

SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT 2020



Zagreb, July 2021

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Statement by the Management Board

Dear Madam/Sir,

HBOR's twelfth Social Responsibility and Sustainability Report provides an overview of HBOR's activities in 2020 in the field of sustainability through identified material issues and Sustainable Development Goals to which HBOR contributes.

HBOR's operations in 2020 were marked by activities related to the mitigation of negative consequences of the COVID-19 pandemic on the operations of Croatian business entities. Already at the end of March, the first COVID-19 Measures for preserving the liquidity of companies and jobs were adopted. Under COVID-19 Measures, it was made possible for entrepreneurs to use a moratorium and to reschedule their existing obligations. Also, new favourable loans with an interest rate from 0 percent were made available. In order to encourage banks to extend working capital loans to entrepreneurs, HBOR introduced new manners of securing loans and issuing of guarantees, through which it covers up to 90 percent of the risk of loan repayment. The importance of HBOR's role in mitigating the consequences of the COVID-19 pandemic is evidenced by the fact that HBOR approved 43 percent of total loans granted by all banks to entrepreneurs under the COVID-19 measures in 2020. This number of approvals is particularly important if we consider that HBOR employs only 2 percent of the total number of employees in the Croatian banking system, in which HBOR's assets account for 6 percent of total assets. In addition to approvals under the COVID-19 Measures, HBOR continued to implement all its existing loan programmes for financing investments and working capital, financial instruments, and export credit insurance programmes and to encourage the development of private equity market.

Simultaneously, being aware of the serious consequences of climate change and the challenges brought by them, HBOR has made several steps to take a significant role in financing the transition to a green and sustainable economy.

In other words, following the European Green Deal, which aims to make Europe the world's first climate-neutral continent by 2050, the European Commission has taken a number of important measures: clear financial regulations, the direction of transition for companies and policy proposals in the field of climate, energy, land use, transportation and taxation were adopted with the aim of reducing net greenhouse gas emissions by at least 55 percent by 2030, compared to 1990 levels. At the same time, the European Union's Multiannual Financial Framework 2021-2027 will support the green transition in the following way: 30 percent of the multiannual budget, as well as the NextGenerationEU instrument will support activities to fight climate change, and 37 percent of national (including Croatian) recovery and resilience plans will be earmarked for the same purpose.

The forthcoming changes in sustainability regulations require the financial sector to play a key role in financing the transition to a green and sustainable economy. To address the challenges associated with environmental, social and management factors and risks, a

comprehensive approach to sustainability governance, with a special focus on climate and environmental risks is needed. Therefore, in addition to prioritizing all challenges related to the COVID-19 crisis, in 2020, HBOR also prepared a project that will improve or develop a package of policies, procedures, tools and metrics in the field of sustainable financing. The European Commission has approved funding for this project through the Technical Support Instrument (TSI 2021). Activities under this project will have an impact on how we check and assess the sustainability of the projects we consider for funding and how we monitor and measure the impact of these projects on climate and the environment. In addition to HBOR's institutional strengthening to adapt to key sustainability proofing requirements, in the long run, these activities should contribute to the transition of the Republic of Croatia towards a low-carbon economy and to the achievement of Sustainable Development Goals. Thus, the beneficiaries of this project will be not only HBOR and its employees who will increase their knowledge in creating sustainable financing opportunities, but also entrepreneurs, investors, financial institutions, public administration and local authorities, regulators, and other stakeholder groups. In this way, we will lay foundations for embedding sustainability in all areas of our operations, at the strategic, portfolio and operational levels.

Furthermore, in 2020, we participated in several activities at the international level. We joined the global coalition of development banks that are jointly redirecting global funding towards climate protection and the Sustainable development Goals. In accordance with the signed Joint Declaration of Public Development Banks, HBOR will support the transformation of the economy towards sustainable and resilient development. In addition, we intensively cooperated with international financial institutions, various international associations and clubs and exchanged practices and knowledge on adapting to new requirements.

Internally, we continued to improve the process and system of collecting non-financial data, as well as to improve the system of communication with external stakeholders. We have launched several small thematic groups that consider individual aspects of sustainability in more detail or strengthen capacity to set goals and measure performance. We have started preparations for participating in the InvestEU programme. The existing offer of HBOR's technical assistance services has been enriched with technical assistance services intended for the public sector in the development of sustainable projects. We continued to develop natural capital investment financing. In addition, we harmonized the procedures in HBOR's export credit activities with the latest requirements of environmental and social standards and practices of export credit agencies, as well as the requirements of stakeholders in the previous period.

HBOR will continue to incorporate in its business operations the ten principles of the UN Global Compact in the field of human rights, labour, environment, and fight against corruption in the period to come. By acting proactively within the local network of members of the UN Global Compact Croatia, we will contribute to the achievement of the Sustainable Development Goals by 2030.

Sustainable and Responsible Financing in the Focus of the EU

Reorienting capital flows towards sustainable investments

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

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

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

With the adoption of the Action Plan, the European Commission has launched two parallel processes: introduction of voluntary market principles and binding legislation. The Action Plan is a kind of response to the

following key identified problems:

Key issues	Key activities	Expected outcome
There is no single definition of 'sustainable finance'	EU classification (taxonomy) for activities focused on sustainability	Reliable information
Investment products greenwashing risk	Standards and labels for 'green' financial products as safety for investors	

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

Banks and insurers often do not pay enough attention to climate and environmental risks	Analysis of whether capital requirements should reflect the exposure to climate change and environmental risks	Sustainability and risk management
Investors often ignore sustainability factors or underestimate their impact	Clarify the duty of institutional investors to take sustainable finance into account when allocating assets	
Insufficient information on the activities of companies related to sustainability	Encourage the preparation of non-financial reports	Orientation towards long-termism in governance

The Action Plan covers 10 areas of action that served as a basis for formulating 22 goals that directed 28 regulatory initiatives of the European Commission.

- | | |
|---|--|
| 1 Sustainable EU taxonomy | 6 Integrating the sustainability in ratings and market research |
| 2 Standards and labels for green financial products | 7 Clarifying the institutional investors' and asset managers' duties |
| 3 Investments in sustainable projects | 8 Sustainability in prudential requirements |
| 4 Incorporating the sustainability when providing investment advice | 9 Strengthening the sustainability disclosure and accounting rule-making |
| 5 Sustainability benchmarks | 10 Fostering sustainable corporate governance |

Source: European Commission, Sustainable Growth Finance

Just over a year after the adoption of the Action Plan, in June 2019, three important reports of the EU Technical Expert Group on Sustainable Finance (TEG) on individual adopted areas of action were published.

1. The Taxonomy Technical Report describes a system for classifying sustainability activities to assist policy makers, investors, and companies in making informed decisions about investing in economic activities in line with the EU environmental objectives. The report identifies the economic activities that can contribute most to climate change mitigation.
2. The EU Green Bond Standard allows for an increase in sustainability-oriented investments by basing the financing through green bonds on the definition of green projects in line with the taxonomy. The report should help develop the green bond market and improve transparency and integrity.
3. Interim report on climate benchmarks and benchmarks' environmental, social and governance disclosures (ESG).

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

In addition, several publications were issued during the year and various sectoral and expert initiatives were developed to influence the preparation and adoption of sustainability regulations, such as the EU taxonomy, the Sustainable Finance Disclosure Regulation (SDFR), the European Single Access Point (EASP), the revision of the Non-Financial Reporting Directive (NFRD) and the proposal for a new Corporate Sustainability Reporting Directive (CSRD).

A comprehensive mapping of sustainability regulations, as well as an analysis of the requirements applicable to HBOR will be carried out as part of the project to improve HBOR's internal² sustainability management system, which will start at the end of 2021.

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

EU Taxonomy

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

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

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

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



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

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

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

Users of the Taxonomy will be all market participants in the financial sector⁴ that offer their products on the European market, large companies as well as EU institutions and members.



1. Financial market participants¹ offering financial products² in the EU, including occupational pension providers;



2. Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive; and



3. The EU and Member States, when setting public measures, standards or labels for green financial products or green (corporate) bonds.²⁸

Market participants in the financial sector will have to complete, until the end of 2021, the first set of information based on the Taxonomy, where they will report on activities that significantly contribute to climate change mitigation and/or adaptation. Large companies will

⁴ EU Technical Expert Group on Sustainable Finance, Using the Taxonomy, Supplementary Report 2019 and EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020

have to publish this information during 2022. The European Commission has announced a list of technical verification criteria for each environmental objective, as an integral part of the explicit legal requirements. Thus, the first delegated regulation on activities contributing to the first two environmental objectives – climate change mitigation and adaptation to climate change was formally adopted in June 2021, and the regulation will apply from 1 January 2022. The second delegated regulation with technical verification criteria for activities that contribute significantly to water protection, transition to circular economy, pollution prevention and control, as well as the protection of ecosystems will be published in 2022, and implementation is expected from 1 January 2023.

In addition, in July 2021, the delegated act supplementing Article 8 of the Taxonomy Regulation⁵ was adopted by the European Commission. This delegated regulation describes the content, methodology and manner of presentation of information to be disclosed concerning financial and non-financial activities, through the shares of environmentally sustainable economic activities in business, investment, and credit activities.

According to the Taxonomy, there are three groups of activities that contribute most to climate change mitigation: activities that are already low-carbon, activities that contribute to the transition to a zero-emission economy and activities that support the above-mentioned activities.

Type of activity	Examples
Activities that are already low carbon (compatible with the 2050 net zero carbon economy)	Zero emissions transport Near to zero carbon electricity generation Afforestation
Activities that contribute to a transition to a net-zero emissions economy in 2050, but have not yet reached that level	Renovation of buildings Electricity generation with less than 100g CO ₂ /kWh Cars with less than 50g CO ₂ /km
Activities that enable the above activities	Manufacturing of household appliances of the highest energy standard (A+++) Installation of efficient boilers in buildings

In order to monitor the application of the Taxonomy and review it, the permanent Platform on Sustainable Finance was established, consisting of 57 experts from the public and private sectors and 11 observers, including the representatives of industry, academia and the civil society.

⁵ COMMISSION DELEGATED REGULATION (EU) .../... of 6.7.2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

Role of the European Banking Authority (EBA)

The European Banking Authority⁶ (EBA) published on 6 December 2019 the EBA Action Plan on Sustainable Finance⁷ outlining its approach and timeframe for fulfilling the mandates related to environmental, social and governance factors (ESG factor) that increasingly gain importance in financial markets due to climate change, public sector activities and society as a whole. Changes are expected in the fields of strategic management, risk management, public disclosure and scenario analysis. Therefore, according to the EBA, it is crucial that financial institutions can monitor and measure ESG factors in order to manage transaction risks and physical risks. Transition risk is the borrower's risk arising from the transition to a low-carbon and climate-resilient economy, and may include political risk, legal risk, technological risk, market risk and reputational risk. Physical risk is the borrower's risk arising from physical changes that can cause climate changes such as storms, floods, fires, long-term climate change, rising of sea levels, water availability and more. As the manifestations of these risks are still uncertain, the EBA encourages financial institutions to start incorporating ESG factors into their business strategies right now and to start identifying ESG risks and monitoring them by using simple measurement tools such as the green asset ratio (GAR).

In November 2020, the EBA issued and released for public discussion a document on management and supervision of ESG risks proposing new definitions and frameworks for ESG risks management and listing possible key environmental, social and governance factors and indicators, as well as qualitative and quantitative metrics that can assist institutions in developing their internal risk management approaches. The final EBA report on management and supervision of ESG risks for credit institutions and investment firms⁸ was published in June 2021, and the EBA recommends timely incorporation of ESG risks into business strategies, management structure, and risk management and supervision. In addition, according to the EBA, the EU Taxonomy is a cornerstone of EU initiatives on sustainable finance and institutions need to consider how they will use the taxonomy, taking into account their strategic objectives and regulatory requirements. EU Taxonomy can be used as a tool to classify exposures, product design, inclusion activities with clients and for setting of strategic goals and measures aligned with one's own risk appetite. The EBA emphasized that entities subject to the Non-Financial Reporting Directive will need to disclose how and to what extent their activities can be considered environmentally sustainable and in line with the EU Taxonomy and called on institutions to actively consider how the obligation to apply the Taxonomy will consequently affect their business activities.

