



# **SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT 2018**



**Zagreb, June 2019**

**Contents**

- Statement by the Management Board..... 4
- Responsible Banking ..... 5
  - HBOR | Social Responsibility and Sustainability ..... 7
    - Risks and Opportunities ..... 7
    - Material Issues and their Significance for HBOR ..... 8
    - Sustainable Development Goals and their Significance for HBOR ..... 10
- Satisfaction of Clients..... 11
  - Strengthening the Availability of Information through Regional Offices Network..... 11
  - Information on Products and Services..... 12
- Financing | Support for Entrepreneurship and Development..... 13
  - Better Terms and Conditions of Loans for EU Projects..... 13
    - With ESIF to 50% Lower Interest Rate for Small and Medium Enterprises ..... 13
    - Small and Medium-Sized Enterprises – Most of the Borrowers..... 14
    - Special Benefits for Women Entrepreneurs..... 14
    - Reduced Interest Rates for Youth Employment and Innovative Projects ..... 14
  - Investment Loans for Rural Development ..... 15
  - Support to Exporters ..... 15
  - Case Studies..... 15
    - Investment in Capital of Innovative and Experienced Entrepreneurs ..... 15
      - ESIF Venture Capital Fund – Acceleration Component for More Successful Presence in the Market ..... 16
        - With the Help of CROGIP to the Development of Sustainable Equity Market in Croatia.. 16
        - Business Premises and Better Living in Đakovo through a Loan ..... 17
          - With Funds for Start-Up Entrepreneurs to Modern Polyclinic..... 17
          - With EU Funds to a New Modern Machine and Professional Training for its Use..... 18
- Financing | Support for Climate and Environmental Protection..... 19
  - Our Programmes and Loans ..... 19
  - Favourable Interest Rates for Energy Efficiency and Public Lighting..... 20
    - ESIF Loans for Energy Efficiency ..... 20
    - ESIF Loans for Public Lighting ..... 20
  - Case Studies..... 21
    - Preparations for Introduction of a New Financial Instrument for Preservation and Sustainable Use of Natural Capital ..... 21
    - Through Export Financing to Photovoltaic Modules in Turkey..... 22

Savings of 86 Percent Achieved in Electricity Consumption by Replacing Public Lighting .....	22
In Dialogue with Employees .....	23
Communication with Employees .....	23
Benefits.....	24
Gender Equality.....	25
Employee Development.....	26
Evaluation of Work Performance .....	27
Occupational Health and Safety .....	27
Environmental Impact.....	29
Waste .....	29
Hazardous Waste .....	29
Other Waste.....	29
Waste Kitchen Oil and Waste from Grease Separator .....	30
Paper and Cardboard.....	30
Energy .....	30
Corporate Governance .....	31
Governance Bodies .....	31
Compliance Monitoring.....	33
Public Disclosure of Activities .....	34
Anti-Corruption.....	34
Local Communities .....	36
Sponsorships and donations.....	36
Organisational Profile .....	37
Values .....	37
Overview of the Most Significant Financial Information of HBOR.....	38
Memberships.....	39
Stakeholders.....	40
Reporting Practice .....	40
GRI Table of Contents.....	42

## Statement by the Management Board

Our tenth Social Responsibility and Sustainability Report presents the steps we take in line with the growing expectations and raising awareness of importance of banks, especially development banks, in making investments that have positive effects on sustainable and balanced development. The focus of this year's report are social responsibility and sustainability issues.

HBOR's previous report highlighted the need for a comprehensive assessment of risks and opportunities - economic, social and environmental – as well as the assessment and evaluation of importance of individual material topics for our operations. We made this key step in the preparation of this report in order to enhance the quality of management and reporting on social responsibility and sustainability.

We have identified the material issues and sustainable development goals that are important for HBOR, which, together with the Paris Climate Agreement, represent a reference framework of action for banks – members of the United Nations Environment Programme Financial Initiative (UNEP FI) and HBOR.

Climate change and environmental issues, unbalanced development and unfavourable demographic trends as well as the importance of entrepreneurial initiatives and ideas among various groups, especially women and youth, become an inevitable factor in decision-making; therefore, we will pay special attention to these issues in the future.

During 2018, we started to simplify and optimise the offer of HBOR loan programmes in order to better respond to the clients' requirements. We provided better loan terms and conditions for EU projects and directed the majority of funds to small and medium-sized entrepreneurship, especially in areas with less opportunities. We have also started to implement financial instruments intended for the increase in energy efficiency and modernisation of the public lighting system, but also the strengthening of our internal capacities for the implementation of projects contributing to the preservation and sustainable use of natural capital, as well as adaptation to climate change with the use of natural solutions (e.g. green infrastructure).

We have documented our activities through case studies, which is another novelty in the preparation of this year's report on social responsibility, which from this year onwards becomes a report on social responsibility and sustainability. We believe that all these changes will contribute to the integration of the UN Global Compact principles.

## Responsible Banking

Financial sector plays an important role in the achievement of sustainable development, which requires an urgent action to build a prosperous and socially inclusive society, to reduce all pressures on the environment and natural resources use, as well as to strengthen institutions for the implementation of sustainable development goals. The adoption of the new UN 2030 Agenda for Sustainable Development and of the Paris Agreement 2015 encouraged the mobilisation of financial sector in recognising the importance of financing 17 sustainable development goals and supporting the implementation of activities to restrain the rise of global temperature significantly below 2° C, with additional efforts being made to limit it to 1.5° C in relation to the temperature level in pre-industrial period.

According to the estimates of the Organisation of Economic Cooperation and Development (OECD), in the next 15 years USD 6.9 billion per year will be required for the financing of infrastructure in the energy, transportation, building and water sectors to achieve the Paris Agreement scenario of 2° C. The United Nations Conference on Trade and Development (UNCTAD) estimates that for the financing of sustainable development goals, an annual amount of USD 5 - 7 billion will be required for investments in energy production, transmission and distribution, energy use and efficiency in transport, buildings and industry, transport and ancillary infrastructure, telecommunications, drinking water, agriculture, forestry and mitigation and adaptation to climate change.

Further to the last warning on the necessity of limiting global warming to 1.5° C, which is a key recommendation of the latest report of the Intergovernmental Panel on Climate Change dated October 2018, and the EU's goals for achieving a climate-neutral economy until 2050, the required amounts will be significantly higher. The European Commission has estimated that in order to achieve energy and climate goals on annual level, until 2030, it will be necessary to invest in:

Area	Amount of investment (EUR, billion)
 <b>Energy generation and transmission</b>	<b>11</b>
 <b>Transportation</b>	<b>31</b>
 <b>Energy efficiency - households</b>	<b>88</b>
 <b>Energy efficiency - entrepreneurship</b>	<b>49</b>

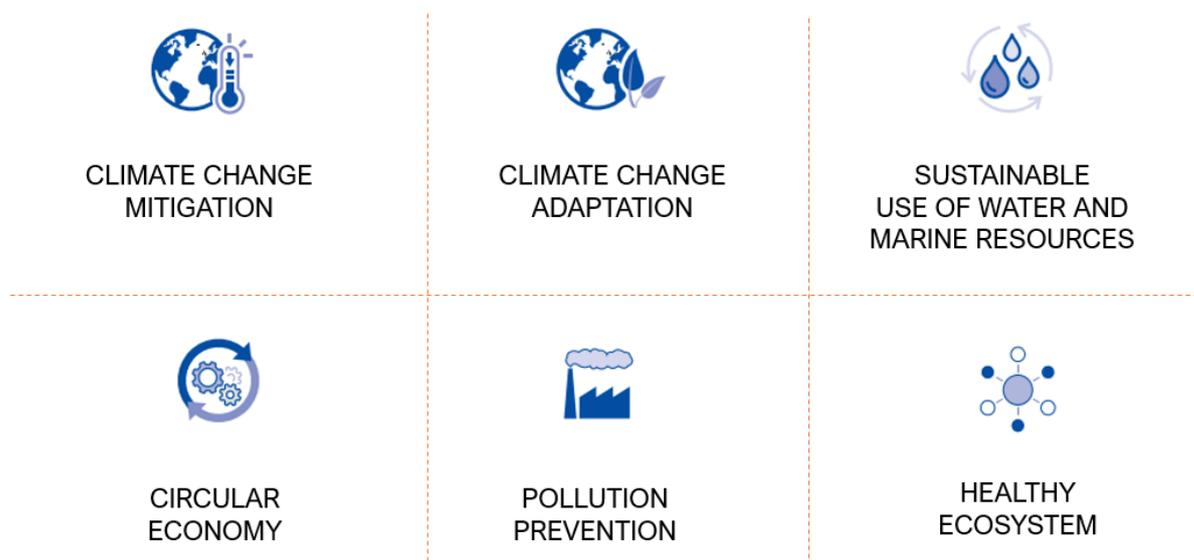
Source of information: European Commission, Sustainable growth finance

The European Commission's strategic response to these exceptional needs for financing the sustainable development was defined in 2018 by adoption of the Action Plan on Financing Sustainable Growth with three main goals:

- To reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth,
- Manage financial risks stemming from climate change, environmental degradation and social issues,
- Foster transparency and long-termism in financial and economic activity.

Sustainable finance generally refers to the process of taking due account of environmental, social and management considerations in investment decision-making. Sustainable finance includes a strong component of green finance that, although supporting economic growth, simultaneously reduces environmental pressures, solves the issue of greenhouse gasses and pollution by reducing waste and by better use of natural resources. It also involves raising of awareness and transparency about the risks that have an impact on the sustainability of financial system and the need for financial institutions, commercial and development banks to jointly alleviate such risks with appropriate management approach.

One of the key components of the Action Plan is to establish a common language for sustainable finance, i.e. the EU classification or taxonomy, with the aim of defining what sustainable means and recognising the areas in which investments focused on sustainability can have the greatest impact. According to the European Commission, the investment will have to contribute to at least one of the following goals to be classified as „green“.



