues of organisational sustainability, especially sustainable financing, and participate in conferences and gatherings dealing with this topic.

As for assessing aspects of the sustainability of financed projects, in the processing of direct loan applications, HBOR conducts an analysis of the impact of the investment or project on the environment that must meet the environmental standards of the Republic of Croatia. In case of lending from earmarked financing sources, if an opinion on the impact of an investment or project on the environment is required, the OECD recommendations or regulations and instructions requested by institutions for earmarked financing are also taken into account. When requesting approval for lending products intended for export financing, the criteria from the OECD's Recommendation of the Council on Common Approaches for Officially

Supported Export Credits and Environmental and Social Due Diligence¹⁴ are checked. The implementation of new financial instruments from the framework established by the National Recovery and Resilience Plan is also aligned with the so-called Do No Significant Harm principle. The stated principle refers to the requirement that no investment that is financed must have significant negative impacts on the climate, environment, natural ecosystem, water and other objectives defined by the EU taxonomy.

RISK MANAGEMENT

HBOR's Risk Management Strategy defines the goals, basic principles and standards of risk management and defines the risk appetite in its operations. It is an umbrella document that establishes the framework for taking and managing risks in all organisational units and processes of HBOR. HBOR's Risk Management Strategy derives from the Act on HBOR, which stipulates that HBOR minimizes risks in its operations by following the principles of banking operations. Although European and national banking regulations and decisions of the Croatian National Bank do not apply directly to HBOR, HBOR applies them partially as a good banking practice and in a way that depends on the type, size and complexity of its operations.

With internal policies, regulations, methodologies, instructions and other internal documents on risk management, HBOR defines individual risks, establishes a risk management system, a methodology for determining, measuring/assessing, monitoring, mastering, controlling and reporting on risks, as well as the roles and responsibilities of organisational units involved in the process of managing risks to which HBOR is exposed or could be exposed in its operations.

The risks to which HBOR is exposed or could be exposed in its operations are determined in accordance with the Risk Catalogue of HBOR. The aim of this internal document is to identify risks that are estimated to have or could potentially have a negative impact on HBOR's operations in order to establish and undertake activities to control them in a timely manner, as well as further development of already determined activities aimed at avoiding, preventing, transferring and/or or reducing the negative impact of risk on current and future business indicators and the value of HBOR's capital. The Risk Catalogue provides the current risk profile of HBOR and is a precondition for further enhancement of risk management. It is updated on an annual basis, and if needed, more frequently.

All organisational units of HBOR are included in the procedure of establishing risks, which ensures the capture of risks to which HBOR is exposed or could be exposed, which are inherent in HBOR's operations, products, activities, processes and systems and may result in significant financial losses. The Risk Catalogue contains definitions of all recognised risks, as well as the table of risks that covers the following for each established risk: significance of risks, coverage by internal documents, manner of assessing and measuring risks, manner of risk management and the assessment of level of reduction of risk exposure. For identified risks, HBOR continuously implements activities to improve the management of these risks.

The most significant risks HBOR is exposed to in its everyday operations are: credit risk, liquidity risk, interest rate risk in the banking book, currency risk, operational risk, outsourcing risk, legal risk, IT system risk, compliance risk, reputational risk and money laundering and terrorism financing risk. The aforementioned risks are managed daily by applying policies, regulations, procedures, methodologies, instructions and other mechanisms.

¹⁴ Ordinance on Implementation of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence

In the Risk Catalogue for 2022, climate and environmental risks as well as social risks have been identified. Their significance has been identified as low based on the assessment of the severity of possible adverse event due to exposure to these risks in terms of financial consequences or impact on business continuity, taking into account the probability of the occurrence of an adverse event. A low level of reduction of risk exposure was established, which is why it is necessary to adopt appropriate internal documents and to introduce assessment, measurement and management of these risks. The management of such risks will be improved in the coming period through the development of a complete system for managing these risks.

HBOR's internal control system represents a set of processes and procedures for adequate risk control, monitoring the efficiency and effectiveness of HBOR's operations, reliability of financial and other information, and compliance with regulations, internal documents, standards and codes with the aim of ensuring business stability. In order to ensure the effectiveness of the internal control system, HBOR has established permanent and effective control functions with appropriate powers, independent of the business processes and activities in which the risk arises, i.e. which are monitored and supervised by control functions, namely the risk control function, the compliance monitoring function and the internal audit function.

