

OPERATIONAL PROGRAMME FOR THE IMPLEMENTATION OF THE FINANCIAL INSTRUMENT GUARANTEE FUND FOR LOANS TO MID-CAPS AND LARGE ENTERPRISES UNDER THE NATIONAL RECOVERY AND RESILIENCE PLAN

Name of the Programme	Operational Programme for the Implementation of the Financial instrument Guarantee Fund for Loans to Mid-Caps and Large Enterprises under the National Recovery and Resilience Plan (hereinafter: the Programme).
Goal of the Programme	By issuing guarantees to Beneficiaries of Guarantees, to facilitate access to finance for mid-caps and large enterprises through the strengthening of activities of the Guarantee Beneficiary, as the key prerequisite for short-term and long-term growth of investments (<i>crowding in private sector effect</i>), by which capital investments in new technologies and equipment, extension of production and/or service capacities (production and service facilities) and other purposes necessary for strengthening competitiveness as well as green and digital transition will be encouraged.
Issuer of guarantees	HBOR, for and on behalf of the Republic of Croatia (hereinafter: HBOR)
Manner of issuing guarantees	<p>HBOR issues guarantees on the basis of submitted application for a guarantee as individual guarantees for new loans that Beneficiaries of Guarantees approve to Final Beneficiaries.</p> <p>The Guarantee Beneficiary is obliged to report to HBOR in the application for a guarantee completely and accurately all the circumstances that the Guarantee Beneficiary itself, by applying the care of good businessman, considers necessary for loan assessment.</p> <p>Guarantee is issued by the conclusion of a guarantee agreement.</p> <p>Guarantee is unconditional, irrevocable and at first call.</p> <p>The terms and conditions of this Programme correspondingly apply to the financing through leasing.</p> <p>For the issuance of guarantees, the Guarantee Beneficiary does not have to conclude an agreement for regulating business cooperation with HBOR, but the rights and obligations between HBOR and the Guarantee Beneficiary will be defined by the guarantee agreement.</p>
Duration of the Programme	<p>The Programme is implemented until the Total amount of guarantees has been fully used, but not later than 30 June 2026, until which date a guarantee agreement has to be concluded.</p> <p>Applications for guarantee will be processed according to the order in which they are received and the funds intended for the implementation of the Programme will be allocated accordingly until they are fully used.</p>
Total amount of guarantees	<p>Up to EUR 398,168,425</p> <p>The mentioned total amount of guarantees of EUR 398,168,425 is based on the amount of EUR 79,633,685 of funds allocated pursuant to the National Recovery and Resilience Plan 2021 – 2026 and the Implementing Decision of the Council.</p> <p>HBOR will, under the Programme together with the financial instrument of Interest Rate Subsidy Fund for Loans to Mid-Caps and Large Enterprises, allocate at least EUR 26,544,562 for investments in projects of green transition¹, of which at least EUR 10,617,824 for projects aimed at reducing greenhouse gasses.</p>

¹ In accordance with the definition stated in the part Special target groups

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	<p>The remaining amount of up to EUR 79,633,685² will be allocated by HBOR for the projects of strengthening competitiveness and resilience of Final Beneficiaries³ (including the projects of digital transition of Final Beneficiaries¹, projects based on research, development and innovations¹ and investments in special areas¹).</p>
Special target groups	<ol style="list-style-type: none"> Investments in special areas Investments in green transition projects Investments in digital transition projects Investments in projects based on research, development and innovations or investment in research, development and innovations <p>Ad 1: Special areas include:</p> <ul style="list-style-type: none"> Supported areas – units of local and regional government classified into groups I, II, III or IV in accordance with the Regional development Act of the Republic of Croatia (Official Gazette of the Republic of Croatia Nos. 147/2014, 123/2017, 118/2018) and the Decision on Classification of Units of Local and Regional Government According to the Level of Development (Official Gazette of the Republic of Croatia No. 132/2017) and all their amendments. Hill or mountain areas – in accordance with the Act on Hill or Mountain Areas (Official Gazette of the Republic of Croatia No. 118/2018) and the Decision on the Coverage and Classification of Local Government Units Acquiring the Status of Hill or Mountain Area (Official Gazette of the Republic of Croatia No. 24/2019) and all their amendments. The islands – in accordance with the Islands Act (Official Gazette of the Republic of Croatia Nos. 116/2018, 73/2020, 70/2021) and all its amendments. <p>Ad 2: Green transition projects of Final Beneficiaries include projects that, according to the EU taxonomy⁴ criteria and accompanying regulations (delegated acts) contribute significantly to the achievement of at least one of the following environmental objectives:</p> <ul style="list-style-type: none"> Climate change mitigation Climate change adaptation Sustainable use and protection of water and marine resources Transition to a circular economy Pollution prevention and control Protection and restoration of biological diversity and ecosystems,