Source of information: European Commission, Sustainable growth finance

The Action Plan also includes the incorporation of sustainability into prudential requirements, because banks and insurance companies are an important source of financial means for the European economy, enhancing of transparency in non-financial reporting and further alignment with the recommendations of the Financial Stability

Board Task Force on Climate-related Financial Disclosures. These recommendations help to better understand the information needed by financial markets (investors, lenders, insurers and others) to better assess and respond to climate changes risks and thus encourage them to improve their reporting. Banks will have an increasingly important role in meeting the needs for financing of sustainability projects and goals defined by 2030 Agenda and the latest climate targets for limiting global warming to 1.5°C.

## **HBOR | Social Responsibility and Sustainability**

In its Social Responsibility Report 2017, the Croatian Bank for Reconstruction and Development (HBOR) recognised the importance of sustainable development goals for achieving inclusive and sustainable economic growth as well as the role of financial sector in their realisation. It is emphasised that increasingly complex global problems of poverty, environmental degradation, inequality and unequal access to finance require finding of sustainable development models to achieve sustainable development goals. There is also a need to find comprehensive solutions that require a comprehensive assessment of risks and opportunities - economic, social and environmental – but also the incorporation of additional criteria of sustainability in decision-making on lending and expansion of HBOR's products and services that include economic, social and environmental dimensions, especially having in mind the strong developmental dimension of HBOR aimed at achieving a sustainable and even development of Croatia.

In this context, the goals of establishing a comprehensive internal sustainability and social responsibility system have been set, with the identification of environmental and social risks and issues of material importance for HBOR's work. Therefore, within the framework of preparation of HBOR's new social responsibility report 2018, an internal workshop was organised. The aim was to identify risks and opportunities, issues of material importance for HBOR and the sustainable development goals that HBOR contributes to. In three topic blocs and three groups, participants considered the risk and circumstances of the environment and assessed the importance of material issues and sustainable development goals for HBOR's operations. In relation to the previous practice of reporting and managing social responsibility, the workshop is a step towards improving the internal system of managing and reporting on sustainability and social responsibility issues. This transition will take place under the auspices of the European Commission's new Action Plan for Financing Sustainable Growth supporting the achievement of climate goals and the sustainable development goals of the EU, but also the global initiatives under the United Nations Environment Programme Financial Initiative (UNEP FI). One of them is the *Positive Impact Initiative* aimed at overcoming the discrepancies between the needs and the current level of investment in achieving sustainable development goals, as well as at strengthening the capacity of the banking sector for the implementation of sustainable development goals and the Paris Agreement.

### **Risks and Opportunities**

Economic slowdown in the environment and reducing of investments can lead to a reduction in the number of clients, but also to decreased possibilities of loan repayment by existing borrowers. Potential clients base can be affected by the change in the economy structure that is increasingly relying on tertiary activities (tourism with a share

of almost 20 percent in GDP in 2018, according to the Croatian National Bank data), while the share of primary and secondary activities becomes smaller. The increasing frequency of extreme weather events - droughts and floods - also affects entrepreneurship, especially in the agricultural and food industry sectors. The labour market and entrepreneurial activities are also largely affected by emigration, which leads to a decreased market potential for the use of HBOR's products. Finally, the digital revolution affects all aspects of business relating to security requirements and privacy protection, and the expectations of users (especially the Millennium and Z generations) for a transparent, fast and easy service, as well as the change of structure and manner of clients' way of doing business, where many of them operate digitally from the very start.

All this is an opportunity for HBOR. The EU's commitment for shaping a climate-neutral economy and society as well as the efficient use of resources stimulate interest in investing in green projects, projects aimed at accelerating the energy transition and transition to renewable energy resources, strengthening of energy efficiency, especially in the building sector, as almost 75 percent of buildings in the EU are energy inefficient. Young entrepreneurs, an increasing number of female entrepreneurs and strengthening of social entrepreneurship are a great potential. In light of the EU's focus on financing green projects, HBOR can introduce additional products and services aimed at alleviating and adapting to climate change, particularly in the agriculture and tourism sectors, since the European Union estimates that they will be confronted with the greatest challenges.

### **Material Issues and their Significance for HBOR**

Following the assessment by the workshop participants, but also the additional analysis of trends in the banking industry as well as the sustainability trends, key material issues for HBOR covering all segments of activity have been defined.

#### **Satisfaction of clients**

Satisfaction of clients depends on HBOR's interest rates, adjustment of the loan terms and conditions to projects for which financial resources are needed (maturity and purpose), the impact of approved loans to business development and the approach of HBOR's representatives to each client.

#### **Responsible financing**

Monitoring of sectoral principles for responsible banking and financing and initiatives aimed at achieving financial preconditions for fulfilling 17 Sustainable Development Goals and the Paris Climate Agreement

#### **Financing – support for entrepreneurship and development**

Support for the establishment of new legal entities and creation of new jobs, promotion of young entrepreneurs and female entrepreneurship, development of social entrepreneurship and new products and values.

#### **Financing – support for climate and environment protection**

Support for construction of sustainable infrastructure, improving the energy efficiency, financing of projects aimed at using green technology, developing of new products and services aimed at mitigating the consequences of climate change, particularly in tourism and agriculture sectors.

### **Innovations and digital solutions**

Use of digital technologies for the purpose of improving the quality of clients' experience, expansion of products and services portfolio in an innovative way by continuously monitoring the trends and discovering opportunities for the development of new and enhancement of existing products and services, strengthening of security sectors and protocols related to possible *cyber*-attacks.

### **Transparency**

Use of available technologies to enhance transparency and to make the communication with clients more efficient, continuous upgrading of communication with stakeholders interested in bank's operations with timely information and consultation related to, among others, the achievement of 17 Sustainable Development Goals and the Paris Climate Agreement.

### **Compliance**

Focus on the inclusion of social and environmental risks in the overall risk assessment. Mapping that encourages understanding of mutual risk connectivity and generating of practical guides for their implementation in practice, including the prevention of money laundering and terrorist financing.

### **In dialogue with employees**

Focus on strengthening the employees' capacity for identifying areas to improve clients' satisfaction, recognising the trends and expectations of stakeholders in relation to HBOR's social and environmental impacts and better-quality two-way communication with stakeholders, enhancing the importance of employee roles and their different perspectives (diversity) in achieving the developmental and social roles of the bank.<sup>1</sup>

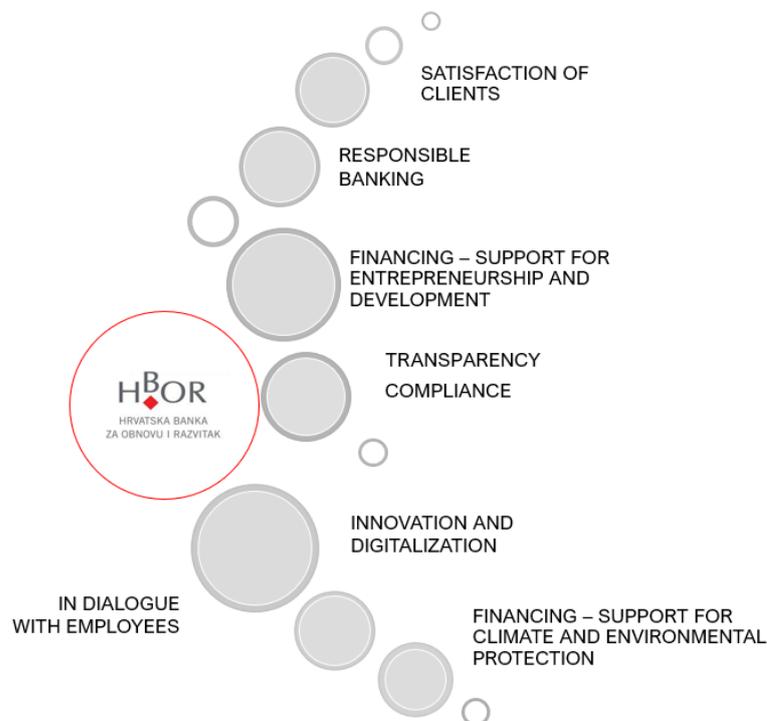


Image: Key social responsibility and sustainability issues; the circle size does not reflect the importance of an issue

<sup>1</sup> 102-44

## Sustainable Development Goals and their Significance for HBOR

With the aim of linking HBOR's current and future activities with regard to the implementation of Sustainable Development Goals and the Paris Climate Agreement, sustainable development goals that HBOR mostly contributes to, or could contribute even more, have been identified.



Image: Key sustainable development goals; the circle size does not reflect the importance of an issue

## Satisfaction of Clients

During 2018, a comprehensive analysis of HBOR's products and services was conducted. In other words, HBOR was implementing 25 different loan programmes that overlapped in some areas, which made it difficult for users to find and choose the optimal lending programme for their investments or need for working capital.

In line with the needs of potential borrowers, and in order to increase the comprehensibility of loan programmes for potential borrowers, HBOR started the process of redesigning its loan programmes and optimising their number. The main programme groups were defined, based on which new loan programmes were compiled that came into force during 2019.



Image: Main groups of HBOR loan programmes

Descriptions of programmes have been simplified and mutually aligned, and the texts shortened. Simple and quick realisation of a loan is at the forefront. Such system will enable a more efficient digitalisation of loan application processing that also started during 2018 and will improve the satisfaction of clients.

## Strengthening the Availability of Information through Regional Offices Network

The network of five regional offices of HBOR that has been developed since 2003 contributes to the regional availability of information on HBOR's products and services and to strengthening of the bank's visibility. The activities of regional offices are focused on advising and informing of entrepreneurs about the use of HBOR as a source of finance for business start-up, growth and development. HBOR's regional offices cover 14 counties. More than 120,000 active companies and crafts businesses, i.e. 62 percent of the total business entities in the country are oriented towards regional offices. In 2018, 315 workshops and training sessions were held in regional offices, including the

workshops *In 7 Steps to a Loan* aimed at strengthening the financial literacy of potential and existing entrepreneurs. Individual consultations for entrepreneurs, either start-up entrepreneurs or those with many years of economic activity, are being organised within the framework of info-days in co-operation with offices for the economy of local and regional government units, competent chambers of the economy, crafts and entrepreneurship. In 2018, regional offices induced a significant number of loan applications, either directly or via financial institutions that HBOR cooperates with.