⁶ The European Banking Authority (EBA)

⁷ EBA Action Plan on Sustainable Finance

⁸ EBA Report on management and supervision of ESG risks for credit institutions and investment firms EBA/REP/2021/18

More than 240 Banks Endorsed the Principles for Responsible Banking

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

The Principles for Responsible Banking provide a framework for the development of a sustainable banking industry by aligning it with 17 UN Sustainable Development Goals⁹ and the Paris Climate Agreement adopted in 2015. They have been developed by the member banks of UNEP FI, 30 of them gathered in a core group, and their implementation has been supported by more than 240 banking institutions worldwide within two years since the disclosure of the principles. Key features of the Principles for Responsible Banking:

- Represent a comprehensive framework that covers all areas of banking activity at the strategic, portfolio and transaction level,
- Aligned with the UN Sustainable Development Goals (SDG) and the Paris Climate Agreement,
- Focused on setting goals in the areas with the greatest positive and negative impacts,
- Achieve transparency and responsibility through public disclosure of information,
- Promote guidance, professional counselling and collaborative learning.

Six key Principles for Responsible Banking:

- **PRINCIPLE 1: ALIGNMENT**
Alignment of the bank's business strategy with, and contribute to, individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks;
- **PRINCIPLE 2: IMPACT AND TARGET SETTING**
Managing the risks to people and environment resulting from the bank's activities, its products, and services, while increasing the positive impacts and reducing the negative impacts. Targets should be set for the most significant impacts and made public;

⁹ In order to eradicate poverty, reduce inequality, protect the planet and ensure progress for all, at the 69th meeting of the UN General Assembly in 2015, 17 Global Sustainable Development Goals (SDGs) were adopted, with 169 targets, in the document 'Transforming our World: the 2030 Agenda for Sustainable Development'. Although the goals are not legally binding, the UN member states are expected to establish a system for integrating SDGs into national policies and monitoring of implementation through agreed indicators. In 2016, the European Commission prepared the Communication called: 'Next steps for a sustainable European future – European action for sustainability' setting out the EU framework for achieving SDGs and implementing the 2030 Agenda.

- **PRINCIPLE 3: CLIENTS**
Responsible customer service, all with a view to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations;
- **PRINCIPLE 4: STAKEHOLDERS**
Proactive and responsible consulting, engaging and partnering with relevant stakeholders for the purpose of achieving society's goals;
- **PRINCIPLE 5: GOVERNANCE AND CULTURE**
Incorporation of Principles for Responsible Banking in the bank's operations and effective governance and a culture of responsible banking;
- **PRINCIPLE 6: TRANSPARENCY AND ACCOUNTABILITY**
Periodic review of individual and collective implementation of Principles for Responsible Banking and transparent and accountable reporting on positive and negative impacts and contribution to society's goals.

The Principles were officially launched on 22 September 2019, one day ahead of the UN General Assembly, Climate Action Summit in New York. Their implementation until mid-2021 was endorsed by banks with assets worth more than USD 60 trillion that committed to design financial products and services focused on sustainability with a view to implementing far-reaching changes, including the measuring of impact of economic activities on society and the environment, as well as ongoing activities for the development of sustainable and low-carbon economy.

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

1. Analyse their positive and negative impacts on the society, the environment and the economy and then identify where they can realise the greatest positive impacts and reduce significant negative impacts. This step includes a detailed analysis of the impacts of the bank's activities and the public disclosure of the findings of such analysis;
2. Set SMART targets that address the significant impacts that have been identified and work towards achieving them. At least 2 targets should be set that address the most important impacts;
3. Take accountability through continuous and transparent reporting on progress of implementation of the Principles and conducting quality assessment, all within the framework of regular annual reporting.

Representatives of civil society monitor the application of the Principles for Responsible Banking

In order to better manage the Principles for Responsible Banking at the collective level and to connect the Principles with the needs of society, in March 2021 the Civil Society Advisory Body was established. This advisory body is the first of its kind, serving the constructive engagement between wider civil society and the banking industry and ensuring the effective application of Principle 4: Stakeholders. The role of this body is to maintain the ambition to apply the Principles through regular controls of the application of the Principles and to harmonise them with the growing needs of the society. The body consists of 12 organisations: Business & Human Rights Resource Centre, Ceres, Conservation International, Climate Action Network, FGVces, International Labor Organization (ILO), John D. Gerhart Center, Share Action, SASB – Sustainability Accounting Standards Board, The European Federation of Investors and Financial Services Users (Better Finance), UNI Finance – UNI Global Union and WWF. These organisations represent different regions of the world, key sustainability topics or stakeholder groups. All organisations, who are members of the advisory body, will additionally engage and consult with other organisations in their regions or areas of work, thus ensuring even wider involvement of civil society.

HBOR | Social Responsibility and Sustainability

Our Environment¹⁰

During 2020, in the conditions of the COVID-19 pandemic and the restrictive measures introduced to control the pandemic, and consequently the stagnation of economic and social activities, Croatia recorded a significant reduction in economic activity. Many entrepreneurs were affected by the decline in activity due to measures to combat the spread of the COVID-19 disease.

After a multi-year positive trend in which macroeconomic imbalances have gradually diminished, the pandemic has brought the risk of new imbalances. Thus, in 2020, the real GDP decreased by 8 percent compared to 2019, and the decline in economic activity and the growth of the need for borrowing contributed to an additional increase in public debt. In order to support the economy, Croatia has adopted a number of measures to mitigate the effects of the crisis caused by the COVID-19 pandemic and accelerate recovery. These measures have mitigated the decline in employment and economic activity.

At the European Union level, to mitigate the effects of the pandemic, a special financial instrument “NextGenerationEU” has been established with accompanying financial resources, which should ensure to member countries accelerated economic recovery and digital and green transformation for more sustainable development and greater resilience of their societies and the economies to future crises.

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

Such expectations have been confirmed and operationalized within the framework of the „NextGenerationEU” and the associated Recovery and Resilience Facility (RRF), through which, through the National Recovery and Resilience Plan 2021 – 2026 (NRRP), the use of grants (of approximately EUR 6.3 billion) and loans to finance reforms and related investments (of approximately EUR 3.6 billion) have been made available to Croatia which accelerate recovery and increase the resilience of the economy and society.

The Croatian National Recovery and Resilience Plan 2021 – 2026 (NRRP) recognizes the challenges facing the Croatian economy and society, and the measures proposed by the plan are aimed at achieving smart, sustainable, and inclusive growth, and the implementation

¹⁰Source: European Commission Country Report Croatia 2020 and 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development, version 2.0, Croatian National Bank, Annual Report 2020, The National Recovery and Resilience Plan 2021 – 2026, July 2021.

of reforms and related investments aimed at building economic, social, and institutional resilience. At the same time, the plan contributes to the achievement of four general objectives at EU level: promoting economic, social, and territorial cohesion in the EU, strengthening economic and social resilience, reducing the social and economic effects of the crisis, and promoting green and digital transition.

Role of HBOR in the National Recovery and Resilience Plan

As a national development bank, HBOR, along with ministries in charge, participated actively in working groups for the preparation of programming documents for the financial period of the European Union 2021 – 2027, and in the preparation of measures for the Recovery and Resilience Facility and NRRP.

HBOR plays its role in the NRRP within the component Economy and sub-component Resilient, Green and Digital Economy as the holder of the implementation of 4 measures through which a total of 6 financial instruments will be developed aimed at micro, small, medium and large enterprises and the public sector in the form of favourable loans, interest rate subsidies, guarantee fund for medium-sized and large companies, as well as capital investments. Measures in which HBOR participates will contribute to the implementation of the Reform to increase the structural sustainability of the economy and encourage green transition and the Reform of capital market diversification and improved access to alternative financing, which is in line with the strategic guidelines of HBOR's Strategy.

Strategic goals of HBOR

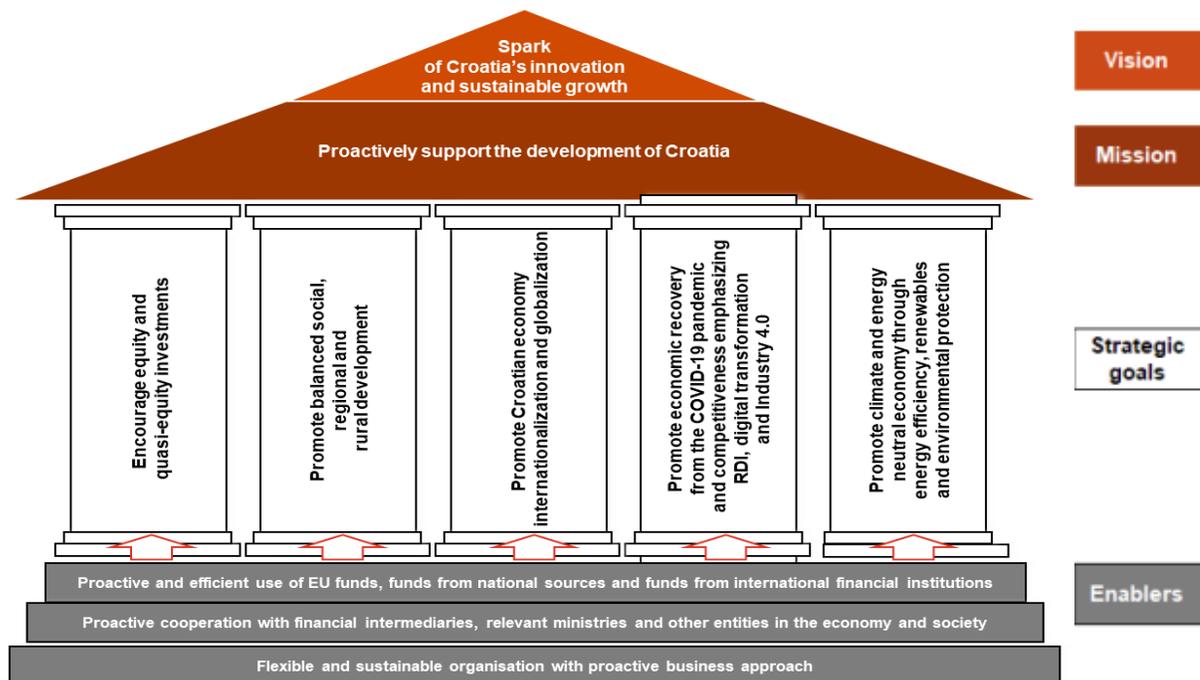
Within the framework of the new 2020 – 2024 Business Strategy of HBOR revised in 2021, HBOR puts special emphasis on:

- Providing liquidity support to the domestic economy and implementing recovery measures from the consequences of the COVID-19 pandemic,
- Proactive, systematic, and sustainable promotion of innovation environment in Croatia,
- Encouraging the development of financial market,
- Promoting sustainable regional, social, and economic development,
- Encouraging the realisation of economic goals and other goals of the Croatian Government,
- Achieving the goals of the European Union, 17 sustainable development goals of the UN 2030 Agenda for Sustainable Development and the climate goals set by the Paris Agreement.

The Strategy defines the vision of HBOR

Spark of Croatia's innovation and sustainable growth

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



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

Framework for the Assessment of HBOR's Material Impacts

Business Strategy of HBOR is a key starting point for assessing the importance of material impacts of HBOR in the sustainability context. The assessment of material impacts was conducted in two steps, as part of the preparation of the sustainability report for the previous two years. Thus, in 2019, key material issues were first identified, and in 2020, a survey was conducted to assess the importance of material impacts.

The assessment of material impacts of HBOR covered those impacts that can „lead to stronger economic and social growth, creation of added value and reduction of adverse economic, social and environmental developments at national and regional levels“¹¹. According to the Principles for Responsible Banking, material impacts are the most significant positive and negative environmental, social, and economic impacts related to the Sustainable Development Goals, the Paris Climate Agreement, and other relevant international frameworks, such as the UN Guiding Principles on Business and Human Rights.

Evaluated material impacts in 2020 were:

- Financing – support for entrepreneurship and development
- Financing – support for climate and environmental protection
- Responsible financing
- Compliance with legislation and European regulations
- Transparency
- Innovations and digital solutions
- Satisfaction of clients
- Dialogue with employees¹².