The Risk Management Division is responsible for the control, establishment, measurement, i.e. assessment and supervision of risks, as well as reporting on the risks for which it is responsible and to which HBOR is exposed or could be exposed in its operations. At the same time, it is a permanent function of risk control, functionally and organisationally independent of the business processes and activities in which the risk arises, i.e. which it monitors and supervises. The Risk Management Division as a risk control function monitors and controls whether other organisational units implement policies, regulations, methodologies and other internal documents related to risk management correctly and in accordance with their competences. The compliance monitoring function is in charge and responsible for determining and assessing the compliance risk that HBOR is exposed to or could be exposed to. The internal audit function is in charge and responsible for conducting a regular audit of the risk management system, evaluating the efficiency and effectiveness of the built-in internal control system, as well as evaluating the application and effectiveness of the risk control function and the compliance monitoring function.

ALIGNMENT WITH VOLUNTARY INITIATIVES AND REGULATIONS

In accordance with legal requirements, the Compliance Monitoring Function has been established in HBOR. This function is permanent and is independent of business processes and activities in which some risk arises. Compliance monitoring and compliance risk management is implemented in a decentralised manner in all organisational units of HBOR. To better regulate compliance monitoring and define the responsibilities of all employees and persons responsible for compliance with relevant laws, regulations, policies, standards and procedures of HBOR, the Compliance Monitoring Policy of HBOR, the Compliance Monitoring Ordinance of HBOR and the Methodology of Compliance Monitoring Function Operations are in force. Compliance monitoring is carried out in accordance with the annual work plan, which is compiled based on a documented risk assessment.

MONEY LAUNDERING PREVENTION

HBOR implements measures, actions and procedures with the aim of preventing money laundering and terrorism financing in accordance with the Anti-Money Laundering and Counter-Terrorism Financing Ordinance and the Methodology for the implementation of these measures, which are based on the current Anti-Money Laundering and Counter-Terrorism Financing Act. In 2022, activities aimed at strengthening this internal system were continued. The employees of the AML/CTF function prepared an education programme and held professional training of HBOR employees on the application of measures, actions and procedures for AML/CTF. In order to improve their own knowledge and be trained to educate other employees of HBOR, in 2022, the employees of the AML/CTF function participated in various expert meetings and training related to anti-money laundering and counter-terrorism financing. The AML/CTF function, as a control function, provided the advisory and practical assistance to HBOR employees in specific business situation throughout the year in order to ensure compliance of HBOR with legal obligations in this field.



ANTI-CORRUPTION AND CONFLICT OF INTEREST

HBOR's Code of Conduct defines the basic standards of ethical and lawful conduct, rules for preventing corruption and ensuring professional conduct. This Code applies to all employees of HBOR, regardless of their level of responsibility and position, serves as a guide for ethical behaviour and establishes fundamental values regarding legal and ethical business and conduct. HBOR's Code of Conduct is published on HBOR's intranet and website, and all newly employed employees get familiarised with the content of the Code when signing an employment contract.

Reports of violations of this Code can be submitted using the report form, which, along with a description of how to submit a report and the e-mail address for receipt, is available on the HBOR website both in Croatian and English. The person responsible for compliance monitoring is responsible for acting on reports of violations of the HBOR's Code of Conduct, and for counselling regarding violations. The Compliance Monitoring Function carries out the procedure upon reported violation and is obliged to review the submitted and collected data, consider the reported violation, draw conclusions on the merits of reported violations and inform the Management Board of HBOR about this. The Management Board of HBOR establishes the merits of the reported violation and makes decision on the severity of violation and sanctions.

In 2022, two reports were submitted relating to the violation of the provisions of the HBOR's Code of Conduct; however, the procedures regarding the reports were not carried out. In the first case, the reason is the termination of the employment relationship of the employee that the report referred to immediately after its submission, due to which the merits of the report were not established. In the second case, the procedure was not carried out due to insufficient evidence, as well as the impossibility of verifying the allegations from the report, since the person stated in the report is no longer an employee of HBOR.