### **Information on Products and Services**

Information on HBOR's products and services is available through HBOR's web site and contact centre with a free info-phone. On the web pages, loan terms and conditions, instructions on how to apply for a loan and the general terms and conditions of lending activities are published. More information on HBOR programmes and manner of lending, except via contact centre or at HBOR's location in Zagreb, can be obtained through

## Financing | Support for Entrepreneurship and Development

### Better Terms and Conditions of Loans for EU Projects

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For the projects co-financed from the EU funds, loans in the amount of HRK 859 million were approved during 2018, i.e. five times higher amount than that approved in 2017.

As an incentive for the use of available proceeds from the EU funds in the private and public sectors, HBOR implements loan programmes that stimulate their successful use. During 2018, interest rates were reduced for financing the EU private sector projects, rural development, fisheries and wine envelope projects as well as public sector projects. Such reduced interest rates enabled the financing of the EU private sector projects and the EU rural development, fisheries and wine envelope projects at an interest rate as low as 1.7 percent for repayment periods of up to 10 years, i.e. 1.9 percent in case of longer repayment terms. The EU public sector projects are financed at the reduced interest rates of 1.75 or 2 percent, respectively, depending on the investment area.

### With ESIF to 50% Lower Interest Rate for Small and Medium Enterprises

During 2018, small and medium-sized companies started to use the proceeds of *ESIF Growth and Expansion Loans*, a financial instrument for which the funds are provided by the European Structural and Investment Funds (ESIF) and commercial banks in the proportion 50 : 50. Out of these funds, new long-term investments of small and medium-sized companies are financed. Through this financial instrument, small and medium-sized companies have at their disposal favourable funds for long-term investment loans with repayment periods of up to 12 years, i.e. up to 17 years for the tourism sector. Loans under this financial instrument are approved via commercial banks in the manner that 50 percent of the loan is financed at 0 interest rate, and 50 percent out of the commercial banks' sources at market interest rate that is determined by the commercial bank. Such manner of financing means that the final interest rate for entrepreneurs is only the half of the interest rate that would be charged if no ESIF funds were utilised. An additional benefit for beneficiaries is that these loans are approved without usual banking fees. Through co-operation with commercial banks and extensive network of their branches, this financial instrument is available in the whole territory of the Republic of Croatia. In 2018, loans in the amount of HRK 173.76 million were approved for investments of small and medium-sized companies, i.e. HRK 347.52 million in total, when the commercial banks' funds are included.

## Small and Medium-Sized Enterprises – Most of the Borrowers

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The total number of loans approved to small and medium-sized companies was 1,853, i.e. 94 percent of the total number of approved loans. Total approved funds amounted to HRK 1.96 billion.

Small and medium-sized companies used the funds under 24 loan programmes. They were implemented either directly or via commercial banks and leasing companies. The largest number of projects of small and medium-sized enterprises, 1,577, was supported via framework loans to leasing companies and commercial banks in the amount of HRK 672.3 million. The co-operation with leasing companies facilitated the approval of 1,211 contracts on financial leasing in the total amount exceeding HRK 281.56 million.

## Special Benefits for Women Entrepreneurs

By the analysis of situation of economic and entrepreneurial activities of women in Croatia, a significant underrepresentation of women in the entrepreneurship, employment, management and ownership structure of companies, lower salaries in similar jobs and low share of women of only 19.5 percent in the total aid amount approved in the period 2010 – 2013 were established. This indicated to the need for measures to provide systematic support for the development of female entrepreneurship. This analysis resulted in the Strategy for the Development of Women Entrepreneurship in the Republic of Croatia 2014 – 2020 and the action plan for its implementation. One of the key measures for achieving the strategy goals is to provide favourable finance by HBOR with special benefits for women. Pursuant to the Strategy and the Action plan, HBOR continued to implement its special loan programme – Female Entrepreneurship. By mid-2018, HBOR concluded a Business Co-operation Agreement with the County of Osijek-Baranja, by which the county is obliged to subsidise 2 percentage points of interest rate for women entrepreneurs from that county, i.e. such loans are granted at 0% interest rate.

## Reduced Interest Rates for Youth Employment and Innovative Projects

Within the *Jobs for Youth Initiative* of the European Investment Bank – EIB, during 2018, small and medium-sized enterprises had the possibility to use reduced interest rates. Through this initiative, investments of small and medium-sized companies into education, skills and employment of young people are financed. The main feature of this initiative is reducing of interest rate by 0.20 percentage points for entities employing or training young persons. The reduction of interest rate was also made possible under the *InnovFin* Programme in co-operation with the European Investment Fund - EIF. InnovFin is a joint initiative of EIB and EIF and is implemented in co-operation with the European Commission within the framework of the Horizon 2020 programme. Its goal is to enable and accelerate access to the funds necessary for development and innovations. During 2018, the measure of interest rate reduction for youth employment was extended to medium-sized companies, and within the framework of the *InnovFin* programme,

restrictions on certain activities and of the loan amount were abolished and the grace period was extended to more than 3 years.

### **Investment Loans for Rural Development**

In 2018, the Financing Agreement was signed between the Ministry of Agriculture, the Paying Agency for Agriculture, Fisheries and Rural Development and HBOR for the implementation of financial instrument *Investment Loans for Rural Development*. The goal of this financial instrument is to support investments of eligible final recipients from the agriculture, manufacturing and forestry sectors. Loans will be approved via commercial banks selected by HBOR through a public procurement procedure for the implementation of this financial instrument. Loans will be available in the market in the second half of 2019. Through this financial instrument, loan funds in the total amount of HRK 510 million will be available to final beneficiaries.

### **Support to Exporters**

Beside the loan programmes and export credit insurance intended for export transactions exclusively, HBOR supports exporters through short-term and long-term credit lines at favourable interest rates. Investment loans are also available to exporters intended for expansion and modernisation of production, construction of new plants, but also various loans for working capital that are not necessarily tied to export transaction exclusively. The utilisation of such funds is intended to increase the competitiveness of entrepreneurs, which is a precondition for the realisation of successful entry into foreign markets.

In 2018, Croatian exporters were backed by HBOR with the total amount of HRK 5.63 billion. Under all loan programmes, exporters were approved more than 300 loans totalling HRK 2.94 billion, and the export turnover insured through export credit insurance policies amounted to HRK 2.69 billion.

## **Case Studies**

### **Investment in Capital of Innovative and Experienced Entrepreneurs**

The venture capital industry is considered to be one of the most important drivers of economic growth in each country; however, it has not yet been fully developed in the Croatian market. The role of HBOR, as a promoter and active participant in this market, is to stimulate strengthening of this industry and the establishment of new funds intended for strengthening the Croatian entrepreneurs' capital. These are CROGIP (*Croatian Growth Investment Programme*) and ESIF venture capital fund - VC fund. HBOR participates in the development of these two funds and expects manifold benefits from them. This is to say that, in addition to their impact on the economy, in terms of strengthening the capital investment industry, providing of alternative finance sources for Croatian entrepreneurs and increasing of capitalisation, which in some cases is a prerequisite for financing through banks, it is also expected that the impact will increase employment as a result of increased investments. Additionally, HBOR's capacity is expected to increase significantly, since HBOR employees will have the opportunity to

acquire new knowledge and experience in venture capital investments. Investments in CROGIP and VC Fund will be partially financed from HBOR's own funds, which means that through these initiatives, HBOR will for the first time invest its own funds in venture capital funds.

### **ESIF Venture Capital Fund – Acceleration Component for More Successful Presence in the Market**

During 2018, HBOR started preparations for investing in a financial instrument called ESIF Venture Capital Fund (VC Fund). The foundations for its launching were set up in June 2018 by signing the Financing Agreement between the Ministry of Regional Development and EU Funds, which has the role of the Managing body of the Operational programme Competitiveness and Cohesion 2014 – 2020, and the European Investment Fund (EIF). The Ministry awarded to EIF the EU proceeds in the amount of EUR 35 million and entrusted the implementation of this financial instrument, the total value of which will exceed EUR 42 million. The Fund will focus on earlier stages of investment in order to support the development of innovative entrepreneurs. For this reason, EUR 9.3 million will be intended for accelerators. Beside solving the problem of financing, ESIF Venture capital fund also includes an accelerator component that will provide necessary education to entrepreneurs, thus reducing the risk of project failure.

### **With the Help of CROGIP to the Development of Sustainable Equity Market in Croatia**

CROGIP (*Croatian Growth Investment Programme*) is a common initiative of the European Investment Fund (EIF) and HBOR. It was launched under the EIF-NPI *Equity Platform* initiative, the member of which HBOR has been since its establishment. The aim of this initiative is to stimulate the strengthening of private equity investment industry, which is considered to be one of the most important drivers of economic growth in each country. However, this industry has not yet been sufficiently developed either in the majority of the EU member countries or in Croatia. The programme will stimulate capital investments in small and medium-sized companies as well as mid-cap companies with up to 3,000 employees that are not start-ups.

It has been developed with the support of the European Fund for Strategic Investments (EFSI), which is the backbone of the Investment Plan for Europe. HBOR, among other institutions, is also responsible for its implementation in Croatia. During 2018, EIF and HBOR negotiated investment conditions that would enable the maximum possible contribution to the Croatian economy in terms of development of venture capital industry. The contract signing is expected in the first quarter of 2019. The size of CROGIP will be at least EUR 70 million (each HBOR and EIF will commit EUR 35 million) that will be invested in venture capital funds and co-financed by EIF. The envisaged amount will be complemented with private investors' funds of at least EUR 30 million. By launching this programme, HBOR encourages strengthening of the capital investment industry, provides alternative finance sources for Croatian entrepreneurs and contributes to increased capitalisation, which, in some cases, is a prerequisite for financing via banks due to increased investments. In addition, through this programme, HBOR's employees will have the opportunity to gain new knowledge and experience related to venture capital investments.

### Business Premises and Better Living in Đakovo through a Loan

Mihaela Šokac is the owner of the flower shop CVJEĆARNICA FLORAMI. It was established in 2017 in order to ensure livelihood for her and her family in the part of Slavonia significantly hit by emigration, especially of young people. During 2018, in the Osijek-Baranja County, there were 23,453 registered unemployed persons on average each month, of which 60 percent were women. With the loan for female entrepreneurs, Ms. Šokac financed the purchase of business premises in which she had been doing business before this loan through the lease contract. In this way, she managed to reduce her costs and ensure a more viable business venture and livelihood for her family.