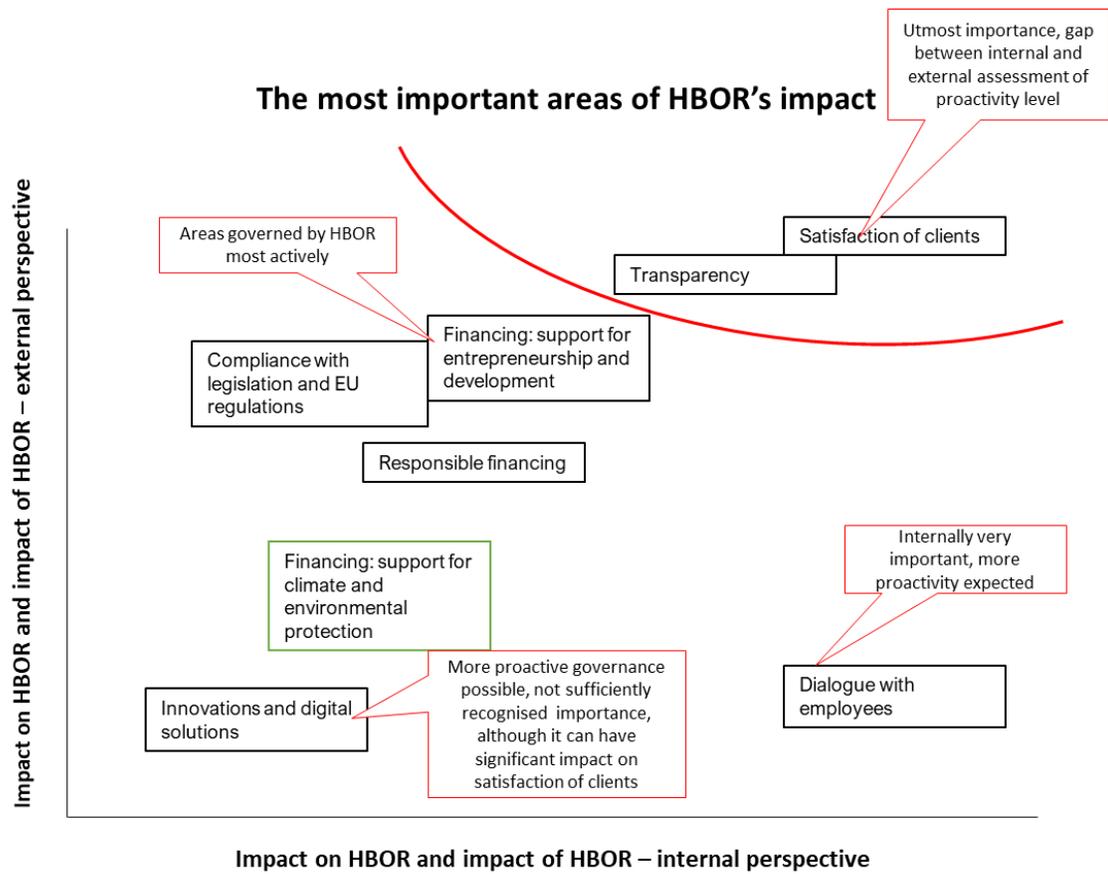
The relative importance of individual material aspects and HBOR's approach to managing these impacts was determined through a survey conducted in March 2020 through an online questionnaire that contained 3 groups of questions (group of questions on: mission and vision, the importance of material aspects and sustainable development goals and general questions – type of stakeholder group and characteristics of respondents). Representatives of several stakeholder groups participated in the survey – clients, non-governmental organisations, domestic and foreign banks, business associations, suppliers and others¹³. The highest relative response to the questionnaire was recorded in the group of non-governmental organisations, followed by financial institutions. The findings of the survey were checked in an internal workshop, and based on all the results, a matrix of material impacts was made. The evaluation showed that the most important areas of impacts were: Satisfaction of clients, Transparency and Financing – support for entrepreneurship and development. More details on the findings of the assessment of the importance of material impacts and the assessment of approach to managing these material impacts can be found in HBOR's Social Responsibility and Sustainability Report 2019.

¹¹ 2020 – 2024 Business Strategy of the Croatian Bank for Reconstruction and Development (the Strategy)

¹² 102-47

¹³ 102-43

Matrix of Material Impacts of HBOR^{14 15}

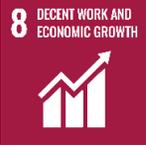


¹⁴ 102-44

¹⁵ 102-47

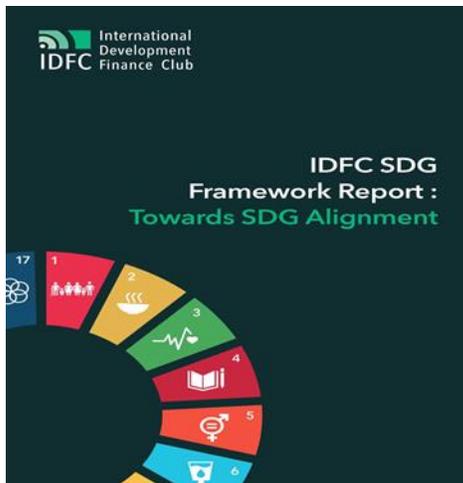
Clear Connection Between HBOR’s Strategic Direction and the Sustainable Development Goals

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

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

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

 	<p>Direct contribution</p>
   	<p>Strategic and sectoral contribution</p>



The results of HBOR's survey were confirmed in the findings of a comparative research in which HBOR participated in 2020 as a member of the International Development Finance Club (IDFC). The artificial intelligence tool¹⁶ that reviewed the text of HBOR's 2018 and 2019 Sustainability Reports and looked for language structures and terminology that could be linked to the Sustainable Development Goals, found that HBOR's activities presented in the sustainability reports were equally focused to all goal groups. Of the total number of references to sustainable development goals, about 30 percent were economic,

30 percent environmental, while about 18 percent were "social" goals (Goals 2-6: Zero hunger, Good health and well-being, Quality education, Gender equality, Clean water and sanitation). Goal 7: Affordable and clean energy and Goal 8: Decent work and economic growth were most strongly emphasised, and in the observed two years, Goal 13: Climate action, has gained significant importance. In addition, strengthened activities aimed at corporate governance (Goal 16: Peace, justice and strong institutions) and strengthening partnerships with stakeholders (Goal 17: Partnerships for the goals) were noted.

¹⁶ The OECD's "SDG tracker tool" was used to review the documents of the participating banks and to map activities that could be linked to the Sustainable Development Goals. More about the survey findings can be found in the IDFC SDG Framework Report: Towards SDG Alignment

Satisfaction of Clients

Ensured Continuity of Support through Loan Programmes in the Conditions of COVID-19

All 9 HBOR's loan programmes were active in 2020 either directly or through commercial banks. During 2020, lending was continued to private and public sectors through financial instruments. In accordance with the circumstances of business operations, in 2020, six new loan programmes for financing working capital were introduced within the COVID-19 Measures. In order to encourage banks to extend loans to entrepreneurs, within the COVID-19 Measures in 2020, new collateral methods were introduced, by which HBOR assumes up to 90 percent of the risk of loan repayment that banks grant to entrepreneurs.

Digitalisation of Loan Application

In 2020, the activities regarding the digitalisation of loan application from the initial inquiry of the potential borrower, through the loan application submission, to the decision-making and contract conclusion (so-called loan origination) continued. Part of this process, the initial inquiry, has been digitalised and put into operation. Digitalisation of other parts of the process is under way, with activities taking place in 2 directions – digitalisation of applications received directly by HBOR and digitalisation of applications from commercial banks.



The image shows a digital form for a credit inquiry (Kreditni upit) on the HBOR website. At the top is the HBOR logo, which consists of the letters 'HBOR' in a bold, sans-serif font with a red diamond shape between the 'B' and 'O'. Below the logo is the text 'HRVATSKA BANKA ZA OBNOVU I RAZVITAK'. The form title is 'Kreditni upit'. There are two tabs: 'Prijava' (Login) and 'Registracija' (Registration). The 'Registracija' tab is active. The form is divided into two steps: '1 Korisnički podaci' (User data) and '2 Zaporka' (Password). The first step is currently selected. Below the step indicators, there is a text input field labeled 'Korisničko ime ili e-adresa' (Username or e-mail address). At the bottom of the form, there is a red link 'Zaboravljena zaporka' (Forgot password) and a dark blue button labeled 'Dalje' (Next).

Measuring the Impacts of Projects

Following the requirements for sustainability reporting and impacts of activities on society, climate, and the environment, HBOR has been continuously working on adjusting the documentation and the process of collecting non-financial data on the client or project. Thus, the range of non-financial data that HBOR collects from users and commercial banks has been further expanded, and now it is possible to identify investments in the information system in the areas of:

- Industry 4.0. and investments in digitalisation;
- Research, development and innovation - RDI;
- Social infrastructure and/or investments aimed at reducing negative demographic trends.

Regional Presence in Croatia through Regional Offices

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

In 2020, regional offices adjusted their activities and working methods to pandemic conditions and epidemiological measures. The activities took place for the most part through various digital platforms and by telephone, depending on the available technical possibilities. All activities of informing and advising on the conditions of using HBOR loan funds and providing assistance to legal entities and legal persons both in the preparation of investment documentation and in the loan approval process, loan use and monitoring the effects of investments were continued and intensified, which was especially important to familiarize interested public with HBOR's terms and conditions of COVID measures. Overall, in 2020 all regional offices together made more contacts and meetings (mostly by phone and online), and a slightly smaller number of presentations and educations (via webinars instead of live), which can be attributed to full or partial restriction of activities to prevent the spread of the epidemic in a significant part of the country's economy and limited capacities of clients for online communication. Nevertheless, long-standing cooperation platforms and established contacts with various stakeholder groups: offices for economic affairs of local and regional government units, chambers of the economy and crafts, entrepreneurial centres and development agencies, employment bureaus and local action groups have significantly facilitated the adaptation of regional offices to new working conditions and ensured continuity of customer support.

Transparency

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

- the issues and concerns of certain groups of the public, while respecting the dual character of HBOR as a financial and public institution,
- the 2020 – 2024 Business Strategy, in which it is stated that in HBOR’s activities “additional focus will be on the goals set by the UN’s Agenda 2030 for Sustainable Development and the latest climate goals determined in the Paris Agreement”, and
- the public interest in the criteria, based on which HBOR conducts analytical screening of documentation and makes decisions on loans and insurance of individual projects.¹⁷

In 2019, some NGOs active in Croatia and in the EU required HBOR to review its procedures and approach to reporting and transparency, analytical screenings of projects related to environmental and social criteria (focus on risk assessment related to human rights, environment and corruption) and invited HBOR to explain its approach to climate change governance and to explicitly distance itself from funding fossil fuel projects. Based on the Recommendations of the European Ombudsman in case 212/2016/JN for annual reporting on the work of export credit agencies of member states prepared by the EC¹⁸, member states were invited to improve the quality and scope of the report they submit to the EC each year. HBOR was invited to improve its export-credit activities in line with the Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”).¹⁹ Considering also the policies and practices of other export credit institutions, HBOR’s analysis showed the need to define operational procedures to incorporate the Common Approaches more effectively. Special emphasis should be placed on identifying the impact of projects, analysis of collected data, proposals for future monitoring, decision-making on (non-) supporting of export transactions, public disclosure, reporting etc.²⁰ The development of operational procedures and improvement of HBOR’s practices began at the end of 2019; and in the first quarter of 2021, an internal act was adopted determining the application of the OECD Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence and the OECD Recommendation of the Council on Sustainable Lending Practices and Officially Supported Export Credits, prescribing the manner and the procedure for verifying applications, classification of projects

¹⁷ 417-1

¹⁸ The European Commission should amend the reporting format with the aim to improve the reporting method in order to allow it to assess whether a member state’s export credit agency has failed to comply with the EU objectives and obligations, and should develop a methodology for reporting on non-financial issues.

¹⁹ Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (The “Common Approaches”)

²⁰ 102-11

(A, B or C), detailed impact assessments for categories A and B, evaluation procedures, decision-making and monitoring of the project, disclosure of information and reporting. More details on the implementation of the OECD recommendations, internal regulations, supported projects, and the contact address: odrzivost@hbor.hr to which stakeholders can send their inquiries and concerns on projects, are published on the website in the SUSTAINABILITY section in Croatian and English.

Following the recommendations from the European Ombudsman to improve the methodology and procedures used by member states when reporting annually to the European Commission (EC) on the work of their export credit agencies²¹, the EC has initiated a review of the checklist template used by export credit agencies to report annually to the EC on their work pursuant to the Regulation 1233/2011²². HBOR monitored the information on these changes as a member of the Croatian delegation in the Export Credits Group of the EU Council. A new extended template has been adopted, and export credit agencies should report on 2020 according to the new template for the first time in 2021, which HBOR did.²³

In addition, the Business Strategy has prompted the need to develop and adopt a special policy on measures to fight climate change and reduce CO₂ emissions, and the need to identify and incorporate climate risks into internal documents and procedures. This specific policy will be defined within the framework of the strategic operational plan for the implementation of the strategic goal of HBOR: Promote climate and energy neutral economy. Given the complexity of the issue and the existing capacities, during 2020, after the activities undertaken within the Social Responsibility and Sustainability Report preparation activities, a project proposal was prepared and submitted to the EC for funding, which aims to establish an internal framework for sustainable financing of HBOR, which includes the development of internal policies, methodologies, tools, capacity raising and the internal governance system. HBOR's project proposal was accepted as one of 13 projects from Croatia within the framework of the Technical Support Instrument²⁴, and project implementation is expected to start in September 2021.