Every year by 31 January, an annual report is submitted to the Management Board of HBOR on submitted reports and initiated procedures based on reported violations of the HBOR's Code of Conduct for the previous year. Also, in 2022, the Methodology for Evaluation of Jobs Exposed to the Risk of Corruption in HBOR was adopted. The first assessment of jobs in accordance with this methodology will be carried out in 2023.

As for the conflict of interest, members of the HBOR's Management Board are obliged to apply the Conflict of Interest Prevention Act. If circumstances arise that can be defined as a potential conflict of interest, the obliged person shall declare it in an appropriate manner and resolve it in such a way as to protect the public interest. In this case, the obliged person is exempted from making decisions, i.e. from participating in decision-making process and concluding contracts that affect his/her own business interest or the business interest of related persons and employers with whom he/she was employed in the last two years before taking his/her office.

In case of doubt about the existence of a conflict of interest, the obliged person shall do everything necessary to separate the private interest from the public interest. In case of doubt as to whether any behaviour constitutes a violation of provisions of the Conflict of Interest Prevention Act or other prohibited or prescribed behaviour provided for by that act, obliged persons shall request an opinion of the Commission for the Resolution of Conflict of Interest. HBOR also regulates conflicts of interest by the provisions of the HBOR's Corporate Governance Code, the HBOR's Code of

Conduct, the Rules of Procedure of the Management Board, the HBOR's Compliance Monitoring Policy and the Compliance Monitoring Function Methodology.

In 2022, "Business Ethics" education was conducted for the positions from head of unit upwards. The emphasis of the education was not on the knowledge of regulations and internal documents, but the development of an ethical organisational culture and ethical decision-making. The education was attended by HBOR employees who had not previously participated in such education, employees who were promoted in the meantime to positions from head of unit upwards, as well as new HBOR employees in such positions. Also, in 2022, the education called "Ethical Rules in the Prevention of Conflicts of Interest" was carried out for new employees and those who, for justified reasons, could not access the education in the previous cycle.

CONFIDENTIAL GRIEVANCE MECHANISMS

HBOR is open to feedback from all stakeholder groups. Aiming to continuously improve its operations, ensure its transparency, and manage possible adverse impacts, HBOR provides confidential communication channels and grievance mechanisms.

The management of irregularity reports in terms of protection of whistle-blowers is monitored by the grievance officer. In July 2022, HBOR appointed a new grievance officer who assumed responsibility for acting upon receiving of irregularity reports, regardless of whether these are reports from employees or third parties. In June 2022, an internal document was adopted that prescribes the procedure for reporting irregularities in HBOR. The implementation of procedure for reporting of irregularities, frauds and suspicion of corruption by beneficiaries, employees or other interested parties is provided through an irregularity reporting form¹⁵, which is published on the HBOR website together with the address for report submission. During 2022, twelve irregularity reports were submitted. In the procedure of assessing merits that was conducted by the grievance officer, five reports, of which no irregularities have been found in four, were concluded. Resolving of other reports is under way. Within this mechanism, no reports of suspected corruption were recorded in 2022. At the same time, there were no initiated disputes against HBOR based on a lawsuit due to corruption.

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 e-mail: esif.nepravilnosti@hbor.hr. This reporting mechanism is managed by the organisational unit called EU Funds and Financial Instruments. In 2022, no reports were received on this basis.

Also, more detailed information on the manner of application of the recommendations of the Organisation for Economic Cooperation and Development, internal regulations and supported projects are published on the HBOR website¹⁶, and stakeholders can send their inquiries about projects or express any concerns related to their implementation to the contact address: odrzivost@hbor.hr.

¹⁵ Reporting of irregularities, fraud and suspicion on corruption (only in Croatian)

¹⁶ <https://www.hbor.hr/en/sustainability/>

DIGITAL SECURITY AND DATA PROTECTION

In times when digital business becomes a business imperative, HBOR takes data management and cybersecurity issues seriously. Information security management is provided by HBOR with the ISO 27001 management system certification, and the ISO 22301 business continuity management system is also certified. Also, the security management of digital systems complies with the security standard of NIST (The National Institute of Standards and Technology). The area of data security and protection is regulated in HBOR by the Information System Security Policy as well as by a number of ordinances aimed at using the HBOR information system and protecting data properly.