² Under this Financial instrument (under which the amount of EUR 79,633,685 has been allocated) together with the financial instrument of establishing the Interest Rate Subsidy Fund for Loans to Mid-Caps and Large Enterprises, the total amount allocated is EUR 106,178,247

³ Projects of strengthening competitiveness and resilience of Final Beneficiaries include all other investments in long-term tangible and intangible assets (new technologies, vehicles and equipment; construction and/or extension and/or adaptation/modernisation/renovation of business and/or production and/or service facilities; etc.) and other purposes of significance for expanding business volume, strengthening productivity, employment, internationalisation of business etc.

⁴ https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

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	<p>and at the same time satisfy the “Do No Significant Harm” principle. Green transition projects include, among others, investments such as green technologies, business models based on the circular economy, renewable energy sources, energy efficiency, etc.</p> <p>Ad 3: Digital transition projects of Final Beneficiaries include development and/or introduction of digital technologies (e.g. digitalisation of production, procurement and sales) in certain areas of business and their full integration and education of employees and users, including the following investments:</p> <ul style="list-style-type: none"> - Digital infrastructure; - Digital transformation of companies, research in the field of digital technologies; - ICT (investments in information and communication technologies), digital marketing, digitalisation and automation of business processes, digital procurement, digitalisation of sales representatives, changes in all forms of businesses and processes in which employees of the organisation interact with its customers and similar; - Industry 4.0 – production processes based on the latest technology and covered by devices for mutual autonomous communication; machines controlled by artificial intelligence that can independently exchange information; application of smart factory models in which robotic machines control and monitor physical processes; production system that can independently exchange information during the production process and knows at any time at what stage the output product is. <p>Ad 4: Projects based on research, development and innovations or investment in research, development and innovations in the field of products, processes, business organisation and marketing (customer relations) in a company. They include projects based on industrial and experimental research; products/services/processes and methodologies protected by intellectual property regulations but also other projects based on the application of new or substantially modified product (goods or services), processes, new organisational methods, business practices or new marketing methods, and their introduction into practical use, i.e. the commercialisation or expansion of existing production/service capacities for RDI-based operations.⁵</p>
Eligible purposes of loans	<p>Eligible purposes of Loans:</p> <ul style="list-style-type: none"> • Investments in fixed assets (tangible and intangible assets) for the purpose of business start-up, business modernisation, introduction of new technologies, increase in capacities (including tourism capacities), development and introduction of new products and services, digitalisation of business, investment in environmentally friendly business processes and resource efficiency, research and development etc., except for investments excluded by the List of Ineligible Activities, • Investments in working capital of up to 30% of the contracted loan amount (working capital necessary for the implementation of capital investment and business growth). <p>The Guarantee Beneficiary is obliged to approve and contract the loan for a purpose that is in accordance with the acceptable purposes under this</p>

⁵ RDI - Research, Development and Innovation.

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Programme and disburse the loan funds to the Final Beneficiary exclusively for investments in the purposes defined by the loan contract that are not excluded by the List of Ineligible Activities, and in accordance with this Programme and the documentation which is attached to the application for guarantee.

A guarantee can be issued only for new Loans, and not for the existing ones and the loan funds may not be used for the settlement of obligations under existing liabilities (loans, leasing etc.). Guarantee does not represent an aid to the Beneficiaries of Guarantee.