### With Funds for Start-Up Entrepreneurs to Modern Polyclinic

Polyclinic LOHUIS FILIPOVIĆ MEDICAL GROUP was established with the aim of performing medical activities in the area of curing apnea and headaches, aesthetic surgery and other non-invasive methods. The owners of the polyclinic have patented a protocol for the diagnosis of migraine-type headaches that can cure the disease by a special type of surgery performed in Croatia and this part of Europe only by them. The operation is called endoscopic decompression of supraorbital and supratrochlear nerves and is performed by special cameras and micro instruments. With a loan for start-up entrepreneurs, they furnished a polyclinic and bought medical equipment.



## With EU Funds to a New Modern Machine and Professional Training for its Use

The company GORICA STAKLO from Velika Gorica was established in 1991 as a continuation of the glasswork family business that had been operating since 1966. It is one of the leading glass manufacturers that wishes to provide its consumers, employees, community and business partners with a bright future by looking through glass products. The company produces different types of glass – iso glass, reflective and non-reflecting, laminated glass, as well as a wide range of ornamental glass and mirrors.

In the period from April to December 2018, a project involving the purchase of CNC glass processing equipment and the costs of education and professional training for the operation of this machine was carried out. By purchasing the machine, the company automated the process of manufacturing iso glass. It is a machine intended for cutting, edging and trimming, grinding, polishing and engraving. By its purchase, rejects are reduced, including the glass waste. Additionally, due to the characteristics of the glass, most of the waste is recycled and used as raw material in glass manufacturing, thus contributing to the development of circular economy.

The total value of the investment was HRK 8.5 million, of which HBOR's loan for the purchase of the machine amounted to HRK 5 million. Of HRK 5 million for the purchase of the machine, the amount of HRK 4.67 million was allocated, whereas the costs of education, professional training and consultancy amounted to HRK 0.33 million. The project resulted in the employment of three new workers.



## Financing | Support for Climate and Environmental Protection

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In 2018, HBOR financed investment projects in infrastructure, energy efficiency, environmental protection and renewable energy resources in an amount exceeding HRK 1.34 billion.

### Our Programmes and Loans

Through the Loan Programme for the Financing of Projects of Environmental Protection, Energy Efficiency and Renewable Energy Resources, HBOR supports responsible behaviour towards protecting and improving the quality of the environment. Through this Programme, loans are approved for investment projects intended for improving of waste dumping sites, managing waste, encouraging clean production, preventing and preserving of biological and landscape diversity, implementing national energy programmes, encouraging the sustainable construction and transport and promoting other projects of environmental protection, energy efficiency and renewable energy resources.

Further, such approach is embedded in the loan application management procedure: when loans are implemented by HBOR directly, an environmental impact assessment is required.

When submitting loan application, a potential borrower is obliged to enclose the filled in *Environmental Protection Questionnaire* that includes the following information:

- Profile of the applicant and its environmental management policies, quality management policy or health protection and safety at work policy,
- Profile of the location, history of location and existing activities on the location, all from the aspect of environmental protection,
- Condition of the environment – air and dangerous waste emissions, water consumption, waste water release and waste generation and management.

The filled in Environmental Protection Questionnaire is analysed and assessed by an expert team that gives its assessment of the project and investment impact on the environment. The assessment is made on the basis of information and documentation attached to the questionnaire. The purpose of the assessment is to evaluate the risks of the investment sustainability and safety for the environment. Considering that the adverse effects on the environment would certainly have financial consequences, the viability of the investment itself could be questioned, i.e. the ability to repay the loan would be questionable. If needed, corrective measures are recommended in order to establish the condition of controlled environmental impact of the project, improve the condition of the environment, or minimise the possible environmental impact. In the cases of export finance, the OECD recommendations are taken into account.

The mentioned recommendations of the OECD include:

- The Recommendation of the Council on Bribery and Officially Supported Export Credits;
- Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence;
- Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low Income Countries.<sup>2</sup>

## **Favourable Interest Rates for Energy Efficiency and Public Lighting**

In 2018, the public sector used funds out of two financial instruments: *ESIF Loans for Energy Efficiency* and *ESIF Loans for Public Lighting*.

### **ESIF Loans for Energy Efficiency**

This financial instrument enables financing of investments in energy efficiency and encouraging the use of renewable energy resources in public sector buildings on exceptionally favourable terms and conditions. The purpose of financing these investments is to achieve energy savings that will result in the reduction of energy consumption for cooling/heating at year level of at least 50 percent. Loans are approved directly by HBOR with the maturity period of up to 14 years at exceptionally favourable interest rates of 0.1, 0.25 or 0.5 percent p.a., depending on the development stage of investment area and with no customary banking fees payable. HBOR also co-finances projects that have received a Decision on Financing by the Ministry of Construction and Physical Planning on grant tenders.

### **ESIF Loans for Public Lighting**

This financial instrument was introduced with the aim of financing investments in energy efficiency of public lighting system through the implementation of energy renovation of the existing systems. Investments resulting in energy savings of at least 50 percent in comparison with the existing situation are eligible for financing. Loans are approved directly by HBOR with a maturity period of up to 10 years at exceptionally favourable interest rates of 0.1, 0.25 or 0.5 percent p.a., depending on the level of development of the investment area with no customary banking fees payable.

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<sup>2</sup> 102-11

## Case Studies

### Preparations for Introduction of a New Financial Instrument for Preservation and Sustainable Use of Natural Capital

*Natural Capital Financing Facility* (NCFF) is a financial instrument combining the funds of the EIB and of the European Commission under the LIFE programme – Programme for the Environment and Climate Action. The instrument is aimed at financing projects contributing to the preservation and sustainable use of natural capital, as well as to the adaptation to climate change with the use of natural solutions (e.g. green infrastructure). Such projects generate income or cost savings for their investors, thus making them financially viable and long-term viable investments. Within the framework of the NCFF, in addition to loan funds, potential borrowers will be offered free technical assistance with the aim of financing project preparation in accordance with the NCFF criteria.

By signing the Finance Contract in the amount of EUR 15 million with the EIB, HBOR became involved in the implementation of the NCFF in March 2018. In this way, HBOR also became the first national development bank in the EU involved in its implementation. This co-operation with the EIB is important due to the extremely large biodiversity and significant contribution of Croatia to the ecological network of Natura 2000, thus representing an important field of HBOR's activity. HBOR has set up a project team consisting of employees of various organisational units working together with selected consultants (PricewaterhouseCoopers Savjetovanje d.o.o. – NCFF Project) on the implementation of the NCFF. The projects to be included in the NCFF are Green entrepreneurship, Green infrastructure, Payment of ecosystem services, Compensation measures for environmental damage. The NCFF beneficiaries can be from private sector (companies, crafts businesses, family farms etc.), public sector (counties, cities, municipalities, public undertakings etc.), civil sector (associations, organisations etc.).

These types of projects are traditionally funded by non-repayable proceeds (grants and subsidies). Structuring of such projects in order to make them sustainable, to generate income or cost savings from which the return on investment will be made, is a relatively new phenomenon on the market. Currently, there are no many such projects in the market, which is not specific for Croatia alone, but to the EU as well. Investments in ecosystem protection and management often have difficulties in identifying a suitable business model, and potential investors in such projects often have weak creditworthiness. Therefore, consultants will provide assistance in the two segments:

1. To HBOR: NCFF development and presentation to the public, project finding, design of mechanisms for approving, monitoring and reporting on such projects, including indicators for performance measurement,
2. To final beneficiaries: development of business plans, preparation of project documentation, suggesting the appropriate financial structure of the project.



### Through Export Financing to Photovoltaic Modules in Turkey

Solvis d.o.o. is a company from Varaždin with more than 150 employees. It is a leading producer in Croatia in the production of standard and specialised photovoltaic modules of the highest quality as well as in providing innovative services in the integration of photovoltaic systems. It focuses on the production of environmentally friendly and accessible energy sources as well as on continuous research and development of experts. It has been present in the international market since 2009. The vision of Solvis is to become a world-renowned and recognisable company for producing photovoltaic modules and other products related to electricity generation from solar energy. In 2018, Solvis was granted a loan for the preparation of exports in the amount of HRK14.9 million. By this loan, it financed the purchase of raw materials and materials for the production of photovoltaic modules and panels for a customer in Turkey.



### Savings of 86 Percent Achieved in Electricity Consumption by Replacing Public Lighting

The existing public lighting system of the city of Kastav generally does not conform with the current standard HRN EN 13201 in terms of the required light and technical values, is inefficient in terms of energy, generates excessive electricity consumption, high maintenance costs and is environmentally unacceptable due to light pollution and materials used. The major part of the public lighting system consists of obsolete and inefficient lighting fixtures fitted with predominantly high-pressure sodium and smaller high-pressure mercury lamps. The reconstruction project – energy efficiency of the public lighting system of the city of Kastav - will be financed with the funds of the financial instrument ESIF Loans for Public Lighting. The Project started at the end of 2018 and is planned to be completed by the end of 2019.

The reconstruction will include 1,741 existing lamps. The lamps will be replaced by the new ones that are based on modern LED technology and meet all the light and technical calculations in accordance with the standard HRN EN 13201. This will enable centralised control and monitoring of a large number of lighting fixtures in a simple way. Apart from the reconstruction, the investment also includes the replenishment of lighting fixtures. 243 new public lighting pylons will be built and equipped with lighting equipment to match the lighting with standard light and technical values.

This will significantly reduce light pollution, maintenance costs and the visual impact of public lighting on citizens and visitors. After the reconstruction, electricity savings of 85.82 percent and significant reduction in regular public lighting costs are expected. The

Project is financed with a loan of HRK 7.8 million. The loan availability period is the end of 2019.



## In Dialogue with Employees

HBOR has a significant developmental role in the Croatian society, and this role is based on the continuous contribution of its employees. HBOR provides its employees with different education and monitors their development, with a particular emphasis being made on equal working environment. In order to better monitor its employees' satisfaction with the organisation climate and job, during 2018, preparations were made for an employee questionnaire implemented at the beginning of 2019.