On an annual basis, the organisation assesses the risks of the information system, based on which recommendations are made for improving information security controls and business continuity management. This assessment is carried out in accordance with the ISO 27001 and ISO 22301 standards. HBOR regularly holds annual trainings for its employees in the area of information security and personal data protection that all HBOR employees go through. Following the management standards in this field, in 2022, no complaints were registered in HBOR regarding violations of users' privacy and losses of users' personal data.

In 2022, HBOR continued its efforts in updating and supplementing the Register of Personal Data Processing, adjusting business processes to GDPR, reducing redundancy in data processing by harmonising business applications, and conducting several internal trainings for employees. Also, HBOR conducted several assessments of the impact on data protection related to riskier processing of personal data. Changes made in the way in which personal data are processed with the goal of compliance with GDPR have further reduced the risks of personal data processing of employees and clients of HBOR.

MANAGEMENT OF OWN ENVIRONMENTAL IMPACT

In HBOR's daily operations, its environmental impact is managed by the Property Maintenance Unit in the Property Management and Maintenance Department. Its responsibility is, among other things, to monitor possible environmental risks related to business operations. Maintenance costs are planned on an annual basis, including the planning and realisation of costs related to energy, waste disposal, maintenance of the environment in accordance with adopted environmental protection policies, i.e. in accordance with the Environmental Protection Act. Property management is carried out in the most economical way, in accordance with the adopted policies of HBOR, which include the performance of work in compliance with all regulations related to the environment, waste disposal, rational use of energy, as well as landscaping of working environment. HBOR assesses the success of property management that it maintains in accordance with current regulations continuously and systematically, on a quarterly basis. In this way, as part of the overall assessment, it also assesses the approach to environmental management.

The use of resources and waste management in HBOR are managed systematically by monitoring the needs and consumption of various resources as well as proper waste management, where HBOR cooperates with authorised waste management companies to whom it hands over waste in accordance with the current regulations governing waste management and disposal issues. In its operations, HBOR also

familiarises all employees with its environmental protection policies. Employees are sent to additional education on environmental protection and workshops on environmental protection issues are held by certified lecturers. Employees also attend seminars on environmental protection and business policies relating to environmental protection issues that are implemented or will be implemented in business in the future.

Resources Management

In its daily operations, HBOR is guided by the objective of rational consumption of all resources, including energy. In this sense, HBOR applies rational consumption measures and continuously monitors energy consumption at its business locations.

It is evident from the data that the total consumption of electricity has decreased, because the renovation of the building at Strossmayerov trg 9 location is under way. In 2021 and 2022, business activities of HBOR were not carried out at that location. At other locations, electricity consumption has remained at approximately the same level for the past three years, and the same applies to gas consumption at Gajeva 33 location and the thermal energy at Zelinska 3. Water consumption increased due to the change in the manner of operations, i.e. the return of employees to offices after a long period of remote work.

Consumption of resources (Zelinska 3)	2020	2021	2022
Thermal energy - heating (kWh)	153,425.00	178,558.00	158,783.00
Electricity (kWh)	120,113.20	130,273.80	129,327.00
Water (m ³)	545.20	188.00	635.00

Consumption of resources (Gajeva 33)	2020	2021	2022
Gas (m ³)	8,404.00	8,917.00	8,040.00
Electricity (kWh)	49,463.73	47,126.38	50,972.00
Water (m ³)	211.11	193.50	258.00

Consumption of resources (Strossmayerov trg 9)	2020	2021	2022
Gas (m ³)	11,392.80	0.00	0.00
Electricity (kWh)	74,301.68	32,748.06	26,998.00
Water (m ³)	406,00	0,00	258,00

In its business operations, HBOR uses paper, electrical and electronic devices, toners, fluorescent tubes, batteries and cooling devices. The following is generated in the business operations of the organisation: wastepaper, office materials, electronic waste, plastic waste, batteries, fluorescent tubes, light bulbs and cooling devices. In addition, HBOR also uses other materials that, after their use, present construction and bulky waste. In accordance with business policies, HBOR has adopted house rules that prescribe the behaviour expected of employees in their daily work, among other things, employees are ordered to behave rationally and sparingly in order to make as little waste as possible.

Electric and electronic 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. During 2022, electronic waste was not disposed of because the collected amounts were negligible.