Regarding access to information requests, as of 1 January 2019, HBOR has aligned its processes and documentation in accordance with the Supreme Court judgment. New practice of providing information on direct beneficiaries includes four categories of information: name of direct beneficiary, amount, purpose, and name of project. In 2020, the Management Board Office received, reviewed, and replied to inquiries, warnings, and information of interested parties and, after consultations with relevant internal expert teams, responded to the inquiries in a timely manner.

²¹ Recommendation of the European Ombudsman in case 212/2016/JN on the European Commission's annual reviewing of Member States' export credit agencies

²² Checklist for Reporting according to Regulation (EU) 1233/2011

²³ Annual Activity Report in accordance with Regulation (EU) No. 1233/2011 of the European Parliament and of the Council of 16 November 2011 on the application of certain guidelines in the field of officially supported export credits and repealing Council Decisions 2001/76/EC and 2001/77/EC.

²⁴ Technical Support Instrument TSI 2021

Financing | Support for Entrepreneurship and Development

Most of HBOR's loan beneficiaries during 2020 were small and medium-sized companies, to which 1,168 loans were approved, i.e. 88 percent of the total approved loans amounting to HRK 1.57 billion

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

In order to mitigate the negative consequences of the COVID-19 pandemic on the economy, already in March 2020, HBOR introduced a number of new measures:

- use of the moratorium and rescheduling of existing obligations of up to 16 months was made possible for all clients for individual sectors with simplified and accelerated processing
 - the offered possibility of using the moratorium was accepted by clients for more than 1,600 approved loans, by which a grace period was introduced for the principal in the amount of more than HRK 12.80 billion. The amount of principal for which a grace period was introduced represents almost half of the total gross loan portfolio of HBOR and at the same time almost 30 percent of the total principal for which a grace period was introduced for entrepreneurs' liabilities in the banking sector
- temporary measures and new loan programmes for working capital were introduced at an interest rate from 0 percent
 - special temporary measures for particularly affected sectors (tourism, wood processing industry, agriculture, processing of agricultural products and forestry)
 - by the end of 2020, HBOR approved almost HRK 1.30 billion in loans under the COVID-19 Measures. Considering that under the COVID-19 Measures, all banks in the Republic of Croatia approved a total of HRK 1.7 billion in loans to entrepreneurs, HBOR's approved loans account for 43 percent of the total amount of loans granted to entrepreneurs in 2020 under Measures COVID-19
- enhanced working capital lending due to the needs of the economy
 - in 2020, due to the increased need of the economy, almost 50 percent of funds were approved for working capital, which is significantly more than in 2019, when 19 percent of funds were approved for working capital;
- new manners of securing loans and issuing guarantees were introduced, by which HBOR assumes up to 90 percent of the risk of loan repayment
 - in addition to HBOR's export credit insurance programmes within the framework of COVID-19 Measures, during 2020, banks approved HRK 1.24 billion in liquidity loans
- intensified activities of direct lending and direct communication with clients
 - due to the implementation of Measures COVID-19, within which HBOR implemented certain programmes directly, the number of directly approved loans increased by

almost 2.5 times compared to 2019, or 4 times compared to 2018, where the number of HBOR's employees remained at the same level

- ensured continuity of implementation of all existing loan programmes and financial instruments, export credit insurance programmes and programmes to encourage the development of private equity market

Support to Innovative Companies through the Fund FRC2 Croatia Partners

FRC2 Croatia Partners SCSp is a venture capital fund partly funded with ESIF Financial instruments through cooperation with the European Investment Fund (EIF), and partly with funds from private investors. In June 2019, HBOR, after internal analyses and approvals had been implemented, became one of investors into the fund. However, it does not participate in the selection of business entities the fund will invest in.

The fund consists of two components:

- acceleration component intended to innovative start-ups that have only business ideas (Start-up school) and prototype (Accelerator) and
- venture capital (VC) component intended to companies that already operate and have initial buyers and that have already passed through the early phase of development.

The fund invests in companies in the Republic of Croatia in the earliest stages of development that have necessary innovation and wish to succeed. Since its establishment in June 2019 until the end of 2020, the fund reviewed more than 1,300 investment opportunities, three acceleration programmes were completed and the amount of almost EUR 14.3 million was invested in 82 investments.

CROGIP

In January 2019, the EIF and HBOR signed the agreement, by which the *Croatian Growth Investment Programme* (CROGIP) was launched.

CROGIP initiative aims to encourage capital investments in small and medium-sized companies as well as mid-cap companies in the total amount of at least EUR 200 million. The EIF and HBOR will each commit EUR 40 million to finance this jointly developed programme.

It is expected that CROGIP will catalyse additional investments into equity funds and companies. CROGIP was launched under the *EIF-NPI Equity* platform and the Investment Plan for Europe. *EIF-NPI Equity* platform is a collaborative initiative, and its goal is to enhance access to funding for SMEs and mid-caps, support the defragmentation of equity markets, and match national, EU and private sources of funding. HBOR joined this initiative in 2016.

The EIF and HBOR jointly invest the funds of the CROGIP initiative into:

- private equity funds managed by companies selected by the EIF pursuant to its methodologies, and

- co-investments with funds that already have an established cooperation with the EIF and positive references.

In addition to the general objective of providing support to Croatian companies and creating new jobs by ensuring the availability of private equity/venture capital, the purpose of CROGIP is to develop the market and institutional capacities for private equity/venture capital financing in the Republic of Croatia by supporting management companies that direct a significant portion of their investments to Croatian companies.

EIF enables investments in funds and co-investments in selected fund management companies with positive references in accordance with the criteria defined by HBOR in advance through CROGIP. In addition to the EIF's selection criteria, the funds must meet the following criterion in their investment strategy: at least 70 percent of total investments of a fund will be invested in companies that are established in Croatia and perform most of their business operations in Croatia and/or companies that will start their long-term operations in Croatia and employ a significant number of workers from Croatia.

In accordance with the terms of the CROGIP initiative and its internal procedures, the EIF has selected three funds in which CROGIP initiative funds will be invested: Adriatic Structured Equity Fund, Prosperus Growth Fund and Croatian Mezzanine Debt Fund.

The Three Seas Initiative Investment Fund

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

The Three Seas Initiative Investment Fund was created as a financial tool with the help of which capital is invested in the Initiative's projects (investments in private equity and quasi-equity). HBOR, as the development bank of the Republic of Croatia, was invited to participate in the structuring of the Fund. The Fund's investment goal is to use available funds for investment in infrastructure projects that contribute to security and diversity of energy supply, reduction of emissions and transport costs, economic, social, and digital connectivity of the EU member states as well as the integration by reducing differences in infrastructure quality. In order to create a framework for cooperation between development banks on the Fund establishment, in 2018, 6 development financial institutions (from Poland, Romania, the Czech Republic, Slovakia, Latvia and Croatia) signed a non-binding Letter of Intent on the establishment of the Threes Seas Initiative Investment Fund.

On 14 October 2020, the Government of the Republic of Croatia made a decision to invest in the Fund with the purpose of encouraging the realisation of joint projects in the area under the Initiative. By this Decision, HBOR is authorised to make an investment in the Fund in its own name and for the account of the Government of the Republic of Croatia in an amount of up to EUR 20 million, increased by fees and costs of joining and participating in the Fund. HBOR joined the Fund in the first quarter of 2021.

Financial Instruments

During 2020, HBOR implemented five financial instruments, of which ESIF Growth and Expansion Loans and Investment Loans for Rural Development were intended for the private sector and was implemented through commercial banks and Working Capital for Rural Development, which was implemented directly. Through ESIF Growth and Expansion Loans, favourable funds for long-term investment loans to micro, small and medium-sized enterprises are provided. Loans are granted in such a way that 50 percent of loan from the source of the European Structural and Investment Funds (ESIF) is financed at an interest rate of 0 percent, and the other 50 percent of loans from commercial bank's source at the market interest rate determined by the commercial bank. In 2020, micro, small and medium entrepreneurs from agricultural, processing and forestry sectors had at their disposal the funds of the financial instrument Investment Loans for Rural Development at an interest rate of 0 percent for 50 percent of the loan, whereas the other 50 percent of the loan was financed at the market interest rate determined by the commercial bank. This financial instrument had been available to potential beneficiaries since September 2019, and applications under this programme were received until 5 July 2021. Due to the public health crisis caused by the COVID-19 pandemic, as one of the measures to combat the consequences of this crisis, since 2020, HBOR has been implementing the financial instrument Working Capital for Rural Development. It is intended for micro, small and medium-sized enterprises in the agricultural, processing and forestry sectors to finance working capital needed to eliminate instabilities in production and to finance current operations at a fixed interest rate of 0.5 percent with only promissory note as collateral.

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

Cooperation with HAMAG-BICRO

In 2020, HBOR continued its business cooperation with HAMAG-BICRO through three HAMAG-BICRO guarantee programmes:

- **ESIF individual guarantees for investment loans and working capital loans**, intended for small business entities, including newly established entities, which are provided guarantees to cover a portion of the loan principal or leasing, co-financed from the European Regional Development Fund in accordance with the Operational Programme Competitiveness and Cohesion (OPCC) 2014 – 2020. The minimum guarantee period for investment loans is up to 10 years, and for working capital loans up to 5 years. The maximum guarantee amount for investment loans is up to EUR 4 million, and for working capital up to EUR 1 million.
- **ESIF individual guarantees for rural development** aim to facilitate access to finance for micro, small and medium-sized entities in the agriculture, processing and forestry industries via financial institutions that will provide guarantees for the coverage of a portion of loan principal or leasing in accordance with the terms and conditions of the

Rural Development Programme of the Republic of Croatia 2014 - 2020. The minimum duration of a guarantee is 12 months, and the maximum 15 years, while the maximum guarantee amount is EUR 1.3 million. Individual guarantees are co-financed by the proceeds of the European Agricultural Fund for Rural development. Guarantees can be obtained for all locations in Croatia, except for the cities of Zagreb, Osijek, Rijeka and Split.

- **ESIF limited portfolio guarantee**, intended to facilitate access to finance for micro, small and medium-sized enterprises co-financed by the European Regional Development Fund, providing a guarantee to cover a part of the principal and contractual interest on loans or leasing included in the portfolio. The minimum guarantee period is 12 months, and the maximum 10 years. The maximum guarantee amount is EUR 150 thousand. Only new loans/leasing can be included in the portfolio (refinancing of existing loans/leasing is excluded).

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

HBOR has also established cooperation with individual counties, municipalities and cities, within the framework of which entrepreneurs investing in this area can count on an interest rate subsidy on HBOR loans from county, municipality, or city funds with an interest rate from zero percent.

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

Raising the Quality of Accommodation through Loans to Private Renters

In February 2019, the Ministry of Tourism, HBOR and commercial banks signed the Agreement on Business Cooperation on the Implementation of Lending to Private Renters that was also implemented in 2020. The aim of this programme is to equalise standards of accommodation facilities in which hospitality services are provided in households, to raise the quality level and offer additional private accommodation. Financing is based on HBOR loan funds, whereas the Ministry of Tourism provides the funds for subsidising interest rate in the amount of 1 percent p.a. for the entire loan period. Thus, interest rate for final borrowers is 2 percent for loans in HRK indexed to euro and 2.7 percent for loans approved in Kuna. The programme implementation ended on 30 June 2021.

Support to Exporters and Export Credit Insurance

In 2020, Croatian exporters were backed by HBOR in more than 800 projects with the total amount of almost HRK 4.70 billion: under all loan programmes, exporters were approved altogether 362 loans totalling HRK 2.44 billion, through export credit insurance policies 425 projects of exporters were insured totalling almost HRK 2.10 billion and 18 export bank guarantees at the request of exporters in the total amount of HRK 154.00 million were issued.

With altogether 10 active export credit insurance programmes, HBOR covered all market segments, from micro exporters, small and medium-sized exporters and large exporters. HBOR provided insurance for exporters from various industrial sectors, including the tourism sector. HBOR also supported banks that financed the operations of exporters and insurance companies through reinsurance of export receivables. Following the new Decree on Export Credit Insurance of the Government of the Republic of Croatia, adopted in April 2020, HBOR was enabled to introduce new forms of export credit insurance, expand the scope of entrepreneurs who can use export credit insurance programmes, broaden the definition of exports, and reinsure the risks of private credit insurers who have headquarters also outside the Republic of Croatia.

Thus, the main activities in export credit insurance in 2020 were targeted at combating the negative effects of the COVID-19 pandemic on the Croatian economy and expanding the scope of export credit insurance in order to strengthen support for entrepreneurs who contribute to the internationalisation of the economy. Having considered the breakdown of the total insured turnover in 2020, the largest share of the insured turnover, amounting to HRK 1.09 billion, relates to insured liquidity loans to exporters affected by the crisis caused by the COVID-19 pandemic. At the same time, exporters showed an increased interest in the insurance of export receivables from foreign customers, and, under the existing programmes for the insurance of export receivables, HBOR insured exporters' turnover of HRK 768.25 million.