HBOR has had a relatively low and consistent rate of employee fluctuation over the last four years. In the same period, a moderate increase in the number of employees has been recorded. In 2018, an increase in employee departure compared to 2017 was recorded, 20 new employees were employed, and one employee returned from non-active status. The relatively low rate of fluctuation provides stability and continuity of business, but it can pose a challenge in career management and professional development of employees, taking into account the dynamic environment and growing expectations which require the adoption of new perspectives and skills.<sup>3</sup>

### Fluctuation of employees

	2015	2016	2017	2018
<b>Average number of employees</b>	327	345	366	370
<b>Employees that left</b>	14	18	6	17
<b>Fluctuation rate</b>	4.3%	5.2%	1.6%	4.6% <sup>4</sup>

## Communication with Employees

HBOR communicates with its employees in various ways and strives to ensure a balanced communication. Through Intranet and Internet, key information for the work is available to employees. Employees are encouraged to give their feedback, to praise or give suggestions, and anonymous giving of feedback is also made possible. During 2018, Intranet was used more intensively for communication with employees with the aim of providing timely information. Also, each organisational unit can share folders and areas on the Intranet to ensure better communication, easier work and sharing of documents.

<sup>3</sup> 401-1

<sup>4</sup> 401-1

At the same time, regular communication with employees has been continued through the *newsletter*, where employees can get all the important information and news about the bank's activities.



Internal documents and their changes and amendments are published on Intranet 8 days before their entry into force. Prior to the adoption of the changes and amendments to internal documents, approval from the managing /executive directors of those organisational units to which the changes refer to, is required (e.g. in case of reorganisation of the organisational unit, the consent of the managing/executive director of the organisational unit is required etc.).<sup>5</sup>

Beside the representatives of employees in the Occupational Safety Board, in HBOR there are no other bodies consisting of employees. By the Labour Ordinance of HBOR, persons authorised for the receipt and settlement of claims related to employee dignity are defined. During 2018 there were no notifications of violation of workers' dignity.<sup>6</sup>

## Benefits

HBOR does not restrict or prevent employees from being members of trade unions. However, there is neither a trade union nor a trade union subsidiary, and the data on membership in a trade union or associations are not collected.<sup>7</sup> Although HBOR does not have a Collective Agreement, it provides various benefits to which its employees are entitled or which they may be given pursuant to the Labour Ordinance and other documents. In case of a serious disease or death in family, employees are entitled to allowances, whereas in cases of eliminating the consequences of disasters and for providing scholarships to children of widowed single parents and children of diseased employees, one-off cash compensation is provided. Requests for such kind of allowances are sent to the Human Resources Department, and they are generally approved by the Management Board.

<sup>5</sup> 402-1

<sup>6</sup> 406-1

<sup>7</sup> 407-1

## Gender Equality

HBOR recognised the issue of inequality and gender discrimination and, in 2018, the 2018-2021 Action Plan for the Promotion of Gender Equality was adopted. This document envisages the implementation of various activities to promote and improve gender equality with two main objectives:

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

Apart from participating in the implementation of the Female Entrepreneurship Development Strategy by implementing a special programme for the financing of female entrepreneurship, HBOR is also focused on internal action: anti-discrimination provisions are integral part of the Labour Ordinance, whereas irregularity reporting mechanisms are part of the Code of Conduct. Likewise, the Corporate Governance Code defines gender as one of the diversity criteria for the appointment of the Management Board members. Data on employees and management gender distribution are regularly collected and analysed for the purposes of internal management and enhancement of the managerial breakdown diversity.

### Management Board breakdown by gender

	2015		2016		2017		2018	
<b>Women</b>	1	33%	1	33%	1	50%	1	50%
<b>Men</b>	2	67%	2	67%	1	50%	1	50%
<b>Total</b>	3	100%	3	100%	2	100%	2	100%

### Employee breakdown by gender

	2015		2016		2017		2018	
<b>Women</b>	234	68%	233	67%	242	66%	246	66%
<b>Men</b>	108	32%	116	33%	124	34%	124	34%
<b>Total</b>	342	100%	349	100%	366	100%	370	100%

In 2018, the majority of employees were in the age group of 30 to 50 years of age, i.e. this age group made up 71 percent of employees. The share of employees in the age group over 50 years stood at about 25 percent of all employees in 2018. Most of HBOR's employees are women. In 2018, 66 percent of the total number of employees were women and men accounted for 34 percent<sup>8</sup>, where HBOR is no exception in terms of the sector with a general female prevalence. The managerial breakdown contains managerial

<sup>8</sup> 102-8 (information on the type of contract could not be introduced owing to the internal monitoring system)

jobs from the Management Board level to the Head level. The relative share of women in the management is lower than the relative share of women in the total number of employees, and, in 2018, the share of women in the management stood at 40 percent<sup>9</sup>. Furthermore, in 2018, 29 employees were on family/maternity leave, all of which were women.<sup>10</sup>

## Employee Development

Systematic care and investment in the development of each individual employee are among the key factors for achieving the goals of a state development and export bank. All HBOR's employees have equal training and education opportunities in accordance with the needs of the business. The content of development programmes is tailored on the basis of the needs of individual jobs, organisational units and specific needs of HBOR. Employees are offered specialist seminars and training courses, foreign language courses, computer courses, know-how exchange with related institutions in the country or abroad and long-term training programmes (undergraduate or postgraduate studies).

The conditions for training and education of employees are regulated by the Employee Training and Education Ordinance. Some of the conditions relate to: types of training and education, planning of training and education as well as employee rights and obligations. Furthermore, the transfer of the acquired knowledge within the organisation is systematically ensured. Beside external education, internal educational workshops are also organised.

Targeted internal educational workshops are organised for individual groups of employees, and some of them are open for all interested, which is aimed at additionally educating employees and ensuring flow of information. The most usual topics of such workshops are amendments to legislation, acquisition of managerial knowledge and, if needed, introduction of changes into processes and modes of operation. Also, specialised workshops are organised for the development and acquisition of specific knowledge and/or competences relevant for business operations that are carried out by experts or relevant persons from the country or abroad.

A regular workshop cycle is organised for all new employees and trainees: In-house Education for Trainees and New Employees that ensures orientation and familiarisation of new employees with the internal organisation and individual work processes. The objective of such education is also to encourage the exchange of opinions among employees. The in-house education programme consists of specialist workshops and general soft skills workshops. Specialist workshops are run by experienced employees from all organisational units that hold trainer certificates. Furthermore, records are maintained on education activities in the field of social responsibility, human and labour rights, environmental protection and anti-corruption.<sup>11</sup>

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<sup>9</sup> 405-1

<sup>10</sup> 401-3

<sup>11</sup> 404-2

In 2018, HBOR's employees attended various education and training programmes: 82 percent participated in some type of education programme (seminars, conferences, long-term training, development projects, etc.). On the average, 32.8 hours of in-house education and 15.4 hours of out-of-house education are organised per an employee.<sup>12</sup>

During 2018, employees who were identified as highly motivated and as potential future holders of key activities within the bank were included in the development programme called "HBOR's Talents".

The identified talents were included in the education cycle through several modules designed for them, with the purpose of supporting their further development and encouraging their stay in the organisation. Their development programme, among others, included education in the area of strategic planning, project management and team management.

One of the activities of the talent development programme is the inclusion in inter-sectoral projects, which is of special importance in the light of the new HBOR's strategy (for the implementation of which a grant has been obtained from EU funds), because a systematic development of employees is indispensable for the quality performance of future activities.

## **Evaluation of Work Performance**

In order to ensure the attainment of the set plans and goals, it is necessary to systematically monitor the effects of developing every individual employee and the entire organisation. To this end, performance management system has been introduced in 2015, under which generic competences and defined target goal attainments are appraised and new target goals are set for every quarter. The evaluation of performance is comprised of the appraisal of competences and the appraisal of target attainment in the proportion 50:50. Obligatory quarterly interviews have been introduced for the purpose of providing feedback to the employees from their directly superior managers. In addition, annual interviews with employees also take place.

In 2018, activities were continued to raise the quality of the set target goals and encourage the management to give feedback information and appraise employees' performance. This resulted in voluntary setting of individual target goals for more than 90 percent of employees. Career development was implemented through possible specialist and professional promotions and through development of careers in the direction of manager or head positions.<sup>13</sup>

## **Occupational Health and Safety**

The Occupational Safety Ordinance determines the right to health protection at work for all employees of HBOR. Occupational health and safety activities are carried out by a person in charge of occupational health and safety and fire protection as well as by the Occupational Safety Board. The Board meets at least twice a year, and the members of the Board discuss current issues in the field of occupational safety. Employee safe work

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<sup>12</sup> 404-1

<sup>13</sup> 404-3

training is carried out by an occupational safety expert. All HBOR's employees have participated in such training courses, and new employees are immediately included in them.

Occupational health and safety issues are defined in special internal documents.<sup>14</sup> The Occupational Safety Ordinance and the Guidelines for Occupational Injury and Occupational Disease Procedure have been published on the intranet sites and are available to all employees. Additionally, a special thematic site called Occupational Safety has been set up on the intranet site where all relevant information and instructions are regularly published. Every year, the person in charge of occupational health and safety and fire protection submits to the Management Board a written report on occupational safety measures and measures taken during the previous year as well as the plan of measures for the current year.<sup>15</sup>

In 2018, the process of acquiring height-adjustable chairs and desks as well as ergonomic keyboards continued with the purpose of carrying out preventive protection measures against occupational diseases and work-related illnesses. Two employees with health issues were sent to the occupational health protection medicine for the purpose of achieving additional health protection for workers. During 2018, four female employees and three male employees suffered slight injuries, and there were no deaths or occupational diseases. All injuries occurred in the City of Zagreb.<sup>16</sup>

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<sup>14</sup> 403-4

<sup>15</sup> 403-1

<sup>16</sup> 403-2

# Environmental Impact

## Waste

HBOR’s operations do not produce a significant quantity of waste. However, HBOR has been reporting on this aspect of its impact for years without setting specific targets.