It is possible to finance the Guarantee Fee from the loan in case the said cost is collected from the Final Beneficiary.

Loans covered by a guarantee can amount up to 85% of the estimated investment value, VAT not included, i.e. even less, depending on rules regarding the state aid.

Value added tax is not an eligible cost.

All investments financed out of the loan for which a guarantee has been issued must be in compliance with the „Do No Significant Harm“ principle and environmental objectives in accordance with the Technical guidelines for DNSH⁶.

More details can be found in the document Guidelines for the application of the „Do No Significant Harm“ principle in the implementation of HBOR's financial instruments under the NRRP (Schedule 1).

Loans can be used in combination with other forms of financial support from national and EU funds while acting in accordance with national and EU regulations on state aid as well as respecting the applicable provisions on avoiding double financing from the Recovery and Resilience Mechanism and other EU programmes.

List of ineligible activities (*exclusion list*):

- 1) Activities that limit individual rights and freedoms or that violate human rights;
- 2) In the area of defence activities: the use, development, or production of products and technologies that are prohibited by applicable international law;
- 3) Tobacco-related products and activities (production, distribution, processing and trade);
- 4) Activities excluded from financing pursuant to the relevant provisions of the Horizon Europe Regulation: research on human cloning for reproductive purposes; activities intended to modify the genetic heritage of human beings which could make such changes heritable; and activities to create human embryos solely for the purpose of research or for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer (SCNT);

⁶ Technical guidance on the application of „Do No Significant Harm“ principle under the Recovery and Resilience Facility Regulation (2021/C58/01) of 18 February 2021

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- 5) Gambling (production-, construction-, distribution-, processing-, trade- or software-related activities);
- 6) Sex trade and related infrastructure, services and media;
- 7) Activities involving live animals for experimental and scientific purposes insofar as compliance with the European Convention for the Protection of Vertebrate Animals for Experimental and other Scientific Purposes cannot be guaranteed;
- 8) Real estate development activity, such as an activity with a sole purpose of renovating and re-leasing or re-selling existing buildings, as well as constructing new buildings intended for sale (investments in energy efficiency projects or social housing are not excluded);
- 9) Financial activities such as purchasing or trading in financial instruments. In particular, interventions targeting buy-out intended for asset stripping or replacement capital intended for asset stripping shall be excluded;
- 10) Activities forbidden by applicable national legislation;
- 11) Decommissioning, operation, adaptation or construction of nuclear power stations;
- 12) Activities and facilities related to fossil fuels, including further use⁷;
- 13) Activities and facilities under the EU Emission Trading System (ETS) with projected CO₂ emissions that are not lower than the relevant benchmarks⁸;
- 14) Activities and facilities related to disposal of waste to landfill facilities, incinerators⁹ and mechanical biological treatment plants¹⁰;
- 15) Activities and facilities where the long-term disposal of waste may cause harm to the environment;
- 16) All activities that are not allowed to be financed by aid from the relevant state aid regulations such as GBER¹¹, ABER¹², de minimis and other regulations applicable to this financial instrument

⁷ Except for projects in the field of electricity and/or heat production and related transmission and distribution infrastructure, in which natural gas is used, which comply with the conditions set out in Annex III to the Technical Guidelines on the Application of "Do No Significant Harm" Principle (2021/C58/01).

⁸ If the supported activity achieves projected greenhouse gas emissions that are not substantially lower than the relevant benchmarks, the reasons why this is not possible need to be explained. The benchmarks for the allocation of emission allowances for activities covered by the ETS are set out in the Commission Implementing Regulation (EU) 2021/447.

⁹ This exclusion does not apply to investments in plants exclusively dedicated to treating non-recyclable hazardous waste and existing plants, where the investment is for the purpose of increasing energy efficiency, capturing exhaust gases for storage or use or recovering materials from incineration ashes, provided that such activities do not result in an increase in the capacity of waste treatment plant or prolongation of the lifetime of the plant; for which there is evidence at the plant level.