Financing | Support for Climate and Environmental Protection

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

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

The assessment is carried out on the basis of the Environmental Protection Questionnaire²⁶ that is an integral part of obligatory documentation for submitting applications for a direct loan under the programmes Youth, Female and Start-Up Entrepreneurship, Private Sector Investment, Public Sector Investment and EU Projects. In the case of lending via commercial banks, they check the environmental impact in accordance with their methodologies, but if necessary, the environmental impact can also be analysed by HBOR. In case of loans from the sources of special financial institutions, the OECD Recommendations and the standards of these special financial institutions are taken into account when preparing an opinion on the environmental impact of the project. For the new 9 main groups of programmes, additional adjustments of the information system were made in order to better identify and monitor projects. Thus, it is possible to identify projects that can be classified in the category of environmental protection, energy efficiency and renewable energy sources.

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

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

Continued Successful Implementation of ESIF Loans for Energy Efficiency

During 2020, HBOR continued with very favourable conditions for financing the improvement of energy efficiency in public sector buildings and ensuring savings in the public lighting system.

ESIF Loans for Energy Efficiency in Public Sector Buildings

These loans are aimed at achieving a reduction of energy consumption for heating and/or cooling at year level of at least 50 percent on very favourable terms and conditions. Loans are intended for local and regional government units, public institutions and institutions engaged in social activities, state authorities, ministries, central state offices, state administrative organisations and state administration offices in counties, religious communities active in social activities and organisations active in social activities and having public powers regulated by a special law. Minimum loan amount is HRK 100,000, and maximum amount is HRK 60,000,000, at an interest rate of 0.1 percent - 0.25 percent - 0.5 percent, which is determined depending on the level of development of the investment area. Borrowers are exempt from paying all fees that are usually charged for loan origination. During 2020, HBOR approved ten loans for the financing of energy efficiency in the total amount exceeding HRK 28.66 million.

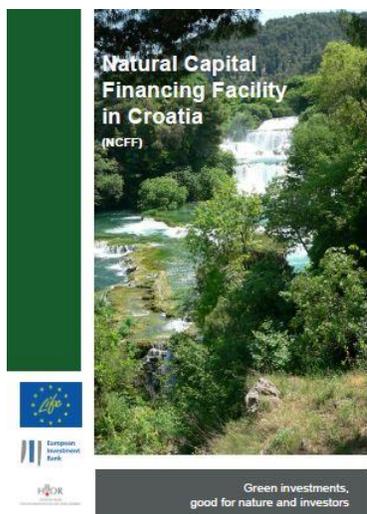
ESIF Loans for Public Lighting

These loans are intended for the construction of new electricity metering and billing devices, the installation of lighting and controlling equipment, the installation of photovoltaic power supply systems for public lighting with distributed or centrally positioned photovoltaic panels intended exclusively for the supply of electricity to public lighting systems. Eligible investments are those that result in energy savings of at least 50 percent compared to the current situation. Minimum loan amount is HRK 500,000, and maximum loan amount is HRK 15,000,000 at an interest rate of 0.1 percent - 0.25 percent - 0.5 percent depending on the level of development of municipalities and cities. In 2020, HBOR concluded fifteen loan contracts for the financing of public lighting with eight municipalities and seven cities totalling more than HRK 66,54 million.

Last year's report announced the launch of a new financial instrument, ESIF Energy Efficiency Loans for Entrepreneurs. With the outbreak of the COVID-19 disease epidemic, the further course of the process in the direction of concluding this financial instrument with selected commercial banks and the Ministry of Regional Development and EU Funds was stopped. The market situation, due to economic consequences, has shown that investments in private sector energy efficiency projects would be of low intensity. Entrepreneurs were primarily looking for working capital, and the emphasis was on maintaining liquidity, while forecasts of new investments were extremely low. Banks' resources were also targeted at the issues of restructuring and loan moratorium, whereas the relevant ministries redirected funds through grants instead of loans and adjusted the programme conditions to the new needs of entrepreneurs for working capital.

Case Studies NCFE, ELENA and EIAH

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



HBOR was the first national development bank in the European Union to join the implementation of the *Natural Capital Financing Facility* (NCFE) financial instrument. It combines the funds of the European Investment Bank (EIB) and the funds under the LIFE programme: EC programme for the environment and climate action. It is intended to finance projects contributing to the preservation and sustainable use of natural capital as well as to the adaptation to climate change by using natural solutions in green entrepreneurship, green infrastructure, payment for ecosystem services and compensation for environmental damage. HBOR's internal capacity building for its implementation is done with the help of consultants and is targeted at four groups of activity: raising

of awareness, identification of potential projects, definition of the terms and conditions of NCFE instrument, and technical analysis and capacity building of HBOR for its implementation. Since the start of the project, under the awareness raising activity group, informative materials were prepared, key interested parties and potential financial instrument beneficiaries were identified, and workshops and meetings were organised. At HBOR's web sites, a separate site was created dedicated to the NCFE instrument serving as an elementary guide for potential borrowers. It contains information on the goals of the NCFE, borrower eligibility criteria, eligible categories, loan terms and conditions, required documentation, etc. Potential borrowers can find relevant information on the NCFE in the brochure: *NCFE: Green investments, good for nature and investors* both in Croatian and English. The projects that could be financed under the NCFE are continuously identified, reviewed, and assessed at the meetings with the representatives of the interested public entities concerned and potential borrowers. The projects are assessed in terms of their bankability, positive impact on biodiversity and adaptation to climate change. In total, about 70 projects were reviewed, which proved to be a key activity not only for identifying potential projects but also possible areas of cooperation on related or complementary activities of other stakeholders. Special terms and conditions for the NCFE financing have been determined under the existing HBOR's loan programmes for private and public entities under which existing interest rate can be reduced up to 1 p.p. point (depending on the impact of a NC protection project). In 2020, activities aimed at the raising internal and external capacities for the implementation of the NCFE have been further strengthened.



ELENA: Grants for the Preparation of Investment Projects in the Area of Energy Efficiency and Renewable Energy Sources, Clean Urban Transport and Mobility

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

Under the ELENA programme implemented by HBOR, 100 percent of the costs of preparation of investment projects to be implemented by selected consultants is covered. The programme provides a grant to cover 90 percent of the costs of preparing project documentation for investment projects in the field of energy efficiency, renewable energy sources and cleaner urban transport and mobility. The remaining 10 percent of the project preparation costs is provided by HBOR from its own sources. Grants are mainly used to finance architectural and engineering and related consultancy services in construction and spatial planning for energy efficiency projects in buildings that include renewable energy sources. The services are provided by external suppliers (consultants). In addition to the costs of consulting services for the preparation of documentation, the eligible costs under the ELENA financial support include other related administrative costs (e.g. costs of promotion and marketing, costs of external audit of the ELENA Programme, etc.). The main indicator of the success of the ELENA Programme is the attainment of the leverage, i.e. the multiplier of technical assistance grants at the level of the total portfolio of the ELENA Programme of HBOR. The level of the multiplier is 20, which means that EUR 2.097 million of ELENA grants should result in a minimum of EUR 41.9 million worth of eligible investments of ELENA grant beneficiaries. The portfolio of eligible investments for the attainment of leverage under the ELENA Programme includes the sum of the amounts of investments performed throughout the duration of the ELENA Programme.

In 2020, the implementation of the programme started following a public procurement procedure, in which consultants were selected. By 30 June 2021, the preparation of documentation for forty projects was approved. Thus, several counties, cities, municipalities and public authorities are preparing projects to increase energy efficiency in hospitals, schools, kindergartens, nursing homes, sports facilities, shopping malls, entrepreneurial facilities and public lighting systems, whereas companies are preparing projects to increase energy efficiency of hotels and shopping centres. ELENA technical assistance will be available to the beneficiaries until 1 May 2023.



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

In 2020, HBOR applied to the EIB's public call inviting national promotional banks in the member countries to devise activities that would result in the provision of advisory services to public or private customers through the European Investment Advisory Hub (EIAH). HBOR's Public Sector Advisory Services Project (Project) was approved for funding by the EIAH, and HBOR and the EIB defined the basic settings of the project and prepared the necessary documentation in 2020.

The main goal of the Project is to provide support to the public sector in the Republic of Croatia in terms of advisory services and technical assistance and thus increase the quality and volume of public investment, which will eventually contribute to balanced local and regional development and growth.

The total value of the Project is EUR 670,125, of which the EIAH finances up to a maximum of 75 percent of the eligible costs of the Project, i.e. up to a maximum of EUR 500,000 (Grant funds). By 30 June 2021, almost forty projects were analysed and altogether ten projects of local government units (cities and municipalities) were selected, which will have HBOR's technical assistance and advisory services at their disposal. There is a possibility of including additional projects, depending on the dynamics of spending Project funds and the changes in the needs of local government units for this type of service.

The selected projects are in the field of social infrastructure: construction and/or reconstruction of kindergarten, home for the elderly and disabled, school sports hall or sports and recreation centre, or in the field of environmental protection: construction of water protection system, installation of treatment plant or construction of recycling yard for construction waste.

Project activities will take place until 31 December 2021 with the possibility of extension for additional 6 months.



In Dialogue with Employees

HBOR continuously provides its employees with equal opportunities for further growth and development, offers them various education possibilities and monitors their development with a special focus on an equal work environment.

HBOR has had a relatively low and balanced employee turnover rate over the last three years and it has recorded a moderate decrease in the number of employees in the same period. In 2020, there was a decrease in the departure of employees compared to 2019, whereas 8 new employees were hired. In 2020, the average number of employees was 369. The relatively low turnover rate, which stood at 4.1 percent in 2020, enables stability and continuity in business, and it can also pose a challenge in career management and professional development of employees given the increasingly dynamic environment and growing expectations that require the acquisition of new knowledge and skills.²⁷

Employee turnover rate			
	2018	2019	2020
Average number of employees	370	368	369
Departed employees	17	22	15
Employee turnover rate	4.6 %	6 %	4.1 % ²⁸

Communication with Employees

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

In 2020, communication with employees was intensified through the communication of important information and the collection of feedback information from employees. The main goal was to establish timely, systematic, and regular two-way communication to protect the health and safety of employees and reduce exposure to risks. This mode of communication was especially important in work from home conditions. Several communication platforms were used for communication, and the functionalities of these platforms were further expanded due to new needs and processes. Employees were instructed to use all digital tools, and regular IT support was provided. In addition, management was actively involved

²⁷ 401-1

²⁸ 401-1

in communicating key information, business decisions and goals to employees. In 2020, the traditional annual employee gathering was held online.

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

The only body of HBOR that is composed of employees' representatives is the Occupational Health and Safety Committee, whereas HBOR's Staff Regulations define the person authorised to receive and resolve complaints related to the dignity of employees: Commissioner for the Protection of Employees' Dignity. During 2020, three complaints were filed to protect the dignity of employees. All complaints were processed, and the Management Board was informed about the conducted procedure for the protection of employees' dignity and the established facts and circumstances, upon which the Management Board made a decision. No harassment was found in all three complaints.³⁰

Benefits

At HBOR, there is neither trade union nor any trade union branch, and no data is collected on trade union or association membership, although HBOR does not restrict or prevent employees from becoming trade union members.³¹ Consequently, HBOR does not have a Collective Agreement, but it provides its employees with various benefits to which employees are entitled or which may be provided to employees in accordance with the Labour Ordinance and other documents.

HBOR's employees are entitled to new-born upfront payments and to payments in the case of death of a close family member and in the case of employee's disability in the amounts of non-taxable income in accordance with the Personal Income Tax Ordinance. An employee may be paid financial assistance in case of continuous sick leave longer than 90 days. In addition, HBOR may pay financial assistance to employees in the case of disability of a child or spouse/person with whom the employee lives in an extramarital union for the payment of medical aids, to the purchase of drugs abroad, to the payment of increased therapy costs, rehabilitation costs, increased medical examination costs, increased hospital treatment costs and to the elimination of the consequences of a natural disaster. Requests for the payment of financial assistance is submitted by employees to the Human Resources and are approved by the Management Board.³²

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³⁰ 406-1

³¹ 407-1

³² 401-2

Gender Equality

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

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

Action Plan activities

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

In 2020, HBOR continued to carry out its long-term activities with a focus on facilitating access to finance for female entrepreneurs. Thus, in 2020, 63 loans were approved to female entrepreneurs under HBOR's loan programmes in the total amount of more than HRK 78.64



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

This document emphasises the important role of public development banks in achieving the Sustainable Development Goal No. 5 - Achieving gender equality and empowerment of all women and girls, and the banks are invited to:

1. Strengthen internal and external activities aimed at gender equality; including the activities that ensure that gender equality is at the heart of recovery and pandemic response plans,
2. Increase funding towards gender equality through a growing share of investment aimed at reducing inequalities, in order to build a better environment for equality and women's empowerment, including response to crisis,

3. Harmonise and interconnect gender equality activities with the obligations and goals of activities that contribute to the climate protection and biodiversity, and
4. Improve dialogue and cooperation with all stakeholders committed to gender equality.