Plastic waste is collected in specially marked cardboard boxes located in the corridors of HBOR's premises. In 2019, the separate collection of different types of plastic began, due to which there are no records for part of the separated and collected plastic, and the recorded data on the collected plastic waste in 2019 is almost three times lower than the amount recorded in the previous year. In 2020, 2021 and 2022, due to the working conditions in which most employees worked from home, no significant amounts of plastic waste were collected. In the period under review, HBOR disposed of all waste to certified waste collectors, and all disposed waste was recorded by quantities and types in the accompanying sheets.

In HBOR, wastepaper and cardboard are collected in separate, clearly marked waste paper boxes. The boxes are placed in offices and in visible places in corridors, next to printers and copy machines. Wastepaper for shredding is collected separately and is delivered to specialised companies. HBOR continuously carries out activities aimed at raising the awareness among the employees about the responsible use of resources and reduction of the paper documentation.

Non-hazardous waste	2020	2021	2022
Paper and cardboard (kg)	3,660	720	1,020

RESPONSIBILITY IN THE SUPPLY CHAIN

As an entity that is obliged to apply the Public Procurement Act, HBOR organises the procurement of necessary goods, services and works in compliance with the provisions of the act and the ordinances regulating the conditions for different types of procurement, i.e. simple and public procurement. Information about the procedures of simple¹⁷ and public¹⁸ procurement of the Croatian Bank for Reconstruction and Development and the manner of their implementation is available on the bank's web pages¹⁹. Financial monitoring of the implementation of the HBOR Procurement Plan is carried out by the Procurement Department, about which a report is prepared for the past business year, no later than 15 June of the current year. The report contains data on the total realisation of the Procurement Plan, realisation by types of procedures and realisation by organisational units. The contracting authority adopts the Procurement Plan in the current year for the next business year.

In HBOR's procurement procedures, domestic suppliers prevail (96%), while foreign suppliers account for 4% of procurement, generally in procedures for the engagement of legal experts for a certain field (English law, German law etc.). HBOR procures mainly services that include financial, consulting and legal services, the services for maintaining applications, licenses and subscriptions, as well as printing and graphic services, services of cleaning and securing the business premises, procurement of fuel, fixed and mobile telephony services, postal services and electricity services.

¹⁷ Simple Procurement Ordinance (only in Croatian)

¹⁸ Public Procurement Ordinance

¹⁹ <https://www.hbor.hr/javna-nabava/> (only in Croatian)

The Public Procurement Act also prescribes other criteria that a supplier must fulfil, i.e. grounds for the exclusion of an economic entity. When submitting its bid, an interested business entity must fill in the ESPD form, which is related to the mandatory reasons for the exclusion of the business entity, such as punishment, non-fulfilment of the obligation to pay due tax obligations and obligations for pension and health insurance. Also, the public contracting authority can exclude an economic entity from the public procurement procedure if it can adequately prove a violation of applicable obligations in the field of environmental, social and labour law, including collective agreements, and in particular the obligation to pay the contracted salary, or the provisions of international environmental, social and labour law.

HBOR also applies the Conflict of Interest Assessment Methodology in procurement procedures with the intention of excluding the possibility of conflicts of interest of its representatives from procurement procedures. On the website of HBOR and in the procurement documentation in the public procurement procedure, there is a list of economic entities with which representatives of HBOR or persons related to them are in a conflict of interest, based on a declaration of the existence or non-existence of a conflict of interest, which all representatives of HBOR are obliged to sign.

Depending on the goods and services it procures, HBOR promotes environmental and social responsibility in its procurement procedures, such as the Blue Angel certificate for office consumables, the Environment-Friendly certificate or the European Union's environmental protection mark EU Ecolabel, and the PEFC or FSC certificate that demonstrates responsible forest management when obtaining raw materials in the manufacturing of paper for the procurement of hygiene consumables.



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Report Profile





Annual Sustainability Report of HBOR for 2022 covers the period from 1 January 2022 to 31 December 2022. The previous report for the period from 1 January to 31 December 2021 was published on 31 August 2022. This report was not subject to external verification and assurance.

The report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards and also takes into account the principles of UN Global Compact and the Sustainable Development Goals of the United Nations. 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 and management approach.