¹⁰ This exclusion does not apply to investments in existing plants for mechanical biological treatment, where the investment is for the purpose of increasing energy efficiency or subsequent incorporation of separate waste into recycling processes for the purpose of composting biowaste and anaerobic digestion of biowaste, provided that such activities do not result in an increase in the capacity of waste treatment plant or prolongation of the lifetime of the plant; for which there is evidence at the plant level.

¹¹ General Block Exemption Regulation – Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (General Block Exemption Regulation) and all its changes and amendments.

¹² Agricultural Block Exemption Regulation – Commission Regulation (EU) No. 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union, (OJ L 193, 1.7.2014, page 1) and all its changes and amendments.

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	<p>17) Other activities excluded by HBOR's documents.</p> <p>Beneficiaries that in the previous financial year generated more than 10% of their income from activities or assets from points 12, 13, 14 and 15 of the list of excluded activities will undertake to publish plans for green transition.¹³</p>
Eligible Beneficiaries of guarantees	<p>Eligible Beneficiaries of guarantees are banks operating in accordance with the Credit Institutions Act (that have an operating license in the Republic of Croatia), the Croatian Bank for Reconstruction and Development as the lender and leasing companies operating in accordance with the Leasing Act.</p> <p>Beneficiaries of guarantees must not be in one of the situations described below:</p> <ol style="list-style-type: none"> 1) A proposal for initiating bankruptcy proceedings against the Guarantee Beneficiary has been submitted; 2) A decision has been made to initiate the rehabilitation or forced liquidation procedure or a decision to annul or revoke the decision by which the Guarantee Beneficiary was given the operating license; 3) Responsible persons of the Guarantee Beneficiary have been convicted by a final decision of a criminal offence related to their professional conduct; 4) Responsible persons of the Guarantee Beneficiary have been convicted by a final decision of criminal offences of fraud, corruption, participation in a criminal organisation or any other illegal activity (it is assumed that they are not capable of implementing the Financial Instrument if such illegal activity caused damage to the financial interests of the EU); 5) The Guarantee Beneficiary is established in countries that do not cooperate with the EU in connection with the application of internationally agreed tax standards or in its tax practice does not respect the principles of the Commission Recommendation of 6 December 2012 regarding measures intended to encourage third countries to apply minimum standards of good governance in tax matters (C(2012)8805). <p>When assessing risk, approving, managing, disbursing and collecting loans, Beneficiaries of Guarantees are obliged to act in accordance with regulations, their internal documents, rules and procedures, and the loan contract, as they normally do with investment loans, approved beneficiaries of loans of the same or similar risk category and they must not put the loan in a disadvantageous position compared to other loans of the Final Beneficiary.</p> <p>Beneficiaries of Guarantee are obliged to conclude a loan contract with the Final Beneficiary that is in accordance with this Programme and with the information specified in the Application for Guarantee.</p> <p>Beneficiaries of guarantees are obliged to transfer the advantages of guarantees to Final Beneficiaries to the greatest extent possible (e.g. lower interest rate, lower collateral requirements, greater volumes of funding etc.) and are obliged to state the transferred advantages in the loan contract and inform HBOR about them.</p>
Eligible Final Beneficiaries	<p>Eligible Final Beneficiaries are entrepreneurs registered in the Republic of Croatia, regardless of the legal form, that:</p>

¹³ The obligation of disclosure is necessary only in the case of general-purpose corporate finance.