Following the signing of the Statement, the signatory banks, HBOR included, actively cooperated in the implementation of the set objectives, and the first results of such joint work in the form of harmonisation of financing measures, identification of good practices and public strengthening of their obligations were presented at the Generation Equality Forum (GEF)³³ in June 2021, an international event marking the 25th anniversary of the Beijing Declaration and Platform for Action. HBOR joined these activities through participation in a comparative research study on strengthening gender equality in development banks³⁴ the findings of which will be the basis for the development of a long-term support plan for the Agenda 2030 in terms of achieving the Sustainable Development Goal No. 5.



Employee gender breakdown

Management Board breakdown by gender						
	2018		2019		2020	
Women	1	50 %	1	50 %	1	50 %
Men	1	50 %	1	50 %	1	50 %
Total	2	100 %	2	100 %	2	100 %

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

Management staff breakdown by gender						
	2018		2019		2020	
Women	18	40 %	20	45 %	18	43 %
Men	27	60 %	24	55 %	24	57 %
Total	45	100 %	44	100 %	42	100 %

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

Employee breakdown by gender						
	2018		2019		2020	
Women	246	66 %	243	65 %	241	66 %
Men	124	34 %	129	35 %	124	34 %
Total	370	100 %	372	100 %	365	100 %

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

³³ The Generation Equality Forum took place in March 2021 in Mexico City and from 30 June to 2 July 2021 in Paris. The forum brought together a broad platform of stakeholders, including governments, the business sector, and activists, and it presented a five-year gender equality action plan based on a series of concrete, ambitious and transformative activities to accelerate equality, leadership and better opportunities for women and girls throughout the world.

³⁴ International Development Finance Club / Frankfurt School of Finance & Management “Study on Strengthening Gender Equality in the Development Banking Sector”

In 2020, the majority of employees (328 out of 365, i.e. 90 percent) were highly educated and of an average age of 44. Most of HBOR's employees are women. In 2020, 66 percent of the total number of employees were women, and men accounted for 34 percent³⁵, where HBOR is no exception in terms of the sector having a general female prevalence. The management breakdown contains management jobs from the Management Board level to the level of Managing Directors. The relative share of women in the management is lower than the relative share of women in the total number of employees, and, in 2020, the share of women in the management stood at 43 percent³⁶. Furthermore, in 2020, 26 employees were on family/maternity leave, of which all 26 were women³⁷.

³⁵ 102-8 (due to the internal monitoring system, it was not possible to introduce information on the type of contract)

³⁶ 405-1

³⁷ 401-3

Employee Development

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

Employees are generally offered specialist seminars, training courses, conferences, English language courses, computer courses, know-how exchange with related institutions in the country or abroad and long-term education programmes (undergraduate or postgraduate studies).

Applications for education and training courses are submitted by employees through the internal application system. Furthermore, the transfer of the acquired knowledge within the organisation is systematically ensured. Beside external education, internal educational workshops are also organised that are targeted at separate groups of employees, whereas some of them are open for all interested with an objective of additionally educating employees.

The most usual topics of workshops include the changing of legal regulations, the adopting and upgrading of managerial knowledge, and, if necessary, the presentation of changes in processes and manners of working. Specialised workshops for the development and acquisition of specific knowledge and/or competences important for business are often organised and carried out by experts or relevant persons from the country or abroad.

Regular workshop cycles are organised for all new employees and trainees: In-house Education for Trainees and New Employees that ensures successful orientation and familiarisation of new employees with the internal organisation and individual work processes. The objective of such education is also to encourage familiarisation and exchange of opinions among employees. The in-house education programme may, besides specialist workshops, contain also soft skills workshops. Specialist workshops are run by experienced employees from all organisational units that have received trainer education.³⁸ In terms of education, in 2020, employees participated altogether in 3,363 hours of external training compared to 6,400 hours in 2019. Most of the trainings attended by employees in 2020 were held through online communication platforms. In addition, employees were actively encouraged to use digital contents and stakeholder events available through international associations. External education includes all types of professional training and

³⁸ 404-2

education, paid leave for the purpose of employee education, training, or education outside HBOR, which is paid in full or in part by HBOR, as well as training on certain issues.³⁹

In 2020, HBOR renewed the Employer Partner Certificate that is awarded by Selectio d.o.o. for excellence in human resource management.

Evaluation of Work Performance

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

These activities resulted in all employees receiving assessments of their performance regularly with individual target goals being set for all employees. The administration of performance management system processes is supported by the HR.net application system. Career development is implemented horizontally through specialist and professional promotions and vertically through development of careers in the direction of manager or head positions. In this way, employee advancement is linked to the performance management system, and promotion criteria are regulated by the internal performance management ordinance.⁴⁰

³⁹ 404-1

⁴⁰ 404-3

Occupational Health and Safety

Occupational health and safety issues are defined by special internal documents.⁴¹ 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 an occupational health and safety expert. The Occupational Safety Board has been set up and operates at HBOR that meets at least twice a year, and the members of the Board discuss current issues in the field of occupational safety. Employee safe work training and training in initial firefighting are carried out by the occupational safety expert and/or authorised company.

The Occupational Safety Ordinance and the Guidelines for Occupational Injury and Occupational Disease Reporting Procedure have been published on the intranet sites and are available to all employees. Additionally, a special thematic site called Occupational Safety has been set up on the intranet site where all relevant information and instructions are regularly 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.⁴² In 2020 pandemic conditions, a crisis team composed of representatives of all organisational units, management and employees, promptly took all necessary steps and established the infrastructure to ensure a safe and healthy working environment and protection of employees. All epidemiological measures are carried out regularly, devices and equipment for protection against coronavirus (masks, disinfectants, gloves, disinfectants for the area) have been procured, and the body temperature of employees and visitors is measured when entering HBOR's premises. Guidelines for Operation and Implementation of Safety and Health Measures in Circumstances of Risk of Infectious Diseases COVID-19 have been developed and are regularly updated in accordance with the latest developments, decisions of the Civil Protection Headquarters and recommendations of the Croatian Institute of Public Health.

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

Work from home has been provided to everyone, except for employees performing activities in special working conditions, in accordance with the Occupational Safety and Health Act and the Ordinance on Performing Work in Special Working Conditions. Amendments to the Ordinance on Occupational Health and Safety have been prepared and adopted, amendments to the Risk Assessment have been prepared and published on HBOR's intranet site, and annexes to employment contracts have been concluded with employees due to the

⁴¹ 403-4

⁴² 403-1

possibility of working from home. All employees have been provided with equipment and solutions for working from home as well as with secure access to shared files. To prevent musculoskeletal problems caused by inadequate and non-ergonomic working conditions, workers working from home were able to pick up their office work chairs and use them in their workplaces at home.

During 2020, additional content was published at the intranet site related to work from home circumstances, prevention of stress and problems with the musculoskeletal system as well as content related to the prevention of coronavirus infection, stressful situations caused by fear of pandemics and earthquakes, work from home and conditions of work in pandemic and post-earthquake circumstances.

With an objective of implementing preventive protection measures against the incidence of occupational and work-related diseases, the procurement of ergonomic aids (pads, etc.) and ergonomic keyboards and mice continued. Two employees with health difficulties were referred to occupational medicine for additional health protection. During 2020, no injuries at work were recorded, there were no deaths or occupational diseases.⁴³

⁴³ 403-2

Environmental Impact

Waste

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

Hazardous Waste

Electric and electronic (EE) equipment is collected, recorded and stored carefully. Each type of hazardous waste is collected and stored separately until hand-over to an authorised collector of waste. This prevents hazardous waste from polluting municipal waste and ensures its safe disposal in accordance with the law. In 2020, no EE waste was disposed of because the quantities collected were negligible. It is expected that larger amounts of waste will be collected and disposed of in 2021 after the replacement and disposal of IT equipment.

Hazardous waste handed over / kg	2018.	2019.	2020.
EE waste	2680	1000	0
Toners	15	100	0
Batteries	20	80	0
Fluorescent tubes and bulbs	7	80	0
Air conditioning devices	0	0	0

Other Waste

Among other types of waste, HBOR collects construction and bulky waste and plastic waste. In the previous period, bulky waste was generated as a result of write-off of fixed assets (tables and chairs) in 2018 and of construction works and clearing of supplies in 2019. All bulky and construction waste was disposed of by the contractors, with which the disposal of waste generated as a result of the performed works was agreed within the agreed price when contracting the terms and conditions of the works. In 2020, there was no disposal of other types of waste, and part of the bulky waste collected at the location Strossmayerov trg will be disposed of in 2021.

Plastic waste is collected in specially marked cardboard boxes located in the corridors of HBOR's premises. In 2019, different types of plastic began to be collected separately, which is why there were no records for some of the separated and collected plastic waste, and the recorded data on collected plastic waste in 2019 were almost three times lower than the quantity recorded in the previous year. In 2020, due to the working conditions in which most workers worked from home, no significant amounts of plastic waste were collected.

Other waste / kg	2018	2019	2020
Construction and bulky waste	2560	6640	0
Plastic waste	140	48	0

Pursuant to the law, HBOR appoints a waste commissioner and a deputy waste commissioner whose main task is to monitor the implementation of waste management regulations, organise the implementation of waste management regulations and advise on waste management issues related to HBOR. HBOR will continue to implement waste management activities by developing and implementing the waste management system and improving the system for monitoring types and quantities 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 are aimed at ensuring the impact on business on several levels: reduction of operating costs and removal of obstacles to the work of individual organisational units (e.g. reduction in the quantity of material stored in the archives, upgrade in the information system, better implementation of the Green Office principles, etc.).

Waste Kitchen Oil and Waste from Grease Separator

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

Paper and Cardboard

Waste paper and cardboard are collected in separate, clearly marked waste paper boxes. The boxes are placed around offices and in visible places in corridors, next to shared printers and copy machines. Waste paper for shredding is collected separately. Waste paper is delivered to companies specialised in collecting and recycling/disposing of paper. HBOR continuously carries out activities aimed at raising the awareness among the employees about the responsible use of resources and reduction of the use of paper documentation such as training to use the papercut system. In pandemic 2020, most employees worked from home, printing and circulation of paper documents was significantly reduced, and almost two-thirds less waste paper was collected.

Collected cardboard / kg			
	2018	2019	2020
Total	7,100	10,700	3,660 ⁴⁴

⁴⁴ 306-3

Energy

During 2020, a significant reduction in the consumption of all energy sources was recorded. This reduction is due to the fact that, in 2020, the majority of employees worked from home. As in previous years, regular annual inspections and services of equipment and consumables were performed in 2020⁴⁵. 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
- Water

Consumption of energy sources at Strossmayerov trg 9 ⁴⁶	2018	2019	2020
Gas total (m ³)	68,198.90	32,548.90	11,392.80
Electricity (kWh)	230,968.36	215,977.80	74,301.68
Water (m ³)	1,865.20	1,865.90	406

Consumption of energy sources at Zelinska 3	2018	2019	2020
Thermal energy – heating (kWh)	170,747.00	179,720.00	153,425.00
Electricity (kWh)	182,828.20	167,638.70	120,113.20
Water (m ³)	1,263.20	1,213.90	545.20

Consumption of energy sources at Gajeva 33	2018	2019	2020
Gas total (m ³)	n/a	n/a	847.80
Electricity (kWh)	n/a	n/a	49,463.73
Water (m ³)	n/a	n/a	211.11

*Note: The monitoring of consumption at the Gajeva location started in May 2019.

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⁴⁶ 302-1

Corporate Governance

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

HBOR's Code of Conduct defines the basic standards of ethical and legal procedures, rules for preventing corruption and ensuring professional behaviour. Also, the possibility of reporting violation of the Code is envisaged. Code of Conduct default form, description of default reporting procedure and e-mail address for reporting defaults are available at HBOR's websites in Croatian and English languages.⁴⁷ The person responsible for compliance monitoring is responsible for initiating proceedings on the basis of received HBOR's Code of Conduct violation reports and for counselling⁴⁸. In 2020, one HBOR's Code of Conduct violation report was submitted. In the conducted proceedings, it was established to be well-founded, and the Management Board of HBOR was informed about it together with a proposal for further action⁴⁹. 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 2020 annual rating process of HBOR was conducted by the international independent rating agency Standard & Poor's.

Governance Bodies

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

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⁴⁸ 205-1

⁴⁹ 102-16

submission of thorough written reports to the Supervisory Board is the basis for this cooperation.