### Hazardous Waste

Electric and electronic (EE) equipment is collected carefully and stored separately, according to type, until hand-over to an authorised collector of EE waste. Separate collection prevents hazardous waste from polluting municipal waste. In 2018, the following types of waste were handed over to authorised collectors: EE waste, other hazardous waste (fluorescent tubes and bulbs), and the highest increase was recorded in the segment of EE waste as a consequence of the write-off of old photocopy machines. Also, there was an obvious significant decrease in the quantity of collected toners in 2018 owing to the write-offs of some old-type machines.

Hazardous waste handed over / kg	2016	2017	2018
<b>EE waste</b>	1010	460	2680
<b>Toners</b>	20	125	15
<b>Batteries</b>	0	20	20
<b>Fluorescent tubes and bulbs</b>	20	30	7
<b>Air conditioning devices</b>	0	0	0

Note: correction of data, 2017 Social Responsibility Report contained data on 2017 and 2018

### Other Waste

Construction waste and massive waste are generated periodically and are disposed of by the contractor. By changes to the contracts, the contractors are expected to dispose of the waste generated by their activities for the price agreed under the contract. Plastic waste is collected in specially marked cardboard boxes located in the corridors of HBOR premises. Compared with 2017, there was a significant increase in massive waste due to the write-off of a considerable quantity of permanent assets (desks and chairs) upon the inventory.

Other waste / kg	2016	2017	2018
<b>Construction and massive waste</b>	1420	430	2560
<b>Plastic waste</b>	n/a*	487	140

Note: there are no data on collected plastic waste for 2016

Pursuant to the law, HBOR appoints a waste commissioner and a deputy waste commissioner who monitor the implementation of waste management regulations, organise the implementation of waste management regulations and advise on waste management issues related to HBOR. Further HBOR’s waste management activities will continue in terms of developing the waste management system and improving the system for monitoring types and amounts of waste collected. In addition, it is planned to continue the implementation of educational activities and measures for the purpose of reducing waste generation and increasing awareness among employees of the

importance of waste separation, collection and recycling. These activities ensure the impact on business on several levels: reduction of operating costs and removal of obstacles to the work of individual organisational units (e.g. reduction in the quantity of material stored in the archives, upgrade in the information system, better implementation of the Green Office principles after training of employees from the previous period, etc.).

### **Waste Kitchen Oil and Waste from Grease Separator**

Biodegradable waste and waste kitchen oil from grease separator generated in the restaurant kitchen are collected and delivered to the company authorised for industrial cleaning, collection and temporary disposal of waste.

### **Paper and Cardboard**

Waste paper and cardboard are collected in separate, clearly marked waste paper boxes. The boxes are placed around offices and in visible places in corridors, next to shared printers, fax and copy machines. Waste paper for shredding is collected separately. Waste paper is delivered to companies in charge of collecting and recycling/disposing of paper. HBOR continuously improves the system that leads to the reduction in the use of paper documentation.

#### **Collected cardboard / kg**

	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Total</b>	13,440	11,130	7,100 <sup>17</sup>

### **Energy**

HBOR makes continuous efforts to improve energy efficiency on the premises it uses. In 2018, at two locations in Zagreb, consumption was monitored through the Energy and Water Consumption Remote Metering System. All premises were subject to regular annual checks, and equipment and devices were regularly serviced. During 2018, energy-saving bulbs and fluorescent tubes were replaced with LED lighting. The replacement process is gradual and is carried out with an objective of optimising the costs of procurement and disposal. Project documentation was prepared for a new, more energy-efficient air-conditioning system at the location Strossmayerov trg that is planned to be implemented in 2020.<sup>18</sup> Various types and combinations of energy sources are used at HBOR's locations in Zagreb. Energy consumption in HBOR's regional offices has not been analysed (premises are leased). Energy sources used at HBOR's locations are as follows:

- Gas: for space heating and water heating
- Diesel: for electricity producing generator
- Solar water heating (collector at one location)
- Electricity
- District heating thermal energy

<sup>17</sup> 306-2

<sup>18</sup> 302-4

Consumption of energy sources at Strossmayerov trg	2016	2017	2018
Gas total (m <sup>3</sup> )	64,068.40	64,902.30	68,198.90
Electricity (kWh)	219,719.86	227,446.76	230,968.36
Water (m <sup>3</sup> )	1,616.30	1,782.00	1,865.20

\*Note: There are no data relating to Gajeva and Zelinska locations

## Corporate Governance

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

HBOR's Code of Conduct defines the basic standard of ethical and legal procedures, rules for preventing corruption and ensuring professional behaviour. Also, the possibility of reporting violation of the Code is envisaged. Code of Conduct default form, description of default reporting procedure and e-mail address for reporting defaults are available at HBOR's websites.<sup>19</sup> The person responsible for compliance monitoring is responsible for initiating proceedings on the basis of received HBOR's Code of Conduct violation reports, reporting irregularities and counselling<sup>20</sup>. In 2018, two proceedings were initiated on the basis of HBOR's Code of Conduct violation reports<sup>21</sup>. Every year, information on the reports submitted and proceedings initiated on the basis of received HBOR's Code of Conduct violation reports is submitted to the Management Board by 31 January for the preceding year.

In accordance with the principles of public disclosure, financial statements of HBOR and HBOR Group for the reporting periods are published on HBOR's and Luxembourg Stock Exchange's websites. HBOR's Annual Separate and Consolidated Financial Statements are adopted by the Supervisory Board and submitted to the Croatian Parliament for confirmation. The annual rating process of HBOR is conducted by two international independent rating agencies (Standard & Poor's and Moody's).

## Governance Bodies

Duties, responsibilities and powers of the members of the Management Board and the Supervisory Board are regulated by the Act on HBOR (Official Gazette of the Republic of Croatia "Narodne novine" No. 138/06) and the Act on the Amendments to the Act on HBOR (Official Gazette of the Republic of Croatia "Narodne novine" No. 25/13). They are further elaborated in the By-Laws of HBOR. The Act on HBOR and the By-Laws of HBOR as well as the decisions made by the Supervisory Board determine the types of transactions that HBOR performs only with a prior consent of the Supervisory Board. The

<sup>19</sup> 102-17

<sup>20</sup> 205-1

<sup>21</sup> 102-16

Management Board and the Supervisory Board successfully co-operate through open discussions, and the timely submission of thorough written reports to the Supervisory Board represents the basis for this co-operation.

The Supervisory Board determines the principles of operating policy and strategy, supervises the business activities of the Bank, adopts HBOR's lending policies, adopts the Annual Financial Statements and examines the Internal Audit reports and reports drafted by external independent auditors and by the State Audit Office. The Supervisory Board also monitors and controls the legality of the business activities of the Management Board, appoints and dismisses the President and the members of the Management Board. According to the Act, the Supervisory Board consists of ten members: six ministers in the Government of the Republic of Croatia, three Members of Parliament and the President of the Croatian Chamber of Economy.

During 2018, the Supervisory Board was comprised of the following members:

- Zdravko Marić, DSc, Minister of Finance, President of the Supervisory Board,
- Martina Dalić, DSc, Deputy Prime Minister of the Republic of Croatia and Minister of the Economy, Entrepreneurship and Trade, Vice President of the Supervisory Board (until 16 May 2018),
- Darko Horvat, Minister of the Economy, Entrepreneurship and Trade, Vice President of the Supervisory Board (since 30 May 2018),
- Predrag Štromar, Deputy Prime Minister of the Republic of Croatia and Minister of Construction and Physical Planning,
- Gabrijela Žalac, Minister of Regional Development and EU Funds,
- Gari Cappelli, Minister of Tourism,
- Tomislav Tolušić, Deputy Prime Minister of the Republic of Croatia and Minister of Agriculture,
- Luka Burilović, President of the Croatian Chamber of Economy,
- Boris Lalovac, MSc, Member of the Croatian Parliament,
- Božica Makar, Member of the Croatian Parliament,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament.

The Management Board represents HBOR, conducts HBOR's business and administers its assets, and is obliged and authorised to undertake all actions and pass all resolutions it considers necessary for the legal and successful conduct of business. The powers of the Management Board also include adopting normative acts that determine the manner of operations and the internal organisation of HBOR, adopting loan programmes, making individual loan approval decisions and decisions on other financial transactions, making decisions on the appointment and dismissal of employees with special powers, making decisions on the rights and obligations of employees and reporting to the Supervisory Board.

Members of HBOR's Management Board in 2018:

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

On the basis of HBOR's Code of Corporate Governance and the Audit Act, the Audit Committee of HBOR has been established pursuant to a decision of the Supervisory Board. The Audit Committee is comprised of three members, one of whom is appointed

from among the members of the Supervisory Board of HBOR and the other two, at least one of whom must be an independent member, are appointed by the Supervisory Board. The President is appointed by the Supervisory Board from among the independent members of the Audit Committee. Members of the Audit Committee of HBOR are:

- Prof.DSc. Lajoš Žager, Full Professor, Department of Accounting, Faculty of Economics and Business of the University of Zagreb, President of the Audit Committee,
- Grozdana Perić, Chairman of the Finance and Central Budget Committee of the Croatian Parliament, Vice President of the Audit Committee,
- Aurora Volarević, Director of Internal Control, Audit and Risk at Hrvatski Telekom d.d., member of the Audit Committee.

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

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

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

## **Compliance Monitoring**

Pursuant to the legislation, the Compliance Monitoring Function has been established at HBOR. This function is independent of business processes and activities in which risks may arise and it is performed in a decentralised manner throughout all organisational units of HBOR. In order to better regulate compliance monitoring and define responsibilities of all employees and responsible persons in charge of compliance with relevant acts, regulations, policies, standards and procedures of HBOR, the Compliance Monitoring Policy and the Compliance Monitoring Ordinance were adopted in 2018. Compliance monitoring is carried out in accordance with the annual work plan prepared on the basis of a documented risk assessment. HBOR is obliged to apply the Public Procurement Act, and it procures goods, works and services for its business purposes

in accordance with the provisions of the Act. Pursuant to the Public Procurement Act, HBOR publishes on its websites the following documents:

1. Plan of Procurements of Goods, Works and Services for every calendar/budget year as well as all amendments to the Plan
2. Register of Contracts
3. Economic entities with which it must not enter into procurement contracts due to the conflict of interest

## **Public Disclosure of Activities**

HBOR continuously performs measures aimed at increasing access to information for all stakeholders and informing the public in a proactive manner.