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	<ul style="list-style-type: none"> • are Mid-Caps and large enterprises¹⁴, including state-owned companies • are not entrepreneurs in difficulties¹⁵ • are not subject to an unexecuted order for aid recovery based on a previous decision of the European Commission declaring the aid illegal and incompatible with the internal market • for Guarantee Beneficiaries that are not classified in risk group C, in accordance with the Croatian National Bank's Decision on the Classification of Exposures into Risk Groups and the Method of Determining Credit Losses • have a favourably assessed creditworthiness by the Guarantee Beneficiary in accordance with regulations, standard internal documents of the Guarantee Beneficiary, rules and procedures, as the Guarantee Beneficiary otherwise manages Loans approved to Final Beneficiaries of the same or similar risk category • are assigned an acceptable internal rating by HBOR (e.g. credit rating 1-6), or the Guarantee Beneficiary has assigned them a credit rating assessed as acceptable by HBOR. <p>The funds of the financial instrument can be used exclusively for investments of the Final Beneficiary in the territory of the Republic of Croatia. The Final Beneficiary must be established in the Republic of Croatia at the latest before the loan is disbursed.</p> <p>Final Beneficiaries can be active in all economic sectors, including primary agricultural production and the fishery sector (including activities of processing and marketing fishery products), but with the application of the relevant framework of state aid in agriculture and fisheries, except for the activities listed on the List of Ineligible activities.</p>
Amount of Loan	<p>Loan amount is determined by the Guarantee Beneficiary based on the Final Beneficiary's application.</p> <p>Loan amount for which a guarantee can be issued depends on the specific features and creditworthiness of the Final Beneficiary, purpose and structure of investment and state aid regulations.</p> <p>Guarantee amount above EUR 7,963,368 is an exception and will be approved only in case of an investment loan for Special target groups or if HBOR estimates that the mentioned investment is of strategic importance for the economy of the Republic of Croatia.</p>
Volume and percentage of Guarantee	<p>The agreed percentage of unpaid loan principal is guaranteed by the guarantee.</p>

¹⁴ Entrepreneurs that, according to the latest available official annual financial statements by their size, number of employees and other conditions do not belong to the category of micro, small or medium entrepreneurs in accordance with the EC Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003).

¹⁵ Entrepreneurs that do not belong to the category of companies in difficulties in accordance with the provisions of Article 2 item 18 of the Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187 of 26 June 2014, hereinafter: the Regulation: 651/2014), i.e. provisions of the valid regulation at the time of loan approval.

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	The maximum guarantee percentage for Special target groups is 80%, whereas for all other purposes, the maximum guarantee percentage is up to 70%.
Loan Currency	EUR
Payment currency under the Guarantee	Payment under the guarantee is made in the loan currency.
Loan disbursement and repayments	<p>Total loan period (from the date of conclusion of the loan contract until the date of maturity of the last instalment/annuity of loan) can be up to 20 years.</p> <p>The disbursement period is determined by the Guarantee Beneficiary, and it depends on the purpose and dynamics of investment.</p> <p>The repayment period is determined by the Guarantee Beneficiary depending on the purpose and structure of investment and taking into account the expected projections of the Final Beneficiary's operations, and can be up to 17 years, including grace period, for investments in tourism and for investments of special target groups, and 14 years in all other activities, including grace period.</p>
Interest	Interest rate is determined by the Guarantee Beneficiary, where the Guarantee Beneficiary can transfer the guarantee advantages to the Final Beneficiary by means of interest rate reduction.
Guarantee Application Processing Fee	<p>0.15% on the guarantee amount in accordance with the loan repayment schedule, discounted to the present value¹⁶. It is collected one-off in advance, on the occasion of guarantee agreement execution (from the Guarantee Beneficiary or the Final Beneficiary).</p> <p>In the case of submitting a request to change the terms of the issued guarantee, HBOR has the right to charge a fee for processing the request to change the terms of the issued guarantee.</p>
Guarantee Fee	<p>The Guarantee Fee is determined by HBOR as a market-based fee calculated in accordance with HBOR's internal documents.</p> <p>In case of submitting a request to change the terms and conditions of the issued guarantee, if the changed terms and conditions increase the risk of payment under the guarantee, HBOR has the right to charge an additional fee for the guarantee.</p>
Subsidising of the Guarantee Fee	<p>Pursuant to the state aid rules, HBOR can waive the collection of a part or the entire Guarantee Fee.</p> <p>The uncollected amount of the Guarantee Fee represents the state aid approved to the Final Beneficiary.</p>
Collateral	Collateral is determined by the Guarantee Beneficiary, where it is obliged to contract at least the debentures of the Final Beneficiary, the Guarantors, the Guarantors-Payers and the Co-Debtors, and HBOR may request from the Guarantee Beneficiary to provide additional debentures of the Final Beneficiary, the Guarantors, the Guarantors-Payers and the Co-Debtors, and the Guarantee Beneficiary is obliged to contract a lien on the property purchased/constructed from the proceeds of the Loan, with a property insurance policy against the usual