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

The 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 2020:

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

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

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

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

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

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

Compliance Monitoring

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

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

In 2020, seven irregularity reports were submitted. In the justification assessment procedure carried out by the grievance officer, it was established that five of seven reports were unfounded, while two reports were, after receipt and examination by the grievance officer, submitted to the Internal Audit for further processing.

At the same time, reports of suspected irregularities in the implementation of financial instruments and complaints on decisions made by commercial banks rejecting loan applications are submitted to a separate address: esif.nepravilnosti@hbor.hr. This reporting mechanism is managed by the organisational unit called EU Funds and Financial Instruments. In 2020, no reports were received on this basis.

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.⁵⁰

In 2020, the public was regularly informed about significant changes or new developments in HBOR's operations through various forms of communication: press releases or written replies to inquiries. Annual financial statements containing independent auditor's report, semi-annual financial statements containing management report and quarterly condensed financial statements are published regularly and timely.

In 2020, HBOR published 28 press releases informing the public about operations, attained business results, new products and services as well as changes to the existing ones, which is considerably more than in 2019 when 18 press releases had been published.

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

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

In 2020, altogether 24 public procurement procedures were published in the Electronic Public Procurement Classifieds, whereas simple procurement procedures were published on HBOR's websites.

Access to information is possible throughout the year on working days from 8 to 16 o'clock. Information officer prepares annual reports on the implementation of the Right of Access to Information Act to be submitted to information commissioner. In 2020, 21 requests for access to information were received pursuant to the Right of Access to Information Act (<https://www.hbor.hr/naslovnica/kontakti/>).

At the end of September 2020, a European directive came into force prescribing the accessibility of websites and mobile applications of public sector bodies, and, in accordance with the directive, HBOR made adjustments to its website, which it additionally tested with associations of the blind.

⁵⁰ 417-1

In order to improve the reputational risk management system and facilitate the work of employees working on the establishment of direct business relationships, an internal document was adopted in 2020 called the Ordinance on Reputational Risk Management of HBOR arising from a direct business relationship with a client. For the purpose of assessing the acceptability of HBOR's cooperation with a client, the Ordinance regulates risk categories of clients that are not eligible for establishing a direct business relationship, that are eligible in exceptional cases or that are eligible provided that awareness of the existence of this risk is increased. The Ordinance prescribes the manner of obligatory conduct of HBOR's employees in case of noticing the existence of HBOR's reputational risk related to a client, category of risk and the impact on a business relationship. The Ordinance also regulates the subsequent management of reputational risk, if HBOR's exposure to reputational risk is subsequently determined. Information on this Ordinance is available to clients on HBOR's website: <https://www.hbor.hr/pravilnik-o-upravljanju-reputacijskim-rizikom-hbor-a-koji-proizlazi-iz-poslovnog-odnosa-s-klijentom/>

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 planned annually. Employees have access to information/education material in the field of ethics and conflicts of interest, and all new employees undergo a regular process of getting acquainted with these topics. HBOR's Code of Conduct defines the mechanism for proceedings upon reports of Code of Conduct violation. Adopted principles are continuously developed through regular reviewing and updating of documents⁵¹. Since 2018, the compliance monitoring function has continuously conducted online education on business ethics with the focus on the prevention of conflicts of interest. The education has covered general ethical principles and provisions of mandatory regulations, voluntary guidelines and internal documents of HBOR (HBOR's Corporate Governance Code, Conflict of Interest Prevention Act, Procurement Act, ICC (International Chamber of Commerce) Guidance on Conflict of Interest, Decision on the Adoption of Corporate Governance Code in Companies in which the Republic of Croatia Holds Shares or Interests, Rules of Procedure of HBOR's Management Board, Rules of Procedure of HBOR's Supervisory Board, Compliance Monitoring Policy, Handbook for Procedure of HBOR as the Body Implementing the ESIF Growth and Development Financial Instrument) as well as examples from practice and recommendations. In 2020, a training called Ethical Rules – Conflict of Interest was carried out for new employees and employees who could not join the training in previous cycles due to legitimate reasons⁵² as well as an online education Business Ethics for Management. In management education, tools for ethical decision-making were presented and a special focus was put on the continued development of ethical organisational culture and ethical decision-making. Employees are made aware of the necessity of making decisions based on ethical principles also in situations that are not covered by regulations and binding norms and that may arise in the business life of the employee or organisation.

In 2020, no cases of corruption suspicion were reported under the irregularity reporting mechanism managed by the grievance officer. In the same period, no legal proceedings were initiated against HBOR on the grounds of corruption charges. Also, there were no cases resolved for the benefit or to the detriment of HBOR with regard to corruption⁵³.

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Prevention of Financial Crime

In its operations, HBOR carries out measures, activities and procedures to prevent money laundering and terrorist financing in accordance with the provisions of the Anti-Money Laundering and Terrorist Financing Ordinance and the Methodology for the Implementation of Anti-Money Laundering and Terrorist Financing Measures, Activities and Procedures that are based on the Anti-Money Laundering and Terrorist Financing Act. In 2020, activities aimed at strengthening the internal system of anti-money laundering and terrorist financing (SPNFT) continued. In accordance with the prescribed legal obligations, the persons authorised to prevent money laundering and terrorist financing held professional training and education of HBOR's employees relating to the implementation of measures, activities and procedures aimed at preventing money laundering and terrorist financing. At the same time, the authorised person and her deputy themselves attended online professional meetings and trainings on the prevention of money laundering and terrorist financing, and they were able to provide advisory and practical assistance to employees in specific business situations.

Local Communities

Sponsorships and Donations

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

HBOR grants donations and sponsorships on the basis of the Ordinance on the Procedures and Criteria for the Award of Donations and Sponsorships, which, together with the award criteria, has been published on HBOR's websites under corporate social responsibility. The Ordinance is aligned with the Regulation of the Government of the Republic of Croatia on the criteria, benchmarks and procedures for financing and contracting programmes and projects of interest to the common good implemented by associations. HBOR publishes the results of tenders for donations as well as information on the beneficiaries of smaller donations and sponsorships. The procedure of awarding sponsorships and donations as well as the public announcement of beneficiaries are in accordance with the Right of Access to Information Act and the recommendations of the Anti-Corruption Programme of the Government of the Republic of Croatia for majority state-owned companies⁵⁴.

⁵⁴Anti-corruption programme of the Government of the Republic of Croatia for the companies majority owned by the state for the period 2010 – 2012

In the extraordinary conditions of the pandemic and the earthquakes, a public invitation for the award of donations in 2020 was not announced. In response to the extraordinary conditions, from April 2020, individual donations and sponsorships were awarded for projects and activities aimed at combating the epidemic and/or mitigating the effects of the epidemic and or earthquakes. Criteria for awarding donations and sponsorships in 2020 as well as recipients of donations and sponsorships are published on the HBOR's website under DONATIONS AND SPONSORSHIPS.

HBOR's public invitations for the award of donations from 2015 to 2019

Year	Name of invitation	Target programme areas
2019	Let Us Provide Knowledge and Promote Initiatives	Projects promoting employability, self-employment and social entrepreneurship
2018	We Create Equal Opportunities	Humanitarian projects aimed at improving the quality of life and/or health and promoting social inclusion in the areas of the Republic of Croatia with fewer opportunities
2017	I Would also Like a Job	Projects increasing employability of hard-to-employ vulnerable and marginalised groups in the Republic of Croatia
2016	New Horizons – Innovativeness and Excellence in Education, Culture and Art	Innovative projects in education, culture and arts
2015	HBOR in the Community	Humanitarian projects, environmental protection, education, science, culture, heritage and art

Organisational Profile

HBOR⁵⁵ promotes systematic, sustainable and balanced economic and social development in line with the overall strategic goals of the Republic of Croatia.

Main areas of HBOR's operations are financing of reconstruction and development of the Croatian economy, financing of infrastructure, promotion of exports, support for the development of SMEs, promotion of environmental protection, insurance of exports of Croatian goods and services against non-marketable risks. Pursuant to the adopted 2020-2024 Business Strategy, the primary focus of HBOR's business operations is on the promotion of the development of equity and quasi-equity market in the Republic of Croatia, promotion of economically and socially balanced and sustainable regional, rural and urban

⁵⁵ 102-1

development of the Republic of Croatia, promotion of Croatian economy internationalisation and globalisation, promotion of recovery from the pandemic caused by COVID-19, promotion of competitiveness by emphasising innovation, digital transformation and Industry 4.0, and promotion of climate and energy neutral economy through energy efficiency, renewables and environmental protection. The primary focus of HBOR's business activities is on the Republic of Croatia, however, HBOR supports Croatian exporters through its credit lines and export credit insurance programmes.⁵⁶ The largest export turnover with insurance coverage was realised for buyers in Switzerland, Ukraine, Italy, Germany and France.⁵⁷

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

- Regional office for Dalmatia
- Regional office for Istria
- Regional office for Lika
- Regional office for Primorje and Gorski Kotar
- Regional office for North-West Croatia
- Regional office for Slavonia and Baranja⁵⁸

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.⁵⁹

As at 31 December 2020, there were 365 employees at HBOR.⁶⁰ In 2020, there were no major changes at HBOR or the supply chain.⁶¹

Values

HBOR's values⁶² are expertise, proactivity, innovation, sustainability, flexibility, efficiency and transparency.

HBOR's values	
Expertise	As part of the activities set forth in the Act on HBOR, HBOR will act as a competence centre for financial structuring and implementation of projects for the public and private sectors by providing users with easy access to financial products, information on available funding sources and other information relevant to achieving the goals set in the Act on HBOR and the 2020-2024

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	<p>Business Strategy. The basis of our expertise are the skills and the knowledge of employees, to which we pay special attention. We invest significant own funds in the development of our employees, but we also effectively use other available sources such as EU funds and funds of international financial institutions. We will continue to strengthen our own expertise and encourage continuous pursuit of excellence through significant investments in the education and training of employees who are the basis of our success.</p>
Proactivity	<p>A proactive approach is one of the key values that will be extremely important for HBOR in the next five-year period. Namely, the role of development banks and institutions is the timely recognition of the needs of the domestic economic system, which can be achieved only through a proactive approach to the gathering of information through market research, communication with key stakeholders, development and implementation of new products and presentation of HBOR's effects on the economy in general. Proactivity as an approach and as a feature of the organisation and employees permeates all our activities and organisational values, and consequently the strategic goals of HBOR.</p>
Innovation	<p>Innovation and support for innovative projects are among the key preconditions for creating greater value added, competitiveness, long-term sustainability and stability of the development of the domestic economy. Given the lower intensity of investment of the domestic economy in research, development and innovation, HBOR will pay special attention to the systematic support of innovations in the next 5-year period in order for them to become an indispensable part of the country's business culture. HBOR will promote innovation also by developing innovative financial products that will encourage the cooperation of various stakeholders in the Croatian business, public and scientific environments and support the development of the domestic financial market. By integrating innovation into its own values and organisational culture, HBOR further emphasises continuous improvement, proactivity and progress as key levers of its own business and business success.</p>
Sustainability	<p>Economically, ecologically and socially sustainable development is one of the main values of national, regional and global development. Regardless of whether it is about sustainable financing and orientation towards the long-term well-being of the entire community or about HBOR's internal/institutional sustainability, HBOR will strive to provide services, products and activities that contribute to the sustainable development of the company and are at the same time financially justified in terms of HBOR's sustainable operations. In the next five-year period, HBOR will focus on the development of sustainable financing in the Croatian market as one of the preconditions for the long-term well-being of the entire</p>

	community, both at the national and international level. HBOR will carry out all the above activities by taking into account the financial sustainability of the bank's operations.
Flexibility and efficiency	To achieve its goals in terms of the growth of the entire Croatian economy, HBOR will, in the coming five-year period, make greater efforts to harmonise its organisational structure and processes with good banking practices and practices of other development banks, all with an objective of ensuring higher efficiency of its operations and greater flexibility in approaching its customers. An important component in contributing to the successful achievement of goals is a more efficient use of technology.
Transparency	As HBOR is a financial institution owned by the Republic of Croatia that provides support to the business and social environments, one of its essential values is the transparency of activities towards both the internal and external environments. This effort includes ongoing reporting on activities and providing clear and informative reports to all internal and external stakeholders. Furthermore, HBOR will continue to measure and publish annual results in terms of economic performance in the previous year. HBOR will strive to increase the positive impacts and reduce the negative impacts on the environment as well as to adequately manage the risks arising from HBOR's activities that affect the people and the environment. Transparency of operations will continue to be ensured by regular audits of operations and by the development of a system of reporting on the impacts of HBOR's activities on the overall development of the Republic of Croatia and the society. ⁶³

Overview of the Most Significant Financial Information of HBOR

HRK million	2018	2019	2020
Total assets	27,198.93	26,446.49	28,680.36
Gross loans	26,243.12	26,571.11	27,197.29
Total capital and reserves	10,054.01	10,267.10	10,354.62
Total income	791.25	702.69	657.97
Total expense	(586.92)	(547.64)	(578.63)
Profit	204.33	155.05	79.34
Interest income	731.71	664.59	621.34
Interest expense	(356.07)	(311.56)	(244.19)
Net interest income	375.64	353.03	377.15 ⁶⁴

Note: HBOR is not subject to profits tax

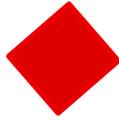
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In 2020, HBOR supported 1,809 projects in the total amount exceeding HRK 8 billion through loans approved, guarantees issued and exports insured.