HBOR puts a special focus on providing information to the public about its goals and about the measures for their attainment as well as about the results of its activities by simultaneously obeying the principle of bank secrecy. Therefore, all information on HBOR's operations can be found on HBOR's websites except for those subject to bank secrecy regulations pursuant to the Act on Credit Institutions.<sup>22</sup>

In 2018, the public was regularly informed about the significant changes or the new developments in HBOR's operations through various forms of communication: press releases or written replies to inquiries. Annual financial statements containing independent auditor's report, semi-annual financial statements containing management report and quarterly condensed financial statements are published regularly and timely.

In the reporting year, HBOR published 18 press releases informing the public about operations, attained business results, new loan programmes and amendments to the existing ones. Altogether 27 public procurement procedures were published in the Electronic Public Procurement Classifieds, whereas simple procurements procedures were published on HBOR's websites.

Information in possession of HBOR is available to the beneficiaries of the right of access to information and of re-use of information under the terms and conditions prescribed by the Right of Access to Information Act, except for the information subject to bank secrecy pursuant to the Act on Credit Institutions. Access to information is possible throughout the year on working days from 8 to 16 o'clock. Employee in charge of providing information prepares annual report on the implementation of the Right of Access to Information Act to be submitted to information commissioner. In 2018, 39 requests for access to information were received pursuant to the Right of Access to Information Act.

## **Anti-Corruption**

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

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<sup>22</sup> 417-1

planned annually. Employees have access to information/education material in the field of ethics and conflicts of interest, and all new employees undergo a regular process of getting acquainted with these topics. HBOR's Code of Conduct defines the mechanism for proceedings upon irregularity reports and other complaints having been filed.

Adopted principles are continuously developed through regular reviewing and updating of documents<sup>23</sup>. In 2018, the Compliance Monitoring Function conducted online education on business ethics with the focus on the prevention of conflicts of interest. The education was carried out with the aim to effectively manage conflicts of interest within the organisation, which implies knowledge of a certain prescribed manner of conduct and development of awareness and capacity of each individual employee for critical self-assessment of situations he/she might encounter when fulfilling daily tasks. Education and testing were compulsory for all, regardless of the position and the level of responsibility, and failure to participate in the test was recorded in the employee's file as non-fulfilment of the obligation to attend education<sup>24</sup>. In 2018, there were no complaints on the grounds of corruption suspicion and there were no legal proceedings initiated against HBOR on the basis of corruption charges. Also, there were no cases resolved for the benefit or to the detriment of HBOR with regard to corruption<sup>25</sup>.

### **Prevention of Financial Crime**

In its operations, HBOR carries out measures, actions and procedures to prevent money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Ordinance and the Methodology for the Implementation of Anti-Money Laundering and Terrorist Financing Measures, Activities and Procedures that are based on the Anti-Money Laundering and Terrorist Financing Act. In 2018, activities continued aimed at strengthening the internal system of anti-money laundering and terrorist financing (SPNFT), and HBOR aligned its business with the provisions of the Act which came into force at the beginning of 2018. By a decision of the Management Board made in May 2018, amendments to the Ordinance on Macro-Organisation and Micro-Organisation of HBOR were adopted, and the following organisational unit was established: Office for Compliance, SPNFT and Information Security comprising, besides other functions, an independent function of anti-money laundering and terrorist financing. Pursuant to the prescribed obligations, authorised person organised professional training and education of HBOR's employees regarding the implementation of measures, actions and procedures for the prevention of money laundering and terrorist financing. At the same time, the authorised person and deputy attended professional gatherings and education events on the prevention of money laundering and terrorist financing, and they provided consultant and practical assistance to employees in specific business situations.

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<sup>23</sup> 205-1

<sup>24</sup> 205-2

<sup>25</sup> 205-3

## Local Communities

### Sponsorships and donations

Criteria for the award of sponsorships and small amount donations as well as invitation to submit applications for sponsorships and donations were published on HBOR's websites in Social Responsibility section. During 2018, the prescribed procedures and criteria for the award of donations were implemented, on the basis of which HBOR's fourth public invitation to submit applications for donations was issued. In May 2018, the public invitation called: "We Create Equal Opportunities" was published that was intended for projects to be implemented in the areas of the Republic of Croatia with fewer opportunities (I - IV group of local government units with below the average ranking according to the development index values) aimed at improving the quality of life and/or health and promoting social inclusion in the community. The project application should contain the expected results of the project implementation.

The following projects were selected in the donation award procedure:

1. *Prevention of Violence among Children and Young People as well as Upgrade in the Quality of Life of Children with Special Needs – PRESTANI! (STOP IT!) – Association for Providing Psycho-Social and Educational Assistance to Children and Young People with Disabilities and Behavioural Disorders – UDRUGA TI SI OK (YOU ARE OK ASSOCIATION), Velika Mlaka, in the amount of HRK 43,460.00*
2. *Therapeutic Riding to Children's Smiles – Osmijeh (Smile) – Therapeutic Riding Association, Peteranec, in the amount of HRK 43,350.00*
3. *Big Potential of Small Community – Klikeraž Association, Osijek, in the amount of HRK 50,000.00*
4. *More than Meadows, More than Sports – "Bilo" Football Club Velika Pisanica, Velika Pisanica, in the amount of HRK 49,000.00*
5. *Together against Violence – "Veliko srce" ("Big Heart") Association for Foster Care of Children and Adults Čazma, Čazma, in the amount of HRK 14,710.00*
6. *6mm-Confesion of Pain and Victory: Performances at Local Communities – Erato Theatre Art Organisation, Zagreb, in the amount of HRK 48,288.99*
7. *Let's Play Together – "Krka" Ecological Association Knin, Knin, in the amount of HRK 49,926.25*
8. *"Small School of Entrepreneurship" – "Naša djeca" ("Our Children") company Slatina, Slatina, in the amount of HRK 50,000.00*
9. *Sports and Recreational Activities and Education on EU Projects in Brinje Municipality – "Pavenka" Women's Association for the Preservation of Tradition, Cultural Heritage and Rural Development, Brinje, in the amount of HRK 49,600.00*
10. *Active Third Age – Care for the Elderly and Disabled Association (Bosino), Vukovar, in the amount of HRK 50,000.00*
11. *Biti Bolji-Be Better – "Be Better" Association, Osijek, in the amount of HRK 36,068.00*

## Organisational Profile

HBOR<sup>26</sup> promotes systematic, sustainable and even economic and social development in line with the overall strategic goals of the Republic of Croatia. Priority areas of HBOR's operations are: promotion of establishment and development of SMEs, promotion of exports, development of tourism, financing of innovations and development of new technologies, financing development of agriculture, encouraging use of EU funds, financing of environmental protection, energy efficiency and renewable energy resource projects. The primary focus of HBOR's business operations is on the Republic of Croatia, however support is also given to Croatian exporters in the form of credit lines.<sup>27</sup> The largest export turnover with insurance coverage was realised for buyers in Germany, France, Luxembourg, Ukraine, the Netherlands and Italy.<sup>28</sup>

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

- Regional office for Slavonia and Baranja
- Regional office for Dalmatia
- Regional office for Istria
- Regional office for Lika
- Regional office for Primorje and Gorski kotar<sup>29</sup>

HBOR's founder and 100% owner is the Republic of Croatia. The Republic of Croatia guarantees for the obligations of HBOR unconditionally, irrevocably and at first demand without issuing a separate guarantee instrument. The liability of the Republic of Croatia as the guarantor for the obligations of HBOR is joint and several and unlimited.<sup>30</sup> As at 31 December 2018, there were 370 employees at HBOR.<sup>31</sup> In 2018, there were no major changes at HBOR or the supply chain.<sup>32</sup>

## Values

HBOR's values are: ethics, responsibility, reliability, customer orientation, renewability and knowledge.

### HBOR's values

<b>Ethics</b>	We believe that a high level of ethics affects the long-term effective fulfilment of the set goals. We encourage the implementation of the principles of ethics among our employees towards the beneficiaries, in their mutual relationships and with regard to the tasks entrusted to us.
<b>Responsibility</b>	We ensure long-term success in achieving our core purpose through our responsible attitude towards capital that is entrusted to us and towards every employee, beneficiary and project we support.

<sup>26</sup> 102-1

<sup>27</sup> 102-4

<sup>28</sup> 102-6

<sup>29</sup> 102-3

<sup>30</sup> 102-5

<sup>31</sup> 102-7

<sup>32</sup> 102-10

<b>Reliability</b>	The intention of our operations is to assure our beneficiaries that we will support all eligible ventures consistently and systematically.
<b>Customer orientation</b>	We strive to adapt to the demands of our beneficiaries quickly and efficiently.
<b>Renewability</b>	We do not measure our success by the realised profit but by the long-term benefit for the community to be achieved by the projects we support.
<b>Knowledge</b>	We put a special focus on supporting projects that create new value on the basis of knowledge, and we encourage our employees and create conditions for their continuous learning so that they can achieve full development of personal and professional skills. <sup>33</sup>

## Overview of the Most Significant Financial Information of HBOR

HRK million	2016	2017	2018
<b>Total assets</b>	27,374.92	28,055.80	27,198.93
<b>Gross loans</b>	26,343.12	26,332.99	26,243.12
<b>Total capital and reserves</b>	10,037.98	10,268.83	10,054.01
<b>Total income</b>	924.00	919.36	791.25
<b>Total expense</b>	(610.47)	(758.58)	(586.92)
<b>Profit</b>	313.53	160.78	204.33
<b>Interest income</b>	870.34	866.20	731.71
<b>Interest expense</b>	(452.67)	(390.46)	(356.07)
<b>Net interest income</b>	417.67	475.74	375.64 <sup>34</sup>

Note: HBOR is not subject to profits tax.

In 2018, HBOR supported 2650 projects in the total amount of HRK 8.40 billion through loans approved, guarantees issued and exports insured.

 **2,650 PROJECTS FINANCED**

 **HRK 8.4 BILLION**

Most of the commitments relate to loans – in the reporting year, loans were approved for 1970 projects in the amount exceeding HRK 5.61 billion.