¹⁶ The discount rate is applied pursuant to the Communication from the Commission on the reference rate

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	<p>risks endorsed in favour of the Guarantee Beneficiary, unless HBOR, on the basis of a reasoned request of the Guarantee Beneficiary, and if such action is deemed by HBOR as commercially acceptable and justified, decides otherwise. The aforementioned will be applied appropriately in the case of financing intangible assets to the extent to which it is applicable.</p> <p>The Guarantee Beneficiary is obliged to contract, obtain and establish the collaterals specified in the application for the guarantee, and in accordance with the terms and conditions of this Programme and immediately after the establishment of the collateral, and at the latest when concluding the guarantee agreement, submit to HBOR a notification and/or evidence that all collaterals have been established.</p> <p>The Guarantee Beneficiary is obliged to obtain a debenture of the Final Beneficiary issued in favour of HBOR in the amount of the Guarantee Fee subsidy (if the Guarantee Fee is subsidised), plus statutory penalty interest, which will serve as collateral for the collection of the amount of the Guarantee Fees subsidy in case of Irregularities determined by HBOR, in accordance with the guarantee agreement. The Guarantee Beneficiary is obliged to deliver the debenture to HBOR immediately after the conclusion of the guarantee agreement, before the first loan disbursement.</p>
Changes to the Loan Contract	<p>The Guarantee Beneficiary is obliged to obtain a prior written consent of HBOR before any change of the loan contract.</p>
Deadline for submission of Call for Payment under the Guarantee	<p>The Guarantee Beneficiary can submit a call for payment under the issued guarantee to HBOR:</p> <ul style="list-style-type: none"> - the day after the due date of the last instalment/annuity of the loan under the loan contract, or - on the day of cancellation or termination of the loan contract, or - on the day of initiation of the bankruptcy proceedings against the Borrower, <p>depending on which of the above-mentioned events occurs earlier, and no later than within 120 days from the occurrence of the above-mentioned events.</p>
Procedure for submitting a Call for Payment under the Guarantee	<p>The Guarantee Beneficiary is obliged to submit the following documentation in a physical written form to HBOR:</p> <ul style="list-style-type: none"> - a call for payment signed by a person authorised to represent the Guarantee Beneficiary (or specially authorised to undertake the specified work), which will expressly declare that the due date of the last instalment/annuity of the loan has expired, and/or that the loan contract with the Borrower has been cancelled/terminated and/or that bankruptcy proceedings against the Borrower have been initiated (depending on which of the above events occurs earlier) with the exact date of occurrence of the respective fact and will explicitly state that the amount the payment of which is required has not been collected in any other way, and in the call for payment, the debt balance on the date of occurrence of the respective event will be indicated; - excerpt from the business records of the Guarantee Beneficiary with the balance for the payment of documented unpaid receivables based on the guaranteed principal.