1809 PROJECTS FINANCED



HRK 8 BILLION

Most of the commitments relate to loans – in the reporting year, loans were approved for 1,328 projects in the amount exceeding HRK 5.51 billion.

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

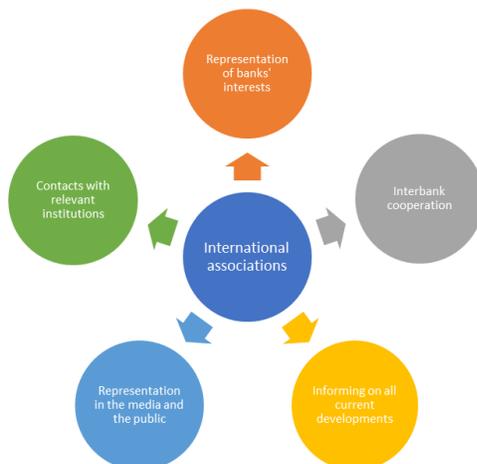
More than 88 percent of HBOR's total borrowings were raised through international financial institutions, of which the most important share related to the European Investment Bank. In terms of purposes, more than 50 percent of total borrowings were intended for the financing of small and medium-sized enterprises, approximately 24 percent of borrowings were intended for the financing of mid-cap companies, whereas approximately 9 percent of borrowings were earmarked for the financing of projects implemented by local government units.⁶⁵

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

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Memberships

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



Activities are performed through the participation of HBOR’s representatives in management bodies and expert groups, in discussions, exchange of good practices, contributions to various studies and operating guidelines. These well-established international sectoral platforms for cooperation and dialogue contributed to the rapid response of the banking sector and HBOR in the context of the 2020 pandemic. At the same time, new European policies in the field of achieving the goals of the Paris Agreement on Climate Change and the 2030 Agenda were key topics on the agenda of all international associations in 2020, and thus a wide network of members of these associations was actively involved in addressing global challenges.



HBOR's key international memberships⁶⁶:

	Activities of association	Main topics in 2020
 <p>EAPB EUROPEAN ASSOCIATION OF PUBLIC BANKS</p>	<p>The European Association of Public Banks (EAPB) gathers the European public financial institutions on relevant topics: EU regulations of financial institutions, EU funds, state aid, accounting and finance, capital markets, sustainable financing and other sectoral topics.</p>	<ul style="list-style-type: none"> • Sustainable financing (taxonomy, ESG risks, green bonds, non-financial reporting) • BASEL IV • IMF, InvestEU • Response of banks to the crisis caused by the COVID-19 pandemic
 <p>ELTI EUROPEAN ASSOCIATION LONG-TERM INVESTORS</p>	<p>The European Long-Term Investors Association (ELTI) creates a network of national promotional banks and institutions. The Association informs its members about the discussions, initiatives and measures carried out by the EU institutions, initiates research studies, organizes conferences and represents the common interests of the members vis-à-vis the EU institutions.</p>	<ul style="list-style-type: none"> • Response of banks to the crisis caused by the COVID-19 pandemic • InvestEU, EU Taxonomy • RRF (Recovery and Resilience Facility) • Sustainable financing
 <p>IDFC International Development Finance Club</p>	<p>The International Development Finance Club (IDFC) has a mission to contribute to global development. Subjects and topics of common concern to IDFC members are climate change, infrastructure, social development, innovation, poverty reduction, environmental protection and green projects.</p>	<ul style="list-style-type: none"> • Gender equality • Biodiversity • Combating climate change • Harmonisation of the activities of banks with sustainable development goals
 <p>NEFI</p>	<p>The Network of European Financial Institutions for SMEs (NEFI) gathers 18 financial institutions from 18 member states. NEFI promotes small and medium-sized enterprises with EU institutions and other SMEs related European associations and provides expertise on specific European promotional financing schemes.</p>	<ul style="list-style-type: none"> • New legislative proposals for the 2014-2020 programming period • Promoting financial instruments as a tool for financing small and medium-sized enterprises • Innovative financing
 <p>berneunion SUPPORTING TRADE AND INVESTMENT SINCE 1934</p>	<p>The Berne Union is a global association of export-credit insurers whose members are export-credit agencies, private credit and political risk insurers and multilateral institutions that provide insurance products, guarantees, and some kind of direct financing of international trade. The mission of the association is to encourage international trade through the implementation of common lending and investment principles.</p>	<ul style="list-style-type: none"> • Economic challenges and the impact of COVID-19 on debt collection, international trade • COVID-19 and export-credit agency measures, risk analysis and monitoring • Promotion of economic development • Advantages of using blockchain technology
 <p>UN environment programme finance initiative</p>	<p>The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members – banks, insurers and investors – and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts.</p>	<ul style="list-style-type: none"> • Climate change • Ecosystems • Sustainable development goals and impact measurement • Social issues and protection of human rights
 <p>COMMUNICATION ON PROGRESS This is our Communication on Progress in implementing the Ten Principles of the United Nations Global Compact and supporting broader UN goals. We welcome feedback on its contents.</p>	<p>The United Nations Global Compact (UNGC) is a UN international initiative launched in 2000 that connects the business sector with UN agencies, governments and civil society in upholding fundamental social values in the areas of human rights, labour rights, the environment and the fight against corruption.</p>	<ul style="list-style-type: none"> • Sustainable development goals • Environmental risks and opportunities, social impacts and opportunities, human and labour rights • Sustainability management, sustainable practices, sustainable development and sustainable financing • Sustainability in supply chains
 <p>E.V.F.I.N. The European Venture Fund Investors Network</p>	<p>The European Venture Fund Investors Network (EVFIN) is an informal platform for dialogue and cooperation that gathers public investors from 17 European countries to exchange information and best practices.</p>	<ul style="list-style-type: none"> • COVID-19 pandemic mitigation measures
 <p>INVEST EUROPE</p>	<p>INVEST EUROPE is the world's largest association of private capital providers representing Europe's private equity, venture capital and infrastructure investment companies as well as their investors, including some of Europe's largest pension funds and insurers.</p>	<ul style="list-style-type: none"> • COVID-19 response and liquidity measures • EU sustainable funding • Climate change, ESG installation
 <p>BACEE BANKING ASSOCIATION FOR CENTRAL AND EASTERN EUROPE</p>	<p>The Banking Association for Central and Eastern Europe (BACEE) promotes its members in the international financial market, offering a wide range of services such as bank analysis, bank information, risk assessment and consulting services for members.</p>	<ul style="list-style-type: none"> • Impact of the COVID-19 pandemic on the financial industry
 <p>CHINA-CEEC Inter-Bank Association</p>	<p>The Inter-Bank Association of the People's Republic of China and Central and Eastern European Countries (CHINA CEEC) establishes cooperation between the People's Republic of China and the countries of the Central and Eastern Europe with the objective of strengthening economic and financial cooperation between member countries</p>	<ul style="list-style-type: none"> • Promoting cooperation in the economy, trade and investment (infrastructure, energy, telecommunications, agriculture, trade, finance, environment, SMEs)

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HBOR is a member of the Development and Humanitarian Aid Committee administered by the Ministry of Foreign and European Affairs⁶⁷, 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.⁶⁸

During the first half of 2020, HBOR was deputy of the Ministry of Finance in the team for the presiding over the Council Working Group on Export Credits Export Credit Group (ECG). Topics promoted during Croatia's EU presidency were the implementation of European green policies in export credit practices. In this regard, activities were initiated aimed at modernising the OECD Arrangement on Officially Supported Export Credits, revising the Sector Understanding on Export Credits for Coal-Fired Electricity Generation Projects (CFSU) and the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation, and Water Projects (CCSU).

In addition, HBOR participated in the meetings of the OECD and the International Working Group on Export Credits (IWG), where it contributed to discussions on current topics related to the implementation of OECD recommendations in the field of environmental protection, human rights protection, fight against corruption and sustainable finance practices.

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

Stakeholders

The stakeholders vis-à-vis HBOR are the persons who affect HBOR or who are affected by HBOR's decisions and activities. HBOR's stakeholders are: government and public administration bodies, foreign and local financial institutions, investors/suppliers, beneficiaries, local community and non-governmental organisations, media, regulatory bodies, rating agencies, employees and scientific institutions.⁶⁹ HBOR monitors the standpoints of the stakeholders, assesses their foundation and takes necessary measures to gradually improve relationships and develop transparency.⁷⁰ HBOR communicates with the stakeholders actively and openly with a special focus on the improvement in quality of communication with beneficiaries.⁷¹

⁶⁷ By the Decision of the Government of the Republic of Croatia of 18 January 2018, the National Council for Sustainable Development was established, headed by the Prime Minister of the Republic of Croatia. Administrative tasks for the Council are performed by the Ministry of Foreign and European Affairs, which also monitors, analyses and coordinates the implementation of the goals of the 2030 Agenda in Croatia.

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Reporting Practice

HBOR has issued annual social responsibility and sustainability report (non-financial report)⁷² for the period from 1 January 2020 to 31 December 2020.⁷³ The report for the period from 1 January 2019 to 31 December 2019 was published on 31 August 2020.⁷⁴

Compared to the previous reporting period, no significant changes occurred in the reporting practice. Besides the principles of UN Global Compact that are generally used when preparing reports, HBOR continued to use GRI Standards – Global Reporting Initiative Standards⁷⁵ and sustainable development goals in the identification of those contributing directly or indirectly. When identifying material topics, HBOR applied international standards and agreements, EU policies and rules, HBOR's Business Strategy and other internal documents as well as assessments and evaluations of stakeholders relating to the relative significance of material topics, sustainable development goals and management approach.⁷⁶ Material topics reflect HBOR's non-financial impacts relating to its headquarters in Zagreb at three locations and six regional offices in Croatia, unless otherwise stated in the report.⁷⁷ This report does not cover the material impacts of the HBOR Group.

HBOR Group prepares:

- Separate financial statements of the parent company – HBOR
- Consolidated financial statements that include HBOR and companies under its control – subsidiary companies.⁷⁸

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

Contact: dop@hbor.hr⁷⁹

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

⁸⁰ 102-55

102-18	Governance structure	Governance Bodies	✓
STAKEHOLDER ENGAGEMENT			
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, Framework for the Assessment of Material Impacts	✓
102-44	Key topics and concerns	Framework for the Assessment of HBOR's Material Impacts	✓
REPORTING PRACTICE			
102-45	Entities included in consolidated financial statements	Reporting Practice	
102-46	Defining report content and topic boundaries	Reporting Practice	
102-47	List of material topics	Framework for the Assessment of Material Impacts	
102-48	Restatements 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	
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	Overview of the Most Significant Financial Information of HBOR	
201-2	Financial implications and other risks and opportunities due to climate change	Financing – Support for Climate and Environmental Protection	
201-3	Defined benefit plan obligations and other retirement plans	Benefits	✓
201-4	Financial assistance received from government	Overview of the Most Significant Financial Information of HBOR	
INDIRECT ECONOMIC IMPACTS			

203-1	Infrastructure investments and services supported	Financing / Support for Entrepreneurship and Development	
203-2	Significant indirect economic impacts	Financing / Support for Entrepreneurship and Development	
ANTI-CORRUPTION			
205-1	Operations assessed for risks related to corruption	Corporate Governance, Anti-corruption	✓
205-2	Communication and training about anti-corruption policies and procedures	Corporate Governance, Anti-corruption	✓
205-3	Confirmed incidents of corruption and actions taken	Corporate Governance, Anti-Corruption	✓
ENERGY			
302-1	Energy consumption within the organisation	Energy	✓
302-4	Reduction of energy consumption	Energy	✓
WASTE			
306-3	Total weight of waste by type and disposal method	Waste	✓
EMPLOYMENT			
401-1	New employee hires and employee turnover	In Dialogue with Employees	✓
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits	✓
401-3	Parental leave	Gender Equality	
LABOUR/MANAGEMENT RELATIONS			
402-1	Minimum notice periods regarding operational changes	Communication with Employees	✓
OCCUPATIONAL HEALTH AND SAFETY			
403-1	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	✓
403-4	Worker participation, consultation, and communication on occupational health and safety	Occupational Health and Safety	✓
TRAINING AND EDUCATION			

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