Total operating activities of HBOR rose by 13 percent on 2017, where a significant impact had a five-times increase in loans for projects co-financed from EU funds compared with the previous year and a 56 percent increase in insured export turnover.

<sup>33</sup> 102-16

<sup>34</sup> 201-1

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

More than 88 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 the capital market, HBOR issued a bond accounting for 7.2 percent of HBOR's total debt. In terms of purposes, more than 50 percent of total borrowings were intended for the financing of small and medium-sized enterprises, whereas approximately 23 percent were earmarked for the financing of projects implemented by mid-cap companies.<sup>35</sup>

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

## **Memberships**

HBOR is a member of or a participant in numerous business associations, clubs and chambers such as: the European Association of Public Banks (EAPB), the European Long-Term Investors Association (ELTI), the Network of European Financial Institutions for SMEs (NEFI), the International Development Finance Club (IDFC), the Berne Union, the China-CEEC Inter-Bank Association, the Banking Association for Central and Eastern Europe (BACEE) and other associations and chambers of commerce and trade.

HBOR is also a member of and cooperates with international chambers in the Republic of Croatia, such as the American Chamber of Commerce in Croatia (AmCham), the German-Croatian Industry and Commerce Chamber (AHK), the Nordic Chamber of Commerce in Croatia and the Croatian-Austrian Chamber of Commerce through which HBOR promotes and gets acquainted with prospective beneficiaries of its products and services.

Besides, HBOR is a signatory of the United Nations Global Compact (UN Global Compact), a member of the United Nations Environment Programme Finance Initiative (UNEP FI) and of the International Development Finance Club (IDFC).<sup>36</sup> The main activities of IDFC are directed to the sustainable development area, primarily the development in the area of (green) infrastructure, climate change, renewable energy resources and energy efficiency, social development and social inclusion through the programmes of poverty reduction, gender equality, etc. The role of HBOR and other members of this organisation is to develop co-operation with governments, private sector and civil society in terms of bridging the finance, developing regulations and policies, constructing technical capacities and strengthening institutions, all for the purpose of

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<sup>35</sup> 102-9

<sup>36</sup> 102-12

directing investments in new economic, social sectors and environmental protection sectors.

Membership of the mentioned organisations and available communication mechanisms are used by HBOR for the purpose of development of its business operations, development of its products and services, exchange of information and incorporation of the best practices in its business processes.

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

In cooperation with the Ministry of Finance, HBOR started preparations for the Croatian presidency of the Council of the European Union in 2020, during which HBOR will occupy the position of the deputy chair of the EU Council's Export Credits Group.<sup>37</sup>

## Stakeholders

The stakeholders vis-à-vis HBOR are the persons who affect HBOR or who are affected by HBOR's decisions and activities. HBOR's stakeholders are: government and public administration bodies, beneficiaries, foreign and local financial institutions, regulatory bodies, rating agencies, employees, local community, non-governmental organisations, suppliers/investors and media.<sup>38</sup> HBOR monitors the standpoints of the stakeholders, assesses their foundation and takes necessary measures to gradually improve relationships and develop transparency.<sup>39</sup> HBOR communicates with the stakeholders actively and openly with a special focus on the improvement in quality of communication with beneficiaries.<sup>40</sup>

## Reporting Practice

HBOR issues annual social responsibility report (non-financial report)<sup>41</sup> for the period from 1 January 2018 to 31 December 2018.<sup>42</sup> The latest report was published on 29 June 2018.<sup>43</sup>

Compared with the previous period, significant changes occurred. Besides the principles of UN Global Compact that are generally used when preparing reports, HBOR used GRI Standards for the first time when preparing this report – Global Reporting Initiative Standards as announced in the previous report<sup>44</sup> as well as sustainable development goals in the identification of those benefiting directly or indirectly. In addition, HBOR identified material topics for the first time, determined their priorities and boundaries to

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<sup>37</sup> 102-13

<sup>38</sup> 102-40

<sup>39</sup> 102-42

<sup>40</sup> 102-43

<sup>41</sup> 102-52

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<sup>43</sup> 102-51

<sup>44</sup> 102-48

be included in assessments and evaluations of stakeholders in the next reporting period<sup>45</sup>.

This report contains a breakdown of non-financial impacts of HBOR and not of HBOR Group. It covers the headquarters in Zagreb on three locations and five regional offices in Croatia unless otherwise stated in the report.<sup>46</sup>

HBOR Group prepares:

- Separate financial statements of the parent company – HBOR
- Consolidated financial statements that include HBOR and companies under its control – subsidiary companies.<sup>47</sup>

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

Contact: [dop@hbor.hr](mailto:dop@hbor.hr)<sup>48</sup>

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<sup>45</sup> 102-49

<sup>46</sup> 102-46

<sup>47</sup> 102-45

<sup>48</sup> 102-53

## GRI Table of Contents

GRI INDICATOR <sup>49</sup>	INFORMATION	CHAPTER	UN GLOBAL COMPACT
<b>ORGANISATIONAL PROFILE</b>			
102-1	Name of the organisation	Social Responsibility and Sustainability	✓
102-2	Activities, brands, products, and services	Satisfaction of Clients	✓
102-3	Location of headquarters	Organisational Profile	
102-4	Location of operations	Organisational Profile	
102-5	Ownership and legal form	Organisational Profile	✓
102-6	Markets	Organisational Profile	✓
102-7	Scale of the organisation	Organisational Profile	✓
102-8	Employees and other workers	Gender Equality	✓
102-9	Supply chain	Overview of the Most Significant Financial Information of HBOR	✓
102-10	Significant changes to the organisation and its supply chain	Organisational Profile	✓
102-11	Precautionary principle or approach	Our Programmes and Loans	✓
102-12	External initiatives	Memberships	✓
102-13	Membership of associations	Memberships	✓
<b>STRATEGY</b>			
102-14	Statement from senior decision-maker	Statement by the Management Board	✓
102-15	Key impacts, risks and opportunities	Risks and Opportunities	✓
<b>ETHICS AND INTEGRITY</b>			
102-16	Values, principles, standards and norms of behaviour	Corporate Governance	✓

<sup>49</sup> 102-55

102-17	Mechanisms for advice and concerns about ethics	Corporate Governance	✓
<b>GOVERNANCE</b>			
102-18	Governance structure	Governance Bodies	✓
<b>STAKEHOLDER ENGAGEMENT</b>			
102-40	List of stakeholders	Interested Parties	✓
102-41	Collective bargaining agreements	Benefits	✓
102-42	Identifying and selecting stakeholders	Interested Parties	✓
102-43	Approach to stakeholder engagement	Interested Parties	✓
102-44	Key topics and concerns	Social Responsibility and Sustainability	✓
<b>REPORTING PRACTICE</b>			
102-45	Entities included in consolidated financial statements	Reporting Practice	
102-46	Defining report content and topic Boundaries	Reporting Practice	
102-47	List of material topics	Material Issues and their Significance for HBOR	
102-48	Restatements of information	Reporting Practice	
102-49	Changes in reporting	Reporting Practice	
102-50	Reporting period	Reporting Practice	
102-51	Date of most recent previous report	Reporting Practice	
102-52	Reporting cycle	Reporting Practice	
102-53	Contact point for questions regarding the Report	Reporting Practice	
102-54	Claims of reporting in accordance with the GRI Standards	Reporting Practice	
102-55	GRI content index	Reporting Practice	

<b>ECONOMIC PERFORMANCE</b>			
<b>201-1</b>	Direct economic value generated and distributed	Overview of the Most Significant Financial Information of HBOR	
<b>201-2</b>	Financial implications and other risks and opportunities due to climate change	Risks and Opportunities	
<b>201-3</b>	Defined benefit plan obligations and other retirement plans	Benefits	✓
<b>201-4</b>	Financial assistance received from government	Overview of the Most Significant Financial Information of HBOR	
<b>INDIRECT ECONOMIC IMPACTS</b>			
<b>203-1</b>	Infrastructure investments and services supported	Financing / Support for Entrepreneurship and Development	
<b>203-2</b>	Significant indirect economic impacts	Financing / Support for Entrepreneurship and Development	
<b>ANTI-CORRUPTION</b>			
<b>205-1</b>	Operations assessed for risks related to corruption	Anti-Corruption	✓
<b>205-2</b>	Communication and training about anti-corruption policies and procedures	Anti-Corruption	✓
<b>205-3</b>	Confirmed incidents of corruption and actions taken	Anti-Corruption	✓
<b>ENERGY</b>			
<b>302-1</b>	Energy consumption within the organisation	Energy	✓
<b>302-4</b>	Reduction of energy consumption	Energy	✓
<b>WASTE</b>			
<b>306-2</b>	Total weight of waste by type and disposal method	Waste	✓
<b>EMPLOYMENT</b>			

401-1	New employee hires and employee turnover	In Dialogue with Employees	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits	✓
401-3	Parental leave	Gender Equality	
<b>LABOUR/MANAGEMENT RELATIONS</b>			
402-1	Minimum notice periods regarding operational changes	In Dialogue with Employees	✓
<b>OCCUPATIONAL HEALTH AND SAFETY</b>			
403-1	Workers representation in formal joint management worker health and safety committees	Occupational Health and Safety	✓
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety	✓
403-3	Workers with high incidence or high risk of diseases related to their occupations	Occupational Health and Safety	✓
<b>TRAINING AND EDUCATION</b>			
404-1	Average hours of training per year per employee	Employee Development	✓
404-2	Programmes for upgrading employee skills and transition assistance programmes	Employee Development	✓
404-3	Percentage of employees receiving regular performance and career development reviews	Employee Development	✓
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
405-1	Diversity of governance bodies	Gender Equality	✓
<b>NON-DISCRIMINATION</b>			

<b>406-1</b>	Total number of incidents of discrimination and corrective actions taken	In Dialogue with Employees	✓
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**MARKETING AND LABELLING**

<b>417-1</b>	Requirements for product and service information and labelling	Public Disclosure of Activities Satisfaction of Clients
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**CUSTOMER PRIVACY**

<b>418-1</b>	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Public Disclosure of Activities
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