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Payment deadline upon Call for Guarantee payment	Within 60 days from the date of receipt of the call for payment under the guarantee.
Payment of Guarantee	Payment of the Guarantee will be made by HBOR in favour of the account of the Guarantee Beneficiary in the loan currency.
Recovery of the Guarantee	<p>The recovery from the Final Beneficiary after the payment of guarantee, for its own receivable and for HBOR's receivable (receivable based on the paid guarantee), is conducted independently by the Guarantee Beneficiary.</p> <p>In the case of payment under the guarantee, in the recovery of receivables from the loan contract, the inflows from all collaterals contracted under the loan contract will be divided between HBOR and the Guarantee Beneficiary according to the level of coverage by the guarantee (pro rata).</p>
Process of Guarantee issuance	<ul style="list-style-type: none"> ▪ The Final Beneficiary submits to the Guarantee Beneficiary an application for loan approval using the guarantee under this Programme ▪ The Guarantee Beneficiary informs the Final Beneficiary about the possibility of subsidising the Guarantee Fee and about the possibility of subsidising the interest ▪ The Guarantee Beneficiary submits the loan approval decision, the application for the guarantee and the prescribed documentation to HBOR. If the Guarantee Beneficiary requests subsidisation of the Guarantee Fee, it indicates this in the Guarantee application and encloses a statement of the Final Beneficiary's aid ▪ In the case of subsidising interest on a loan, this is carried out in accordance with the Operational Programme for the Implementation of the Financial Instrument Interest Rate Subsidy Fund for Loans to Mid-Caps and Large Enterprises within the National Recovery and Resilience Plan ▪ Expert teams of HBOR process the application for a guarantee, and, if a Guarantee Fee subsidy is also requested, they make a decision on subsidising the Guarantee Fee ▪ HBOR makes a decision on guarantee ▪ HBOR informs the Guarantee Beneficiary about the Guarantee decision and the amount of the subsidised Guarantee Fee <p>In case of a positive decision on the guarantee:</p> <ul style="list-style-type: none"> ▪ The Borrower concludes a loan contract with the Guarantee Beneficiary, and implements and delivers to the Guarantee Beneficiary the collaterals as security for loan repayment; ▪ The Guarantee Beneficiary submits to the HBOR a copy of the loan contract, a statement and/or evidence that all collaterals under the loan contract and a debenture of the Final Beneficiary issued in favour of the HBOR have been created; ▪ HBOR concludes the Guarantee agreement with the Guarantee Beneficiary and the Final Beneficiary; ▪ In the case of subsidising the Guarantee Fee, the Guarantee agreement will also contain a provision on the granted state aid in the form of a subsidised Guarantee Fee; ▪ HBOR provides the Final Beneficiary with an invoice for the Guarantee Fee (the part that is not subsidised) and an invoice for the Guarantee Application Processing Fee;

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- The Borrower can pay the fee for the guarantee from the first disbursement of the loan, otherwise the guarantee comes into effect only after the Borrower has paid the due fee;
- The Guarantee Beneficiary places the loan funds.

HBOR may, on the basis of a reasoned request from the Guarantee Beneficiary and if such action is deemed by HBOR as commercially acceptable and justified, to abandon the mentioned process of guarantee issuance and agree upon a different process of guarantee issuance with the Guarantee Beneficiary.

SCHEDULE 1 – GUIDELINES ON THE APPLICATION OF THE DNSH PRINCIPLE IN THE IMPLEMENTATION OF HBOR'S FINANCIAL INSTRUMENTS UNDER THE NRRP

What is the DNSH principle and why is the DNSH analysis carried out?

On 11 December 2019, the European Commission introduced the EU Green Deal as the strategy to attain the sustainability of the EU economy with an objective of achieving the following goals in terms of climate, energy, transport and tax policies: reduction of net greenhouse gas emissions by 55% compared to 1990 by 2030 and net zero greenhouse gas emissions by 2050, which would ensure that Europe becomes the first climate-neutral continent.

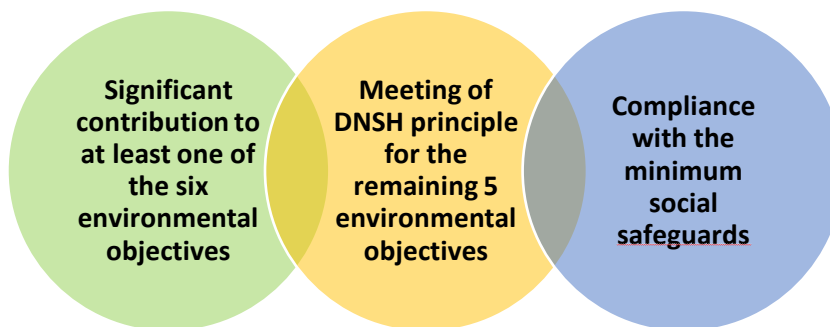
The emergence of the Covid-19 pandemic has highlighted the need to develop a new facility for the recovery of the EU economy, as a result of which the **Recovery and Resilience Facility** has been developed as part of the Next Generation EU initiative. The implementation of the Recovery and Resilience Facility in the Republic of Croatia is regulated by the National Recovery and Resilience Plan (NRRP), of which HBOR's financial instruments are also an integral part (hereinafter: HBOR's NRRP measures). The objective of the Recovery and Resilience Facility is to promote the sustainable recovery of the EU economy in terms of the climate and the environment in line with the goals of the EU Green Deal.