Material topics reflect HBOR's impacts relating to its headquarters in Zagreb at three locations and six regional offices in Croatia, unless otherwise stated in this report. This report does not cover the material impacts of the HBOR Group. The HBOR Group prepares separate financial statements of the parent company – HBOR and consolidated financial statements that include HBOR and companies under its control (subsidiary companies).

All queries and proposals relating to this report can be sent to the following e-mail: dop@hbor.hr.



GRI standard	Disclosure	Page	UN Global Compact	Comment
GRI 1 Foundation 2021				
GRI 2 General Disclosures 2021				
The organisation and its reporting practices				
2-1	Organisational details	7, 69		
2-2	Entities included in the organisation's sustainability reporting	69		
2-3	Reporting period, frequency and contact point	69		
2-4	Restatements of information			There was no restatement of information in relation to 2021.
2-5	External assurance	69		The report was not subject to external assurance.
Activities and workers				
2-6	Activities, value chain and other business relationships	7, 27, 66, 67		
2-7	Employees	45, 47		
2-8	Workers who are not employees	45		
Governance				
2-9	Governance structure and composition	56		More information: Annual Report 2022
2-10	Nomination and selection of the highest governance body	56		More information: Annual Report 2022
2-11	Chair of the highest governance body	56, 62		
2-12	Role of the highest governance body in overseeing the management of impacts	58, 59		
2-13	Delegation of responsibility for managing impacts	30, 58, 62, 64		
2-14	Role of the highest governance body in sustainability reporting	23, 58		
2-15	Conflicts of interest	56, 62		
2-16	Communication of critical concerns	47, 58, 63		
2-17	Collective knowledge of the highest governance body	18, 51, 52, 58, 63		
2-18	Evaluation of the performance of the highest governance body	50, 58		
2-19	Remuneration policies	46, 50, 56		
2-20	Process to determine remuneration	56		
2-21	Annual total compensation ratio	49, 50		

GRI standard	Disclosure	Page	UN Global Compact	Comment
Strategy, policies and practices				
2-22	Statement on sustainable development strategy	13		
2-23	Policy commitments	16, 17, 18, 28		
2-24	Embedding policy commitments	16, 17, 18, 28, 55, 58		
2-25	Processes to remediate negative impacts	30, 48, 52, 63	1, 2, 4, 5	
2-26	Mechanisms for seeking advice and raising concerns	30, 48, 52, 63	1, 2, 4, 5	
2-27	Compliance with laws and regulations	23, 37, 43, 46, 48, 58, 60, 61, 62, 64	1-10	
2-28	Membership associations	40, 41		
Stakeholder engagement				
2-29	Approach to stakeholder engagement	20, 21, 22		
2-30	Collective bargaining agreements	46	3	
GRI 3: Material Topics 2021				
3-1	Process to determine material topics	19, 20, 21, 22		
3-2	List of material topics	23		
Financing of Environmental Protection and Climate Transition Financing of Entrepreneurship, Innovation and Development				
GRI 3: Material Topics 2021	3-3 Management of material topics	27		
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	11	9	
	201-4 Financial assistance received from government	18		
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	17, 23, 31-36	9	
GRI 417: Marketing and Labelling 2016	417-1 Requirements for product and service information and labelling	57		
Corporate Governance				
GRI 3: Material Topics 2021	3-3 Management of material topics	55		
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risk related to corruption	62	10	
	205-2 Communication and training about anti-corruption policies and procedures	62, 63	10	
	205-3 Confirmed incidents of corruption and actions taken	62	10	
Risk Management				
GRI 3: Material Topics 2021	3-3 Management of material topics	59		
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	60	7, 8	

GRI standard	Disclosure	Page	UN Global Compact	Comment
Digital Security and Data Protection				
GRI 3: Material Topics 2021	3-3 Management of material topics	63, 64		
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	64	1, 2	
Responsibility in the Supply Chain				
GRI 3: Material Topics 2021	3-3 Management of material topics	66, 67		
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	66		
Employee Well-Being, Occupational Health and Safety				
GRI 3 2021	3-3 Management of material topics	52		
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	52, 53		
	403-2 Hazard identification, risk assessment, and incident investigation	52, 53		
	403-3 Occupational health services	53		
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