In order to ensure the attainment of the climate and environmental goals of the EU, the European Commission has developed a new comprehensive and standardised classification framework called the EU Taxonomy¹⁷. The main goal of the EU Taxonomy is to enable transparent and comparable measurement of the impact of individual business activities on the attainment of the EU Green Deal objectives, and the EU Taxonomy defines three types of criteria:

- 1. Criteria indicating that a particular activity significantly contributes to the attainment of the EU Green Deal's climate and environmental goals (at least one environment goal),** the meeting of which can make it possible for a particular business activity, investment or project to achieve the status of "green" investment
- 2. Criteria ensuring that a particular activity does no significant harm to the EU Green Deal's climate and environmental goals,** i.e. the criteria of "Do No Significant Harm" to the climate and the environment

¹⁷ REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 – called the **Taxonomy Regulation**, establishes a comprehensive EU strategy on sustainable finance with a technically reliable classification system for standardising "green sustainable" economic activities and redirecting capital flows towards sustainable investments.

3. Criteria ensuring that a particular activity is in line with the minimum social safeguard measures



In order to enable long-term positive or at least neutral impacts on the environment and the climate through the implementation of the NRRP measures, the need to meet the "Do No Significant Harm" principle (hereinafter: DNSH principle) has been introduced for all investments planned under the NRRP.

The DNSH principle implies that a certain activity/project must not do significant harm to any of the following six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems.

How does HBOR carry out the analysis of compliance of investment projects with the DNSH principle?

In the implementation of HBOR's NRRP measures, HBOR and/or partner financial institutions included in the implementation of the measures are obliged to verify the compliance of investments carried out by final beneficiaries (public or private sector entities) with the DNSH principle by:

1. **Excluding ineligible activities** from the financing – ineligible activities are listed in Schedule 1 to this Operational Programme
2. **Carrying out the analysis of compliance with the relevant environmental legislation both at the EU and the national levels** for every project
3. **Ensuring the application of the Commission's Technical Guidance on Sustainability Proofing under the InvestEU Fund ((2021/C 280/01))** in the implementation of the NRRP measures.

In order to facilitate the preparation of projects for the final beneficiaries in accordance with the DNSH principle, and also in order to facilitate and accelerate compliance assessment of received applications for finance/issue of guarantee, etc., beside technical, legal and project documentation¹⁸, it is necessary

¹⁸ Preliminary, Main and Final Design, Investment Study, Environmental Study, Environmental Impact Assessment and other relevant documents defined by relevant national and EU legislation

to submit the **Self-Assessment Questionnaire for the purpose of identifying climate, environmental and social risks and impacts** prepared by HBOR and enclosed with these Guidelines.

How can a project satisfy the 'green transition' criteria and thus achieve even more favourable terms and conditions of finance?

As previously pointed out, the preparation of projects in accordance with the DNSH principle represents the main mechanism for confirming that the respective project or activity has no significant adverse impacts on climate and environmental objectives in terms of the EU Green Deal.

For the project to achieve even more favourable terms and conditions of finance (lower interest rate, higher interest subsidy rate, etc.), it must be assessed as a 'green' transition project, i.e. it must **meet the conditions for the assessment of a significant contribution to the attainment of climate and environmental objectives under the EU Green Deal**.

An example of significant contribution:

In the case of construction of a new business facility that is intended to be classified as a "green" facility, technical and construction interventions must ensure that the primary energy consumption of the new facility is 20% lower than the current national standard (Nearly Zero Energy Building standard), which significantly contributes to at least one environmental objective (climate change mitigation), and that it meets the DNSH principle in terms of the remaining five EU environmental objectives, i.e. that it does not significantly harm the other environmental objectives.